FORM 10KSB

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

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
SEC Accession No. 0000906477-99-000007

FILER

CASINOVATIONS INC

CIK:**1004673**| IRS No.: **911696010** | State of Incorp.:**WA** | Fiscal Year End: **1231**
Type: **10KSB** | Act: **34** | File No.: **333-31373** | Film No.: **99574120**
SIC: **5099** Durable goods, nec

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

FORM 10-KSB

(MARK ONE)

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

For the fiscal year ended December 31, 1998

OR

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

For the transition period from to

Commission file number 333-31373

CASINOVATIONS INCORPORATED

(Name of small business issuer in its charter)

Washington	91-1696010
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6744 S. Spencer Street, Las Vegas, Nevada	89119
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number (702) 733-7195

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
N/A	N/A

Securities registered pursuant to Section 12(g) of the Act:

N/A

(Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes --- No X

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-KSB. [ ]

State issuer's revenues for its most recent fiscal year. $ 29,670

State the aggregate market value of voting stock held by

non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. $9,355,045 (as of January 31, 1999)

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $.001 par value 7,295,420 shares as of January 31, 1999

DOCUMENTS INCORPORATED BY REFERENCE

None.

CAUTIONARY NOTICE

This Annual Report of Casinovations Incorporated on Form 10-KSB contains forward-looking statements in which the management of Casinovations Incorporated shares its knowledge and judgement about factors that it believes may materially affect performance of Casinovations Incorporated in the future. Terms expressing future expectations, outlook potential and anticipated growth in the gaming industry, revenues and earnings, and like expressions typically identify such statements.

All forward-looking statements, although made in good faith, are subject to the uncertainties inherent in predicting the future. They are necessarily speculative, and factors such as unusual production problems, breakdown of quality control, competitive pressures, customer dissatisfaction, failure to gain new product acceptance by potential customers or approval by regulatory authorities, proscription of gaming in jurisdictions where it had been lawful, the unexpected rejection of legalized gaming in new jurisdictions, onerous taxation and other adverse government action, unusual risks attending foreign transactions, Year 2000 problems and general deterioration in economic conditions may cause results to differ materially from any that are projected.

Forward-looking statements speak only as of the date they are made, and readers are warned that Casinovations Incorporated undertakes no obligation to update or revise such statements to reflect new circumstances or unanticipated events as they occur.

Readers are urged to carefully review and consider disclosures made by Casinovations Incorporated in this and other reports that discuss factors germane to the business of Casinovations Incorporated. See Part II. "Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Factors and Forward Looking Statements."

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Casinovations Incorporated, a Washington corporation (the "Company"), maintains its principal offices and manufacturing facilities at 6744 S. Spencer Street, Las Vegas, Nevada 89119. Its telephone number and facsimile number are (702) 733-7195 and (702) 733-7197, respectively. The Company was incorporated in the State of Washington on September 20, 1995. At its Annual Meeting of Stockholders scheduled for March 29, 1999, the Company is seeking stockholder approval to reincorporate in Nevada.

The Company's primary business is the development, manufacturing and marketing of various gaming concepts and products, including the Random Ejection Shuffler (the "Shuffler"), certain table game concepts, including the Fantasy 21 table game ("Fantasy 21"), which are currently marketed by the Company as the "Fun Pit Collection," and the SecureDrop Slot Accounting System ("SecureDrop").

PRODUCTS

As part of its business strategy, the Company has developed various gaming concepts and products designed to increase security, productivity and profits for the global gaming

industry. The Company's products are protected under various pending patents, patents, copyrights and trademarks. The following is a brief description of some of the Company's more important products and concepts.

SHUFFLERS

RANDOM EJECTION SHUFFLER. The Shuffler is an automatic playing card shuffler that utilizes a random number generator and other features to enhance the card shuffle. The Shuffler will shuffle one to six decks. The Company believes that the Shuffler is currently faster and jams less often than the playing card shuffling machines of its competitors. Further, since the Shuffler randomly selects playing cards once rather than shuffling the playing cards repeatedly, the Shuffler reduces the time required to shuffle playing cards. Domestically, the Company places the Shuffler in casinos on a lease basis, charging lease fees based on the number of decks shuffled, which the Company believes is desirable to the Company's customers. Internationally, the Company intends to sell the Shuffler to customers. The Company owns the Shuffler and manufactures the Shuffler in Las Vegas. The Company received final regulatory approval for the Shuffler from both the Nevada (December 1998) and Mississippi (January 1999) gaming authorities and has begun to place the Shuffler in several Nevada and Mississippi casinos. As of March 1999, the Company has completed production of approximately 170 units of the Shuffler.

PAIGOW TILE SHUFFLER. Through an agreement with Jinchun International, Inc., the Company acquired the rights to market and distribute the Paigow Tile Shuffler. The Paigow Tile Shuffler is intended to increase playing efficiency and game integrity by shuffling one set of tiles while another set of tiles is in play. The Paigow Tile Shuffler shuffles the tiles as follows: the dealer presses a button, which allows an area in the table to open. The tiles are then pushed into the opening. The dealer presses the button again, the opening closes and the previous batch of tiles that have been shuffled are raised by an elevator system to table level, all stacked and ready to be dealt, while the other batch of tiles are being shuffled and stacked randomly. This allows the dealer to deal out 150% more games per hour. In the second quarter of 1999, the Company intends to submit an application to the Nevada State Gaming Control Board with respect to the approval of the Paigow Tile Shuffler for placement in Nevada casinos.

FUN PIT COLLECTION

The Company markets various innovative casino table games under the "Fun Pit Collection." Many of these games are variations of existing popular table games, such as blackjack and poker. The table games that comprise the Fun Pit Collection are either owned by the Company or contracted for by the Company from third party developers.

FANTASY 21. Fantasy 21 is a jackpot table game variation of standard Blackjack/21 involving a side wager of one dollar. If the player plays the side wager and receives a hand of 19, 20, 21 or Blackjack (a "High Hand") during five consecutive hands, the player is eligible for a jackpot round of up to $25,000 (the "Showdown Round"). In the Showdown Round, the player is dealt six hands simultaneously. If the player receives six High Hands and the dealer receives a hand of Blackjack, the player wins the jackpot. Fantasy 21 also offers other jackpots for other combinations of High Hands. The Company has produced approximately 50 units of Fantasy 21 and presently intends to lease such units on a monthly basis.

BONUS BLACKJACK. Bonus Blackjack, a variation of standard Blackjack/21, has two additional side wagers, one labeled as "Player" and the other labeled as "Dealer." The player has the option of placing no side wager, one side wager or both side wagers. If a side wager is placed, the player is betting on whether the "Player" or "Dealer" is going to receive any two-card Blackjack, consisting of an ace and any ten-value card. If the "Player" or "Dealer" receives a Blackjack, the player will receive a 15 to 1 payoff for the proper wager. In addition, Bonus Blackjack features a bonus meter that tracks only that table's wagers. In order to win the jackpot displayed on the bonus meter, the player must place both side wagers and must be

dealt the ace of spades and jack of spades.

WILD JACKPOT POKER. Wild Jackpot Poker, a variation of five-card stud, involves the use of two jokers added to the deck. This is a straight-up poker game where the players play against the dealer and not against each other. If the player's hand beats the dealer's hand, the player wins without the need for the dealer to "qualify" as with other table games. In addition, if the player places a side wager and receives a hand of a straight or better, the player will receive an additional bonus payout according to the bonus payout schedule at the table. Although offered at ten casinos located in Canada, Wild Jackpot Poker is expected to begin regulatory field trials at the Las Vegas area in Spring 1999.

TWIN BACCARAT. Twin Baccarat is a variation of the standard baccarat game. The object of the game is to simply have a higher total than the dealer, closest to nine. The value of the cards 2 through 9 is face value whereas aces are worth one and tens and face cards are worth zero. The player is initially dealt two cards and the sum of the cards, using only the single right-hand digit, represents the player's total. The player can never have a bust hand. The only exception is when the player, or the dealer, has a "Twin Baccarat." Twin Baccarat occurs when the player's or dealer's first two cards are any two nines. If the player receives a Twin Baccarat, the player receives 3 to 2 on his wager and if the dealer receives a Twin Baccarat, the dealer only takes the player's original wager.

DANNY'S JACKPOT DICE. Danny's Jackpot Dice, a variation of the standard craps game, employs an additional side wager made on consecutive points thrown by the shooter. The wager must be made prior to the shooter establishing the first "point" to be made. Once the shooter establishes the first point, no one else can make this wager until the shooter throws a seven and goes out. This side wager will pay odds to the player based on how many consecutive points were made during the shooter's turn. The shooter must make at least three points before the player receives any odds on his wager.

WILD HOLD'EM FOLD'EM. Wild Hold'em Fold'em, a variation of stud poker, offers the player the feel and decisions of a real-live poker game without the concern of playing against anyone else. In Wild Hold'em Fold'em, the player has three chances to wager should the player continue to play to the end of the hand. The player places the first wager and receives three cards. The player then decides to either "Fold'em" and forfeit the side wager or "Hold'em" and continue. If the player elects to "Hold'em" and continue, the player must place a second wager equal to the first wager. The player then receives a fourth card and must decide again to either "Fold'em" and forfeit the two wagers or "Hold'em" and continue. If the player elects to "Hold'em" and continue, the player must place a third wager double to the first wager. Once all third and final wagers are placed, the player receives the fifth and last card face-up. All winning hands are then resolved and paid according to the payout schedule.

SECUREDROP SLOT ACCOUNTING SYSTEM AND SECURESCALE DROP CART.

SECUREDROP. SecureDrop uses a "smart bucket" to track various information from each slot machine through the installation of a computer chip at the base of each smart bucket. The information is stored in the computer chip until the smart bucket is transferred to the count room where the data is retrieved through a serial interface. The information can then be relayed to the accounting/management system for control purposes. Since gaming machine operators lose revenues through lack of financial accountability, SecureDrop's function is to provide the operator with realizable information to track the number of coins in the coin bucket at the time it was removed from the machine to the time it is brought to the count room. In order to address the differing needs of its clients, the Company has created the SecureDrop Series consisting of SecureDrop 2000, SecureDrop 3000, SecureDrop 4000 and SecureDrop 5000. SecureDrop 2000 offers electronic bucket identification and time stamp, uses the customer's current scale and interfaces with the customer's current data system. SecureDrop 3000 offers the same features as SecureDrop 2000 as well as the ability to read up to five hard meters in the slot machine. SecureDrop 4000 offers the same

features as SecureDrop 3000, but also separates the coin drop from the

bill drop. SecureDrop 5000 possess all of the features of the preceding levels of the SecureDrop Series as well as the ability to read selected soft meters in the slot machine.

SECURESCALE DROP CART. As a complement to the SecureDrop Series, the Company is developing the SecureScale Drop Cart which consists of a mobile scale and a secure drop area built into the cart. By installing a secure scale and drop area within the cart, the information contained in the smart buckets is immediately recorded, the coins are immediately secured, and the lag associated with transferring the drop bucket to the count room is eliminated.

The Company has received final approval of SecureDrop 2000 and SecureDrop 3000 from the Nevada State Gaming Control Board and is awaiting final approval of SecureDrop 4000, SecureDrop 5000 and the SecureScale Drop Cart. The Company has filed the appropriate applications for the SecureDrop Series and the SecureScale Drop Cart with the Mississippi Gaming Commission and anticipates approval of the same in the second quarter of 1999.

OTHER PRODUCTS.

SAFETY-PEEK CARD. The Safety-Peek Card is a new type of playing card designed for Blackjack/21. The key feature of its design is that it prevents the exposure of a dealer's hole card, I.E. the card that is face down, when used with a modified form of classic peeking action. The Safety-Peek Card permits the dealer to "peek" at the opposite corner of the playing card in order to determine the value of the hole card without revealing the value of the playing card. The Safety-Peek Card is licensed to the George C. Matheson Company ("GEMACO") and US Playing Card Company, under which the Company receives certain royalties. See Part I. "Item 1. Description of Business - Licensing."

In addition to the foregoing, the Company is in the process of developing other gaming products and table games designed to increase security, performance and profitability for the operator.

REGULATION

The gaming industry is a highly regulated industry and is subject to numerous statutes, rules and regulations administered by the gaming commissions or similar regulatory authorities of each jurisdiction. Generally, the Company and other entities which seek to introduce gaming products or concepts into such jurisdictions may be required to submit applications relating to their activities or products (including detailed background information concerning controlling persons within their organization) which are then reviewed for approval. The Company's products generally fall within the classification of "associated equipment". "Associated equipment" is equipment that is not classified as a "gaming device", but which has an integral relationship to the conduct of licensed gaming. Regulatory authorities in some jurisdictions have discretion to require manufacturers and distributors to meet licensing or suitability requirements prior to or concurrent with the use of associated equipment. In other jurisdictions, associated equipment must be approved by the regulatory authorities in advance of its use at licensed locations. The Company has obtained, or is seeking to obtain, approval of its associated equipment in each jurisdiction in which it conducts business that requires such approval.

NEVADA. The manufacture, sale and distribution of gaming devices for use or play in Nevada or for distribution outside of Nevada and the manufacture and distribution of associated equipment for use in Nevada are subject to (i) the Nevada Gaming Control Act and the regulations promulgated thereunder (collectively, the "Nevada Act") and (ii) various local ordinances and regulations. Such activities are subject to the licensing and regulatory control of the Nevada Gaming Commission (the "Nevada Commission"), the Nevada State Gaming Control Board (the "Nevada Board"), and various local, city and county regulatory agencies (collectively referred to as the "Nevada Gaming Authorities").

The laws, regulations and supervisory practices of the Nevada Gaming Authorities are based upon declarations of public policy having as their objectives (i) preventing any involvement, direct or indirect, of any unsavory or unsuitable persons in gaming or the manufacture or distribution of gaming devices at any time or in any capacity; (ii) strictly regulating all persons, locations, practices and activities related to the operation of licensed gaming establishments and the manufacture or distribution of gaming devices and equipment; (iii) establishing and maintaining responsible accounting practices and procedures; (iv) maintaining effective controls over the financial practices of licensees (including requirements covering minimum procedures for internal fiscal controls and safeguarding assets and revenues, reliable recordkeeping and periodic reports to be filed with Nevada Gaming Authorities); (v) preventing cheating and fraudulent practices and (vi) providing and monitoring sources of state and local revenue based on taxation and licensing fees. Changes in such laws, regulations and procedures, depending upon their nature, could have an adverse effect on the Company's operations.

Although the Company is not registered with the Nevada Board as a publicly traded corporation, the Company is currently required to provide a copy of all periodic reports and other filings made with the Securities and Exchange Commission to the Nevada Board. Further, even though applications for the approval of associated equipment go through a less comprehensive approval process, the Nevada Board may investigate any individual who has a material relationship to, or material involvement with, the Company in order to determine whether such individual is suitable or should be licensed as a business associate of the Company. Officers, directors and certain key employees of the Company may be required to be licensed or found suitable by the Nevada Gaming Authorities. The Nevada Gaming Authorities may deny an application for licensing for any cause that they deem reasonable. A finding of suitability is comparable to licensing. Both require submission of detailed personal and financial information, which is followed by a thorough investigation. The applicant for licensing or a finding of suitability must pay all the costs of the investigation.

In the event that the Nevada Gaming Authorities were to find an officer, director or key employee unsuitable for licensing or unsuitable to continue having a relationship with the Company, the Company would have to sever all relationships with that individual. In addition, the Nevada Commission may require the Company to terminate the employment of any person who refuses to file appropriate applications. Determinations of suitability or of questions pertaining to licensing are not subject to judicial review in Nevada.

In the event that the Company be found to have violated the Nevada Act, the licenses and/or approvals it holds could be limited, conditioned, suspended or revoked. In addition, the Company and the persons involved could be required to pay substantial fines, at the discretion of the Nevada Board, for each separate violation of the Nevada Act. The limitation, conditioning or suspension of any license or approval held by the Company could (and revocation of any license or approval would) materially adversely affect the Company's operations.

As for security holders of the Company, any beneficial holder of the Company's voting securities, regardless of the number of shares owned, may be required to file an application, be investigated, and have his or her suitability as a beneficial holder of the Company's voting securities determined if the Nevada Board finds reason to believe that such ownership would otherwise be inconsistent with the declared policies of the State of Nevada. The applicant must pay all costs of investigation incurred by the Nevada Gaming Authorities in conducting any such investigation. Any person who fails or refuses to apply for a finding of suitability or a license within thirty days after being ordered to do so by the Nevada Commission or the Chairman of the Nevada Board, may be found unsuitable. The same restrictions apply to a record owner if the record owner, after request, fails to identify the beneficial owner.

With respect to its current products, the Company has received associated equipment approval from the Nevada Gaming Authorities for the Shuffler, Fantasy 21, Bonus Blackjack, Danny's Jackpot Dice, Wild Hold'em Fold'em, SecureDrop 2000 and SecureDrop 3000. Although the Company has not yet received final approval for Twin Baccarat and Wild Jackpot Poker, the Company will be conducting field trials for these products during the second quarter of 1999.

In order to receive final approval of the Shuffler, the Company repurchased from Steven L. Forte, a former employee and director of the Company, and Cheryl Forte (i) 848,682 shares of the Company's common stock (the "Forte Shares"); (ii) option to purchase 20,000 shares of the Company's common stock; and (iii) royalty rights on sales of the Shuffler, Fantasy 21 and the Safety-Peek playing card (the "Forte Transaction"). As conditions on the final approval of the Shuffler, the Company is required to, among other things, submit a semi-annual report summarizing any interaction with Steven Forte and submit copies of periodic filings made with the Securities and Exchange Commission to the Nevada Board.

As consideration, the Company executed a promissory note in favor of Steven and Cheryl Forte in the principal amount of $2,351,705 (the "Forte Note"), a security agreement in favor of Steven and Cheryl Forte granting a first security interest in the patents for the Shuffler, Fantasy 21 and the Safety-Peek playing card, and a pledge agreement in favor of Steven and Cheryl Forte whereby the Company pledged the Forte Shares as security for the Forte Note. In December 1998, the Company negotiated the cancellation of the Forte Note, the security agreement and pledge agreement, as well as an unrelated pre-existing promissory note in the principal amount of $130,047.46 (the "Pre-existing Forte Note"), in exchange for $1,250,000 to be paid in three installments of $500,000 on December 7, 1998, $500,000 on December 28, 1998 and $250,000 on January 15, 1999. Upon payment of the $1,250,000, the Company cancelled the Forte Note, the security agreement, the pledge agreement and the Pre-existing Forte Note and received a release from Steven and Cheryl Forte releasing the Company from any and all claims related, either directly or indirectly, to the Forte Transaction. Accordingly, the Company has retired the Forte Shares from the number of shares of common stock outstanding.

MISSISSIPPI AND OTHER JURISDICTIONS. The Company currently distributes products in Mississippi and South Africa and intends to distribute products in other states and countries. Although the regulatory schemes in these jurisdictions are not identical, their material attributes are substantially similar, as described below.

The manufacture, sale and distribution of associated equipment and the ownership in each jurisdiction are subject to various provincial, state, county and/or municipal laws, regulations and ordinances, which are administered by the relevant regulatory agency or agencies in that jurisdiction (the "Gaming Regulators"). These laws, regulations and ordinances primarily concern the responsibility, financial stability and character of gaming equipment manufacturers, distributors and operators, as well as persons financially interested or involved in gaming or liquor operations.

In many jurisdictions, manufacturing or distributing of gaming supplies may not be conducted unless proper licenses are obtained. An application for a license may be denied for any cause which the Gaming Regulators deem reasonable. In order to ensure the integrity of manufacturers and suppliers of gaming supplies, most jurisdictions have the authority to conduct background investigations of the Company, its key personnel and significant stockholders. The Gaming Regulators may at any time revoke, suspend, condition, limit or restrict a license for any cause deemed reasonable by the Gaming Regulators. Fines for violation of gaming laws or regulations may be levied against the holder of a license and persons involved. The Company and its key personnel have obtained all licenses necessary for the conduct of the Company's business in the jurisdictions in which it manufactures and sells its casino

table game products. Suspension or revocation of such licenses

could have a material adverse effect upon the Company's operations.

NATIVE AMERICAN GAMING REGULATION. Gaming on Native American lands is extensively regulated under federal law, tribal-state compacts and tribal law. The Indian Gaming Regulatory Act of 1988 ("IGRA") provides the framework for federal and state control over all gaming on Native American land. IGRA regulates the conduct of gaming on Native American lands and the terms and conditions of contracts with third parties for management of gaming operations. IGRA is administered by the Bureau of Indian Affairs and the National Indian Gaming Commission ("NIGC").

IGRA classifies games that may be conducted on Native American lands into three categories. "Class I Gaming" includes social games solely for prizes of minimal value, or traditional forms of Native American gaming engaged in by individuals as part of, or in connection with, tribal ceremonies or celebrations. "Class II Gaming" includes bingo, pulltabs, lotto, punch boards, tip jars, instant bingo, and other games similar to bingo, if those games are played at the same location as bingo is played. "Class III Gaming" includes all other commercial forms of gaming, such as table games, slots, video casino games, and other commercial gaming (e.g. sports betting and pari-mutuel wagering).

Class I Gaming on Native American lands is within the exclusive jurisdiction of the Native American tribes and is not subject to the provisions of IGRA.

Class II Gaming is permitted on Native American lands if (i) the state in which the Native American lands are located permits such gaming for any purpose by any person, organization or entity; (ii) the gaming is not otherwise specifically prohibited on Native American lands by federal law; (iii) the gaming is conducted in accordance with a tribal ordinance or resolution which has been approved by the NIGC; (iv) a Native American tribe has sole proprietary interest and responsibility for the conduct of gaming; (v) the primary management officials and key employees are tribally licensed; and (vi) miscellaneous other requirements are met.

Class III Gaming is permitted on Native American lands if the conditions applicable to Class II Gaming are met and, in addition, the gaming is conducted in conformance with the terms of a written agreement between a tribal government and the government of the state within whose boundaries the tribe's lands are located (a "tribal-state compact").

IGRA requires states to negotiate in good faith with Native American tribes that seek to enter into a tribal-state compact for the conduct of Class III gaming. Such tribal-state compact may include provisions for the allocation of criminal and civil jurisdiction between the state and the Native American tribe necessary for the enforcement of such laws and regulations, taxation by the Native American tribe of such activity in amounts comparable to those amounts assessed by the state for comparable activities, remedies for breach, standards for the operation of such activity and maintenance of the gaming facility, including licensing, and any other subjects that are directly related to the operation of gaming activities. The terms of tribal-state compacts vary from state to state. Tribal-state compacts within one state tend to be substantially similar to each other. Tribal-state compacts usually specify the types of permitted games, entitle the state to inspect casinos, require background investigations and licensing of casino employees, and may require the tribe to pay a portion of the state's expenses for establishing and maintaining regulatory agencies.

Since 1996, the Nevada Gaming Authorities have taken the position that any Native American tribe operating Class III gaming within the state of California, absent a valid compact with the State of California, was doing so illegally. The legality of certain California Native American compacts is currently the subject of legal and other challenges.

UNITED STATES - FEDERAL. The Federal Gambling Devices Act of 1962 makes it unlawful for a person to manufacture, deliver or receive gaming machines, gaming machine type devices and components thereof across interstate lines unless that person has

first registered with the Department of Justice of the United States.

APPLICATION OF FUTURE OR ADDITIONAL REGULATORY REQUIREMENTS. In the future, the Company intends to seek the necessary licenses, approvals and findings of suitability for the Company, its products and its personnel in other jurisdictions throughout the United States and the world where significant sales are anticipated to be made. However, there can be no assurance that such licenses, approvals or findings of suitability will be obtained and if obtained will not be revoked, suspended or conditioned or that the Company will be able to obtain the necessary approvals for its future products as they are developed in a timely manner, or at all. If a license, approval or finding of suitability is required by a regulatory authority and the Company fails to seek or does not receive the necessary license, approval or finding of suitability, the Company may be prohibited from selling it products for use in the respective jurisdiction or may be required to sell its products through other licensed entities at a reduced profit to the Company.

MARKETING

As the gaming industry becomes increasingly more competitive, the Company's strategy is to develop cost-effective niche products and services that increase the security, productivity and profits for the global gaming industry. As part of its strategy, the Company offers to lease or sell its products to casinos and other lawful gaming establishments.

In order to maintain and expand the market presence of its products, the Company is committed to providing a high level of customer service and support. For example, with respect to the Shuffler, the Company oversees all installations of the Shuffler as well as provides training sessions on the operation of the Shuffler. In addition, the Company offers to its clients located in Nevada and Mississippi the ShuffleMaid service where the Company provides on-site preventative maintenance, on-site repair service and delivery of replacement Shufflers.

COMPETITION

The gaming industry is extremely competitive. Although the Company has assembled an experienced marketing team that uses its knowledge of the gaming industry to tailor the Company's products and services to the needs of the gaming industry, the Company competes with many established companies that possess resources substantially greater than those of the Company. Generally, the Company competes with other companies that are substantially larger, have more substantial histories, backgrounds, experience and records of successful operations, greater financial, technical, marketing and other resources, more employees and more extensive facilities than the Company now has, or will have in the foreseeable future.

Even though the Company's overall strategy is to compete on the basis of quality and price, the competitive pressures of the gaming industry will require the Company to invest in additional research and development. The constant need to update and innovate may result in increased costs for and reduced margins on the Company's products and services.

MANUFACTURING

Until March 1999, the Company maintained a manufacturing facility in Boise, Idaho for the production of the Shuffler and Fantasy 21. In March 1999, the Company relocated the substantial portion of its manufacturing facilities to its principal offices in Las Vegas, Nevada. Fantasy 21 is produced in

batches of 50 units and, from the point of ordering components to completion, takes twelve to fourteen weeks to produce each batch. The Company employs a combination of employees and contract laborers in the manufacturing process. As for the Shuffler, as of March 1999, the Company has completed production of 170 units and has obtained components to produce approximately 350 additional units. As for SecureDrop, the Company is manufacturing the necessary components at its principal offices in Las Vegas, Nevada through the use of employees, contract laborers and third-party manufacturers. The key third-party

manufacturers for SecureDrop are Tripp Plastics Components of Las Vegas, Nevada and River Electronics of Las Vegas, Nevada, both of which have over fifteen years and twenty years of experience, respectively, in the gaming industry. The Company has produced 200 units of SecureDrop and anticipates producing another 1,000 units by April 1999. Since the Company has licensed the rights to the Safety-Peek Card to GEMACO and the US Playing Card Company, the Company does not have manufacturing facilities for this product.

RESEARCH AND DEVELOPMENT

To date, most of the time and effort of the Company has been spent on research and product development. The Company or its predecessors incurred research and development costs aggregating $200,611, $464,304 and $244,117 for the years ended December 31, 1998, 1997 and 1996, respectively. These funds were expended on engineering, tooling, parts and other related expenditures. To develop innovative and competitive products, the Company intends to emphasize research and development of new products as funding and cash flow allow.

DISTRIBUTION

The Company presently intends to market and distribute its products (1) directly through the Company's sales force; (2) through distributors with a significant market presence in certain specified markets; or (3) through original equipment manufacturers ("OEM's"). An OEM is independent manufacturer who utilizes and incorporates certain component parts or systems manufactured by third parties, such as the Company, in the manufacturing and/or assembling of products.

As a means of increasing the global exposure of the Company's products, the Company entered into various exclusive distribution agreements. The Company currently has an exclusive five-year distributorship agreement with Sodak Gaming, Inc. ("Sodak") whereby the Company grants Sodak a certain exclusive territory and offers Sodak a minimum discount of twenty-five percent (25%) less than the promoted retail price in Nevada. The territory includes all Indian lands of the United States and First Nation/Aboriginal Lands in Canada, Deadwood, South Dakota and the Miss Marquette Riverboat and Casino, Marquette, Iowa. The Company also has an exclusive five-year distributorship agreement with RGB SDN BHD, a Malaysia corporation, whereby the Company offers to RGB SDN BHD a discount similar to that given to Sodak for the entire Asian Rim area, including, but not limited to, Malaysia, Singapore, China, Hong Kong, Korea, Vietnam, Indonesia, Thailand, The Philippines, Nepal, Cambodia, India, Sri Lanka, Macau, Myanmar, Laos, Cruise Ships based in Malaysia, Singapore and Hong Kong. The territory specifically excludes Japan, Australia and New Zealand which will be treated as common distributor areas. Additionally, the Company has an exclusive five-year distributorship agreement with H. Joel Rahn (company name to be designated). The Company offers to H. Joel Rahn a discount similar to that given to Sodak for a territory consisting of South America, Central America, the Caribbean Islands, the State of Florida and Cruise Ships worldwide, excluding Cruise Ships based in Malaysia, Singapore, Hong Kong and the Bahamas. The Company has also entered into an exclusive five-year distributorship agreement with Belgian Gaming Technology, a Belgian corporation, with respect to all countries in the European Commonwealth, Eastern Europe and Africa with the exclusion of South Africa and ferry ships.

LICENSING

The Company has granted joint exclusive licenses to GEMACO and to The US Playing Card Company for the Safety Peek Playing Card. The terms of the GEMACO agreement provides for a royalty of $.04 per deck of playing cards being paid to the Company on a quarterly basis. Additionally, GEMACO agreed that during the term of the agreement, it will use $.02 on each deck for promotion and advertising of the product. The US Playing Card Company pays a royalty of $.075 per deck.

Technology Development Center, LLC, has granted an exclusive license to the Company relating to its technology known as a "Coin Operating Machine Having An Electronically Identified Coin Collection Box". The geographical scope of the license is the

United States of America and all foreign countries. Pursuant to the terms of the license agreement, the Company agreed to pay Technology Development Center, LLC (i) $50,000 in five monthly installments beginning on November 14, 1997 and (ii) for $50,000 payable in twelve monthly installments beginning on April 15, 1998. The Company shall pay a royalty of $7.50 per each licensed product sold, rented, leased, or otherwise used for profit, provided that the Company receives a net compensation in excess of $7.50 for each licensed product sold. On July 31, 1998, the Company and Technology Development Center, LLC amended the license agreement such that the Company will make monthly payments of $5,000 from August 1998 to October 1998, make a payment of $2,500 in November 1998, and convert the remaining balance of $51,250 in principal and interest into 20,500 Common Shares at a conversion rate of $2.50 per Common Share. Through this amendment, the Company reduced its cash payment requirements and related expenses.

INTELLECTUAL PROPERTY RIGHTS

The Company has secured and endeavors to secure, to the extent possible, exclusive rights in its products and games, primarily through federal and foreign intellectual property rights, such as patents and trademarks. The United States Patent and Trademark Office has issued patents to the Company or its predecessors covering the Shuffler, Fantasy 21 and SecureDrop. The Company has applied for various other patents with respect to other concepts and products. Further, in order to protect potential foreign sources of income, the Company has filed patent applications and trademark applications in strategically selected foreign countries. There can be no assurance that any of the pending U.S. or foreign patent or trademark applications will issue as patents or trademark registrations, respectively, or that any of these rights will not be infringed by others or that already issued patents or trademark registrations will not be invalidated or canceled. None of the foregoing measures provides assurance that the Company's proprietary games or the concepts incorporated in the games could not be successfully duplicated by third parties. Third parties could infringe on the Company's rights, or the Company's proprietary products and games, and could be successfully duplicated without infringing on the Company's legal rights. Many elements incorporated in the Company's proprietary products and games are in the public domain or otherwise not susceptible to legal protection, and the steps taken by the Company will not, in and of themselves, preclude competition with the Company's proprietary products and games.

EMPLOYEES

As of February 28, 1999, the Company had 32 full-time employees. The Company will, as operations demand, sub-contract the balance of its employment needs through independent contractors.

ITEM 2. DESCRIPTION OF PROPERTY

The Company leases its principal offices and manufacturing facilities at 6744 S. Spencer Street, Las Vegas, Nevada 89119. The lease is for approximately 19,000 square feet with a monthly cost of approximately $11,600. The Company believes that its existing leased premises are sufficient for its

current business operations. As described in Item 1. "Description of Business-Manufacturing," the Company relocated the substantial portion of its manufacturing facilities from Boise, Idaho to Las Vegas, Nevada in March 1999.

ITEM 3. LEGAL PROCEEDINGS

On November 18, 1998, a complaint, JEWISH FEDERATION OF LAS VEGAS V. CASINOVATIONS INCORPORATED (Eighth Judicial District Court, Case No. A396031), was filed against the Company by the owner of the premises at which the Company formerly located its principal offices. This complaint alleges breach of contract with respect to the lease agreement by and between the Company and the owner when the Company vacated the premises on or about June 1, 1998. The Company vacated the premises on grounds that the premises were sinking and structurally unsound. Although the owner has requested damages in excess of $10,000 and applicable attorneys' fees, the matter has been assigned to arbitration. Management intends to vigorously defend the Company against all allegations.

On December 22, 1998, the Company received a letter from a stockholder which purchased 200,000 shares of the Company's common stock (the "Disputed Shares") issued in conjunction with the Offering (as defined below). Although the stockholder's subscription agreement was accepted by the Company on December 4, 1998 and although the Disputed Shares were issued to the stockholder on December 14, 1998, the stockholder asserts that it has the right to rescind said subscription agreement and that it desires to rescind said subscription agreement. Since the receipt of the letter, the Company, First Global Securities, Inc., the placement agent involved with the sale of the Disputed Shares ("First Global"), and Noble Trenham, President of First Global, have held certain discussions with the stockholder regarding the matter. On February 26, 1999, the stockholder's counsel sent a written demand for return of the subscription amount by March 2, 1999 or a lawsuit would be filed against the Company, the Company's directors, First Global and Mr. Trenham. As a result of the demand made by the stockholder, the Company has obtained an indemnification from First Global and Mr. Trenham. First Global and Mr. Trenham have agreed to indemnify, defend and hold harmless the Company of and from any and all claims, losses, liens, expenses, costs, damages, obligations and liabilities of any nature whatsoever incurred by the Company, including, without limitation, reasonable attorneys' fees and costs incurred by the Company, as a result of, or in connection with and all demands, settlements, rulings, orders, findings or judgments against the Company related to, the Disputed Shares and any other related matter, including, but not limited to, the repayment of the funds paid by the stockholder for the Disputed Shares and the return of the commission paid by the Company to First Global with respect to the Disputed Shares. On March 24, 1999, the Company agreed to rescind the subscription on or before April 30, 1999, in exchange for the Company's payment of $450,000. Mr. Trenham and First Global have agreed to pay $50,000 to the stockholder. The Company has reserved all rights to seek indemnification against Mr. Trenham and First Global.

On March 18, 1999, Shuffle Master, Inc. ("Shuffle Master") filed a complaint in the District Court, Clark County, State of Nevada (Case No. A400777) against former employees of Shuffle Master (who are now employees of the Company) and the Company. The complaint alleges, among other things, fraud, breach of contract and conversion against certain of these former employees of Shuffle Master and violation of Nevada's Trade Secret Act, interference with contractual relations, breach of contract, violations of the Lanham Act and civil conspiracy to commit fraud against certain of these former employees of Shuffle Master and the Company. Management believes that the complaint is without merit and intends vigorously to defend the allegations contained therein.

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

Not Applicable.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

MARKET INFORMATION

The Company's common stock is not presently traded on a public trading market, although the Company anticipates that trading in the over-the-counter market will begin in the second quarter of 1999.

COMMON STOCK, OPTIONS AND WARRANTS

As of January 31, 1999, there were 7,295,420 shares of the Company's common stock outstanding and approximately 430 holders of the Company's common stock. In connection with the resolution of the stockholder dispute, the Company may reacquire 200,000 shares by April 30, 1999. See Part II. "Item 3. Legal Proceedings."

As of December 31, 1998, the Company has issued options to purchase an aggregate of 855,000 shares of the Company's common stock. In addition, the Board of Directors of the Company adopted

the Casinovations Incorporated Stock Option Plan (the "Plan"). Under the Plan, which is subject to the approval of the Company's shareholders, the Company is authorized to issue stock options for a total up to 500,000 shares of the Company's common stock to selected officers, directors, employees consultants, advisers, independent contractors and agents of the Company. With respect to administration of the Plan, the Board of Directors of the Company has established a committee consisting of three outside directors, Bob L. Smith, David E. Sampson and Ronald O. Keil.

In 1996 and 1997, the Company issued four classes of warrants, Class A, Class B, Class C and Class D. In July 1996, the Company's Board of Directors authorized the pro rata distribution of 200,000 Class A Warrants, 200,000 Class B Warrants and 250,000 Class C Warrants to all record shareholders of the Company as of July 22, 1996. The Class A Warrants were exercisable into shares of the Company's common stock at a price of $3.75 per share, the Class B Warrants at a price of $4.00 per share and the Class C Warrants at a price of $6.00 per share. The Class A, Class B and Class C Warrants are exercisable over a four-year period ending July 2000 and are callable with thirty-day notice at a price of $.001 per under share of common stock. Subsequently, in June 1997, the Company's Board of Directors authorized the distribution of 200,000 Class D Warrants to certain shareholders for financing purposes. The Class D Warrants are exercisable into shares of the Company's common stock at the purchase price of $1.50 per share. Although the Class D Warrants are exercisable for two years beginning January 31, 1997, all Class D Warrants have been exercised.

In April 1998, certain holders of the Class A Warrants transferred and assigned a portion of their Class A Warrants to Richard S. Huson, VIP's Industries, Inc., an entity controlled by Bob L. Smith, a director of the Company, David Goldsmith, Jay Willoughby, and Richard Jaslow as a means of securing convertible debt financing for the Company. On December 31, 1998, the holders of such convertible debt financing converted their holdings at a rate of $2.13 per share for an aggregate of 235,012 shares of the Company's common stock.

On September 11, 1998, the Company's Board of Directors called the Class B Warrants and Class C Warrants such that the holders of the Class B Warrants and the Class C Warrants possessed the right to exercise such warrants at $4.00 and $6.00 per share, respectively, until October 11, 1998. Since no holders of the Class B Warrants and Class C Warrants exercised such warrants, the Company issued to all holders of the Class B Warrants and Class C Warrants $.001 per underlying share of common stock pursuant to the terms of such warrants. Currently, only the Class A Warrants are outstanding.

In addition to the Class A, Class B, Class C and Class D Warrants, in connection with the "Offering" (defined below), the Company agreed to grant First Global Securities, Inc. and Grant Bettingen, Inc. (collectively, the "Placement Agents") warrants to purchase 550,000 shares of common stock at an exercise price of $3.00 per share. Pursuant to the placement agreement dated September 17, 1998 by and between the Company and the Placement Agents, as amended January 5, 1999, the Company agreed to grant the Placement Agents warrants to purchase 332,500 shares of common stock at an exercise price of $3.00 per share so long as all of the shares under the Offering were sold by January 30, 1999. Although the Offering has been completed and all the shares offered pursuant to the Offering have been sold, the Company has not issued the aforementioned warrants to the Placement Agents pending a resolution of the matter with a certain stockholder. See Part I. "Item 3. Legal Proceedings."

DIVIDEND POLICY

The Company has never declared or paid cash dividends on its common stock. The Company presently intends to retain earnings to finance the operation and expansion of its business and does not anticipate declaring cash dividends in the foreseeable future.

USE OF PROCEEDS

The Company filed a Registration Statement on Form SB-2 (Registration No. 333-31373) (the "Registration Statement") for, among other things, the offer and sale of 1,500,000 shares

of the Company's common stock at $2.50 per share (the "Offering"). In addition, the Registration Statement registered 2,107,973 shares on behalf of certain selling security holders, consisting of 319,825 shares on behalf of Company officers, directors and affiliates, 828,177 shares on behalf of persons who acquired shares in previous private placements and 959,971 shares on behalf of unaffiliated shareholders and 200,000 shares underlying the Class A Warrants.

On January 30, 1999, the Company concluded the Offering in which the Company received gross proceeds of $3,794,360. After the payment of commissions to the Placement Agents, the Company received net proceeds of $ 3,567,613. The Company allocated the net proceeds from the Offering as follows: (i) $1,250,000 for the purposes of canceling, among other things, an indebtedness of $2,351,705 owed by the Company to Steven and Cheryl Forte; (ii) $50,000 for the purposes of reducing certain indebtedness owed to Bob L. Smith, a director and shareholder of the Company; (iii) $153,000 for the purposes of purchasing additional equipment and tooling; (iv) $566,600 for inventory; and (v) $1,541,013 for the purposes of funding working capital and other expenses. In connection with the resolution of the stockholder dispute, the Company may reacquire 200,000 shares by April 30, 1999. See Part II. "Item 3. Legal Proceedings."

For the year ended December 31, 1998, the Company issued 446,416 shares of common stock without registering said shares of common stock under the Securities Act of 1933, as amended (the "Securities Act"). All 446,416 shares issued by the Company are restricted securities. The Company issued the aforementioned shares of common stock as follows: (i) 30,000 shares in August 1998 as part consideration for the purchase of certain assets of Gaming 2000, LLC; (ii) 65,250 shares in November 1998 as a result of the conversion of certain indebtedness owed by the Company; (iii) 50,000 shares in December 1998 as payment for advertising services; (iv) 2,000 shares in December 1998 as a gift to employees of the Company; and (v) 299,166 shares in December 1998 as a result of the conversion of certain indebtedness owed by the Company. As a result of the issuance of these shares of common stock, the Company did not receive any cash proceeds.

With respect to the 2,000 shares of common stock issued to the Company's employees, the Company issued the shares as a gift such that the issuance did not constitute a "sale", "offer to sell", "offer

for sale", or "offer" as contemplated under Section 2(3) of the Securities Act. Accordingly, the issuance is exempt from the registration requirements of Section 5 of the Securities Act. As for the balance of the 446,416 shares issued by the Company, the Company relied upon Section 4(2) of the Securities Act in that the recipients of the shares of common stock were all accredited investors with pre-existing relationships with the Company. Accordingly, the issuance of these shares of common stock is exempt from the registration requirements of Section 5 of the Securities Act.

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

STATEMENT ON FORWARD-LOOKING INFORMATION

Certain information included herein contains statements that may be considered forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") such as statements relating to plans for future expansion, capital spending and financing sources. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ from those expressed in any forward-looking statements made herein. These risks and uncertainties include, but are not limited to, those relating to liquidity requirements for the Company, the continued growth of the gaming industry, the success of the Company's product-development activities, vigorous competition in the gaming

industry, dependence on existing management, relocation of manufacturing facilities, gaming regulations (including actions affecting licensing), leverage and debt service (including sensitivity to fluctuations in interest rates), issues related to the Year 2000, domestic or global economic conditions and changes in federal or state tax laws or the administration of such laws.

OVERVIEW

The Company's primary business is the development, manufacturing and marketing of various gaming concepts and products that increase the security, productivity and profits for the global gaming industry.

From inception through December 31, 1998, the Company has been a "Development Stage Company" performing research and development, product prototyping, field testing of products, development of manufacturing capabilities, acquiring inventory, development of distribution channels, staffing (including the four top sales executives from a major shuffler competitor) and obtaining a building with sufficient capacity to house future growth. Beginning January 1999, the Company anticipates sales development and revenue growth to be an operating company.

In December 1998, the Nevada Board issued its approval for the Company to sell the Shuffler. As of February 22, 1999, the Company had placed 54 Shufflers under rental contracts and had commitments for an additional 158 units. The Company has the majority of the parts required to build an additional 350 Shufflers. Additionally, the Company has received purchase commitments for an aggregate of 1,200 units of its "SecureDrop" products. The Company is currently negotiating for tooling and product sufficient to build 60,000 SecureDrop units in 1999. The Company believes that customer interest in both the Shuffler and SecureDrop products continues to be very high.

From April 1998 through January 1999, the Company conducted a public offering for 1,500,000 shares of its common stock at $2.50 per share (the "Offering"). In addition, the Company registered 2,107,973 shares of common stock on behalf of certain selling shareholders and 200,000 shares of common stock underlying the Class A Warrants. The Company used the proceeds from the Offering for the payment of operating expenses, funding of working capital and the reduction of debt. See Part II. "Item 5. Market for Common Equity and Related Stockholder Matters - Use of Proceeds."

The following discussion summarizes the Company's results of operations for the years ended December 31, 1998, 1997 and 1996 and the Company's liquidity and capital resources.

RESULTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 1998 AND 1997

REVENUES. For the twelve months ended December 31, 1998, the Company generated total revenues of $29,670 compared to $13,516 for the twelve months ended December 31, 1997. The revenues for the twelve months ended December 31, 1998 consisted of Shuffler rentals of $20,894, Shuffler sales of $3,860, interest income of $1,215 and distributor's commissions and Fun Pit Collection rentals of $1,230.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. For the twelve months ended December 31, 1998, selling, general and administrative expenses increased approximately $838,565, or 46%, to $2,664,815 compared to $1,826,250 for the twelve months ended December 31, 1997. This increase was primarily attributable to costs associated with the development and marketing of the Company's products and the expansion of the Company's operations. For the twelve months ended December 31, 1998, selling, general and administrative expenses included: salaries and related costs of $947,318; consulting services of $268,345; cost of gaming industry shows $140,892; travel and entertainment costs of $194,952; printing and office expense, including rent of $332,544; and legal expenses of $135,431. In addition, the Company had depreciation and amortization of $123,128 and amortized deferred interest of $0 compared to $40,262 and $186,000, respectively, for the twelve months ended December 31,

1998 and 1997, respectively.

INTEREST EXPENSE. For the twelve months ended December 31, 1998, the Company incurred interest expenses of $383,189 compared to $329,033 for the twelve months ended December 31, 1997. This increase was primarily attributable to the increased borrowings of the Company.

OTHER INCOME. For the twelve months ended December 31, 1998, the Company received net proceeds of $2,088,630 from the sale of common stock and received proceeds of $985,796 from the issuance of long-term debt. In addition, for the twelve months ended December 31, 1998, the Company received loans from shareholders in the amount of $1,368,000 and repaid loans from shareholders in the amount of $3,006. As a result, the Company received $4,439,420 in net cash from financing activities.

NET INCOME (LOSS). For the twelve months ended December 31, 1998, the Company had a net loss of $3,373,144, an increase of $767,073, compared to a net loss of $2,606,071 for the twelve months ended December 31, 1997. The increase in net loss was primarily due to continued development of the Company's products and the expansion of the Company's operations. Basic loss per share was $.53 for the twelve months ended December 31, 1998 compared to $.47 the twelve months ended December 31, 1997.

YEARS ENDED DECEMBER 31, 1997 AND 1996

REVENUES. For the twelve months ended December 31, 1997, the Company generated total revenues of $13,516 compared to $4,253 for the twelve months ended December 31, 1996. These revenues consisted of card royalties of $2,226, interest income of $8,290 and the sale of patent rights of $3,000.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. For the twelve months ended December 31, 1997, selling, general and administrative expenses increased approximately $848,423, or 87%, to $1,826,250 compared to $977,827 for the twelve months ended December 31, 1996. This increase was primarily attributable to costs associated with the development and marketing of the Company's products and the expansion of the Company's operations. For the twelve months ended December 31, 1997,

selling, general and administrative expenses included: salaries and related costs of $419,101; consulting services of $627,913; cost of gaming industry shows $151,425; travel and entertainment costs of $313,475; printing and office expense, including rent of $166,922; and legal expenses of $72,785. In addition, the Company had depreciation and amortization of $40,262 and amortized deferred interest of $186,000 compared to $2,553 and $46,500, respectively, for the twelve months ended December 31, 1996, respectively.

INTEREST EXPENSE. For the twelve months ended December 31, 1997, the Company incurred interest expenses of $329,033 compared to $414,723 for the twelve months ended December 31, 1996.

OTHER INCOME. For the twelve months ended December 31, 1997, the Company received net proceeds of $1,015,510 from the sale of common stock and received proceeds of $744,600 from the sale of long-term debt. In addition, for the twelve months ended December 31, 1997, the Company received loans from shareholders in the amount of $120,000 and repaid loans from shareholders in the amount of $38,866. As a result, the Company received $1,841,244 in net cash from financing activities.

NET INCOME (LOSS). For the twelve months ended December 31, 1997, the Company had a net loss of $2,606,071, an increase of $921,344, compared to a net loss of $1,684,727 for the twelve months ended December 31, 1996. The increase in net loss was primarily due to continued development of the Company's products and the expansion of the Company's operations. Basic loss per share was $.47 for the twelve months ended December 31, 1997 compared to $.41 the twelve months ended December 31, 1996.

LIQUIDITY AND CAPITAL RESOURCES

OVERVIEW. Management is currently developing business plans and operations such that the Company is expected to cover

operating expenses through cash flow from operations assuming immediate commencement of normal sales activities. Although the Company is currently relying upon the proceeds of the Offering and advances from its principal shareholder for liquidity requirements, the Company is constantly exploring and evaluating additional sources of financing.

OFFERING. The Company completed its Offering of common stock on January 30, 1999. As a result of the sale of shares pursuant to the Offering, the Company received gross proceeds of $3,794,360. The Company received net proceeds of $2,088,630 during the twelve months ended December 31, 1998. See Part II. "Item 5. Market for Common Equity and Related Stockholder Matters." The Company has agreed to rescind the sale of 200,000 shares issued in the Offering. See Part I. "Item 3. Legal Proceedings."

CONVERTIBLE DEBT. The Company has received proceeds of $1,800,000 from the placement of convertible debt in the first quarter of 1999. The debt accrues interest at 9.5% per annum and is convertible into restricted shares of common stock after six months at $2.60 per share. Each purchaser of a $50,000 unit of convertible debt also received warrants for the purchase of 9,100 shares of common stock at $3.00 per share. The convertible debt issue was completed in March 1999.

WORKING CAPITAL. At December 31, 1998, the Company had cash, cash equivalents and investments of $200,749 compared to $119,389 at December 31, 1997. At December 31, 1998, the Company's working capital deficit was $632,024 compared to a deficit of $1,031,024 at December 31, 1997. At December 31, 1998, the Company's current ratio, I.E. the ratio of current assets to current liabilities, was 0.62:1 compared to 0.26:1 at December 31, 1997. During the twelve months ended December 31, 1998, the Company relied upon loans from its principal shareholder and other directors, and other private and institutional sources of debt and equity capital of $4,442,426. Until the Company's

normalized sales levels are achieved, the Company will be relying upon cash generated from the Offering,loans from the Company's principal shareholder and other directors, and other private and institutional sources of debt and equity capital for working capital purposes.

LEASE FINANCING. As of December 31, 1998, the Company received proceeds of $947,100 from certain lease financing with an unrelated leasing company whereby the Company sold and leased back all of its furniture, equipment and tooling, and 70 units of the Shuffler.

CASH FLOW. For the year ended December 31, 1998, net cash used in operating activities was $(3,069,479) compared to $(1,949,467) for the year ended December 31, 1997. The cash used in operating activities reflects depreciation and amortization of $123,128 compared to $40,262 for the year ended December 31, 1997; stock and options used for services of $541,108 compared to $136,000 for the year ended December 31, 1997; compensation value of cash stock sales of $0 compared to $177,000 for the year ended December 31, 1997; stock and option issued for additional interest of $133,124 compared to $117,332 for the year ended December 31, 1997; amortization of deferred interest of $0 compared to $186,000 for the year ended December 31, 1997; increases/decreases in accounts receivable of $(4,003) compared to $15,327 for the year ended December 31, 1997; increases/decreases in inventory of $574,369 compared to $181,437 for the year ended December 31, 1997; increases/decreases in prepaid expenses of $(1,104) compared to $39,276 for the year ended December 31, 1997; increases/decreases in other assets of $95,102 compared to $41,600 for the year ended December 31, 1997; increases/decreases in accounts payable of $368,038 compared to $335,459 for the year ended December 31, 1997; and increases/decreases in accrued expenses of $37,479 compared to $(57,809) for the year ended December 31, 1997.

For the year ended December 31, 1998, net cash from financing activities was $4,439,420 compared to $1,841,244 for the year ended December 31, 1997. The increase is primarily attributable to the proceeds received from the Company's Offering. The cash from financing activities consisted of

$2,088,630 from the sale of common stock, proceeds of $985,796 from long-term debt, proceeds of $1,368,000 from shareholder loans and repayment of notes payable of $3,006.

CAPITAL EXPENDITURES. In June 1998, the Company opened its manufacturing facilities to Boise, Idaho. The Company entered into a one-year lease for its new 4,000 square foot manufacturing facility. The Company relocated its manufacturing operations to its principal offices in Las Vegas, Nevada in March 1999, at a cost of approximately $5,000. In addition, the Company has planned expenditures of $300,000 for additional tooling. For the twelve months ended December 31, 1998, the Company used net cash in investing activities of $1,288,582 consisting of: acquired plant and equipment valued at $153,473; increased patents and trademarks by $19,023; and purchased and retired treasury stock for $1,116,086. For the twelve months ended December 31, 1997, the Company used net cash in investing activities of $325,266 consisting of: acquired plant and equipment valued at $296,156; and increased patents and trademarks by $29,110.

RETIREMENT OF DEBT. As part of a transaction where the Company repurchased the shares of common stock, among other things, from Steven L. Forte, a former employee, director and shareholder of the Company, the Company executed a promissory note in the original principal amount of $2,351,705. The promissory note dated December 3, 1998 had an interest rate of 6.5% during the first year and 8% thereafter and was amortized over a ten-year schedule with payments of interest only during the first year, payable on the six-month and twelve-month anniversary of the promissory note and payments of principal and interest thereafter on a monthly basis. Through a December 1998 letter agreement, the Company negotiated the cancellation of the promissory note, as well as the cancellation of the security for the promissory note and the cancellation of an unrelated promissory note in the original principal amount of $130,047.46, in exchange for three payments in the aggregate amount of $1,250,000: $500,000 on

December 7, 1998, $500,000 on December 28, 1998 and $250,000 on January 15, 1999. On January 15, 1999, the Company made the last payment and cancelled the promissory note, the security for the promissory note and the unrelated promissory note.

In addition, the certain individuals, including three directors of the Company, entered into a transaction with Randy D. Sines, a former officer and director of the company, whereby Mr. Sines would (i) sell to these individuals all of his shares of the Company's common stock and (ii) transfer to and/or cancel in favor of the Company certain debts, options and warrants, in exchange for payment of $1,250,000 from these individuals. The transaction involved the following items: (i) 885,560 shares of the Company's common stock (including 470,851 shares with restrictions imposed by the State of California Department of Corporations, 326,153 shares restricted under Rule 144 and by agreement, and 88,556 shares registered pursuant to the Offering); (ii) options to purchase 20,000 shares of common stock at $1.50 per share; (iii) options to purchase 175,000 shares of common stock from the Company's principal shareholder; (iv) a certain promissory note in the original principal amount of $150,000; (v) certain warrants; and (vi) certain royalty rights from the sale of the Shuffler, Fantasy 21 and Safety-Peek. Although the Company did not pay any portion of the $1,250,000 paid to Mr. Sines, the Company did receive a benefit through the cancellation of the aforementioned promissory note, options and royalty rights.

OUTLOOK

Based on presently known commitments and plans, the Company believes that it will be able to fund 1999 operations and required expenditures through cash on hand, cash flow from operations, cash from private placement of debt and lease financing sources. In the event that such sources are insufficient, the Company will need to seek cash from private or public placements of debt or equity, institutional or other lending sources or change operating plans to accommodate such liquidity issues. No assurances can be given that the Company will successfully obtain necessary liquidity sources.

YEAR 2000

During 1998, the Company undertook an assessment of the information systems and software used in its operations to determine whether or not those systems were Year 2000 compliant, and assessed plans to upgrade systems and/or software that was determined to not be Year 2000 compliant. The Company has begun and is continuing to assess potential issues related to the approach of the Year 2000 other than those relating to the Company's internal information systems, such as critical supplier readiness and potential problems associated with embedded technologies, and will develop and implement plans to correct any deficiencies found.

Based upon the Company's efforts to date, the Company believes that the costs of addressing the Company's Year 2000 issues have not been and are not currently expected to be material to the Company's results of operations or financial position; however, should the Company and/or its critical suppliers fail to identify and/or correct material Year 2000 issues, such failure could impact the Company's ability to operate as it did before the Year 2000, and subsequently have a material impact on the Company's results of operations or financial position. In such an event, the Company will address issues as they arise and strive to minimize any impact on the Company's operations. The impact on the Company's operating results of such failures and of any contingency plans to be designed to address such events cannot be determined at this time.

RECENTLY ISSUED AND ADOPTED ACCOUNTING STANDARDS

SFAS No. 130, "Reporting Comprehensive Income", establishes guidelines for all items that are to be recognized under accounting standards as components of comprehensive income to be reported in the financial statements. The statement is effective for all periods beginning after December 15, 1997 and reclassification financial statements for earlier periods will be required for comparative purposes. To date, the Company has not engaged in transactions which would result in any significant difference between its reported net loss and comprehensive net loss as defined in the statement.

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use ("SOP 98-1"). SOP 98-1 provides authoritative guidance on when internal-use software costs should be capitalized and when these costs should be expensed as incurred. Effective January 1, 1998, the Company adopted SOP 98-1. Costs capitalized by the Company during the year ended December 31, 1998 in accordance with these guidelines were not significant.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"), which is required to be adopted in years beginning after June 15, 1999. SFAS 133 will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company has not yet determined what the effect of SFAS 133 will be on earnings and the financial position of the Company, however it believes that it has not to date engaged in significant transactions encompassed by the statement.

Effective December 31, 1998, the Company adopted SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information ("SFAS 131"). SFAS 131 superseded SFAS No. 14, Financial Reporting for Segments of a Business Enterprise. SFAS 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. SFAS 131 also establishes standards for

related disclosures about products and services, geographic areas, and major customers. The adoption of SFAS 131 did not affect results of operations or financial position. To date, the Company has operated in one business segment only.

Effective December 31, 1998, the Company adopted the provisions of SFAS No. 132, Employers' Disclosures about Pensions and Other Post-retirement Benefits ("SFAS 132"). SFAS 132 supersedes the disclosure requirements in SFAS No. 87, Employers' Accounting for Pensions, and SFAS No. 106, Employers' Accounting for Post-retirement Benefits Other Than Pensions. The overall objective of SFAS 132 is to improve and standardize disclosures about pensions and other post-retirement benefits and to make the required information more understandable. The adoption of SFAS 132 did not affect results of operations or financial position. The Company is in its development stage and has not initiated benefit plans to date, which would require disclosure under the statement.

RISK FACTORS AND FORWARD LOOKING INFORMATION

THIS REPORT CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT AND SECTION 21E OF THE EXCHANGE ACT. SUCH STATEMENTS REFER TO EVENTS THAT COULD OCCUR IN THE FUTURE OR MAY BE IDENTIFIED BY THE USE OF WORDS SUCH AS "INTEND," "PLAN," "BELIEVE," CORRELATIVE WORDS, AND OTHER EXPRESSIONS INDICATING THAT FUTURE EVENTS ARE CONTEMPLATED. SUCH STATEMENTS ARE SUBJECT TO INHERENT RISKS AND UNCERTAINTIES, AND ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE PROJECTED IN THE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN OF THE RISK FACTORS SET FORTH BELOW AND ELSEWHERE IN THIS PROSPECTUS. IN ADDITION TO THE OTHER INFORMATION CONTAINED HEREIN, INVESTORS SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS.

NO ESTABLISHED BUSINESS; LACK OF OPERATING RESULTS; NO INDEPENDENT MARKET RESEARCH OF POTENTIAL DEMAND FOR CURRENT OPERATIONS. The Company has been in the development stage and has only recently commenced sales of its products. The Company's activities have been limited to analyzing the gaming industry, consulting with persons in the gaming industry, negotiating interim financing arrangements, developing products, establishing a distribution network for its products, marketing its products to the gaming industry, manufacturing its products and commencing product sales. Although the Company anticipates sales development and revenue growth beginning with the first quarter of 1999, there is no guarantee that the Company will generate sufficient revenue to sustain its operations. No independent organization has conducted market research providing management with independent assurance from which to estimate potential demand for the Company's business operations.

REGULATION. The gaming industry is a highly regulated industry and is subject to numerous statutes, rules and regulations administered by the gaming commissions or similar regulatory authorities of each jurisdiction. Generally, the Company and other entities which seek to introduce gaming products or concepts into such jurisdictions may be required to submit applications relating to their activities or products (including detailed background information concerning controlling persons within their organization) which are then reviewed for approval. The Company may incur significant expenses in seeking to obtain licenses for its gaming products and concepts, and no assurance can be given that its products will be approved in any particular jurisdiction. The failure to obtain such approval in any jurisdiction in which the Company may seek to introduce its products or concepts, could have a material adverse effect on the Company's business. See Part I. "Item 1. Description of Business - Regulation."

ADDITIONAL FINANCING MAY BE REQUIRED. Based on presently known commitments and plans, the Company believes that it will be able to fund its 1999 operations and required expenditures through cash on hand, cash flow from operations, proceeds from the sale of common stock, cash from private placement of debt and lease financing sources. In the event that such sources are insufficient, the Company will need to seek cash from private or public placements of debt or equity, institutional or other lending sources or change operating plans to accommodate such liquidity issues. No assurances can be given that the Company

will successfully locate necessary liquidity sources.

INFLUENCE ON ELECTION OF DIRECTORS AND ALL OTHER MATTERS BY CURRENT OFFICERS AND DIRECTORS. The officers and directors of the Company own approximately 52.4% of the outstanding common shares. As a result, the officers and directors of the Company, through their aggregate ownership of the Common Shares, will be able to influence the election of directors and all other matters submitted to a vote of the Company's shareholders.

UNCERTAINTY OF MARKET FOR COMPANY'S PRODUCTS. The Company has various gaming products, such as the Shuffler and SecureDrop, and variations of traditional games of Blackjack and Poker, that are ready for distribution. Despite the additions to the Company's product line, the Company has only recently completed the development process for some of its gaming products. Although the market appears to be

receptive to the Company's products, there is no guarantee that the market will remain receptive and that the Company's future products will be received by the market in the same manner.

BENEFIT TO MANAGEMENT. The Company may, in the future, compensate the Company's management with substantial salaries and other benefits. The payment of future larger salaries, commissions and the costs of these benefits may be a burden on the Company and may be a factor in limiting or preventing the Company from achieving profitable operations in the future. However, the Company would not continue to compensate management with such substantial salaries and other benefits under circumstances where to do so would have a material negative effect on the Company's financial condition.

NO DIVERSIFICATION. The Company intends to manufacture and market certain gaming products and concepts. Therefore, the Company's financial viability will depend almost exclusively on its ability to generate revenues from its operations and the Company will not have the benefit of reducing its financial risks by relying on revenues derived from other operations.

STOCKHOLDERS MAY BEAR RISK OF LOSS. The capital stock of the Company is at risk of complete loss if the Company's operations are unsuccessful.

FINANCIAL CONDITION. There can be no assurance that the Company will have adequate funds to pay all of its operating expenses or that the Company can be operated in a profitable manner. Profitability depends upon many factors, including the success of the Company's operations.

COMPETITION. There is significant competition in the gaming industry. The Company competes with established companies and other entities (many of which possess substantially greater resources than the Company). Almost all of the companies with which the Company competes are substantially larger, have more substantial histories, backgrounds, experience and records of successful operations, greater financial, technical, marketing and other resources, more employees and more extensive facilities than the Company now has, or will have in the foreseeable future. It is also likely that other competitors will emerge in the near future. There is no assurance that the Company will continue to compete successfully with other established gaming product manufacturers. The Company shall compete on the basis of quality and price. Inability to compete successfully might result in increased costs, reduced yields and additional risks to the investors herein. See Part I. "Item 1. Description of Business - Competition."

RISKS OF PROPRIETARY PRODUCTS AND GAMES. The Company places its proprietary products and games, except SecureDrop, in casinos under short-term lease arrangements, making these games susceptible to replacement due to pressure from competitors, changes in economic conditions, obsolescence, and declining popularity. The Company intends to maintain and expand the number of installed proprietary products and games through enhancement of existing products and games, introduction of new products and games, and customer service, but there can be no assurance that these efforts will be successful. Introduction of new proprietary products and games involves significant risks, including whether the Company will be able to place its products

and games with casinos, the economic terms on which casinos will accept the products and games, the popularity of the products and games with gaming patrons, and whether a successful game can maintain its popularity over the long term. If the Company is not successful in introducing new games, the effects on the Company could be adverse. The Company has filed trademark and patent applications to protect its intellectual property rights in certain of its trademarks and innovations on certain of its proprietary games, respectively. At this time, however, the United States Patent and Trademark Office has not acted upon all of these applications. There can be no assurance that the pending patent or trademark applications will actually issue as patents or trademark registrations or that any of these rights will not be infringed by others. Certain of the Company's products and games do may have independent protection of the game itself, and it is possible that competitors could produce a similar product or game without violating any legal rights of the Company. The

Company intends to promote aggressively its trademarks to build goodwill and customer loyalty. In addition, the Company intends to improve and add innovations to certain of its games, which may be subject to legal protection. There can be no assurance, however, that the Company will be successful in these efforts, that innovations will be subject to legal protection, or that the innovations will give a competitive advantage to the Company. See Part I. "Item 1. Description of Business - Intellectual Property."

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISK. This Report contains forward-looking statements including statements regarding, among other items, the Company's growth strategies and anticipated trends in the Company's business and demographics. These forward-looking statements are based largely on the Company's expectations and are subject to a number of risks and uncertainties, certain of which are beyond the Company's control. Actual results could differ materially from these forward-looking statements as a result of the factors described in this section "Risk Factors and Forward Looking Statements," including among others, regulatory or economic influences. In light of these risks and uncertainties, there can be no assurance that the forward-looking information contained in this Report will be accurate.

LACK OF DIVIDENDS. There can be no assurance that the operations of the Company will become profitable. At the present time, the Company intends to use any earnings which may be generated to finance the growth of the Company's business. See Part II. "Item 5. Market for Common Equity and Related Stockholder Matters - Dividend Policy."

DEPENDENCE ON KEY INDIVIDUALS. The future success of the Company is highly dependent upon the management skills of its key employees and the Company's ability to attract and retain qualified key employees. The inability to obtain and employ these individuals would have a serious effect upon the business of the Company. The Company has entered into employment agreements with Steven J. Blad, and Jay L. King and is currently negotiating employment agreements with several of its employees. There can be no assurance that the Company will be successful in retaining its key employees or that it can attract or retain the additional skilled personnel required.

DEPENDENCE ON CHAIRMAN OF THE BOARD AND OTHER DIRECTORS. During 1998 and 1997, the Company's Chairman of the Board of Directors and certain other directors have made significant loans to the Company to provide necessary liquidity to the Company. As of December 31, 1998, such outstanding loans were $1,385,000. There is no obligation of any kind by such persons to continue lending funds to the Company, and there is no assurance whatsoever that such persons would be willing or able to make such loans available in the future if the Company is in need of funds.

VULNERABILITY TO FLUCTUATIONS IN THE ECONOMY. Demand for the Company's products is dependent on, among other things, general economic conditions and international currency fluctuations which are cyclical in nature. Prolonged recessionary periods may be damaging to the Company.

"PENNY" STOCK REGULATION OF BROKER-DEALER SALES OF COMPANY SECURITIES. The Company intends to list its Common Stock, at

least initially, on the OTC Bulletin Board and, then, upon meeting the requirements for a NASDAQ listing, on NASDAQ Small Cap Market, if ever. The Company does not meet the requirements for a NASDAQ Small Cap Market listing. The OTC Bulletin Board has no quantitative written standards and is not connected with the NASD. Until the Company obtains a listing on the NASDAQ Small Cap Market, if ever, the Company's securities may be covered by a Rule 15g-9 under the Exchange Act that imposes additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and institutional accredited investors (generally institutions with assets in excess of $5,000,000 or individuals with net worth in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 jointly with their spouse). For transactions

covered by the rule, the broker-dealer must furnish to all investors in penny stocks, a risk disclosure document required by Rule 15g-9 of the Exchange Act, make a special suitability determination of the purchaser and have received the purchaser's written agreement to the transaction prior to the sale. In order to approve a person's account for transactions in penny stock, the broker or dealer must (i) obtain information concerning the person's financial situation, investment experience and investment objectives; (ii) reasonably determine, based on the information required by paragraph (i) that transactions in penny stock are suitable for the person and that the person has sufficient knowledge and experience in financial matters that the person reasonably may be expected to be capable of evaluating the rights of transactions in penny stock; and (iii) deliver to the person a written statement setting forth the basis on which the broker or dealer made the determination required by paragraph (ii) in this section, stating in a highlighted format that it is unlawful for the broker or dealer to effect a transaction in a designated security subject to the provisions of paragraph (ii) of this section unless the broker or dealer has received, prior to the transaction, a written agreement to the transaction from the person; and stating in a highlighted format immediately preceding the customer signature line that the broker or dealer is required to provide the person with the written statement and the person should not sign and return the written statement to the broker or dealer if it does not accurately reflect the person's financial situation, investment experience and investment objectives and obtain from the person a manually signed and dated copy of the written statement. A penny stock means any equity security other than a security (i) registered, or approved for registration upon notice of issuance on a national securities exchange that makes transaction reports available pursuant to 17 CFR 11Aa3-1 (ii) authorized or approved for authorization upon notice of issuance, for quotation in the NASDAQ system; (iii) that has a price of five dollars or more; or (iv) whose issuer has net tangible assets in excess of $2,000,000 demonstrated by financial statements dated less than fifteen months previously that the broker or dealer has reviewed and has a reasonable basis to believe are true and complete in relation to the date of the transaction with the person. Consequently, the rule may affect the ability of broker-dealers to sell the Company's securities.

ITEM 7. FINANCIAL STATEMENTS

Independent Auditors' Report

Balance Sheets at December 31, 1998

Statements of Operations for the Years Ended December 31, 1998 and 1997 and Period from Inception (April 29, 1994) to December 31, 1998

Statements of Changes in Stockholders' Equity for the Period from Inception (April 29, 1994) to December 31, 1998

Statements of Cash Flows for the Years Ended December 31, 1998 and 1997 and the Period from Inception (April 29, 1994) to December 31, 1997

Notes to Consolidated Financial Statements

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
Casinovations Incorporated
(A Development Stage Company)

We have audited the balance sheet of Casinovations Incorporated as of December 31, 1998, and the related statements of income, changes in stockholders' equity, and cash flows for each of the two years in the period then ended and for the period from inception (April 29, 1994) to December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Casinovations Incorporated as of December 31, 1998, and the results of its operations and cash flows for each of the two years in the period then ended and for the period from inception (April 29, 1994) to December 31, 1998, in conformity with generally accepted accounting principles.

James E. Scheifley & Associates, P.C.
Certified Public Accountants

Englewood, Colorado
February 5, 1999

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CASINOVATIONS INCORPORATED
(A DEVELOPMENT STAGE COMPANY)
BALANCE SHEET
DECEMBER 31, 1998

ASSETS

<S>	<C>
Current assets:	
Cash	$ 200,749
Accounts receivable, trade	2,810
Accounts receivable - employees	11,347
Inventories	756,662
Prepaid expenses	38,896
Total current assets	1,010,464
Property and equipment, at cost, net of accumulated depreciation of $125,380	350,772
Intangible assets, at cost, net of accumulated amortization of $37,369	157,916
Deferred interest	238,590
Deposits	142,821
	$ 1,900,563

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Note payable - bank	$ 197,383
Current portion of leases payable	219,758
Current portion of long term debt	3,232
Accounts payable	810,349
Accrued expenses	40,576
Accrued interest - shareholder loans	59,561
Shareholder loans - due currently	295,755
Customer deposits	15,874
Total current liabilities	1,642,488
Other long term debt	13,948
Leases payable - non-current	813,138
Shareholder loans	1,089,245
Stockholders' equity:	
Common stock, $.001 par value, 20,000,000 shares authorized, 6,767,106 shares issued and outstanding	6,767
Additional paid-in capital	6,676,430
Unpaid subscriptions to common stock	(125,000)
Deficit accumulated during development stage	(8,216,453)
	(1,658,256)
	$ 1,900,563

See Accompanying Notes to Consolidated Financial Statements

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CASINOVATIONS INCORPORATED
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1998 AND 1997
AND PERIOD FROM INCEPTION (APRIL 29, 1994) TO DECEMBER 31, 1998

	December 31, 1998	December 31, 1997	Period from Inception (April 29, 1994) to December 31, 1998
<S>	<C>	<C>	<C>
Sales	$ 27,779	$ 2,226	$ 32,740
Interest income	1,216	8,290	11,299
Other income	675	3,000	3,685
	29,670	13,516	47,724
Other costs and expenses:			
Cost of sales	134,199	-	134,199
General and administrative	2,664,815	1,826,250	5,657,599
General and administrative - related parties	-	-	76,768
Research and development	220,611	464,304	1,391,871
	3,019,625	2,290,554	7,260,437
(Loss) from operations	(2,989,955)	(2,277,038)	(7,212,713)
Interest expense	133,574	34,515	182,869
Interest expense - related parties	249,615	294,518	973,257
	383,189	329,033	1,156,126
(Loss) before income taxes	(3,373,144)	(2,606,071)	(8,368,839)
Provision for income taxes	-	-	-
Net (loss)	$ (3,373,144)	$ (2,606,071)	$ (8,368,839)

Basic and diluted (loss) per share	$ (0.53)	$ (0.47)	$ (1.72)
Weighted average shares outstanding	6,397,204	5,603,588	4,873,299

See Accompanying Notes to Consolidated Financial Statements

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CASINOVATIONS INCORPORATED
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE PERIOD FROM INCEPTION (APRIL 29, 1994) TO DECEMBER 31, 1998

ACTIVITY	Common Shares	Stock Amount	Additional Paid-in Capital	Unpaid Stock Subscriptions	Deficit Accumulated During Develop-ment Stage	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Capital contributed by partners	-	$ -	$ 101,845	$ -	$ -	$ 101,845
Net (loss) for the period	-	-	-	-	(96,141)	(96,141)
Balance, December 31, 1994	-	-	101,845	-	(96,141)	5,704
Issue shares to founders (September 1995)	3,775,000	3,775	297,330			301,105
Issuance of stock in private sales:						
October 1995 at $1.00	130,000	130	129,870			130,000
(less cost of offering)			(7,206)			(7,206)
Net (loss) for the year	-	-	-		(608,756)	(608,756)
Reclassification of partnership losses			(152,386)	-	152,386	-
Balance, December 31, 1995	3,905,000	3,905	369,453	-	(552,511)	(179,153)
Issuance of stock for cash in private sales:						
March 1996 at $1.50	20,000	20	29,980			30,000
April 1996 at $1.50	10,000	10	14,990			15,000
July 1996 at $1.50	10,000	10	14,990			15,000
October 1996 at $1.50	86,000	86	128,914			129,000
November 1996 at $1.50	302,400	302	453,298			453,600
December 1996 at $1.50	63,110	63	94,602			94,665
Issuance of stock for services:						
June 1996 at $1.50	30,000	30	44,970			45,000
October 1996 at $1.50	35,000	35	52,465			52,500
December 1996 at $1.50	175,000	175	262,325			262,500
Issuance of stock to related party for debt conversion	327,000	327	490,173			490,500
Option granted to related party for debt conversion			232,500			232,500
Net (loss) for the year	-	-	-	-	(1,684,727)	(1,684,727)
Balance, December 31, 1996	4,963,510	4,964	2,188,659	-	(2,237,238)	(43,615)
Issuance of stock for cash in private sales:						
January 1997 at $1.50	236,667	237	354,764			355,001
May 1997 at $1.50	120,339	120	180,388			180,509
June 1997 at $1.50	43,000	43	64,457			64,500
July 1997 at $1.50	77,000	77	115,423			115,500
(plus compensation effect of shares issued at a discount)			77,000			77,000
Exercise of common stock warrants for cash:						
September 1997 at $1.50	100,000	100	149,900			150,000
October 1997 at $1.50	100,000	100	149,900			150,000
(plus compensation effect of shares issued at a discount)			100,000			100,000
Issuance of stock for future services:						

February 1997 at $1.50	135,000	135	202,365	(187,500)	15,000
June 1997 at $1.50	20,000	20	29,980	(30,000)	-
Amortization of unpaid stock subscriptions				136,000	136,000

See Accompanying Notes to Financial Statements

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CASINOVATIONS INCORPORATED
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (CONTINUED)
FOR THE PERIOD FROM INCEPTION (APRIL 29, 1994) TO DECEMBER 31, 1998

ACTIVITY	Common Shares	Stock Amount	Additional Paid-in Capital	Unpaid Stock Subscriptions	Deficit Accumulated During Develop-ment Stage	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Issuance of stock to related party for debt conversion						
March 1997 at $1.50	45,122	45	67,638			67,683
December 31, 1997 at $.82	339,000	339	277,891			278,230
(plus additional interest effect of shares issued at a discount)			11,705			11,705
Common stock subscribed for services in May 1997 at $1.50				15,000		15,000
Net (loss) for the year	-	-	-	-	(2,606,071)	(2,606,071)
Balance, December 31, 1997	6,179,638	6,180	3,970,070	(66,500)	(4,843,309)	(933,559)
Issuance of stock for cash in public offering:						
April 1998 at $2.50	20,000	20	49,980			50,000
May 1998 at $2.50	96,000	96	239,904			240,000
June 1998 at $2.50	40,000	40	99,960			100,000
Julyl 1998 at $2.50	54,000	54	134,946			135,000
August 1998 at $2.50	14,000	14	34,986			35,000
September 1998 at $2.50	23,400	23	58,477			58,500
October 1998 at $2.50	17,000	17	42,483			42,500
November 1998 at $2.50	93,374	93	233,342			233,435
December 1998 at $2.50	571,460	571	1,428,079			1,428,650
Less expenses of offering			(234,455)			(234,455)
Issuance of stock for services and other consideration:						
June 1998 at $2.50	20,000	20	49,980			50,000
Julyl 1998 at $2.50	20,500	21	51,230			51,250
August 1998 at $2.50	30,000	30	74,970			75,000
November 1998 at $2.50	20,000	20	49,980			50,000
December 1998 at $2.50	52,000	52	129,948	(125,000)		5,000
Issuance of stock for conversion of indebtedness:						
November 1998 at $2.50	65,250	65	163,060			163,125
December 1998 at $2.50	299,166	299	747,616			747,915
Amortization of unpaid stock subscriptions				66,500		66,500
Compensation value of options issued			310,000			310,000
Forgiveness of shareholder indebtedness			157,063			157,063
Purchase and retirement of treasury stock	(848,682)	(849)	(1,114,737)			(1,115,586)
Redemption of common stock warrants			(450)			(450)
Net (loss) for the year	-	-	-	-	(3,373,144)	(3,373,144)
	6,767,106	$ 6,767	$6,676,430	$(125,000)	$(8,216,453)	$(1,658,256)

See Accompanying Notes to Financial Statements

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CASINOVATIONS INCORPORATED
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1998 AND 1997
AND PERIOD FROM INCEPTION (APRIL 29, 1994) TO DECEMBER 31, 1997

	December 31, 1998	December 31, 1997	Inception (April 29, 1994) to December 31, 1998
<S>	<C>	<C>	<C>
Net (loss)	$ (3,373,144)	$ (2,606,071)	$ (8,368,840)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	123,128	40,262	167,617
Stock and options issued for services	541,108	136,000	1,452,608
Compensation value of cash stock sales	-	177,000	177,000
Stock and options issued for additional interest	133,124	117,332	250,456
Equipment exchanged for services	-	-	2,903
Amortization of deferred interest	-	186,000	232,500
Loss on abandonment of leasehold improvements	3,743	-	3,743
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	4,003	(15,327)	(14,157)
(Increase) decrease in inventory	(574,369)	(181,437)	(756,662)
(Increase) decrease in prepaid expenses	1,104	(39,276)	(38,896)
(Increase) decrease in deferred interest	(238,590)	-	(238,590)
(Increase) decrease in other assets	(95,102)	(41,600)	(142,821)
Increase (decrease) in accounts payable	368,038	335,459	810,349
Increase (decrease) in accrued expenses	37,479	(57,809)	121,666
Total adjustments	303,666	656,604	2,027,716
Net cash (used in) operating activities	(3,069,479)	(1,949,467)	(6,341,125)
Cash flows from investing activities:			
Acquisition of plant and equipment	(153,473)	(296,156)	(468,876)
Purchase and retirement of treasury stock	(1,116,086)		(1,116,086)
Increase in patents and trademarks	(19,023)	(29,110)	(194,006)
Net cash (used in) investing activities	(1,288,582)	(325,266)	(1,778,968)
Cash flows from financing activities:			
Common stock sold for cash	2,088,630	1,015,510	4,039,199
Capital contributions by partners	-	-	402,950
Proceeds from long-term debt	985,796	547,100	1,604,896
Proceeds of shareholder loans	1,368,000	120,000	2,138,168
Repayment of shareholder loans	-	(38,866)	(58,866)
Proceeds from notes payable	-	197,500	197,500
Repayment of notes payable	(3,006)	-	(3,006)
Net cash provided by financing activities	4,439,420	1,841,244	8,320,841
Increase (decrease) in cash	81,360	(433,489)	200,749
Cash and cash equivalents, beginning of period	119,389	552,878	-
Cash and cash equivalents, end of period	$ 200,749	$ 119,389	$ 200,749

See Accompanying Notes to Financial Statements

</TABLE>

CASINOVATIONS INCORPORATED

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997

NOTE 1. ORGANIZATION

The Company was incorporated on September 20, 1995, in the State of Washington. The Company is in the business of developing and distributing products related to the gaming industry. The Company has not recorded significant revenues to date and is considered to be in its development stage. The Company's principal products are an electronic card shuffling device, a table game similar to the card game "blackjack", an electronically identified coin collection bucket for use with

coin operated gaming devices and playing cards designed to assist the dealer in the game of "blackjack". The Company is a continuation of a partnership known as Sharps International, (Sharps) which was formed in April 1994 and whose principal business activity was the development of an electronic card shuffler. Pursuant to a funding agreement dated January 15, 1996, the partners of Sharps received shares of the Company's common stock on a pro rata basis in exchange for their partnership interests. The assets and liabilities of Sharps have been carried forward at their historical basis. Additional shares were issued to partners of the Sines-Forte general partnership (Sines) in exchange for the assets of Sines. Such assets consisted of certain intellectual property rights for products, which the Company plans to exploit. The transaction was accounted for as a reorganization of partnerships into corporate form. The foregoing financial statements present the operations of the Company and the partnerships from their inception, since the partnership interests of Sharps and Sines are vested in the same individuals. Values assigned to the acquired intellectual property rights were limited to professional fees paid for patents and trademarks. During 1998, Sines & Forte, in separate transactions, sold to the Company and others all Company stock, stock options and license rights and as of January 15, 1999 have no ongoing financial relationship with the Company (see Note 9).

SIGNIFICANT ACCOUNTING POLICIES

ESTIMATES

The preparation of the Company's financial statements requires management to make estimates and assumptions that effect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

INVENTORY

Inventory is stated at the lower of cost or market using the first in, first out method. Finished goods include raw materials, direct labor and overhead. Raw materials include purchase and delivery costs. Inventory consists of the following at December 31, 1998

<TABLE>
<CAPTION>

<S>	<C>
Raw material	$399,239
Work in progress	221,308
Finished goods	136,115
	$756,662

</TABLE>

A portion of the Company's inventory is pledged as collateral for leases as described in Note 5.

PROPERTY AND EQUIPMENT

Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in operations for the period. The cost of repairs and maintenance is charged to operations as incurred and significant renewals or betterments are capitalized.

<TABLE>
<CAPTION>

Useful lives for property and equipment are as follows:

<S>	<C>

Office equipment	5 years
Computer software	3 years
Tooling	7 years
Leasehold improvements	2 years

</TABLE>

INTANGIBLE ASSETS

The Company has applied for patents for certain of its products. Patent and trademark costs aggregating $188,890 are amortized using the straight-line method over a period of ten years beginning in 1997. Amortization for the years ended December 31, 1998 and 1997 amounted to $17,995 and $15,537, respectively.

Organization costs aggregating $6,395 are amortized using the straight line method over a period of five years and are stated net of accumulated amortization of $3,837 at December 31, 1998, and amortization expense in each of the two years then ended amounted to $1,279.

The Company makes reviews for the impairment of long-lived assets and certain identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Under SFAS No. 121, an impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. No such impairment losses have been identified by the Company for the 1998 and 1997 fiscal years.

LOSS PER SHARE

EARNINGS PER SHARE (BASIC AND DILUTED)

Basic Earnings per Share ("EPS") is computed by dividing net income available to common stockholders by the weighted average number of common stock shares outstanding during the year. Diluted EPS is computed by dividing net income available to common stockholders by the weighted-average number of common stock shares outstanding during the year plus potential dilutive instruments such as stock options and warrants. The effect of stock options on diluted EPS is determined through the application of the treasury stock method, whereby proceeds received by the Company based on assumed exercises are hypothetically used to repurchase the Company's common stock at the average market price during the period.

The basic loss per share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding for the period. Loss per share is unchanged on a diluted basis

since the assumed exercise of common stock equivalents would have an anti-dilutive effect due to the existence of operating losses.

REVENUE RECOGNITION

The Company recognizes revenue from the sale of its products upon shipment to the customer. Revenue from rentals of shuffler machines is recorded as revenue at the first of each month in accordance with lease terms. Sales returns and allowances are recorded after returned goods are received and inspected. The Company began limited sales of its products in 1998 and expects to begin full operations during 1999. The Company plans to provide currently for estimated product returns arising therefrom.

STATEMENT OF CASH FLOW INFORMATION

Cash and cash equivalents consist of cash and other highly liquid debt instruments with a maturity of less than three months. Cash paid for interest expense amounted to $181,491 and $64,260 for the years ended December 31, 1998 and 1997, respectively. No cash was paid for income taxes during any period presented.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's short-term financial instruments consist of cash and cash equivalents, accounts and loans receivable, and accounts payable and accruals. The carrying amounts of these financial instruments approximates fair value because of their short-term maturities. Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and accounts receivable, trade. During the year the Company maintained cash deposits at financial institutions in excess of the $100,000 limit covered by the Federal Deposit Insurance Corporation.

ADVERTISING

Advertising expenses are charged to expense upon first showing. Amounts charged to expense were $75,680 and $17,393 for the years ended December 31, 1998 and 1997, respectively.

STOCK-BASED COMPENSATION

The Company adopted Statement of Financial Accounting Standard No. 123 (FAS 123), Accounting for Stock-Based Compensation beginning with the Company's first quarter of 1996. Upon adoption of FAS 123, the Company continued to measure compensation expense for its stock-based employee compensation plans using the intrinsic value method prescribed by APB No. 25, Accounting for Stock Issued to Employees, and has provided in Note 7 pro forma disclosures of the effect on net income and earnings per share as if the fair value-based method prescribed by FAS 123 had been applied in measuring compensation expense.

NEW ACCOUNTING PRONOUNCEMENTS

SFAS No. 130, "Reporting Comprehensive Income", establishes guidelines for all items that are to be recognized under accounting standards as components of comprehensive income to be reported in the financial statements. The statement is effective for all periods beginning after December 15, 1997 and reclassification financial statements for earlier periods will be required for comparative purposes. To

date, the Company has not engaged in transactions which would result in any significant difference between its reported net loss and comprehensive net loss as defined in the statement.

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use ("SOP 98-1"). SOP 98-1 provides authoritative guidance on when internal-use software costs should be capitalized and when these costs should be expensed as incurred.

Effective January 1, 1998, the Company adopted SOP 98-1. Costs capitalized by the Company during the year ended December 31, 1998 in accordance with these guidelines were not significant.

Effective December 31, 1998, the Company adopted SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information ("SFAS 131"). SFAS 131 superseded SFAS No. 14, Financial Reporting for Segments of a Business Enterprise. SFAS 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. SFAS 131 also establishes standards for related disclosures about products and services, geographic areas, and major customers. The adoption of SFAS 131 did not affect results of operations or financial position. To date, the Company has operated in one business segment only.

Effective December 31, 1998, the Company adopted the provisions of SFAS No. 132, Employers' Disclosures about Pensions and Other Post-retirement Benefits ("SFAS 132"). SFAS 132 supersedes the

disclosure requirements in SFAS No. 87, Employers' Accounting for Pensions, and SFAS No. 106, Employers' Accounting for Post-retirement Benefits Other Than Pensions. The overall objective of SFAS 132 is to improve and standardize disclosures about pensions and other post-retirement benefits and to make the required information more understandable. The adoption of SFAS 132 did not affect results of operations or financial position. The Company is in its development stage and has not initiated benefit plans to date, which would require disclosure under the statement.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"), which is required to be adopted in years beginning after June 15, 1999. SFAS 133 will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company has not yet determined what the effect of SFAS 133 will be on earnings and the financial position of the Company, however it believes that it has not to date engaged in significant transactions encompassed by the statement.

NOTE 2. PROPERTY AND EQUIPMENT

<TABLE>
<CAPTION>

Property and equipment consist of the following at December 31, 1998:

<S>	<C>
Furniture and fixtures	$114,171
Manufacturing equipment	12,653
Tooling	291,732
Leasehold improvements	57,596
	$476,152
Accumulated depreciation and amortization	125,380
	$350,772

</TABLE>

Depreciation expense charged to operations amounted to $103,856 and $23,446 for the years ended December 31, 1998 and 1997, respectively

The Company owns tooling used in the manufacture of certain plastic components of its shuffler product. The tooling is maintained by an independent manufacturer of such plastic components.

Substantially all of the Company's fixed assets secure debt described in Note 5.

NOTE 3. NOTES PAYABLE AND LONG-TERM DEBT

Note payable - bank consists of a $197,383 short term loan from a bank secured during July 1997. The loan bears interest at 7.2% per annum and is due on May 15, 1999. The loan is secured by a certificate of deposit in the amount of $200,000 pledged as collateral by the Company's principal shareholder.

Long-term debt consists of a vehicle purchase contract having a balance at December 31, 1998 of $17,180. The loan bears interest at 7.2% per year and is due in monthly installments of $367 through August 2003. The loan is secured by a truck used for

company purposes.

NOTE 4. CONVERTIBLE DEBENTURES

During December 1997 and January 1998, the Company received proceeds from unsecured convertible debentures aggregating $100,000 during December 1997 and $400,000 during January 1998. The debentures bear interest at 6% per annum and were due on or before January 31, 1999. The principal amount of the debentures was convertible at the holder's option into shares of the Company's common stock at a conversion price of $2.98 per share. During May 1998, the Company reduced the conversion price of the debentures to $2.13 per share and completed the conversion of all of the outstanding debentures into 234,742 shares of restricted common stock during December 1998. Interest accrued on the convertible notes was waived by the note holders. The difference between the conversion rate of $2.13 per share and the fair value of the common stock at the conversion date of $2.50 per share was charged to interest expense for the aggregate of shares issued in the conversion.

NOTE 5. LEASES PAYABLE

During December 1998 and 1997 the Company entered into financing type lease transactions with a leasing company whereby the Company sold and leased back from the lessor all of its furniture and equipment, tooling and substantially all of its finished goods inventory.

<TABLE>
<CAPTION>

Scheduled maturities of the obligations as of December 31, 1998 are as follows:

YEAR	AMOUNT
<S>	<C>
1999	$ 479,230
2000	533,321
2001	172,258
2002	67,142
Minimum future lease payments	1,251,951
Less interest component	(219,055)
Present value of future net minimum lease payments	1,032,896
Less current portion	(219,758)
Due after one year	$ 813,138

</TABLE>

<TABLE>
<CAPTION>

Property recorded under capital leases includes the following as of December 31, 1998:

<S>	<C>
Office furniture and equipment	$ 31,100
Tooling	271,500
	302,610
Less accumulated amortization	(119,471)
	183,139
Net capitalized leased equipment Shuffler and "Fantasy 21" machines, at cost	258,100
Total assets subject to capital leases	$ 813,138

</TABLE>

The leases contain provisions for mandatory buy back of the inventory and equipment at the end of the initial terms of the leases. The future minimum lease payments scheduled above include the buy out provisions due at the end of each lease term. The net present value of the buy out provisions, $238,589 as of December 31, 1998, has been included in other assets and represents additional interest on the leases which will be amortized to interest expense during the remaining lease terms.

NOTE 6. SHAREHOLDER LOANS

During the years ended December 31, 1998 and 1997, shareholders who are also directors of the Company made advances to the Company for working capital purposes. The balances payable by the Company aggregated $1,444,561 at December 31, 1998, including accrued interest of $59,561. The advances include short-term demand notes made in 1998 due to two shareholders, which bear interest at 9.5% per annum and aggregate $150,000 at December 31, 1998. The Company's principal shareholder has outstanding advances to the Company aggregating $1,235,000 of which $1,150,000 was received by the Company during the year ended December 31, 1998. This aggregate amount plus accrued interest of

$53,976 at December 31, 1998 is to be repaid in monthly installments of $42,814 beginning July 1, 1999 and includes interest at 9.5%.

The Company's major shareholder made additional advances during 1996 in the amount of $250,000. The advances provided for repayment by December 31, 1997, or upon default, at the option of the stockholder, by the issuance of the Company's common stock at a conversion rate of $.82 per share. The difference between this amount and the fair value of the stock at the date of the loan ($1.50) was recorded as deferred interest during 1996 with a corresponding credit to paid-in capital. The deferred interest ($186,000) was amortized as interest expense through December 31, 1997. At December 31, 1997 the shareholder exercised his conversion rights and the Company has recorded the issuance of 339,304 shares of its restricted common stock for the conversion of the loan plus accrued interest. The conversion of the accrued interest of $28,230 at $.82 per share has resulted in a provision of additional interest of $11,705 to increase the value of the stock issued to fair market value of $2.50 per share.

At December 31, 1997 the Company had outstanding advances to two officer/shareholders aggregating $312,972. One of the advances amounting to $152,964 due to Sines was cancelled with no continuing repayment obligation by the Company as a result of a private transaction between Sines and a group which included the Company's principal shareholder. The cancellation of the indebtedness was accounted for by the Company as a contribution to capital.

The second advance ($135,047 unpaid at August 31, 1998) which was due to Forte was discharged in connection with the purchase by the Company of all Forte shares, options and intellectual property rights as described in Note 9.

Another shareholder made a loan of $60,000 at 9 1/2% interest to the Company in May 1996. The Note terms included conversion rights at $1.00 per share. The shareholder elected to convert a portion of the loan to 45,122 shares of stock in March 1997. The conversion was recorded by the Company at $1.50 per share, the market value at the date of conversion. The remaining portion of the loan was paid off during March 1997.

During the year ended December 31, 1997, the principal shareholder made additional advances to the Company aggregating $120,000 which are due on demand and bear interest at 9.5% per annum. The Company made cash payments of principal ($18,866) and interest ($37,563) against advances from two other shareholders during the year ended December 31, 1997. Additionally, a

director of the Company made $100,000 of advances to the Company during the year ended December 31, 1998. The advances plus $2,395 of accrued interest were converted into 40,958 shares of the Company's common stock at a conversion price of $2.50 per share during December 1998.

NOTE 7. STOCKHOLDERS' EQUITY

During the periods covered by these financial statements the Company issued certain of its securities in reliance upon an exemption from registration with the Securities and Exchange Commission. Although the Company believes that the sales did not involve a public offering and that it did comply with the exemptions from registration, it could be liable for rescission of said sales if such exemption was found not to apply. During 1998, the Company began a public offering of its common stock.

The Company has not received a request for rescission of shares nor does it believe that it is probable that its shareholders would pursue rescission nor prevail if such action were undertaken.

Upon formation of the corporation, (September 29, 1995) the Company issued 2,513,000 shares of its $.001 par value common stock to the partners of Sharps on a pro rata basis in exchange for their respective partnership interests and 1,262,000 shares to the partners of Sines for intellectual property rights as described in Note 1.

During October 1995 the Company sold 130,000 shares of its common stock to a limited group of investors for cash at $1.00 per share.

During July 1996 the Company entered into a one year consulting agreement with an entity whereby the entity would provide to the Company financial consulting services. Pursuant to the agreement the entity agreed to assist the Company in preparing a private placement memorandum to obtain equity financing of a minimum amount of $450,000 and to assist the Company in completing the offering.

In exchange for these services the Company agreed to pay $45,000 in cash and to issue 100,000 shares of its $.001 par value common stock valued at $150,000. The Company also granted the consultant an option to purchase 50,000 shares of common stock at $1.50 for a two year period. During February 1997, the Company issued an additional 100,000 shares and granted options to purchase an additional 50,000 shares of common stock at $1.50 to the consultant for a one year extension of the contract. The shares were valued at $150,000. The 100,000 options to purchase common stock were converted to common stock purchase warrants during June, 1997. The Company has not recorded compensation expense with respect to the replacement warrants as the terms and conditions of the warrants, including the expiration date, are identical to those of the original options. The replacement warrants were exercised during October 1997. Additionally, in 1996, the Company issued 75,000 shares of its $.001 par value common stock valued at $112,500 to other unrelated individuals for consulting services provided to the Company.

These amounts have been included in general and administrative expenses in 1996 in the accompanying Statement of Operations.

During July 1996, the Company authorized the issuance of 200,000 each of A, B, and 250,000 of C stock purchase warrants exercisable as follows:

$ 4.00 plus one A warrant for each share of common stock
$ 6.00 plus one B warrant for each share of common stock
$ 8.00 plus one C warrant for each share of common stock

The warrants are exercisable for a period of 48 months from the date of issue, and are callable with 30 days notice at a price of $.001 per warrant. During September 1998, the Company's Board of Directors approved calls on the B and C warrants and the Company

completed the warrant calls prior to December 31, 1998. Additionally the exercise price of the A warrants was reduced to $3.75 per share.

During March 1996 the Company began offering shares of its common stock at $1.50 per share pursuant to a private placement. Through December 31, 1996, the Company issued 491,510 shares of common stock to private investors for net cash proceeds aggregating $737,265.

Additionally during 1996 the Company issued an aggregate of 240,000 shares (including the consulting shares described above) to consultants and others. The shares were valued at fair value of $1.50 per share.

During September, 1996 the Company agreed to issue 327,000 shares of its common stock to its principal shareholder in exchange for conversion of $150,000 of cash advanced to the Company during 1996. The excess of the fair value of the stock at $1.50 per share over the loan amount was charged to interest expense - related parties.

During the period ended December 31, 1997 the Company issued 677,006 shares of its common stock for cash aggregating $1,015,510 ($1.50 per share) in connection with the continuation of its private sale of common stock and the exercise of common stock warrants. One hundred seventy seven thousand of the shares were issued in June and October 1997 and were valued at $2.50 per share as the timing of their issuance was considered to be contemporaneous with the Company's decision to offer its common stock to the public at that price. The Company recorded compensation expense of $1.00 per share for these shares. Additionally, the Company issued 155,000 shares of common stock to consultants and others for services valued at $232,500 ($1.50 per share) and issued 45,122 shares for the conversion of debt of $45,122 to related parties pursuant to conversion provisions included in the debt instruments. The difference between the conversion price for the debt ($1.00 per share) and the fair value of the shares issued at the conversion date in April 1997 ($1.50 per share) has been charged to interest expense. The shares issued for services were for consulting and advertising services to be provided to the Company during 1997 and 1998. The unamortized amount of the services amounted to $81,500 at December 31, 1997 and is included in the caption "Unpaid stock subscriptions". This amount is offset by the value of common stock subscribed for in exchange for services during April 1997 ($15,000) for engineering services fully provided to the Company at December 31, 1997.

During the period ended December 31, 1998 the Company issued 929,234 shares of its common stock for cash aggregating $2,202,270 ($2.50 per share) after direct offering expenses of $120,815 in connection with a public sale of common stock. Additionally, the Company issued 142,500 shares of common stock to consultants and others for services and other consideration valued at $356,250 ($2.50 per share). A portion of the shares issued for services were for consulting and advertising services to be provided to the Company during 1999. The unamortized amount of the services amounted to $125,000 at December 31, 1998 and is included in the caption "Unpaid stock subscriptions." During the year ended December 31, 1998 the Company issued 88,716 shares for the conversion of debt of $88,716 to unrelated parties pursuant to conversion provisions included in the debt instruments. The difference between the conversion price for the debt ($1.00 per share) and the fair value of the shares issued at the conversion dates ($2.50 per share) has been charged to interest expense. Additionally, the Company issued 234,742 shares of its common stock for the conversion of debentures as described in Note 4. and converted $102,395 of shareholder loans and accrued interest into 40,958 shares of common stock.

Additionally during the year ended December 31, 1998 the Company issued options to purchase 300,000 shares of the Company's common stock to two key employees in recognition of services performed at an exercise price of $1.50 per share. The difference between

the exercise price and the fair value of the stock at the vesting date signifying the completion of the services approved by the Company's Board of Directors ($2.50 per share) was charged to compensation expense.

During the year ended December 31, 1998 the Company completed the purchase of the Forte assets as described in Note 9. Among the assets were 848,682 shares of the Company's common stock with an ascribed value of $1,115,586. This amount has been charged to paid in capital as it is the Company's intent to retire the shares.

The Company has an aggregate of 320,000 options to purchase common stock at $1.00 per share and 505,000 options to purchase common stock at $1.50 per share and 30,000 options to purchase common stock at $2.50 per share outstanding at December 31, 1998.

The weighted average fair value at the date of grant for options granted during 1998 and 1997 as described above was $.30 per option in 1998 (after recording the additional compensation attributed to options issued at $1.50 as described above) and $.35 per option in 1997. The fair value of the options at the date of grant was estimated using the Black-Scholes model with assumptions as follows:

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
Market value	$2.50	$1.50
Expected life in years	2 - 5	2 - 5
Interest rate	6.5% - 6.2%	6.6% - 6.2%
Volatility	10%	10%
Dividend yield	0.00%	0.00%

</TABLE>

Stock based compensation costs would have increased pretax losses by $99,796 ($.02 per share) and $89,184 ($.02 per share) in 1998 and 1997, respectively if the fair value of the options granted during those years had been recognized as compensation expense.

NOTE 8. INCOME TAXES

Deferred income taxes may arise from temporary differences resulting from income and expense items reported for financial accounting and tax purposes in different periods. Deferred taxes are classified as current or non-current, depending on the classification of assets and liabilities to which they relate. Deferred taxes arising from temporary differences that are not related to an asset or liability are classified as current or non-current depending on the periods in which the temporary differences are expected to reverse. The deferred tax asset resulting from the operating loss carryforward described below has been fully reserved.

The Company currently has net operating loss carryforwards aggregating approximately $5,830,000 which expire beginning in 2010. The principal difference between the Company's book operating losses and income tax operating losses results from the issuance of common stock during 1996, 1997 and 1988 for services and interest and options to purchase common stock at less than fair market value in exchange for debt conversion rights and other services.

NOTE 9. RELATED PARTY TRANSACTIONS

Certain previous directors/officers of the Company (Sines and Forte) who were partners of Sines Forte partnership retained a 3% royalty interest in the gross margin earned form the sale of products covered by the intellectual property described in Note 1. During the year ended December 31, 1998 the Company severed its relationship with the directors/officers in separate

transactions. The Company entered into this transaction to disassociate itself from Forte, whose prior acts had caused unreasonable delay in the Company's ability to obtain approval of its business activities by the Nevada State Gaming Control Board. As part of this transaction the Company repurchased the shares of common stock, among other things, from a former employee, director and shareholder (Forte) of the Company, the Company executed a promissory note in the original principal amount of $2,351,705. The promissory note dated December 3, 1998 had an interest rate of 6.5% during the first year and 8% thereafter and was amortized over a ten-

year schedule with payments of interest only during the first year, payable on the six-month and twelve-month anniversary of the promissory note and payments of principal and interest thereafter on a monthly basis. Through a letter agreement, the Company negotiated the cancellation of the promissory note, as well as the cancellation of the security for the promissory note, and the cancellation of a separate note for $135,047 in exchange for three payments in the aggregate amount of $1,250,000, $500,000 on December 7, 1998, $500,000 on December 28, 1998 and $250,000 on January 15, 1999. On January 15, 1999, the Company made the last payment and cancelled the promissory note. Also during 1998, Sines entered into a similar transaction to sell all of his Casinovations assets, 885,560 shares of common stock (including 470,851 shares with restrictions imposed by the State of California Department of Corporations, 326,153 shares restricted by agreement and under Rule 144 and 88,556 registered shares), options to buy 20,000 shares of stock at $1.50, options to buy 175,000 shares from Huson for $150,000, Note Payable from the Company for $150,000 plus interest, warrants and Royalties. Certain members of the Board of Directors and associates purchased the Sines shares and agreed to the canceling in favor of the Company all debt, options and warrants.

The Company paid an aggregate of $71,210 in 1997 and $20,479 in 1996 to a company controlled by one of its officers for administrative services provided to the Company. At December 31, 1998, the Company had an aggregate balance due to this now former officer and the company of $13,234.

During June 1998 the Company entered into a personal service agreement with an officer which provides for aggregate monthly compensation of $12,500 per month through December 31, 1998 and $18,500 per month thereafter. The agreement has a term of eighteen months and includes stock option bonus provisions based upon the Company's attainment of certain corporate goals for 1998 and a stock option grant that vested to the officer at the contract date. The Company's Board of Directors approved the bonus stock option effective in November 1998. Option to purchase up to 200,000 shares of common stock at $1.50 per share were granted pursuant to the contract. The Company recorded compensation expense related to the options granted for the excess of the fair value of the underlying common stock at the grant date ($2.50 per share) over the exercise price of $1.50 per share during the year ended December 31, 1998.

NOTE 10. COMMITMENTS AND CONTINGENCIES

During 1997, the Company contracted for the production of tooling for certain plastic parts utilized in the manufacture of it's shuffler by an independent design and manufacturing company. The Company has made payments of $271,500 for the tooling and has prepaid $40,000 as an advance against an open purchase order with the manufacturer. The purchase order requires the Company to purchase an aggregate of $486,000 of the plastic parts through May 1999. As of December 31, 1998, the manufacturer has not indicated that it will demand delivery to the Company of the unfilled purchase commitment and has continued to deliver parts to meet the Company's manufacturing requirements. To date, the Company has purchased an aggregate of $116,344 from the manufacturer.

During October 1997, the Company entered into a license agreement whereby the Company will develop and market an electronically

identified coin collection box for use with coin operated gaming devices. The agreement provides for payments to the licensor for use of certain intellectual property associated with the project as follows:

CASINOVATIONS INCORPORATED

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1998 AND 1997

<TABLE>
<CAPTION>

<S>	<C>
1999 Minimum royalties	$126,000
Thereafter	$150,000

</TABLE>

Minimum royalties that would have been due for the year ended December 31, 1998 have been waived by the licensor. Royalties are to be based on a rate of $7.50 per unit sold that incorporate the licensed technology. The Company made $20,000 of note payments to the licensor in 1997 which amount has been charged to research and development expense. During 1998, the Company made additional note payments of $30,000 and discharged the remaining $50,000 of the note balance and accrued interest of $1,250 by issuing 20,500 shares of common stock to the note holder. The Company has charged the aggregate amount of the note payments ($80,000) to research and development expense during 1998. The Company has the right to terminate the agreement upon sixty days written notice to the licensor should it determine that the technology may be unpatentable or it is determined by the Company that the licensed products are uneconomical. The patent application was filed for this product during 1996 and notice of patent issuance was dated February 8, 1999.

During October, 1996 (amended March 26, 1997), the Company entered into a lease for office space for a thirty month period ending March 31, 1999 at a monthly rental of $2,694, including maintenance costs. During June 1997, the Company vacated the premises as a result of actions by the landlord, which in the opinion of the Company, rendered the space uninhabitable. The aggregate amount of unpaid rent which could be claimed by the landlord as a result the Company's vacation is approximately $25,000. During October 1998, the Company entered into a sixty month lease for office, manufacturing and warehouse space in Las Vegas, Nevada. The lease provides for an initial monthly rental of $11,364 including estimated lease operating costs. Rent expense was $57,320 and $32,328 for the years ended December 31, 1998 and 1997, respectively. The Company also leases certain office equipment under non-cancelable operating leases having monthly rentals of $561.

Future minimum rentals, including escalation provisions, under the leases are as follows:

<TABLE>
<CAPTION>

<S>	<C>
1999	$131,731
2000	$201,461
2001	$206,207
2002	$200,040
2003	$200,040
2004	$16,670

</TABLE>

The Company has granted joint exclusive licenses to two entities for marketing rights to one of its products which provide for royalty payments to the Company of $.04 and $.075 per unit sold. Amounts paid pursuant to the licenses have not been material.

The Company's primary business activity since its inception has been the completion of research and development for its electronic shuffling machine. Substantially all of the costs associated with this research and development through December 31, 1996 had been paid to an engineering and design company whose

principal shareholder is a member of the Company's board of directors. A prototype shuffling machine was delivered to the Company during 1996.

The Company believes that it has fulfilled it's contractual obligations to the design company and had retained the services of another company for refinements to the prototype and commencement of manufacture of the device. Manufacture of the device began during September of 1997. During the

March 1998, the Company took over control of all product development and the manufacture of all of its products. The Company acquired manufacturing facilities and necessary equipment and personnel. As of December 31, 1998, the Company has completed the manufacture of 170 shuffler units and has inventory levels sufficient to produce 350 additional units.

The Company's ability to complete its development stage and begin product sales is dependent upon the successful manufacture of commercial quantities of its products .

NOTE 11 SUBSEQUENT EVENTS

Subsequent to December 31, 1998, the Company completed the public offering of its common stock and has received additional gross proceeds of $1,320,025.

Additionally, the Company has placed $1,250,000 of convertible debt with interest at 9.5% per annum and a five year term. The notes are convertible into shares of the Company's common stock at a conversion rate of $2.60 per share. Additionally, the note purchasers received warrants to purchase 9,100 shares of the Company's common stock for each $50,000 increment of debt purchased. The warrants expire after five years and are exercisable at a price of $3.00 per share.

Subsequent to December 31, 1998, the Company has placed an additional 54 shufflers under rental contracts and has commitments for an additional 158 units. Additionally, the Company has received purchase commitments for an aggregate of 1,200 units of its "SecureDrop" products.

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

INFORMATION CONCERNING THE BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

The Board of Directors presently consists of six persons. The Company's Bylaws provide for a Board of Directors consisting of one to nine persons who are elected for a term of one year. At the Company's Annual Meeting of Stockholders scheduled for March 29, 1999, the Company's stockholders will vote upon several matters, including, but not limited to, that certain Agreement and Plan of Merger, dated March 6, 1999, by and between the Company and the Company's wholly-owned subsidiary, a Nevada corporation (the "Subsidiary") where the Company would merge with and into the Subsidiary with the Subsidiary as the surviving corporation (the "Merger"). The Merger would change the Company's state of incorporation from Washington to Nevada and would effect certain changes to the Company's corporate governance, such as the classification of the Company's Board of Directors. Accordingly, upon approval of the Merger by stockholders, the Company will have a classified Board of

Directors consisting of three categories, A, B and C. Category A directors, Richard S. Huson and Bob L. Smith, will have a three-year term expiring 2002, Category B directors, Steven J. Blad and Ronald O. Keil, will have a two-year term expiring 2001, and Category C directors, David E. Sampson and Jamie McKee, will have a one-year term expiring 2000. After their initial terms, the directors will thereafter be elected for three-year terms such that only one category of directors will stand for election at each subsequent annual meeting of stockholders. In the event that the Merger is not approved, each director's term will expire in 2000.

The following information is furnished with respect to each member of the Board of Directors and the Company's executive officers who are not directors. There are no family relationships between or among any directors or executive officers of the Company.

DIRECTORS

<TABLE>
<CAPTION>

NAME	AGE	DIRECTOR SINCE	POSITION	DIRECTOR CATEGORY AFTER THE MERGER
<S>	<C>	<C>	<C>	<C>
Steven J. Blad	47	1998	Chief Executive Officer, President and Director	B<F2>
Richard S. Huson	59	1998	Chairman of the Board	A<F1>
Ronald O. Keil	66	1998	Director	B<F2>
Jamie McKee	40	1998	Director	C<F3>
David E. Sampson	58	1996	Director	C<F3>
Bob L. Smith	61	1998	Director	A<F1>

<FN>
<F1> Should the Merger be approved, Category A directors will initially be elected for a three year term expiring in 2002 and for three year terms thereafter.
<F2> Should the Merger be approved, Category B directors will initially be elected for a two year term expiring in 2001 and for three year terms thereafter.
<F3> Should the Merger be approved, Category C directors will initially be elected for a one year term expiring in 2000 and for three year terms thereafter.

</FN>
</TABLE>

STEVEN J. BLAD. Mr. Blad was President and Chief Executive Officer of Flagship Games International from 1987 to July 1991. From July 1991 to September 1994, Mr. Blad was a consultant for Marketing and Gaming in Atlanta, Georgia. From October 1994 to September 1996, Mr. Blad was a consultant for Spintek Gaming Technologies. Mr. Blad joined the Company in October 1996 as Vice President of Sales and Marketing until April 30, 1997 when he was named President of the Company. Mr. Blad served in that position until May 27, 1998 when he became Chief Executive Officer, President and Director of the Company. Mr. Blad received a Bachelor of Arts degree in 1973 from Carson Newman. He obtained a Masters of Arts degree in 1975 from Southern Baptist Graduate School. From 1975 to 1976, Mr. Blad attended additional graduate studies at the University of Alabama.

RICHARD S. HUSON. Mr. Huson has been Chairman of the Board of Directors since May 1998. Until February 1998, Mr. Huson was a Principal of the Crabbe Huson Group, Inc., an investment advisory firm, which he co-founded in 1980. Previously, Mr. Huson worked for three years as a registered representative at Foster & Marshall, Inc. From 1974 to 1977, Mr. Huson was Senior Vice President, and Investment Director for the Boston Company Institutional Investors, Inc. Mr. Huson previously managed mutual funds with Wellington Management Company in Boston, Massachusetts and Financial Programs, Inc. in Denver,

Colorado. He began his career in investments in 1966 as a securities analyst after earning a Bachelor of Science degree with emphasis on finance and economics from Portland State University.

RONALD O. KEIL. Mr. Keil has been a member of the Board of Directors since October 1998. Since July 1990, Mr. Keil and his son, Rick, own and operate two supermarkets located in San Diego, California. From March 1995 to June 1998, Mr. Keil was Managing Partner of RJL Properties, Inc. that owned and operated four hotels and a mini-storage facility. In addition, Mr. Keil owned a 142-room Holiday Inn located at Idaho Falls, Idaho from October 1993 to January 1998. From August 1987 to May 1997, Mr. Keil served as Chairman of the Board of Directors of Drypers Corporation, a diaper manufacturing company. From January 1960 to March 1985, Mr. Keil owned and operated Keil's Food Stores, a regional chain of supermarkets located in Washington and Oregon. Mr. Keil is a founder and director of the Bank of Clark County, Oregon. Mr. Keil earned a Bachelor of Science in Business Administration from Lewis and Clark College and has completed graduate work towards an MBA from the University of Oregon.

JAMIE MCKEE. Ms. McKee has been a member of the Board of Directors since May 1998. Ms. McKee has been the editor of CASINO JOURNAL, a national trade publication for the gaming industry, since February 1996. From April 1995 to February 1996, Ms. McKee was a Public Relations Account Executive with DRGM Advertising and Public Relations in Las Vegas, Nevada. From 1988 to April 1995, Ms. McKee was editor of the LAS VEGAS BUSINESS PRESS, a weekly business publication in Las Vegas, Nevada. Ms. McKee earned a Bachelor of Arts in English from the University of Nevada, Las Vegas in 1983.

DAVID E. SAMPSON. From August, 1985 to 1991, Mr. Sampson was the owner and manager of University Bistro in Seattle, Washington. From March 1994 to April 1996, Mr. Sampson has served as President and Chairman of MITT USA Corporation, a sporting goods manufacturer. Mr. Sampson was General Manager and Director of Rendova Boats, LLC from October 1996 to December 1997. Rendova Boats is a boat manufacturer located in Olympia, Washington. Mr. Sampson received a Bachelor of Science at Oregon State University in Social Science in 1965. He received a Masters degree in Political Science from the State University of New York at Buffalo in 1968 and a post-graduate degree from the Pacific Coast Banking School at the University of Washington in 1982.

BOB L. SMITH. Mr. Smith has been a member of the Board of Directors since May 1998. Mr. Smith also serves as Chairman of the Board of Directors and Chief Executive Officer of VIP's

Industries, a company co-founded by Mr. Smith in 1968 that oversees restaurant, hotel and real estate development in five Western states. In 1966, he started the Bob L. Smith Real Estate Company, concentrating on real estate and development in Oregon, Washington and Northern California. From 1962 through 1965, Mr. Smith was Real Estate Analyst and Marketing Supervisor with the American Oil Company. Mr. Smith currently serves on the Board of Directors of Centennial Bank, Regency of Oregon (formerly Blue Cross and Blue Shield of Oregon), The Crabbe-Huson Funds, Inc., an investment management company, and Flying J. Inc, an integrated oil company. Mr. Smith received a Bachelor of Science in Business Administration from the University of Oregon in 1962.

ADDITIONAL OFFICERS AND EMPLOYEES

JAY L. KING. Mr. King has extensive experience in all phases of financial management for a variety of companies and circumstances. He was Controller for Sigma Game, Inc., a manufacturer and developer of electronic based and software driven gaming machines, from December 1994 to October 1995. Mr. King was consultant to the Company from November 1995 through February 1996 and served as Vice President of Finance and Controller and Director from March 1996 to May 27, 1998. Since May 27, 1998, Mr. King has served as Chief Financial Officer, Treasurer and Secretary. From July 1993 to November 1994, Mr. King was an independent financial consultant and Chief Financial Officer for I.C. Refreshment Corporation, a startup beverage company. From 1986 to 1993, Mr. King was director of

financial management for PG&E, a public utility company. Mr. King managed full financial responsibilities for engineering, construction and manufacturing business unit. Mr. King holds a Bachelor of Science in Accounting (1971) and an MBA (1973) from the University of Utah and is a Certified Public Accountant.

On March 22, 1999, Mr. King submitted his letter of resignation to the Company effective April 2, 1999. The Company has accepted Mr. King's letter of resignation and the parties have mutually agreed to terminate Mr. King's employment agreement as of the effective date of the resignation.

WILLIAM E. O'HARA, JR. Mr. O'Hara has been Senior Vice President of the Company since August 1998. With almost forty years of sales experience, Mr. O'Hara formerly held the positions of Senior Vice President, Vice President of Field Operations, Executive Director of Customer Relations and Director with Shuffle Master Gaming, Inc. During his employment with Shuffle Master Gaming, Inc., Mr. O'Hara created the sales, marketing and service divisions. Mr. O'Hara currently sits on the board of directors of the Casino Management Association.

DEAN BARNETT. Mr. Barnett, Vice President of Sales since August 1998, has over five years of sales experience in the gaming industry. Mr. Barnett formerly held the position of National Sales Manager for Shuffle Master Gaming, Inc. Prior to his employment with Shuffle Master Gaming, Inc., Mr. Barnett worked for Bally's Las Vegas as part of a special management team focused on fraudulent player practices, such as card counting and shuffle tracking.

COMPENSATION OF NON-EMPLOYEE DIRECTORS

Directors' fees were $500 per quarter/meeting for 1998 and are $500 per quarter/meeting for 1999, and are paid to directors who are not employees of the Company. All expenses for meeting attendance or out-of-pocket expenses connected directly with their representation on the Board of Directors will be reimbursed by the Company. Directors who are employees of the Company or its subsidiaries do not receive compensation for their services as directors.

BOARD OF DIRECTORS MEETINGS

The Board of Directors generally meets quarterly, and in the twelve months ended December 31, 1998, the Board of Directors held three regular meetings. All directors attended at least 75% of the meetings held.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has one standing committee, the Compensation Committee. The Board of Directors created the Compensation Committee in January 1999 and appointed Bob L. Smith, Ronald O. Keil and David E. Sampson as members of said committee. The function of the Compensation Committee is to review and make recommendations to the Board of Directors with respect to the compensation of the Company's executive officers.

ITEM 10. EXECUTIVE COMPENSATION

COMPENSATION OF EXECUTIVE OFFICERS

The following tables set forth compensation received by Steven J. Blad, the Company's Chief Executive Officer, and other executive officers of the Company whose total compensation for the year ended December 31, 1998, exceeded $100,000.

SUMMARY COMPENSATION TABLE

The following table sets forth the compensation awarded to, earned by or paid to, the Company's chief executive officer and its four other most highly-compensated executive officers for services rendered in all capacities during its fiscal years ended December 31, 1998, 1997, 1996.

<TABLE>
<CAPTION>

Annual Compensation Long Term Compensation

					Awards		Payouts	
Name and Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compen-sation ($)	Restricted Stock Award(s) ($)	Securities Under-Lying Options/ SARs (#)	LTIP Payouts ($)	All Other Compen-sation ($)<F1>
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Steven J. Blad,	1998	102,520	-0-	-0-	10,000	200,000	-0-	91,500<F2>
Chief Executive Officer,President and Director	1997	19,500	-0-	-0-	15,000	100,000	-0-	152,780<F2>
	1996	-0-	-0-	-0-	-0-	-0-	-0-	27,750<F2>
Glen Pickell,	1998	-0-	-0-	-0-	-0-	-0-	-0-	27,239<F2>
Chief Executive Officer (Sept. 1996-May 1998)	1997	-0-	-0-	-0-	-0-	-0-	-0-	71,120<F2>
	1996	-0-	-0-	-0-	-0-	-0-	-0-	20,479<F2>
Jay L. King,	1998	90,000	15,000	-0-	-0-	100,000	-0-	-0-
Chief Financial Officer, Secretary and Director	1997	90,000	14,850	-0-	-0-	-0-	-0-	-0-
	1996	73,750	12,500	10,200	-0-	75,000	-0-	-0-

<FN>
<F1> The Company provides certain perquisites and other personal benefits to some or all of the executives. The unreimbursed incremental cost to the Company of providing perquisites and other personal benefits did not exceed, as to any of the executives for any year, the lesser of $50,000 or 10% of the total salary and bonus paid to such executive for such year.

<F2> Affiliated entities of current and former officers and directors received compensation in the fiscal years ended December 31, 1998, 1997 and 1996: (i) the Arcus Group, an entity controlled by Glen (Tom) Pickell, a former officer and director of the Company that provided management consulting services to the Company, received $27,239 in 1998, $71,210 in 1997 and $20,479 in 1996; and (ii) Gametek, Inc., an entity controlled by Steven J. Blad that provided sales, marketing and management consulting services to the Company, received $91,500 in 1998, $152,780 in 1997 and $27,750 in 1996.

</FN>
</TABLE>

OPTIONS/SAR GRANTS IN LAST FISCAL YEAR

The following table sets forth information regarding grants of stock options during the fiscal year ended December 31, 1998 made to the named executive officers. There are no stock appreciation rights.

<TABLE>
<CAPTION>

	Individual Grants			
Name	Number of Securities Underlying Options/ SARs Granted (#)	Percent of Total Options/SARs Granted to Employees in Fiscal Year<F1>	Exercise or Base Price ($/Share)	Expiration Date
<S>	<C>	<C>	<C>	<C>
Steven J. Blad	100,000	30.30%	$1.50	June 1, 2003
Steven J. Blad	100,000	30.30%	$1.50	November 15, 2003
Jay L. King	100,000	30.30%	$1.50	November 15, 2003

<FN>
<F1> The total number of options granted to employees by the Company for the year ended December 31, 1998 was 330,000 options.

</FN>
</TABLE>

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR
AND FISCAL YEAR-END OPTION/SAR VALUES

As none of the Company's named executive officers exercised any stock options during the fiscal year ended December 31, 1998, a table reflecting the same has been intentionally omitted.

LONG-TERM INCENTIVE PLANS - AWARDS IN LAST FISCAL YEAR

As none of the Company's named executive officers received any stock options under a long-term incentive plan during the fiscal year ended December 31, 1998, a table reflecting the same has been intentionally omitted.

EMPLOYMENT AGREEMENTS

The Company has entered into employment agreements with Steven J. Blad and Jay L. King. Effective June 1, 1998, the Company and Mr. Blad entered into an employment agreement for a term expiring December 31, 1999. Mr. Blad will receive base pay of $12,500 per month through December 31, 1998 and $18,500 per month for the remainder of the term. Mr. Blad was granted options to purchase 100,000 shares at $1.50 per share and is eligible to receive an additional stock option for 100,000 shares at $1.50 per share upon attaining the Company's goals for 1998 as determined by the Board of Directors. An affiliated entity of Mr. Blad also agreed to the termination of a consulting agreement in exchange for $42,000, payable over 7 months, and 10,000 shares of the Company's common stock.

Effective January 1, 1997, the Company entered into an employment agreement with Jay L. King, for a term of two years. Upon expiration, the employment agreement shall be renewed for regular successive one-year terms unless either party submits a notice of termination thirty days prior to the end of the preceding period. Mr. King receives a monthly base salary of $7,500 and shall be entitled to a quarterly bonus in an amount not to exceed $2,500 per month upon the Company achieving its goals as set by the Company's Board of Directors, upon the fulfillment of Mr. King's duties and the Company achieving its goals. Additionally, Mr. King shall receive stock options to purchase up to 150,000 shares of common stock at $1.50 per share upon the following events: (i) stock options for 50,000 shares of common stock upon successful completion of the Registration Statement on Form SB-2; (ii) stock options

for 50,000 shares of common stock upon Mr. King fulfilling his obligations and the Company reaching its goals for 1997; and (iii) stock options for 50,000 shares of common stock upon Mr. King fulfilling his obligations and the Company reaching its goals for 1998. On November 15, 1998, in accordance with the terms of the employment agreement, the Company issued to Mr. King options to purchase 100,000 shares of common stock at $1.50 per share. In light of the letter of resignation submitted by Mr. King, the Company and Mr. King have mutually agreed to terminate Mr. King's employment agreement.

The Company is currently in the process of negotiating employment agreements with its other officers and employees.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following is a list of the beneficial stock ownership as of on January 31, 1999 of (1) all persons who beneficially owned more than 5% of the outstanding shares of the Company's common stock, (2) all directors, (3) all executive officers named in the Summary Compensation Table (see page 50) and (4) all officers and directors as a group at the close of business on January 31, 1999, according to record-ownership listings as of that date, and according to verifications as of January 31, 1999, which the Company solicited and received from each officer and director:

<TABLE>
<CAPTION>

TITLE OF CLASS	BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP<F1><F2>	PERCENT OF CLASS<F2>
<S>	<C>	<C>	<C>
Common	Richard S. Huson 15 SW Colorado Avenue, Suite 280 Bend, Oregon 97702	2,884,223<F3>	39.3%
Common	Steven J. Blad 6744 S. Spencer Street Las Vegas, Nevada 89119	541,316<F4>	7.1%
Common	Bob L. Smith 280 Liberty Street, S.E., Suite 300 Salem, Oregon 97301	399,997<F5>	5.5%
Common	Jay L. King 6744 S. Spencer Street Las Vegas, Nevada 89119	200,165<F6>	2.7%
Common	Ronald O. Keil 2904 N.E. Burton, Suite A Vancouver, Washington 98661	181,689	2.5%
Common	David E. Sampson 14009 - 205th Avenue N.E. Woodinville, Washington 98072	137,512<F7>	1.9%
Common	Jamie McKee 5240 S. Eastern Avenue Las Vegas, Nevada 89119	0	<F*>
Common	All executive officers and directors as a group (7 persons)	4,114,902<F8>	51.7%

<FN>
<F*> Less than one percent.
<F1> Unless otherwise noted, the persons identified in this table have sole voting and sole investment power with regard to the shares beneficially owned by them.
<F2> Includes shares issuable upon the exercise of options and warrants exercisable within 60 days of the stated date.
<F3> Includes 52,721 shares issuable upon the exercise of Class A Warrants.
<F4> Includes 10,000 shares issued to Gametek, Inc., an entity controlled by Mr. Blad, options to purchase 300,000 shares granted by the Company, options to purchase 230,000 shares granted by Richard S. Huson, 1,216 shares issued to the spouse of Mr. Blad and 100 shares issued to Mr. Blad directly.
<F5> Includes 33,557 shares issuable upon the exercise of Class A Warrants held by VIP's Industries, Inc., an entity controlled by Mr. Smith, 147,906 shares issued to VIP's Industries, Inc., 1,000 shares issued jointly to Mr. Smith and his daughter, and 217,534 shares issued to Mr. Smith directly.
<F6> Includes options to purchase 175,000 shares issued by the Company and 25,165 shares issued to Mr. King directly.
<F7> Includes 1,557 shares issuable upon the exercise of Class A Warrants, options to purchase 95,000 shares and 40,955 shares issued to Mr. Sampson directly.
<F8> Includes 87,835 shares issuable upon the exercise of Class A Warrants and 570,000 shares issuable upon the exercise of stock options.

</FN>
</TABLE>

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On February 1, 1997, the Company entered into a consulting agreement with Gametek, Inc. and Steven Blad, an officer of the Company. This agreement was terminated effective as of June 1, 1998 upon effectiveness of the employment agreement with Mr. Blad. See Part III. "Item 10. Executive Compensation - Employment Agreements."

Through a purchase agreement dated September 1998, the Company agreed to purchase from Steven L. Forte, a former employee and director of the Company, and Cheryl L. Forte: (i) certain royalties from the sales of the Shuffler, Fantasy 21 and the Safety-Peek Playing Card; (ii) options to purchase 20,000 shares of common stock; and (iii) 848,682 shares of common stock (the "Forte Transaction"). The Forte Transaction also involves the termination of the employment agreement with Steven Forte and the gifting of 82,000 shares of common stock by Steven and Cheryl Forte to certain individuals. As consideration, the Company executed a promissory note in favor of Steven and Cheryl Forte in the principal amount of $2,351,705 (the "Forte Note"), a security agreement in favor of Steven and Cheryl Forte granting a first security interest in the patents for the Shuffler, Fantasy 21 and the Safety-Peek playing card, and a pledge agreement in favor of Steven and Cheryl Forte whereby the Company pledged the Forte Shares as security for the Forte Note. In December 1998, the Company negotiated the cancellation of the Forte Note, the security agreement and pledge agreement, as well as an unrelated pre-existing promissory note in the principal amount of $130,047.46 (the "Pre-existing Forte Note"), in exchange for $1,250,000 to be paid in three installments: $500,000 on December 7, 1998, $500,000 on December 28, 1998 and $250,000 on January 15, 1999. Upon payment of the $1,250,000, the Company cancelled the Forte Note, the security agreement, the pledge agreement and the Pre-existing Forte Note and received a release from Steven and Cheryl Forte releasing the Company from any and all claims related, either directly or indirectly, to the Forte Transaction. Accordingly, the Company has retired the Forte Shares from the number of shares of common stock outstanding.

During the years ended December 31, 1998 and 1997, Richard S. Huson, Chairman and principal stockholder of the Company, and Bob L. Smith and Ronald O. Keil, directors and stockholders of the Company, made loans to the Company for working capital purposes. The balances payable by the Company aggregated $1,444,561 at December 31, 1998, including accrued interest of $59,561. The advances include short term demand notes made in 1998 due to Messrs. Smith and Keil which bear interest at 9.5% per annum and aggregate $150,000 at December 31, 1998. Mr. Huson has outstanding advances to the Company aggregating $1,235,000 of which $1,150,000 was received by the Company during the year ended December 31, 1998. The Company executed a replacement promissory representing the aggregate amount of advances made by Mr. Huson where the outstanding principal and interest is to be repaid at an interest rate of 9.5% per annum in monthly installments of $42,814 beginning July 1, 1999.

At December 31, 1997, the Company had outstanding advances to Randy Sines, a former officer and director of the Company, aggregating $152,964 (the "Sines Advance"). In December 1998, the Sines Advance was cancelled with no continuing repayment obligation by the Company as a result of a private transaction between Mr. Sines and four individuals which included directors Richard S. Huson, Bob L. Smith and Ronald O. Keil. The cancellation of the indebtedness was accounted for by the Company as a contribution to capital.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Company shall indemnify to the fullest extent permitted by, and in the manner permissible under the laws of the State of Washington, any person made, or threatened to be made, a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that he

is or was a director or officer of the Company, or served any other enterprise as director, officer or employee at the request of the Company. The Board of Directors, in its discretion, shall have the power on behalf of the Company to indemnify any person, other than a director or officer, made a party to any action, suit or proceeding by reason of the fact that he/she is or was an

employee of the Company.

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

Further, the Company has obtained Directors and Officers Insurance. Pursuant to the policy with National Union Fire Insurance Company, the coverage includes Company reimbursement and sections action claims entity coverage. The coverage has a $1,000,000 aggregate limit of liability in each policy year (inclusive of defense costs) and there is a retention of $25,000 for each claim.

TRANSACTION REVIEW

The Company has adopted a policy that any transactions with directors, officers or entities of which they are also officers or directors or in which they have a financial interest, will only be on terms consistent with industry standards and approved by a majority of the disinterested directors of the Company's Board of Directors. The Bylaws of the Company provide that no such transactions by the Company shall be either void or voidable solely because of such relationship or interest of directors or officers or solely because such directors are present at the meeting of the Board of Directors of the Company or a committee thereof which approves such transactions, or solely because their votes are counted for such purpose if: (i) the fact of such common directorship or financial interest is disclosed or known by the Board of Directors or committee and noted in the minutes, and the Board or committee authorizes, approves or ratifies the contract or transaction in good faith by a vote for that purpose without counting the vote or votes of such interested directors; or (ii) the fact of such common directorship or financial interest is disclosed to or known by the stockholders entitled to vote and they approve or ratify the contract or transaction in good faith by a majority vote or written consent of stockholders holding a majority of the shares of common stock entitled to vote (the votes of the common or interested directors or officers shall be counted in any such vote of stockholders); or (iii) the contract or transaction is fair and reasonable to the Company at the time it is authorized or approved. In addition, interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors of the Company or a committee thereof which approves such transactions. If there are no disinterested directors, the Company shall obtain a majority vote of the stockholders approving the transaction.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS.

NUMBER	EXHIBIT DESCRIPTION
2.01	Agreement and Plan of Merger dated as of March 6, 1999 by and between the Company and Casinovations Nevada Incorporated.
3.01	Articles of Incorporation incorporated by reference from the Company's Registration Statement on Form SB-2 ("Form SB-2") filed on July 16, 1997, File Number 333-31373.
3.02	Amendment to Articles of Incorporation dated October 12, 1996 incorporated by reference from Form SB-2 filed on

July 16, 1997, File Number 333-31373.

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10.06 Exclusive License Agreement with George C. Matteson Co., Inc. dated May 5, 1994 incorporated by reference from Form SB-2 filed on July 16, 1997, File Number 333-31373.

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10.07 License Agreement with The United States Playing Card Company dated March 16, 1995 incorporated by reference from Form SB-2 filed on July 16, 1997, File Number 333-31373.

10.08 Collateral Loan Agreement with Gaming Venture Corp., U.S.A. incorporated by reference from Amendment No. 1 to Form SB-2 filed on September 17, 1997, File Number 333-31373.

10.09 Exclusive License Agreement with Technology Development Center, LLC incorporated by reference from Amendment No. 2 to Form SB-2 filed on November 12, 1997, File Number 333-31373.

10.10 Form of Convertible Unsecured Note, incorporated by reference from Post-Effective Amendment No.1 on Form SB-2/A filed on June 5, 1998.

10.11 Forte Letter Agreement dated May 28, 1998, incorporated by reference from Post-Effective Amendment No.1 on Form SB-2/A filed on June 5, 1998.

10.12 Exclusive Distributorship Agreement with Gaming 2000 L.L.C. dated May 28, 1998, incorporated by reference from Post-Effective Amendment No.1 on Form SB-2/A filed on June 5, 1998.

10.13 Exclusive Distributorship Agreement with Belgian Gaming

Technology dated December 18, 1997, incorporated by reference from Post-Effective Amendment No.1 on Form SB-2/A filed on June 5, 1998.

10.14 Asset Purchase Agreement dated August 14, 1998, by and between Casinovations Incorporated and Gaming 2000, L.L.C., incorporated by reference from Post-Effective Amendment No.2 on Form SB-2/A filed on September 18, 1998.

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10.16 Assignment Agreement dated December 16, 1998 by and between Casinovations Incorporated and Randy D. Sines and Irene C. Sines, incorporated by reference from Form 8-K filed on December 23, 1998, File Number 333-31373.

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10.21 Form of Lock-Up Agreement, incorporated by reference to Post-Effective Amendment No.2 on Form SB-2/A filed on September 18, 1998, File Number 333-31373.

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10.22 Shareholder Agreement dated August 27, 1998, by and between Casinovations Incorporated and Richard Huson and Randy Sines, incorporated by reference to Post-Effective Amendment No.2 on Form SB-2/A filed on September 18, 1998, File Number 333-31373.

10.23 Lease Agreement dated October 7, 1998 by and between the Company and Spencer Airport Center, LLC.

10.24 Promissory Note dated December 3, 1998 executed by the Company in favor of Steven L. Forte and Cheryl Forte.

10.25 Shareholder Agreement dated December 14, 1998 by and between Casinovations Incorporated and Richard Huson, Bob Smith and Ron Keil.

10.26 Release and Assignment Agreement dated January 15, 1999 by and between Casinovations Incorporated and Steven L. Forte and Cheryl Forte.

10.27 Agreement dated March 24, 1999 by and between Casinovations Incorporated and Dominion Income Management.

21.01 Subsidiaries of Registrant.

23.01 Consent of James E. Scheifley & Associates, P.C.

27.01 Financial Data Schedule.

99.01 Employment Agreement of Jay L. King dated January 1, 1997 incorporated by reference from Form SB-2 filed on July 16, 1997, File Number 333-31373.

99.02 Employment Agreement with Steven Blad dated June 1, 1998, incorporated by reference to Post-Effective Amendment No.1 on Form SB-2/A filed on June 5, 1998, File Number 333-31373.

(b) REPORTS ON FORM 8-K.

During the three month period ended December 31, 1998, the Company filed a Form 8-K dated December 3, 1998 with the Securities and Exchange Commission on December 23, 1998 reporting, among other things, the approval of the Random Ejection Shuffler by the Nevada State Gaming Control Board. The Company subsequently filed a Form 8-K dated December 31, 1998 with the Securities and Exchange Commission on January 7, 1999 reporting the extension of the Company's offering of 1,500,000 shares (subsequently amended to 1,517,744 shares) of common stock for thirty days from December 31, 1998 to January 30, 1999.

SIGNATURES

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

CASINOVATIONS INCORPORATED

March 25, 1999 By: /s/ Jay L. King

Jay L. King, Secretary, Treasurer and Chief Financial Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ Steven J. Blad Steven J. Blad	Chief Executive Officer, President and Director (Principal Executive Officer)	March 25, 1999
/s/ Jay L. King Jay L. King	Chief Financial Officer, Treasurer and Secretary (Principal Financial and Accounting Officer)	March 25, 1999
/s/ Richard S. Huson Richard S. Huson	Chairman of the Board of Directors	March 25, 1999
/s/ Bob L. Smith Bob L. Smith	Director	March 25, 1999
/s/ Ronald O. Keil Ronald O. Keil	Director	March 25, 1999
/s/ David E. Sampson David E. Sampson	Director	March 25, 1999
/s/ Jamie McKee Jamie McKee	Director	March 25, 1999

EXHIBIT INDEX

NUMBER	EXHIBIT DESCRIPTION	PAGE
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AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (this "Agreement") is made and entered into as of this 6th day of March 1999, by and between Casinovations Incorporated, a Washington corporation (the "Washington Corporation"), and Casinovations Nevada Incorporated, a Nevada corporation (the "Nevada Corporation" and collectively with the Washington Corporation, the "Constituent Corporations").

W I T N E S S E T H:

WHEREAS, the Washington Corporation is a corporation incorporated in the State of Washington on September 29, 1995 and duly organized and existing under the laws of the State of Washington, Title 23B of the Revised Code of Washington (the "RCW").

WHEREAS, the Nevada Corporation is a corporation incorporated in the State of Nevada on March 4, 1999 and duly organized and existing under the laws of the State of Nevada, Chapter 78 of the Nevada Revised Statutes (the "NRS").

WHEREAS, the principal offices of the Washington Corporation and the Nevada Corporation are located at 6744 South Spencer Street, Las Vegas, Nevada 89119.

WHEREAS, the Washington Corporation and the Nevada Corporation have approved the merger of the Washington Corporation with and into the Nevada Corporation with the Nevada Corporation as the surviving corporation by a statutory merger upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the several and mutual promises, agreements, covenants, understandings, undertakings, representations and warranties hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree that the Recitals are true and correct and by this reference incorporated herein as if fully set forth and further covenant and agree as follows:

1. MERGER. At the Effective Date (as defined below), the Washington Corporation shall be merged with and into the Nevada Corporation (the "Merger"), and the Nevada Corporation shall be the surviving corporation in accordance with the provisions of Chapter 92A of the NRS and Title 23B.11 of the RCW. The Nevada Corporation shall be and continue in existence as the surviving corporation (the "Surviving Corporation") and the separate

corporate existence of the Washington Corporation shall cease.

2. EFFECTIVE DATE. Pursuant to Section 23B.01.230 of the RCW and Section 92A.240 of the NRS, the Constituent Corporations hereby designate April 1, 1999, as the effective date of the Merger (the "Effective Date").

3. ARTICLES OF INCORPORATION. The Articles of Incorporation of the Nevada Corporation in effect on the Effective Date shall continue (until amended or repealed as provided by applicable law) to be the Articles of Incorporation of the Surviving Corporation after the Effective Date without change or amendment with the exception of the amendment of Article I that shall be amended to read in its entirety as follows:

ARTICLE I
NAME

The name of the corporation is:

Casinovations Incorporated (the "Corporation").

4. BYLAWS. The Bylaws of the Nevada Corporation in effect on the Effective Date shall continue (until amended or repealed as provided by applicable law) to be the Bylaws of the Surviving Corporation after the Effective Date without change or amendment.

5. EFFECT OF MERGER. At the Effective Date, the Surviving Corporation shall continue in existence and, without further transfer, succeed to and possess all of the rights, privileges, and purposes of each of the Constituent Corporations; and all of the property, real and personal, including subscriptions to shares, causes of action and every other asset of each of the Constituent Corporations, shall vest in the Surviving Corporation without further act or deed; and the Surviving Corporation shall be liable for all of the liabilities, obligations and penalties of each of the Constituent Corporations. No liability or obligation due or to become due, claim or demand for any cause existing against either Constituent Corporation, or any stockholder, officer, director or employee thereof, shall be released or impaired by the Merger. No action or proceeding, whether civil or criminal, then pending by or against either Constituent Corporation or any stockholder, officer, director or employee thereof shall abate or be discontinued by the Merger, but may be enforced, prosecuted, defended or settled or compromised as if the Merger had not occurred or the Surviving Corporation may be substituted in any action or proceeding in place of either Constituent Corporation. If at any time the

Surviving Corporation shall consider or be advised that any further assignments, conveyances or assurances in law are necessary or desirable to vest, perfect or confirm of record in the Surviving Corporation the title to any property or rights of the Constituent Corporations, or otherwise to carry out the provisions hereof, the proper officers and directors of the Constituent Corporations, as of the Effective Date, shall execute and deliver any and all things necessary or proper to vest, perfect or confirm title to such property or rights in the Surviving Corporation, and otherwise to carry out the provisions hereof.

6. CONVERSION OF OUTSTANDING SHARES. Upon the Effective Date and by virtue of the Merger and without any action on the part of the holders thereof, each issued and outstanding share of common stock of the Washington Corporation shall be immediately canceled and converted into one share of common stock of the Nevada Corporation. Outstanding stock certificates representing shares of common stock of the Washington Corporation shall thenceforth represent the same number of shares of common stock of the Nevada Corporation, and the holder thereof shall be entitled to precisely the same rights as a holder of certificates issued by the Surviving Corporation. Upon the surrender to the transfer agent of the Surviving Corporation, Continental Stock Transfer & Trust Company, of any stock certificate representing shares of common stock of the Washington Corporation, the holder or transferee of the holder of such surrendered certificates shall receive in exchange therefore a certificate or certificates of shares of common stock of the Surviving Corporation.

7. CONVERSION OF STOCK OPTIONS AND WARRANTS. Upon the Effective Date and by virtue of the Merger and without any action on the part of the holders thereof, each issued and outstanding option, warrant or right to purchase or otherwise acquire shares of common stock of the Washington Corporation shall be converted into and become an option or right to purchase or otherwise acquire a proportionate number of shares of common stock of the Nevada corporation on the same terms and conditions, and, in connection therewith, a proportionate number of shares of common stock of the Surviving Corporation

shall be reserved for issuance by the Surviving Corporation as were reserved by the Washington Corporation immediately prior to the Effective Date.

8. BOARD OF DIRECTORS AND OFFICERS. The Board of Directors and all officers of the Nevada Corporation in effect on

the Effective Date shall be the Board of Directors and the officers of the Surviving Corporation.

9. SURVIVAL OF POLICIES. All corporate acts, plans, policies, approvals and authorizations of the Washington Corporation, its stockholders, Board of Directors, committees elected or appointed by the Board of Directors, officers and agents, which were valid and effective immediately prior to the Effective Date shall be taken for all purposes as the acts, plans, policies, approvals and authorizations of Surviving Corporation and shall be as effective and binding thereon as they were on the Washington Corporation.

10. TAX EFFECT. The Constituent Corporations intend the Merger to qualify as a "tax-free" reorganization within the definition of Section 386(a)(1)(F) of the Internal Revenue Code of 1986, as amended.

11. APPROVAL OF STOCKHOLDERS. The Agreement shall be submitted to the stockholders of each Constituent Corporation as provided by the RCW and the NRS. There shall be required for the adoption of the Agreement (a) the affirmative vote of not less than a two thirds (2/3) of the holders of the common stock of the Washington Corporation, and (b) the affirmative vote of more than a majority of the voting power of the Nevada Corporation.

12. DISSENTERS' RIGHTS. The rights of dissenting stockholders for either of the Constituent Corporations shall be governed by the RCW and the NRS, respectively.

13. REGULATORY APPROVALS. The consummation of the Merger shall be subject to obtaining any and all consents or approvals determined by the respective Boards of Directors of the Constituent Corporations to be necessary to effect the Merger.

14. TERMINATION OR ABANDONMENT. This Agreement may be terminated and/or the Merger abandoned at any time prior to the Effective Date by either the Washington Corporation or the Nevada Corporation by action of their respective Boards of Directors. In the event of termination of the Agreement and/or abandonment of the Merger, this Agreement shall become void and of no further force and effect without liability on the part of either of the Constituent Corporations, its stockholders, Board of Directors and officers thereof.

IN WITNESS WHEREOF, each party to this Agreement and Plan of Merger, pursuant to the authority duly given by their respective

Boards of Directors, has caused this Agreement and Plan of Merger to be executed on its behalf by its President and attested to by its Secretary as the date and year first written above.

CASINOVATIONS INCORPORATED,
a Washington Corporation

By: /s/ Steven J. Blad

Steven J. Blad, President and CEO

By: /s/ Jay L. King

Jay L. King, Secretary

CASINOVATIONS INCORPORATED,
a Nevada corporation

By: /s/ Steven J. Blad

Steven J. Blad, President and CEO

By: /s/ Jay L. King

Jay L. King, Secretary

CASINOVATIONS INCORPORATED
1999 STOCK OPTION PLAN
AS APPROVED BY THE BOARD OF DIRECTORS ON JANUARY 5, 1999

1. PURPOSE

The purpose of the Casinovations Incorporated Stock Option Plan is to further the interests of Casinovations Incorporated, a Washington corporation (the "Company"), by encouraging and enabling selected officers, directors, employees, consultants, advisers, independent contractors and agents, upon whose judgment, initiative and effort the Company is largely dependent for the successful conduct of its business, to acquire and retain a proprietary interest in the Company by ownership of its stock through the exercise of stock options to be granted hereunder. Options granted hereunder are either options intended to qualify as "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, or non-qualified stock options.

2. DEFINITIONS

Whenever used herein the following terms shall have the following meanings, respectively:

(a) "Board" shall mean the Board of Directors of the Company.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(c) "Committee" shall mean the Stock Option or Compensation Committee appointed by the Board, or if no committee has been appointed, a reference to "Committee" shall be deemed to refer to the Board.

(d) "Common Stock" shall mean the Company's Common Stock, $.001 par value.

(e) "Company" shall mean Casinovations Incorporated, a Washington corporation.

(f) "Employee" shall mean, in connection with Incentive Options, only employees of the Company.

(g) "Fair Market Value Per Share" of the Common Stock on any date shall mean, if the Common Stock is publicly traded, the

mean between the highest and lowest quoted selling prices of the Common Stock on such date or, if not available, the mean between the bona fide bid and asked prices of the Common Stock on such date. In any situation not covered above or if there were no sales on the date in question, the Fair Market Value Per Share shall be determined by the Committee in accordance with Section 20.2031-2 of the Federal Estate Tax Regulations.

(h) "Incentive Option" shall mean an Option granted under the Plan which is designated as and qualified as an incentive stock option within the meaning of Section 422 of the Code.

(i) "Non-Employee Director" shall have the meaning set forth in Rule 16b-3 promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, or any successor rule.

(j) "Non-Qualified Option" shall mean an Option granted under the Plan which is designated as a non-qualified stock option and which does not qualify as an incentive stock option within the meaning of Section 422 of the Code.

(k) "Option" shall mean an Incentive Option or a Non-Qualified Option.

(l) "Optionee" shall mean any person who has been granted an Option under the Plan.

(m) "Outside Director" shall have the meaning set forth in Section 162(m) of the code.

(n) "Permanent Disability" shall mean termination of a Relationship with the Company with the consent of the Company by reason of permanent and total disability within the meaning of Section 22(e)(3) of the Code.

(o) "Plan" shall mean the Casinovations Incorporated Stock Option Plan, as amended.

(p) "Relationship" shall mean that the Optionee is or has agreed to become an officer, director, employee, consultant, adviser, independent contractor or agent of the Company or any Subsidiary of the Company.

(q) "Termination for Cause" means the termination of any employee's employment with the Company, whether voluntary or involuntary, that is determined by the Committee to have resulted from the discovery by the Company of the employee's dishonesty, commission of a felony (regardless of whether or not prosecuted)

or fraud.

3. ADMINISTRATION

(a) The Plan shall be administered by a Committee of at least two directors of the Company appointed by the Board, all members of which are both Non-Employee Directors and Outside Directors. The Board may from time to time appoint members of the Committee in substitution for or in addition to members previously appointed and may fill vacancies. In the event the Board fails to designate a committee to administer the Plan, the Plan shall be administered by the Board. To the extent not inconsistent with applicable law, the Board or Committee may from time to time delegate to one or more officers of the Company any or all of its authorities granted hereunder except with respect to awards to persons subject to Section 16 of the Securities Exchange Act of 1934, as amended.

(b) Any action of the Committee with respect to the administration of the Plan shall be taken by majority vote or by written consent of a majority of its members, and all actions of the Committee are subject to approval by the Board.

(c) Subject to the provisions of the Plan, the Committee shall have the authority to construe and interpret the Plan, to define the terms used therein, to determine the time or times an Option may be exercised and the number of shares which may be exercised at any one time, to prescribe, amend and rescind rules and regulations relating to the Plan, to approve and determine the duration of leaves of absence which may be granted to participants without constituting a termination of their employment for purposes of the Plan, and to make all other determinations necessary or advisable for the administration of the Plan.

(d) The Company shall indemnify and hold harmless the members of the Board and the Committee from and against any and all liabilities, costs and expenses incurred by such persons as a result of any act, or omission to act, in connection with the performance of such persons' duties, responsibilities

and obligations under the Plan, other than such liabilities, costs and expenses as may result from the negligence, bad faith, willful misconduct or criminal acts of such persons.

(e) The Company will provide financial information to the Optionees on the same basis as the Company provides such

information to its shareholders.

(f) The Committee's interpretation and construction of any provisions of this Plan or any option granted under this Plan shall be final, conclusive and binding upon all Optionees, their guardians, legal representatives and beneficiaries, the Company and all other interested parties.

4. NUMBER OF SHARES SUBJECT TO PLAN

The aggregate number of shares of Common Stock subject to Options which may be granted under the Plan shall not exceed 500,000 shares. The shares of Common Stock to be issued upon the exercise of Options may be authorized but unissued shares, shares issued and reacquired by the Company or shares purchased by the Company on the open market. If any Option granted hereunder shall expire or terminate for any reason without having been exercised in full, the unpurchased shares subject thereto shall again be available for the purposes of the Plan.

5. ELIGIBILITY AND PARTICIPATION

(a) Non-Qualified Options may be granted to any person who has a Relationship with the Company or any of its Subsidiaries. Incentive Options may be granted to any Employee. The Committee shall determine the persons to who Options shall be granted, the time or times at which such Options shall be granted and the number of shares to be subject to each Option. An Optionee may, if he is otherwise eligible, be granted an additional Option or Options if the Committee shall so determine. An Employee may be granted Incentive Options or Non-Qualified Options or both under the Plan; provided, however, that the grant of Incentive Options and Non-Qualified Options to an Employee shall be the grant of separate Options and each Incentive Option and each Non-Qualified Option shall be specifically designated as such.

(b) In no event shall the aggregate fair market value (determined as of the time the Option is granted) of the shares with respect to which Incentive Options (granted under the Plan or any other plans of the Company or any Subsidiary or Parent Corporation of the Company) are exercisable for the first time by an Optionee in any calendar year exceed $100,000.

(c) In no event shall the aggregate number of shares of Common Stock with respect to which Options may be granted to a single Optionee during the term of the Plan exceed 20 percent of the aggregate number of shares of Common Stock subject to Options which may granted to all Optionees under the plan.

6. PURCHASE PRICE

The purchase price of each share covered by each Incentive Option shall not be less than 100% of the Fair Market Value Per Share of the Common Stock on the date the Incentive Option is granted; provided, however, that if at the time an Incentive Option is granted the Optionee owns or would be considered to own by reasons of Section 424(d) of the Code more that 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary or Parent Corporation of the Company, the purchase price of the shares covered by such Incentive Option shall not be less than 110% of the Fair Market Value Per Share of the Common Stock on the date the Incentive Option is granted.

7. DURATION OF OPTIONS

The expiration date of the Option and all rights thereunder shall be determined by the Committee. In the event the Committee does not specify the expiration date of the Option, the expiration date shall be 10 years from the date on which the Option was granted, and shall be subject to earlier termination as provided herein; provided, however, that if at any time an Incentive option is granted the Optionee owns or would be considered to own by reason of Section 424(d) of the code more that 10% of the total combined voting power of all classes of stock of the Company such Incentive Option shall expire five years from the date the Incentive Option is granted unless the Committee selects an earlier date.

8. EXERCISE OF OPTIONS

(a) An Option shall vest and become exercisable from time to time in installments or otherwise in accordance with such schedule and upon such other terms and conditions as the Committee shall in its discretion determine at the time the Option is granted. An Optionee may purchase less than the total number of shares for which the Option is exercisable, provided that a partial exercise of an Option may not be for less that 100 shares, unless the exercise is during the final year of the Option, and shall not include any fractional shares. As a condition to the exercise, in whole or in part, of any Option, the Committee may in its sole discretion require the Optionee to pay, in addition to the purchase price of the shares covered by the Option, an amount equal to any federal, state or local taxes that the Committee has determined are required to be paid in connection with the exercise of such Option in order to enable the Company to claim a deduction or otherwise. Furthermore, if any Optionee disposes of any shares of stock acquired by exercise of an Incentive Option prior to the expiration of either of the

holding periods specified in Section 422(a)(1) of the Code, the Optionee shall pay to the Company, or the Company shall have the right to withhold from any payment to be made to the Optionee, an amount equal to any federal, state or local taxes that the Committee has determined are required to be paid in connection with the exercise of such Option in order to enable the Company to claim a deduction.

(b) No Option will be exercisable (and any attempted exercise will be deemed null and void) if such exercise would create a right of recovery for "short-swing profits" under Section 16(b) of the Securities Exchange Act of 1934, as amended. This Section 8(b) is intended to protect persons subject to Section 16(b) against inadvertent violations of Section 16(b) and shall not apply with respect to any particular exercise of an Option if expressly waived in writing by the Optionee at the time of such exercise.

9. METHOD OF EXERCISE

(a) To the extent that an Option has become exercisable, the Option may be exercised from time to time by giving written notice to the Company stating the number of shares with respect to which the Option is being exercised, accompanied by payment in full, by cash or by certified or cashier's check payable to the order of the Company or the equivalent thereof acceptable to the Company, of the purchase price for the number of shares being purchased and, if applicable, any federal, state or local taxes required to be paid in accordance with the provisions of Section 8(a) hereof. The Company shall issue a separate certificate or certificates with respect to each Option exercised by an Optionee.

(b) In the Committee's discretion, payment of the purchase price for the shares with respect to which the Option is being exercised may be made in whole or in part with shares of Common Stock. If payment is made with shares of Common Stock, the Optionee, or other person entitled to exercise the Option, shall deliver to the Company certificates representing the number of shares of Common Stock in payment for the shares being purchased, duly endorsed for transfer to the Company. If requested by the Committee, prior to the acceptance of such certificates in payment for such shares, the Optionee, or any

other person entitled to exercise the Option, shall supply the Committee with a representation and warranty in writing that he has good and marketable title to the shares represented by the

certificate(s), free and clear of all liens and encumbrances. The value of the shares of Common Stock tendered in payment for the shares being purchased shall be their Fair Market Value Per Share on the date of the exercise.

(c) Notwithstanding the foregoing, the Company shall have the right to postpone the time of delivery of the shares for such period as may be required for it to comply, with reasonable diligence, with any applicable listing requirements of any national securities exchange or any federal, state or local law. If an Optionee or other person entitled to exercise an Option fails to accept delivery of or fails to pay for all or any portion of the shares requested in the notice of exercise upon tender of delivery thereof, the Committee shall have the right to terminate his Option with respect to such shares.

10. NON-TRANSFERABILITY OF OPTIONS

No Option granted under the Plan shall be assignable or transferable by the Optionee, either voluntarily or by operation of law, otherwise than by will or the laws of descent and distribution, and each Option shall be exercisable during the Optionee's lifetime only by the Optionee.

11. CONTINUANCE OF RELATIONSHIP

Nothing contained in the Plan or in any Option granted under the Plan shall confer upon any Optionee any right with respect to the continuation of his employment by or other Relationship with the Company, or interfere in any way with the right of the Company at any time to terminate such employment or other Relationship or to increase or decrease the compensation of the Optionee from the rate in existence at the time of the grant of an Option.

12. TERMINATION OF RELATIONSHIP OTHER THAN BY DEATH OR PERMANENT DISABILITY

Except as the Committee may otherwise determine at any time with respect to any particular Non-Qualified Option granted hereunder:

(a) If an Optionee ceases to have a Relationship for any reason other than his death or Permanent Disability, any Options granted to him shall terminate 90 days from the date on which such Relationship terminates unless such Optionee has resumed or initiated a Relationship and has a Relationship on such date. During the 90 day period, the Optionee may exercise any Option granted to him but only to the extent such Option was exercisable on the date of termination of his Relationship and provided that such Option has not expired or otherwise terminated as provided

herein. A leave of absence approved in writing by the Committee shall not be deemed a termination of Relationship for purposes of this Section 12, but no Option may be exercised during any such leave of absence, except during the first 90 days thereof.

(b) For purposes hereof, termination of an Optionees's Relationship for reasons other than death or Permanent Disability shall be deemed to take place upon the earliest to occur of the following: (i) the date of the Optionee's retirement from employment under the normal retirement policies of the Company; (ii) the date of the Optionee's retirement from employment with the approval of the Committee because of disability other than Permanent Disability; (iii) the date the Optionee receives notice or advice that his employment or other Relationship is terminated; or (iv) the date the Optionee ceases to render the services which he was employed, engaged or retained to render to the Company or any Subsidiary (absences for temporary illness, emergencies and vacations or leaves of absence approved in writing by

the Committee excepted). The fact that the Optionee may receive payment from the Company after termination for vacation pay, for services rendered prior to termination, for salary in lieu of notice or for other benefits shall not affect the termination date.

(c) Notwithstanding anything in the Plan to the contrary, no Option may be exercised or claimed following an Optionee's termination of Relationship as a result of Termination for Cause, and no Option may be exercised or claimed while the Optionee is being investigated for a termination for Cause.

13. DEATH OR PERMANENT DISABILITY OF OPTIONEE

Except as the Committee may expressly determine otherwise at any time with respect to any particular Non-Qualified Option granted hereunder, if an Optionee shall die at a time when he is in a Relationship or if the Optionee shall cease to have a Relationship by reason of Permanent Disability, any Options granted to him shall terminate one year after the date of his death or termination of Relationship due to Permanent Disability unless by its terms it shall expire before such date or otherwise terminate as provided herein, and shall only be exercisable to the extent that it would have been exercisable on the date of his death or his termination of Relationship due to Permanent Disability. In the case of death, the Option may be exercised by the person or persons to whom the Optionee's rights under the

Option shall pass by will or by the laws of descent and distribution.

14. STOCK PURCHASE NOT FOR DISTRIBUTION

Each Optionee shall, by accepting the grant of an Option under the Plan, represent and agree, for himself and his transferees by will or the laws of descent and distribution, that all shares of stock purchased upon exercise of the Option will be received and held without a view to distribution except as may be permitted by the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder. After each notice of exercise of any portion of an Option, if requested by the Committee, the person entitled to exercise the Option shall agree in writing that the shares of stock are being acquired in good faith without a view to distribution.

15. PRIVILEGES OF STOCK OWNERSHIP

No person entitled to exercise any Option granted under the Plan shall have any of the rights or privileges of a shareholder of the Company with respect to any shares of Common Stock issuable upon exercise of such Option until such person has become the holder of record of such shares. No adjustment shall be made for dividends or distributions of rights in respect of such shares if the record date is prior to the date on which such person becomes the holder of record, except as provided in Section 16 hereof.

16. ADJUSTMENTS

(a) If the number of outstanding shares of Common Stock is increased or decreased, or if such shares are exchanged for a different number or kind of shares or securities of the Company through reorganization, merger, recapitalization, reclassification, stock dividend, stock split, combination of shares or other similar transaction, the aggregate number of shares of Common Stock subject to the Plan as provided in Section 4 hereof, the share of Common Stock subject to issued and outstanding Option under the Plan and the aggregate number of shares of Common Stock with respect to which Options may be granted to a single Optionee as provided in Section 5(c) hereof shall be appropriately and proportionately adjusted by the Committee. Any such adjustment in the outstanding Options shall be made without change in the aggregate purchase price applicable to the unexercised portion of the Option but with an appropriate adjustment in the price for each share or other unit of any security covered by the

Option. No adjustment shall be made on account of any transaction or event not specifically set forth in this Section 16(a), including, without limitation, the issuance of Common Stock for consideration.

(b) Notwithstanding the provision of Section 16(a), upon the dissolution or liquidation of the Company or upon any reorganization, merger or consolidation with one or more corporations as a result of which the Company is not the surviving corporation, or upon a sale of all or substantially all of the assets of the Company to another corporation or entity, the Committee may take such action, if any, as it in its discretion may deem appropriate to accelerate the time within which and the extent to which Options may be exercised, to terminate Options at or prior to the date of any such event, or to provide for the assumption of Options by surviving, consolidated, successor or transferee corporations.

(c) Adjustments under this Section 16 shall be made by the Committee, whose determination as to which adjustments shall be made, and the extent thereof, shall be final, binding and conclusive. No fractional shares of stock shall be issued under the Plan or in connection with any such adjustment.

17. CHANGE OF CONTROL

Notwithstanding any other section this Plan, in the event of a change of control, all share restrictions on all Restricted Shares will lapse and vesting on all unexercised stock options will accelerate to the change of control date. For purposes of this plan, a "Change of Control" of the Company shall be deemed to have occurred at such time as (a) any "person" (as that term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended), other than Richard Huson, or his affiliates, or an employee benefit plan of the Company becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended), directly or indirectly, of securities of Rio representing 25.0% or more of the combined voting power of the Company's outstanding securities ordinarily having the right to vote at the election of directors; or (b) individuals who constitute the Board on the date hereof (the "Incumbent Board") cease for any reason to constitute at least a majority thereof; or (c) the approval by the Company's shareholders of the merger or consolidation of the Company with any other corporation or business organization, the sale of all or substantially all the assets of the Company, or the liquidation or dissolution of the Company; or (d) a proxy statement is distributed soliciting proxies from the shareholders of the Company seeking shareholder approval of a plan of reorganization, merger or consolidation of the Company with one

or more corporations as a result of which the outstanding shares of the Company's securities are actually exchanged for or converted into cash or property or securities not issued by the Company; or (e) at least a majority of the Incumbent Board who are in office immediately prior to any action proposed to be taken by the Company determine that such proposed action, if taken, would constitute a change of control of the Company and such action is taken.

18. TAX WITHHOLDING

The Company shall have the right to deduct or withhold from al payments or distributions amounts sufficient to cover any federal, state or local taxes required by law to be withheld or paid with respect to such payments of distributions. In the case of non-qualified options, the Company may require that required withholding taxes be paid to the Company at the time the option is exercised. The Company may also permit any withholding tax obligations incurred by reason of the exercise of any stock option to be satisfied by withholding shares (that would otherwise be obtained upon such exercise) having a fair market value equal to the aggregate amount of taxes which are to be withheld. In the case of persons subject to Section 16(b), such withholding shall be on terms consistent with Rule 16b-3.

19. AMENDMENT AND TERMINATION OF PLAN

(a) The Board may from time to time, with respect to any shares at the time not subject to Options, suspend or terminate the Plan or amend or revise the terms of the Plan; provided that any amendment to the Plan shall be approved by a majority of the shares present and voting at either an annual or special meeting called for such purpose, if the amendment would (i) materially increase the benefits accruing to participants under the Plan, (ii) increase the number of shares of Common Stock which may be issued under the Plan, except as permitted under the provisions of Section 16 hereof, or (iii) materially modify the requirements as to eligibility for participation in the Plan.

(b) No amendment, suspension or termination of the Plan shall, without the consent of the Optionee, alter or impair in a manner adverse to the Optionee any right or obligation under any Option theretofore granted to such Optionee.

(c) The terms and conditions of any Option granted to an Optionee may be modified or amended only by a written agreement executed by the Optionee and the Company; provided, however, that

if any amendment or modification of an Incentive Option would constitute a "modification, extension or renewal" within the meaning of Section 424(h) of the Code, such amendment shall be null and void unless the amendment contains an acknowledgment by the parties substantially in the following form: "The parties hereto recognize and agree that this amendment constitutes a modification, renewal or extension within the meaning of Section 424(h) of the Code, of the option granted on _____."

20. EFFECTIVE DATE OF PLAN

The Plan shall become effective upon adoption by the Board and approval by the Company's shareholders; provided, however, that prior to approval of the Plan by the Company's shareholders, but after adoption by the Board, Options may be granted under the Plan subject to obtaining the shareholders' approval of the adoption of the Plan. Notwithstanding the foregoing, shareholders' approval must occur no later than 12 months after the date of adoption of the Plan by the Board. The date of original adoption of the Plan by the Board was January 5, 1999.

21. TERM OF PLAN

No option shall be granted pursuant to the Plan after 10 years from the earlier of the date of adoption of the Plan by the Board or the date of approval of the Plan by the Company's shareholders.

PURCHASE AGREEMENT

THIS PURCHASE AGREEMENT (this "Agreement") is made and entered into as of the _____ day of September 1998 between Casinovations Incorporated, a Washington corporation ("Purchaser"), and Steven L. Forte and Cheryl Forte, each individuals (collectively, Steven L. Forte and Cheryl Forte are referred to herein as "Sellers").

RECITALS

WHEREAS, Purchaser and Sellers have executed a letter agreement dated May 28, 1998 with respect to the sale by Sellers and purchase by Purchaser of certain assets of Sellers.

WHEREAS, pursuant to the terms and conditions set forth herein, Seller desires to sell and assign the aforementioned assets to Purchaser, and Purchaser desires to purchase and acquire same from Seller;

NOW, THEREFORE, in consideration of the several and mutual promises, agreements, covenants, understandings, undertakings, representations and warranties hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged Sellers and Purchaser agree that the Recitals are true and correct and by this reference incorporated herein as if fully set forth, and Sellers and Purchaser further covenant and agree as follows:

1. TERMS AND CONDITIONS. Subject to the terms and provisions of the Transaction Documents, Sellers shall sell, transfer, assign and deliver to Purchaser and Purchaser shall purchase and acquire from Sellers, all right, title and interest of Sellers in and to the certain assets and rights (contractual or otherwise) of Sellers, wherever located, as follows: (a) 848,682 shares of Purchaser's common stock (the "Shares") for $2.50 per share of common stock; (b) an option to purchase 20,000 shares of Purchaser's common stock (the "Option") for $1.50 per underlying share of common stock; and (c) the right to receive a royalty on sales of the Random Ejection Shuffler and Fantasy 21 table game (the "Royalty") for the price of Two Hundred Thousand and no/100ths Dollars ($200,000.00).

2. CONSIDERATION. In exchange for the Shares, the Option and the Royalty, the Company shall execute the following documents on even date herewith: (a) a promissory note in the amount of Two Million Three Hundred Fifty One Thousand Seven Hundred Five and no/100ths Dollars ($2,351,705.00 U.S.); (b) a

security agreement; and (c) a stock pledge agreement.

3. AMENDMENTS. No provision hereof shall be modified or limited except by an express written agreement executed by all parties hereto.

4. APPLICABLE LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Nevada.

5. COUNTERPARTS. This Agreement may be executed in counterparts, all of which shall be deemed an original and all of which, taken together, shall constitute one signed agreement.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date first above written.

"PURCHASER"	"SELLERS"
CASINOVATIONS INCORPORATED	
By: /s/ Steven J. Blad	/s/ Steven L. Forte
Steven J. Blad	Steven L. Forte
Its: Chief Executive Officer	
	/s/ Cheryl Forte
	Cheryl Forte

STANDARD LEASE
SPENCER AIRPORT CENTER

LEASE
(FREESTANDING BUILDING)

This lease is hereby dated for reference purposes only as of October 7,1998 by and between SPENCER AIRPORT CENTER, LLC, a Delaware limited liability company (herein called "Lessor") and CASINOVATIONS INCORPORATED, a Washington corporation (herein called "Lessee").

ARTICLE 1 BASIC LEASE TERMS

Each reference in this Lease to the "Basic Lease Terms" shall mean and refer to the following collective terms, the application of which shall be governed by the provisions in the remaining articles of this Lease.

1.01 Premises Leased:

a. Premises Address: 6744 Spencer Street
b. Rental Area: 19,160 approximate square feet
c. Building Designation: "A"

1.02 Project:

a. Project Name: Spencer Airport Center
b. Total Project Rental Area: 114,446 square feet

1.03 Term:

a. Commencement Date: February 1, 1999
b. Number of Calendar Months (Initial Term): 60 months
c. Option to: One (1) five (5) year option.

1.04 Rent:

a. Base Rent: Initial Term (i) $9,796.00/month during months one (1) through twelve (12); (ii) $14,370.00/month during months thirteen (13) through twenty-four (24); (iii) months twenty-five (25) through sixty (60) will have the first CPI increases annually subject to annual rent adjustment per Article 1.04b below. Where reference is made in this Lease to rent as provided in Section 1.04a, or where such reference is made to the term "Original Monthly Rent", such rent shall be deemed to be $14,370.00. In addition, operating expenses are due and payable throughout the term of the Lease.

b. Rent Adjustments: The base rent shall be increased annually commencing the twenty-five (25) month of this Lease in accordance with the Consumer Price Index, as provided in Section 4.03. Said adjustment will have a cap of 3% per annum.

1.05 Operating Expenses: Lessor estimates Operating Expenses during the calendar year when the Lease commences to be (i) $1,568.00/month during months one (1) through twelve (12) (ii) $2,300.00/month during months thirteen (13) through sixty (60). Operating Expenses are in addition to the Base Rent set forth in Section 1.04.

1.06 Security Deposit: $14,459.00. In addition to the cash security deposit, Lessee shall provide to Lessor a performance bond in the form of Exhibit C to this Lease, expiring not earlier than twenty-four (24) months after the Commencement Date, in the amount of one hundred seventy-five thousand dollars ($175,000.00) (the "Bond Amount"), issued by a corporate surety (the "Surety") acceptable to Lessor in its sole discretion. The performance bond amount guarantees only the payment of monthly rent and operating expenses for the twenty-four (24) months period commencing on the Commencement date.

Before demanding payment under the performance bond, Lessor shall provide written notice to both the Lessee and Surety of a default due to payments not made under the terms of this lease. If such default continues for thirty (30) days after written notice by the Lessor to Lessee and Surety, the Lessor may demand payment of the entire Bond Amount under the terms of the performance bond.

Upon receipt of the Bond Amount, Lessor will apply the Bond Amount to any past due rent and operating expenses, and will hold any remaining portion of the Bond Amount to pay rent and operating expenses as they become due and payable. Any unapplied funds will be returned to the Surety at the end of the lease agreement. Notice to the Surety shall be provided to the following address: 8625 SW Cascade Blvd., Suite 500, Beaverton, OR 97008.

1.07 Permitted Use: Office and manufacturing of gaming products; lessee may use the premises for any lawful purpose, not otherwise prohibited by Section 5.01, providing no hazardous or environmental materials are placed on the premises.

1.08 Addresses for Payments, Notices and Deliveries:

Lessor: Spencer Airport Center
6754 Spencer Street
Las Vegas, Nevada 89119

Lessee: Casinovations Incorporated
5240 South Eastern Avenue
Las Vegas, NV 89119

1.9 Brokers: Nevada Brokers, Inc.
6800 Paradise Road
Las Vegas, NV 8919

1.10 Building Improvements: The tenant improvement allowance including plans, permits and fees shall be $244,556.00. Should Lessee anytime throughout the lease term, desire to perform additional modifications at Lessee's cost, bids may be obtained from Lessor's contractor or another licensed, bonded contractor subject to Lessor's approval. If an outside contractor is chosen, Lessee shall be subject to the following requirements: Lessee must meet with Lessor to review the selected contractor's bid in order to ascertain that all construction modifications meet code requirements, prior to commencement of construction; Provide Lessor with contractor's license and bond status; Comply with the attached Tenant Specification Guidelines; Provide Lessor with the buildout plans and subsequent permits for same prior to construction; and Provide Lessor with the Building Department final sign off and Certificate of Occupancy. Lessor will post Notice of Non-Responsibility during said modification period.

1.11 Payments Upon Execution: The first installment of Base Rent $9,860.00 the first month's Operating Expenses $1,740.00, and a

Security Deposit of $14,459.00 for a total of $26,059.00, which shall be delivered to Lessor concurrently with Lessee's execution of this Lease.

ARTICLE 2 PREMISES

2.01 Leased Premises: Lessor leases to Lessee and Lessee rents from Lessor the Premises (herein the "Premises"), containing the rental area set forth in Section 1.01b of the Basic Lease Terms. The Premises are located at the building identified in the Basic Lease Terms (which together with underlying real property is called herein the "Building"), and is a portion of the project including other buildings described in Section 1.02a of the Basic Lease Terms (herein the "Center"). The Premises and the Center are indicated on a site plan attached hereto as Exhibit "A". If, upon completion of the space plans for the Premises, Lessor's architect or space planner determines that the rentable square footage of the Premises differs from that set forth in the Basic Lease Terms, then Lessor shall so notify Lessee, and the Base Rent (as shown in Section 1.04 of the Basic Lease Terms) shall be promptly adjusted in proportion to the change in square footage. Within ten (10) days following Lessor's request, the parties shall memorialize the adjustments by executing a certificate to this Lease prepared by Lessor, provided that the failure or refusal by either party to execute the certificate shall not affect its validity. The form of such certificate is Exhibit "B".

2.02 Delivery and Acceptance of Premises: Lessor shall deliver the Premises to Lessee clean and free of debris, on the Commencement Date (unless Lessee is already in possession), and Lessor further warrants to Lessee that the Common Facilities referred to in Article 6, plumbing, heating, air conditioning, ventilating, electrical, lighting facilities and equipment with the Premises, fixtures, walls (interior and exterior), foundations, ceilings, roofs, floors, windows, access doors, loading doors, plate glass and skylights shall be in good operating condition on the Commencement Date. In the event that it is determined that this warranty has been violated, then it shall be the obligation of the Lessor, after receipt of written notice from Lessee setting forth with specificity the nature of the violation, to promptly, at Lessor's sole cost, rectify such violation. Lessee's failure to give such written notice to Lessor within six (6) months after the Commencement Date shall cause the conclusive presumption that Lessor has complied with all of Lessor's obligations hereunder, unless such defect is not readily ascertainable during that period of time. The warranty contained in this Section shall be of no force or effect if prior to the date of this Lease Lessee was the owner or occupant of the Premises.

Except as otherwise provided in this Lease, Lessee hereby accepts the Premises in their condition existing as of the Commencement Date or the date that Lessee takes possession of the Premises, whichever is earlier, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises and any covenants or restrictions of record, and accepts this Lease subject thereto and to all matters disclosed thereby and by any exhibits attached hereto. Lessee acknowledges that neither Lessor nor Lessor's agent has made any representation or warranty as to the present or future suitability of the Premises for the conduct of Lessee's business.

2.03 Building Name and Address: Lessee shall not utilize any name selected by Lessor from time to time for the Building as any part of Lessee's corporate or trade name. Lessor shall have the right to change the name, number or designation of the Building without notice or liability to Lessee.

ARTICLE 3 TERM

3.01 General: The term shall be for the period shown in Section 1.03b of the Basic Lease Terms. Subject to the provisions of Section 3.03, the term shall commence on the commencement date (herein "Commencement Date") on the earliest of (a) the Estimated Commencement Date as set forth in Section 1.03a of the Basic Lease Terms, or (b) the date Lessee acquires possession or commences use of the Premises for any purpose other than construction. Within ten (10) days after possession of the Premises is tendered to Lessee, the parties shall execute the Exhibit "B" Certificate form provided by Lessor, which shall state the Commencement Date and the expiration date ("Expiration Date") of the Lease. Lessee's failure to execute that form shall not affect the validity of Lessor's determination of those dates.

3.02 Tender of Possession by Lessor: The Premises shall be deemed ready for occupancy upon the tendered date, but only if and when Lessor, to the extent applicable, (a) has provided reasonable access to the Premises for Lessee so that it may be used without unnecessary interference, (b) has substantially completed all the work required to be done by Lessor in this lease, and (c) has obtained requisite governmental approvals to Lessee's occupancy.

3.03 Delay in Possession: Notwithstanding the provisions of Section 3.01, if Lessor, for any reason whatsoever, cannot deliver possession of the Premises to Lessee on/or before the Estimated Commencement Date, this Lease shall

not be void or voidable nor shall Lessor be liable to Lessee for any resulting loss or damage. However, Lessee shall not be liable for any rent and the Commencement Date shall not occur until Lessor delivers possession of the Premises and the Premises are in fact ready for occupancy in accordance with Section 3.02; except that if Lessor's failure to so deliver possession on the Estimated Commencement Date is attributable to any material action or inaction by Lessee (including any tenant improvement construction change order requested by Lessee or Lessee's failure to supply any information required from Lessee or the furnishing by Lessee of inaccurate or erroneous estimates, specifications, data or other information), then the Commencement Date shall not be advanced to the date on which possession of the Premises is tendered to Lessee, and Lessor shall be entitled to full performance by Lessee (including the payment of rent) from the Estimated Commencement Date.

3.04 Early Occupancy: If Lessee occupies the Premises prior to the Estimated Commencement Date, Lessee's occupancy of the Premises shall be subject to all of the provisions of this Lease. Early occupancy of the Premises shall not advance the expiration date of this Lease. Lessee shall not pay Base Rent, Operating Expenses and all other charges, including, without limitation, insurance specified in this Lease for the early occupancy period, upon Lessor's demand for same.

3.05 Option Term(s): Lessee is hereby granted the right and option to extend this Lease for the additional term or terms as provided in Section 1.03c (herein "Option Term" or "Option Terms") commencing at the expiration of the Initial Term at a mutually agreeable increase. Such option is granted upon the following terms and conditions:

a. The Option Term(s) shall be on the same terms, covenants, conditions, provisions and agreements as in this Lease and any amendments thereto except for forgiveness of Base Rent, if applicable.

b. Lessee duly and regularly pays the rent and all other amounts required to be paid pursuant to this Lease and performs each and every covenant, provision and agreement on the part of the Lessee to be paid, rendered, observed and performed herein.

c. Lessee gives to Lessor and Lessor receives from Lessee written notice of the exercise of each option to extend this Lease no earlier than nine (9) months and no later than six (6) months prior to the expiration of the term immediately preceding the Option Term(s) to be exercised, time being of the essence. If said notification is not given and received, the option to be exercised shall automatically expire. Failure to exercise the

first option shall result in automatic expiration of the second if one so exists.

ARTICLE 4 RENT AND OPERATING EXPENSES

4.01 Base Rent: From and after the Commencement Date, Lessee shall pay without deduction or offset a Base Rent for the Premises in the total amount shown (including subsequent adjustments, if any) in Section 1.04a of the Basic Lease Terms. The rent shall be due and payable in equal monthly installments on the first day of each month, in advance, except that if the Commencement Date occurs on a day other than the first day of the month, the first installment of Base Rent shall include rent for both the fractional month, if any, starting with the Commencement Date and the following calendar month. No demand, notice or invoice shall be required.

4.02 Operating Expenses:

a. Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's share, as hereinafter defined, of all Operating Expenses, as hereinafter defined, during each year of the term of this Lease.

b. "Lessee's Share" is defined, for purposes of this Lease, as the percentage determined by dividing the square footage of the Premises by the total square footage of the rentable space contained in the Center. It is understood and agreed that the square footage figures set forth in the Basic Lease Terms are approximations which Lessor and Lessee agree are reasonable and shall not be subject to revision except in connection with an actual change in the size of the Premises or a change in the space available for lease in the Center.

c. The term "Operating Expenses" shall include (i) all expenses attributable to Lessor's obligations for operation, replacement, repair and maintenance in neat, clean, good order and condition of the Center, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, common lighting facilities, fences and gates, tenant directories and any other services to be provided by Lessor under this Lease; (ii) property taxes, general or special assessments, and costs and expenses in contesting the amount or validity of any property tax by appropriate proceedings; (iii) parkway water and sewer charges and other publicly mandated services to the Center; (iv) insurance premiums for liability and property insurance maintained by Lessor pursuant to Article 11 or reasonable premium equivalents should Lessor elect to self-insure any risk that Lessor is authorized to insure hereunder; (v) license, permit and inspection fees; (vi) air conditioning

maintenance; (vii) supplies, materials, equipment, tools, amortization of capital investments reasonably intended to produce a reduction in operating charges or energy conservation, labor, any expense incurred pursuant to Article 6, 7, 11 and 12, and (viii) a reasonable overhead/management fee which shall include, without limitation, allocated wages and salaries, fringe benefits and payroll taxes for administrative, accounting and other personnel applicable to the Center. It is understood that Operating Expenses shall include competitive charges for direct services provided by any subsidiary or division of Lessor, including reasonable supervisory or overhead fees. The term "property taxes" (billed separately) as used herein shall include the following: (i) all real estate taxes or personal property taxes (on Lessor's personal property used for the Center), as such property

taxes may be reassessed from time to time; (ii) other taxes, documentary transfer fees, charges and assessments which are levied with respect to this Lease or to the Premises and/or the Center, and any improvements, fixtures and equipment and other property of Lessor located in the Center, except that general net income and franchise taxes imposed against Lessor which shall be excluded; and (iii) any tax surcharge or assessment which shall be levied in addition to or in lieu of real estate or personal property taxes, other than taxes covered by Article 8. A copy of Lessor's unaudited statement of expenses shall be made available to Lessee upon request.

d. The inclusion of the improvements, facilities and services set forth in the definition of Operating Expenses shall not be deemed to impose an obligation upon Lessor to either have said improvements or facilities or to provide those services unless the Center already has the same, Lessor already provides the services or Lessor has agreed elsewhere in this Lease to provide the same or some of them.

e. Lessee's Share of Operating Expenses shall be payable by Lessee within ten (10) days after a reasonably detailed statement of actual expenses is presented to Lessee by Lessor. At Lessor's option, however, an amount may be estimated by Lessor from time to time of Lessee's share of annual Operating Expenses and the same shall be payable monthly or quarterly, as Lessor shall designate, during each calendar year of the Term, on the same day as the Base Rent is due hereunder. In the event that Lessee pays Lessor's estimate of the Lessee's Share of Operating Expenses as aforesaid, Lessor shall deliver to lessee within sixty (60) days after expiration of each calendar year a

reasonably detailed statement showing Lessee's share of the actual Operating Expenses incurred during the preceding year. If Lessee's payments under this subparagraph during said preceding calendar year exceed Lessee's Share as indicated on said statement, Lessee shall be entitled to credit in the amount of such overpayment against Lessee's Share of Operating Expenses next falling due. If Lessee's payments under this subparagraph during said preceding calendar year were less than Lessee's Share as indicated on said statement, Lessee shall pay to Lessor the amount of the deficiency within thirty (30) days after delivery by Lessor to Lessee of said statement. Changes in rental amounts will be made March 1st of each year.

f. If, at any time during any calendar year, any one or more of the Operating Expenses are increased to a rate(s) or amount(s) in excess of the rate(s) or amount(s) used in calculating the estimated Operating Expenses for the year, then Lessee's estimated amount of Operating Expenses shall be increased for the month in which the increase becomes effective and for all succeeding months by an amount equal to Lessee's proportionate share of the increase. Lessor shall give Lessee written notice of the amount or estimated amount of the increase, the month in which the increase will become effective, Lessee's monthly share thereof and the months for which the payments are due. Lessee shall pay the increase to Lessor as a part of the Lessee's monthly payments of Estimated Operating Expenses as provided in subparagraph "b" above, commencing with the month in which effective.

g. Even though the Lease has terminated and Lessee has vacated the Premises, when the final determination is made of Lessee's Share of Operating Expenses for any prior calendar year in which the Lease terminates, Lessee shall immediately upon notice pay the entire increase due over the estimated expenses paid. Conversely, any overpayment made in the event expenses decrease shall be immediately rebated by Lessor to Lessee.

4.03 Cost of Living Increases: Upon the expiration date of the month referenced in Section 1.04b of the Basic Lease Terms after the commencement of the Term, and upon the expiration of each twelve (12) calendar month period thereafter during the Term hereof, rent shall be adjusted by multiplying the Base Rent as referenced in Section 1.04a of the Basic Lease Terms by a fraction, which fraction shall have as its numerator the Consumer Price Index For All Urban Consumers using the U.S. City Average (or alternative thereto as hereinafter provided) (Base Period 1982-84=100), as published by the U.S. Department of Labor, Bureau of Labor Statistics, for the calendar month which is four (4) months prior to the expiration of the applicable twelve (12) month period, and which such fraction shall have as its denominator said Consumer Price Index, as published for the

calendar month which is four (4) months prior to the commencement of the Term. If the present base of said Index should hereafter be changed, then the new base shall be converted to the base now used. In the event that the Bureau should cease to publish said Index figure, then any similar Index published by any other branch or department of the U.S. Government shall be used. In the event said Bureau shall publish more than one such index, the index showing the greater proportionate increase shall be used, and if none is so published, then another index generally recognized as authoritative shall be substituted by agreement of the parties hereto, or if no such agreement is reached within a reasonable time, either party may make application to any court of competent jurisdiction to designate such other index. In any event, the base used by any new index shall be reconciled to the 1982-84=100 Base Index. In no event shall the rent to be paid by Lessee pursuant hereto be less than the Base Rent set forth in Section 1.04a of the Basic Lease Terms or the Base Rent as adjusted with respect to the next preceding twelve (12) month period, whichever is the greater. In the event the numerator of said fraction is not available at the time of adjustment of the rent as provided herein, Lessee shall continue to pay the rent established for the immediately prior twelve (12) month period; provided, however, Lessee shall promptly pay to Lessor any deficiency at such time as said rent is adjusted. Said adjustment will commence with the twenty-fifth (25) month of the Term with a cap of 3% per annum.

4.04 Security Deposit: Concurrently with the execution of this Lease, Lessee shall deposit with Lessor the sum stated in Section 1.06 of the Basic Lease Terms, to secure the faithful performance of Lessee's obligations hereunder. If Lessee fails to pay Rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Lessor may use, apply or retain all or any portion of said deposit for the payment of any rent or other charges in default or for the payment of any other sum to which Lessor may become obligated by reason of Lessee's default, or to compensate Lessor for any loss or damage which Lessor may suffer thereby. If Lessor so uses or applies all or any portion of said deposit, Lessee shall, within ten (10) days after written demand therefor, deposit cash with Lessor in an amount sufficient to restore said deposit to the full amount hereinabove stated and lessee's failure to do so shall be a material breach of this Lease. If the Base monthly rent shall, from time to time, increase during the Term, Lessee

shall thereupon deposit with Lessor additional security deposit so that the amount of security deposit held by Lessor shall at

all times bear the same proportion to current rent as the original security deposit bears to the original Base monthly rent set forth in this Article. Lessor shall not be required to keep said deposit separate from its general accounts. If Lessee performs all of Lessee's obligations hereunder, said deposit, or so much thereof as has not theretofore been applied by Lessor, shall be returned, without payment of interest or other increment for its use, to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest hereunder) at the expiration of the Term hereof, and after Lessee has vacated the Premises. No trust relationship is created herein between Lessor and lessee with respect to said security deposit. In no event may Lessee unilaterally apply or credit its deposit against the last month's rent. Should Lessor sell its interest in the Premises during the Term hereof and if Lessor deposits with the Purchaser thereof, the then unappropriated funds deposited by Lessee as aforesaid, thereupon Lessor shall be discharged from any further liability with respect to such deposit.

4.05 Option Rent: If Lessee duly exercises its option to extend this Lease as provided in Section 3.05 above, the rent payable during the Option Term each annual CPI adjustment will have a cap of 5% but no less than 3%.

ARTICLE 5 USES

5.01 Use: Lessee shall use the Premises only for the purposes stated in Section 1.07 of the Basic Lease Terms. Lessee shall not do, or permit anything to be done, in or about the Premises which will in any way interfere with the rights of other occupants of the Building, or use or allow the Premises to be used for any improper, immoral, unlawful or objectionable purpose, nor shall Lessee permit any nuisance or commit any waste in the Premises. Lessee shall not do or permit to be done anything which will invalidate or increase the cost of any insurance policy(ies) covering the Building and/or their contents, and shall comply with all applicable insurance underwriters' rules and the requirements of the Pacific Fire Rating Bureau or any other organization performing a similar function. Lessee shall comply, at its expense, with all present and future laws, ordinances and requirements of all governmental authorities that pertain to Lessee or its use of the Premises, including without limitation, all federal and state occupational health and safety requirements, whether or not Lessee's compliance will necessitate expenditures or interfere with its use and enjoyment of the Premises. Lessee shall promptly upon demand reimburse Lessor for any additional insurance premium charged by reason of lessee's failure to comply with the provisions of this Section, and shall indemnify Lessor from any liability and/or expense resulting from Lessee's noncompliance.

5.02 Hazardous Materials: Lessee shall not cause, permit or allow any Hazardous Materials (as defined below) to be brought upon, kept or used in or about the Premises by Lessee, its agents, employees, contractors or invitees, without the prior written consent of Lessor (which consent Lessor shall not unreasonably withhold as long as Lessee demonstrates to Lessor reasonable satisfaction that such hazardous materials are necessary to Lessee's business, and will be used, kept and stored in a manner that complies with all Hazardous Materials Laws (as defined below) regulating any such Hazardous materials so brought upon, used or kept in or about the Premises). If (i) Lessee, its employees, invitees or agents breach any obligation stated in the preceding sentence, or (ii) the presence of Hazardous Materials in the Premises caused or permitted by Lessee results in contamination of the Premises, the Building, any structure, system or improvement, any soil or water in, on, under or about the Premises (collectively, the "Property"), or (iii) contamination of the Property by Hazardous Materials otherwise occurs for which Lessee is legally liable to Lessor for damage resulting therefrom, then Lessee shall indemnify, defend and hold Lessor and lessor's partners, affiliates, employees, contractors, representatives, lenders, successors and assigns (collectively, the "Indemnified Parties") harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities, losses, actions or causes of action (including, without limitation, diminution in value of the Building, damages for the loss or restriction on use of rentable or usable space or of any amenity, damages arising from any adverse impact on marketing any of the foregoing, and sums paid in settlement of claims, attorneys' fees and costs incurred, consultant fees and expert fees) made, brought or sought against or suffered or incurred by the Indemnified Parties, or any of them, which arise during or after the Term of this Lease as a result of such contamination. This indemnification of Lessor by Lessee includes, without limitation, attorneys' fees and expenses and costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal or restoration work required by any federal, state or local governmental agency or political subdivision or required to return the property to the condition existing prior to the introduction of any such Hazardous Materials for which lessee is responsible. Lessee's obligations hereunder shall survive the expiration or earlier termination of the Term of this Lease. Prior to lease commencement, Lessee will provide Lessor with toxic management plans for glass and sign manufacturing.

Lessee shall at all times and in all respects comply with all federal, state and local laws, ordinances and regulations ("Hazardous Materials Laws") relating to industrial hygiene, environmental protection or the use, analysis, generation, manufacture, storage, disposal or transportation of any oil or petrochemical products, PCB, flammable materials, explosives,

asbestos, urea formaldehyde, radioactive materials or waste, or other hazardous, toxic, contaminated or polluting materials, substances or wastes, including, without limitation, any substances defined as or included in the definition of "Hazardous Materials", "toxic substances" or "chemicals known to the State to cause cancer or reproductive toxicity" under any such Hazardous Materials Laws (collectively, "Hazardous Materials").

5.03 Signs and Auctions: Lessee shall not place any signs on the Premises without Lessor's prior written consent. Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auctions or sheriff's sales from the Premises without having first obtained Lessor's prior written consent, which shall not be unreasonably withheld.

5.04 Year 2000 Compliance: The Lessee shall take reasonable steps to ensure that all computer controlled facility components that have been purchased or installed by Lessee, or over which Lessee has control, are Year 2000

compliant prior to January 1, 2000. Compliance shall be verified by physical testing of the components and/or written confirmation from the component or systems manufacturer. "Computer controlled facility components" refers to software driven technology and embedded microchip technology. This includes, but is not limited to, programmable thermostats, HVAC controllers, auxiliary elevator controllers, utility monitoring and control systems, fire detection and suppression systems, alarms, security systems, and any other facilities control systems utilizing microcomputer, minicomputer, or programmable logic controllers. "Year 2000 compliant" means computer controlled facility components that accurately process date/time data (including, but not limited to, calculating, comparing, and sequencing) from, into, and between the twentieth and twenty-first centuries, and the years 1999 and 2000 and leap year calculations.

ARTICLE 6 COMMON FACILITIES AND VEHICLE PARKING

6.01 Operation and Maintenance of Common Facilities: During the Term, Lessor shall operate all Common Facilities within the Center. The term "Common Facilities" shall mean all areas within the exterior boundaries of the Building and other buildings in the Center which are not held for exclusive use by persons entitled to occupy space, and all other appurtenant areas and improvements provided by Lessor for the common use of Lessor and tenants and their respective employees and invitees, including, without limitation, parking areas and structures, driveways,

sidewalks, landscaped and planted areas and common entrances not located within the Premises of any tenant.

6.02 Use of Common Facilities: The occupancy by Lessee of the Premises shall include the use of the Common Facilities in common with Lessor and with others for whose convenience and use the Common Facilities may be provided by Lessor, subject, however, to compliance with all rules and regulations as are prescribed from time to time by Lessor. Lessor shall operate and maintain the Common Facilities in the manner Lessor may determine to be appropriate. Lessor shall at all times during the Term have exclusive control of the Common Facilities, and may restrain any use or occupancy, except as authorized by lessor's rules and regulations. Lessee shall keep the Common Facilities clear of any obstruction or unauthorized use related to Lessee's operations. Nothing in this Leas shall be deemed to impose liability upon Lessor for any damage to or loss of the property of, or for any injury to, Lessee, its invitees or employees. Lessor may temporarily close any portion of the Common Facilities for repairs or alterations, to prevent a public dedication or the accrual of prescriptive rights, or for any other reason deemed sufficient by Lessor. Under no circumstances shall the right herein granted to use the Common Facilities be deemed to include the right to store any property, temporarily or permanently, in the Common Facilities. Any such storage shall be permitted only by the prior written consent of Lessor or Lessor's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

6.03 Parking: Subject to Lessor's right to adopt reasonable, nondiscriminatory modifications and additions to the regulations by written notice to Lessee, Lessee shall have the parking rights set forth as follows:

a. Lessor agrees to maintain, or cause to be maintained, an automobile parking area ("Parking Area") for the benefit and use of the visitors and patrons and employees of Lessee, and other tenants and occupants of the Center. The Parking Area shall include the automobile parking stalls, driveways, entrances, exits, sidewalks and attendant pedestrian passageways and other areas designated for parking. Lessor shall have the right and privilege of determining the nature and extent of the Parking Area, and of making such changes to the Parking Area from time to time which in its opinion are desirable and for the best interests of all persons using the Parking Area. Lessor shall keep the Parking Area in a neat, clean and orderly condition, properly lighted and landscaped, and shall repair any damage to

its facilities. Nothing contained in this Lease shall be deemed to create liability upon Lessor for any damage to motor vehicles of visitors or employees, unless ultimately determined to be caused by the sole negligence or willful misconduct of Lessor, its agents, servants and employees. Unless otherwise instructed by lessor, every user of the Parking Area shall park and lock his or her own motor vehicle. Lessor shall also have the right to establish, and from time to time amend, and to enforce against all users of the Parking Area all reasonable rules and regulations as Lessor may deem necessary and advisable for the proper and efficient operation and maintenance of the Parking Area.

b. Persons using the Parking Area shall observe all directional signs and arrows and any posted speed limits. All vehicles shall be parked entirely within painted stalls, and no vehicles shall be parked in areas which are posted or marked as "no parking" or on, or in ramps, driveways and aisles. Only one (1) vehicle may be parked in a parking space. In no event shall Lessee interfere with the use and enjoyment of the Parking Area by other tenants of the Building or buildings within the Center or their employees or invitees.

c. Parking areas shall be used only for parking vehicles. Washing, waxing, cleaning or servicing of vehicles, or the storage of vehicles for twenty-four (24) hour periods, in the Parking Area (other than emergency services) by any user of the Parking Area or his or her agents or employees is prohibited unless otherwise authorized by Lessor. Lessee shall have no right to install any fixtures, equipment or personal property (other than vehicles) in the Parking Area, nor shall Lessee make any alteration to the Parking Area.

6.04 Changes and Additions by Lessor: Lessor reserves the right to make alterations or additions to the Building(s) or the Center, or to the attendant fixtures, equipment and Common Facilities. Lessor may at any time relocate or remove any of the various buildings, parking areas and other common facilities, and may add buildings and areas to the Center from time to time. No change shall entitle Lessee to any abatement of rent or other claim against Lessor, provided that the change does not deprive Lessee of reasonable access to or use of the Premises.

ARTICLE 7 MAINTENANCE, REPAIRS AND ALTERATIONS

7.1 Lessor's Obligations:

a. Subject to the provisions of Section 4.02 (Operating Expenses), Article 5 (Uses), Article 6 (Building Parking), Section 7.02 (Lessee's Obligations) and Article 12 (Damage or Destruction), and except for damage caused by any negligent or intentional act or omission of Lessee, Lessee's employees, suppliers, shippers, customers or invitees, in which event Lessee shall, at its sole cost and expense, repair the damage further utilizing a contractor of Lessor's choice. Lessor at Lessor's expense, subject to reimbursement pursuant to Section 4.02, shall keep in good condition and repair the foundations, exterior walls, structural condition of interior bearing walls, and roof of the Premises, and utility installations of the Building and all parts thereof, as well as providing the services for which there is an Operating Expense pursuant to Section 4.02. Lessor shall not, however, be obligated to paint the interior walls, nor shall Lessor be required to maintain, repair or replace windows, doors or plate glass of the Premises. Lessor shall have no obligation to make repairs under this Section 7.01 until a reasonable time after receipt of written notice from Lessee of the need for such repairs. Lessor shall not be liable for damages or loss of any kind or nature by reason of Lessor's failure to furnish any such services when such failure is caused by accident, breakage, repairs, strikes, lockout or any other labor disturbances or disputes of any character, or by any other cause beyond the reasonable control of Lessor.

b. Lessor shall warrant Lessee's heating-ventilation-air conditioning (HVAC), plumbing and electrical throughout the first lease year of the Initial Term only. In addition, Lessor will successively perform quarterly air filter changes and annual evaporative cooler winterizing, if applicable; however, Lessor shall not be responsible for any other item pertaining to the HVAC, plumbing or electrical following said warranty during the Initial Term, including without limitation, repair or replacement. Lessor's one year warranty shall immediately expire if Lessee, its employees, invitees or agents modify or cause damage to same and Lessee shall then assume all responsibility for same, including without limitation, repair/replacement, etc. After Lessor's one year HVAC warranty, Lessor reserves the right to continue changing the HVAC filters on a quarterly basis and further winterize the warehouse evaporative coolers on an annual basis.

7.02 Lessee's Obligations:

a. Subject to the provisions of Article 5 (Use), Section 7.05 (Lessor's Obligations) and Article 12 (Damage or Destruction), Lessee, at Lessee's expense, shall keep in good order, condition and repair the Premises and every part thereof (whether or not the damaged portion of the Premises or the means of repairing same are reasonably or readily accessible to Lessee)

including, without limiting the generality of the foregoing, all plumbing, heating, ventilating and air conditioning systems, electrical and lighting facilities and equipment within the Premises, fixtures, interior walls and interior surfaces of exterior walls, ceilings, windows (including glass and casings), doors (including casings), plate glass and skylights located within the Premises.

b. If Lessee fails to perform Lessee's obligations under this Section 7.02 or under any other paragraph of this Lease, Lessor may enter upon the Premises after ten (10) days' prior written notice to Lessee (except in the case of emergency, in which event, no notice shall be required), perform such obligations on Lessee's behalf and put the Premises in good order, condition and repair, and the cost thereof together with interest thereon at fifteen percent (15%) per annum shall be due and payable as additional rent to Lessor together with Lessee's next Base Rent installment.

7.03 Alterations and Additions:

a. Lessee shall not, without Lessor's prior written consent which shall not be unreasonably withheld, make any alterations, improvements, additions or Utility Installments in, on or about the Premises, except for nonstructural alterations to the Premises not exceeding $5,000 in cumulative costs during the Initial Term. In any event, whether or not in excess of $5,000 in cumulative cost, Lessee shall make no change or alteration to the exterior of the Premises, without Lessor's prior written consent. As used in this Lease, the term "Utility Installations" shall mean carpeting, window coverings, air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing and fencing. Lessor may require that Lessee remove any and all of said alterations, improvements, additions or Utility Installations at the expiration of the Initial Term, as it may have been extended, and restore the Premises to its prior condition. Lessor may require Lessee to provide Lessor, at Lessee's sole cost and expense, a lien and completion bond in an amount equal to one and one-half times the estimated cost of such improvements, to insure Lessor against any liability for mechanic's and materialman's liens and to insure completion of the work. Should Lessee make any alterations, improvements, additions or Utility Installations without the prior approval of Lessor, Lessor may, at any time during the term of this Lease, require that Lessee remove any or all of same.

b. Any alterations, improvements, additions or Utility Installations in or about the Premises that Lessee shall desire to make and which requires the consent of Lessor, shall be presented to Lessor in written form with proposed detailed plans.

If Lessor shall give its consent, the consent shall be deemed conditioned upon Lessee acquiring a permit to perform the work from appropriate governmental agencies, the furnishing of a copy thereof to Lessor prior to the commencement of the work and the compliance by Lessee of all conditions of said permit in a prompt and expeditious manner.

c. Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use in the Premises, which claims are, or may be secured by, any mechanic's or

materialman's lien against the Premises, or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in the Premises, and Lessor shall have the right to post notices of non-responsibility in or on the Premises or the Building as provided by law. If Lessee shall in good faith contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense, defend itself and Lessor against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon, before the enforcement thereof, against Lessor or the Premises upon the condition that if Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to such contested lien claim or demand indemnifying Lessor against liability for the same and holding the Premises free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's attorneys fees and costs in participating in such action if Lessor shall decide it is to Lessor's best interest to do so.

d. All alterations, improvements, additions and Utility Installations (whether or not such Utility Installations constitute trade fixtures of Lessee), which may be on the Premises, shall be the property of Lessor and shall remain upon and be surrendered with the Premises at the expiration of the Initial Term, as it may have been extended, unless Lessor requires their removal pursuant to subparagraph "a" above. Notwithstanding the provisions of this paragraph, Lessee's machinery and equipment, other than that which is affixed to the Premises, and other than Utility Installations, shall remain the property of Lessee and may be removed by Lessee subject to the provisions of Section 7.02.

7.04 Utility Additions: Lessor reserves the right to install new or additional utility facilities throughout the Building for the benefit of Lessor or Lessee, including, but not limited to, such

utilities as plumbing, electrical systems, security systems, communication systems and fire protection and detection systems, so long as such installations do not unreasonably interfere with Lessee's use of the Premises.

7.05 Entry and Inspection: Lessor shall at reasonable times have the right to enter the Premises to inspect them, to supply services in accordance with this Lease, to protect the interests of Lessor in the Premises, to submit the Premises to prospective or actual purchasers or encumbrance holders (or, during the last one hundred and eighty (180) days of the Term, or when an uncured tenant default exists, to prospective tenants), to alter, improve or repair the Premises, or as otherwise permitted in this Lease, all without being deemed to have caused an eviction of Lessee and without abatement of rent except as provided elsewhere in this Lease. If Lessee vacates the Premises, Lessor may enter the Premises and alter them without abatement of rent and without liability to Lessee. Lessor shall have the right to use any and all means which Lessor may deem proper to open the doors in an emergency in order to obtain entry to the Premises, and any entry to the Premises obtained by Lessor shall not under any circumstances be deemed to be a forcible or unlawful entry into, or a detainer of the Premises, or any eviction of Lessee from the Premises.

ARTICLE 8 TAXES AND ASSESSMENTS ON LESSEE'S PROPERTY

8.01 Taxes of Lessee's Property: Lessee shall be liable for and shall pay, at least ten (10) days before delinquency, all taxes and assessments levied against all personal property of Lessee located in the Premises. When possible, Lessee shall cause its personal property to be assessed and billed separately from the real property of which the Premises form a part. If any taxes on Lessee's personal property are levied against Lessor or Lessor's property is increased by the inclusion of a value placed upon the personal property of Lessee, and if Lessor pays the taxes based upon the increased assessment, Lessee shall pay to Lessor the taxes so levied against Lessor or the proportion of the taxes resulting from the increase in the assessment. In calculating what portion of any tax bill which is assessed against Lessor separately, or Lessor and Lessee jointly, is attributable to Lessee's fixtures and personal property, Lessor's reasonable determination shall be conclusive.

ARTICLE 9 UTILITIES

Lessee shall fully and promptly pay for all gas and electric (where applicable), water, telephone and trash removal for the building and other utilities of every kind furnished to the leased Premises, together with any personal property taxes thereon, and all other costs and expenses of every kind

whatsoever, of, or in connection with the use, operation and maintenance of the leased Premises and all activities conducted thereon, and Lessor shall have no responsibility of any kind for any thereof. Lessee shall put all such utilities in its own name and not that of Lessor.

ARTICLE 10 ASSIGNMENT AND SUBLETTING

10.01 Rights of Parties:

a. No assignment (whether voluntary, involuntary or by operation of law), and no subletting shall be valid or effective without Lessor's prior written consent; such consent will not be unreasonably withheld. Further, no assignment of subletting shall relieve Lessee from its primary and ultimate obligations, responsibilities or duties under the Lease.

b. Lessee may assign this Lease or sublet the Premises to an assignee or subtenant which controls, is controlled by or is under common control with Lessee or to any corporation resulting from the merger of or consolidation with Lessee ("Lessee's Affiliate"). In such case, any Lessee's Affiliate shall assume in writing all of Lessee's obligations under this Lease. Lessee shall in no event increase Lessee's Affiliate's rent from the rate currently being charged Lessee under this Lease.

c. If Lessee, or any guarantor of Lessee ("Lessee's Guarantor") is a corporation, or is an unincorporated association or partnership, the transfer of any stock or interest

which in one or more transfer, in the aggregate, constitutes a transfer of more than 51% of the voting stock of the Lessee or Lessee's Guarantor shall be deemed an assignment within the meaning and provisions of this Article. In addition, any change in the status of the entity, such as, but not limited to, the withdrawal of a general partner, shall be deemed an assignment within the meaning of this Article.

d. Lessee shall reimburse Lessor for Lessor's reasonable costs and attorney's fees incurred in connection with the processing and documentation of any requested transfer. In addition, Lessee shall pay a transfer fee of $500.00 in the event the transfer is approved.

10.02 Effect of Transfer: No subletting or assignment, even with the consent of Lessor, shall relieve Lessee of its obligation to pay rent and to perform all its other obligations

under this Lease. Moreover, Lessee shall indemnify and hold Lessor harmless, as provided in Section 11.03, for any acts or omission by Lessee's Affiliate. Each transferee, other than Lessor, shall assume all obligations of Lessee under this Lease and shall be liable jointly and severally with Lessee for the payment of all rent, and for the due performance of all of Lessee's obligations under this Lease. No transfer shall be binding upon Lessor unless any document memorializing the transfer is delivered to Lessor and, if the transfer is an assignment or sublease, both the assignee/subtenant and Lessee deliver to Lessor an executed document which contains (i) a covenant of assumption by the assignee/subtenant, and (ii) an indemnification agreement by Lessee, both satisfactory in substance and form to Lessor and consistent with the requirements of this Article; provided that the failure of the assignee/subtenant or Lessee to execute the instrument of assumption shall not release either from any obligation under this Lease. The acceptance by Lessor of any payment due under this Lease from any other person shall not be deemed to be a waiver by Lessor of any provision of this Lease or to be a consent to any transfer. Consent by Lessor to one or more transfers shall not operate as a waiver or estoppel to the future enforcement by Lessor of its rights under this Lease.

ARTICLE 11 INSURANCE AND INDEMNITY

11.01 Liability Insurance - Lessee: Lessee shall, at Lessee's expense, obtain and keep in force during the term of this Lease, a policy of Combined Single Limit Bodily Injury and Property Damage insurance insuring Lessee and Lessor against any liability arising out of the use, occupancy or maintenance of the Premises. Such insurance shall be in an amount not less than $1,000,000.00 per occurrence. The policy shall insure performance by Lessee of the indemnity provisions of this Article. The limits of said insurance shall not, however, limit the liability of Lessee hereunder.

11.02 Lessor's Insurance: (Building insurance to be billed separately by Lessor to Lessee). Lessor may, at its election, provide any or all of the following types of insurance, with or without deductible and in amounts and coverages as may be determined by Lessor in its discretion: "all risk" property insurance, subject to standard exclusions, covering the Premises, and such other risks as Lessor or its mortgagees may from time to time deem appropriate, and comprehensive public liability coverage. Lessor shall not be required to carry insurance of any kind on Lessee's property, including leasehold improvements, trade fixtures, furnishings, equipment, plate glass, signs and all other items of personal property, and shall not be obligated to repair or replace the property should damage occur. All proceeds of insurance maintained by Lessor upon the Premises

shall be the property of Lessor, whether or not Lessor is obligated to, or elects, to make any repairs. In the event there is a deductible clause in any standard form policy insuring the Premises against fire, extended coverage and other property insurance losses, then the amount deducted form the coverage pursuant to such deductible clause shall be borne by Lessee. Any insurance containing a deductible clause of $3,000 (per occurrence) for fire, extended coverage and other property losses, shall not, by virtue of such deductible clause, be regarded as unsatisfactory. In the event Lessor assumes supervision and control of the repair or restoration activity for the improvements damaged or destroyed by reason of occurrences embraced by the aforesaid standard form insurance policy, Lessor shall provide Lessee with written notice of the actual cost of repair and restoration, up to the full deductible amount, and Lessee shall pay to Lessor such sum within thirty (30) days thereafter. Failure to pay such sum shall constitute a breach of the Lease and subject Lessee to any rights or remedies of Lessor as provided in the Lease.

11.03 Waiver of Subrogation: Lessor and Lessee hereby waive any rights each may have against the other on account of any loss or damage occasioned to Lessor or Lessee, as the case may be, or to the Premises or its contents, and which may arise out of or incident to the perils insured against under Section 11.02, which perils occur in, on or about the Premises, whether due to the negligence of Lessor or Lessee or their agents, contractors and/or invitees. The parties shall obtain from their respective insurance companies insuring the property a waiver of any right of subrogation which said insurance companies may have against Lessor or Lessee as the case may be.

11.04 Policies: All insurance to be maintained by Lessee under this Lease shall be procured from an insurance company or companies rated "A" or better in "Best's Insurance Guide" and authorized to do business in the State of Nevada, and Lessee shall deliver to Lessor, prior to taking occupancy of the Premises, copies of insurance binders required to be maintained by Lessee hereunder, together with evidence of the payment of the premiums thereof. Insurance binders shall name Lessor and all members thereof as "Additional Insured." The binders evidencing such insurance shall provide that they shall not be canceled or modified except after thirty (30) days prior written notice of intention to modify or cancel has been given to Lessor and any encumbrancer named as beneficiary thereunder. At lease ninety (90) days prior to the expiration date of any policy to be maintained by Lessee hereunder, Lessee shall deliver to Lessor a renewal policy or "binder" therefor.

11.05 Lessee's Indemnity: To the fullest extent permitted by law, Lessee shall defend, indemnify and hold harmless Lessor, its

agents and any and all affiliates of Lessor, including, without limitation, its members, co-venturers, corporations or other entities controlling, controlled by or under common control with Lessor, from and against any

and all claims or liabilities arising either before or after the Commencement Date from Lessee's use or occupancy of the Premises, the Building, or from the conduct of its business, or from any activity, work or thing done, permitted or suffered by Lessee or its agents, employees, invitees or licensees in or about the Premises, the Building, or from any default in the performance of any obligation on Lessee's part to be performed under this Lease, or from any act or negligence of Lessee or its agents, employees, visitors, patrons, guests, invitees or licensees. In case Lessor, its agent or affiliates are made a party to any litigation commenced by or against Lessee (relating to Lessee's use and occupancy of Premises), then Lessee shall protect and hold Lessor harmless and shall pay all costs, expenses and attorneys' fees incurred or paid by Lessor in connection with the litigation. Lessor may, at its option, require Lessee to assume Lessor's defense in any action covered by this Section through counsel satisfactory to Lessor.

11.06 Lessor's Non-Liability: Lessor shall not be liable to Lessee, its employees, agents and invitees, and Lessee hereby waives all claims against Lessor for loss of or damage to any property, or any injury to any person, or loss or interruption of business or income, resulting from, but not limited to, fire, explosion, falling plaster, steam, gas, electricity, water or rain which may leak or flow from or into any part of the Premises or from the breakage, leakage, obstruction or other defects of the pipes, sprinklers, wires, appliances, plumbing, air conditioning, electrical works or other fixtures in the Building, whether the damage or injury results from conditions arising in the Premises or in other portions of the Building, unless Lessor, its agents, invitees and/or employees cause such loss, damage or injury through their own negligence or willful misconduct. Neither Lessor nor its agents shall be liable for interference with light or other similar intangible interests. Lessee shall immediately notify Lessor in case of fire or accident in the Premises, the Building and of defects in any improvements or equipment.

ARTICLE 12 DAMAGE OR DESTRUCTION

12.01 Restoration:

a. If the Building of which the Premises are a part is damaged, Lessor shall repair that damage as soon as reasonably possible, at its expense, unless: (i) Lessor reasonably determines that the cost of repair would exceed ten percent (10%) of the full replacement cost of the Building ("Replacement Cost") and the damage is not covered by Lessor's fire and extended coverage insurance (or by normal extended coverage policy should Lessor fail to carry that insurance); or (ii) Lessor reasonably determines that the cost of repair would exceed twenty-five percent (25%) of the Replacement Cost; or (iii) Lessor reasonably determines that the cost of repair would exceed ten percent (10%) of the Replacement Cost and the damage occurs during the final twelve (12) months of the Initial Term, as it may have been extended. Should Lessor elect not to repair the damage for one of the preceding reasons, Lessor shall so notify Lessee in writing within sixty (60) days after the damage occurs and this Lease shall terminate as of the date of that notice.

b. Unless Lessor elects to terminate this Lease in accordance with subsection "a" above, this Lease shall continue in effect for the remainder of the Initial Term, as it may have been extended; provided that if the damage is so extensive as to reasonably prevent Lessee's substantial use and enjoyment of the Premises for more than six (6) months, then Lessee may elect to terminate this Lease by written notice to Lessor within the sixty (60) day period stated in subsection "a".

c. Commencing on the date of any damage to the Building, and ending on the date the damage is repaired or this Lease is terminated, whichever occurs first, the rental to be paid under this Lease shall be abated in the same proportion that the floor area of the Premises that is rendered unusable by the damage from time to time bears to the total floor area of the Premises.

d. Notwithstanding the provisions of subsections "a", "b" and "c" of this Section, the cost of any repairs shall be borne by Lessee, and Lessee shall not be entitled to rental abatement or termination rights if the damage is due to the fault or neglect of Lessee or its employees, subtenants, invitees or representatives. In addition, the provisions of this Section shall not be deemed to require Lessor to repair any improvements or fixtures that Lessee is obligated to repair or insure pursuant to any other provisions of this Lease. Lessee will have liability for repairs unless Lessor, its agents, invitees and/or employees cause such damage through their own negligence or willful misconduct or by such act of God.

ARTICLE 13 EMINENT DOMAIN

13.01 Total or Partial Taking: If all or a material portion of the Premises is taken by any lawful authority by exercise of

the right of eminent domain, or sold to prevent a taking, either Lessee or Lessor may terminate this Lease effective as of the date possession is required to be surrendered to the authority. In the event title to a portion of the Building, other than the Premises, is taken or sold in lieu of taking, and if Lessor elects to restore the Building in such a way as to alter the Premises materially, Lessor may terminate this Lease, by written notice to Lessee, effective on the date of vesting of title. In the event neither party has elected to terminate this Leas as provided above, then Lessor shall promptly, after receipt of a sufficient condemnation award, proceed to restore the Premises to substantially their condition prior to the taking, and a proportionate allowance shall be made to Lessee for the rent corresponding to the time during which, and to the part of the Premises of which, Lessee is deprived on account of the taking and restoration. In the event of a taking, Lessor shall be entitled to the entire amount of the condemnation award without deduction for any estate or interest of Lessee; provided that nothing in this Section shall be deemed to give Lessor any interest in, or prevent Lessee from seeking any award against the taking authority for, the taking of personal property and fixtures belonging to Lessee or for relocation recoverable from the taking authority.

13.02 Temporary Taking: No temporary taking of the Premises shall terminate this Lease or give Lessee any right to abatement of rent, and any award specifically attributable to a temporary taking of the Premises shall belong entirely

to Lessee. A temporary taking shall be deemed to be a taking of the use or occupancy of the Premises for a period not to exceed ninety (90) days.

13.03 Taking of Parking Area: In the event there shall be a taking of the Parking Area such that Lessor can no longer provide sufficient parking to comply with this lease, Lessor may substitute reasonably equivalent parking in a location reasonably close to the Building; provided that if Lessor fails to make that substitution within ninety (90) days following the taking and if the taking materially impairs Lessee's use and enjoyment of the Premise, Lessee may, at its option, terminate this Lease by written notice to Lessor, and such termination shall be effective thirty (30) days after written notice of termination is given by Lessee. If this Lease is not so terminated by Lessee within thirty (30) days after this taking, there shall be no abatement of rent and this Lease shall continue in effect.

ARTICLE 14 SUBORDINATION; ESTOPPEL CERTIFICATE

14.01 Suborination:

a. This Lease shall be subordinate to all ground or underlying leases, mortgages, deeds of trust and conditions, covenants and restrictions, reciprocal easements and rights of way, if any, which may hereafter affect the Premises, and to all renewals, modifications, consolidations, replacements and extensions thereof; provided, that so long as Lessee is not in default under this Lease, this Lease shall not be terminated or Lessee's quite enjoyment of the Premises disturbed in the event of termination of any such ground or underlying lease, or the foreclosure of any such mortgage or deed of trust, to which Lessee has subordinated this Lease pursuant to this Section. In the event of a termination or foreclosure, Lessee shall become a tenant of and attorney to the successor-in-interest to Lessor upon the same terms and conditions as are contained in this Lease, and shall execute any instrument reasonably required by Lessor's successor for that purpose. Lessee shall also, upon written request of Lessor, execute and deliver all instruments as may be required from time to time to subordinate the rights of Lessee under this Lease to any ground or underlying lease or to the lien of any mortgage or deed of trust, or if requested by Lessor, to subordinate, in whole or in part, any ground or underlying lease or the lien of any mortgage or deed of trust to this Lease.

b. Failure of Lessee to execute any statements or instruments necessary or desirable to effectuate the provisions of this Article within ten (10) days after written request by Lessor, shall constitute a default under this Lease. In the event, Lessor, in addition to any other rights or remedies it might have, shall have the right, by written notice to Lessee, to terminate this Lease as of a date not less than twenty (20) days after the date of Lessor's notice. Lessor's election to terminate shall not relieve Lessee of any liability for its default.

14.02 Estoppel Certificate:

a. Lessee shall, at any time upon not less than twenty (20) days' prior written notice from Lessor, execute, acknowledge and deliver to Lessor, in any form that Lessor may reasonably require, a statement, in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of the modification and certifying that this Lease is unmodified and in full force and effect) and the dates to which the rental, additional rent and other charges have been paid in advance, if any, and (ii) acknowledging that, to Lessee's knowledge, there are no uncured defaults on the part of Lessor,

or specifying each default if any are claimed, and (iii) setting forth all further information that Lessor may reasonably require. Lessee's statement may be relied upon by any prospective purchaser or encumbrancer of all or any portion of the Building.

b. Lessee's failure to deliver any estoppel statement within the provided time shall be conclusive upon Lessee that (i) this Lease is in full force and effect without modification except as may be represented by Lessor, (ii) there are no uncured defaults in Lessor's performance, and (iii) not more than one month's rental has been paid in advance.

ARTICLE 15 DEFAULTS AND REMEDIES

15.01 Lessee's Defaults: In addition to any other event of default set forth in this Lease, the occurrence of any one or more of the following events shall constitute a default by Lessee:

a. The abandonment of the Premises by Lessee. Abandonment is defined to include, but not limited to, any absence by Lessee from the Premises for ten (10) days or longer.

b. The failure by Lessee to make any payment of rent or additional rent required to be made by Lessee, as and when due, where the failure continues for a period of ten (10) days after the date such payment was due. For purposes of these default and remedies provisions, the term "additional rent" shall be deemed to include all amounts of any type whatsoever, other than Base Rent, to be paid by Lessee pursuant to the terms of this Lease.

c. Assignment, sublease, encumbrance or other transfer of the Lease by Lessee, either voluntarily or by operation of law, whether by judgment, execution transfer by intestacy or testacy, or other means, without the prior written consent of Lessor.

d. The discovery by Lessor that any financial statement provided by Lessee, or by any affiliate, successor or guarantor of Lessee was materially false or misleading.

e. The failure or inability by Lessee to observe or perform any of the express or implied covenants or provisions of this Lease to be observed or performed by Lessee, other than as specified in any other subsection of this

Section, where the failure continues for a period of thirty (30) days after written notice from Lessor to Lessee. However, if the nature of the failure is such that more than thirty (30) days are

reasonably required for its cure, then Lessee shall not be deemed to be in default if Lessee commences the cure within thirty (30) days and thereafter diligently pursues the cure to completion in a time period not to exceed thirty (30) days.

f. (i) The making by Lessee of any general assignment for the benefit of creditors; (ii) the filing by or against Lessee of a petition to have Lessee adjudged a Chapter 7 debtor under the Bankruptcy Code or to have debts discharged or a petition for reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, if possession is not restored to Lessee within thirty (30) days; (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease where the seizure is not discharged within thirty (30) days; or (v) Lessee's convening of a meeting of its creditors for the purpose of effecting a moratorium upon or composition of its debts. Lessor shall not be deemed to have knowledge of any event described in this subsection unless notification in writing is received by Lessor, nor shall there be any presumption attributable to Lessor of Lessee's insolvency. In the event that any provision of this subsection is contrary to applicable law, the provision shall be of no force or effect.

15.02 Lessor's Remedies: On the occurrence of any default by Lessee, Lessor may, at any time thereafter, with or without notice or demand and without limiting Lessor in the exercise of any right or remedy which Lessor may have:

a. Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event, Lessor shall be entitled to recover from Lessee all damages incurred by Lessor by reason of Lessee's default, including (i) the worth at the time of the award of the unpaid Base Rent, additional rent and other charges which had been earned at the time of the termination; (ii) the worth at the time of the award of the amount by which the unpaid Base Rent, additional rent and other charges which would have been earned after termination until the time of the award exceeds the amount of such rental loss that Lessor proves could not have been reasonably avoided; (iii) the worth at the time of the award of the amount by which the unpaid Base Rent, additional rent and other charges which would have been paid for by the balance of the term after the time of award exceeds the amount of such rental loss that Lessor proves could not have been reasonably avoided; and (iv) any other amount necessary to compensate Lessor

for all the detriment proximately caused by Lessee's failure to perform its obligations under the Lease or which in the ordinary course of things would be likely to result therefrom, including, but not limited to, any costs or expenses incurred by Lessor in maintaining or preserving the Premises after such default, the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation or alteration of the Premises, Lessor's reasonable attorneys' fees incurred in connection therewith, and any real estate commission paid or payable. As used in subparts "(i)" and "(ii)" above, the "worth at the time of the award" is computed by allowing interest on unpaid amounts at the rate of fifteen percent (15%) per annum, or such lesser amount as may be then the maximum lawful rate. As used in subpart "(iii)" above, the "worth at the time of the award" is computing by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of the award, plus one percent (1%). If Lessee shall have abandoned the Premises, Lessor shall have the option of (i) retaking possession of the Premises and recovering from Lessee the amount specified in this Section 15.02a, or (ii) proceeding under Section 15.02b.

b. Maintain Lessee's right to possession, in which case this Lease shall continue in effect whether or not Lessee shall have abandoned the Premises. In such event, Lessor shall be entitled to enforce all of Lessor's rights and remedies under this Lease, including the right to recover the rent as it becomes due hereunder.

c. Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state in which the Property is located.

15.03 Repayment of "Free" Rent: If this Lease provides for a postponement of any monthly rental payments, a period of "free" rent, or other rent concession, such postponed rent or "free" rent is called the "Abated Rent". Lessee shall be credited with having paid all of the Abated Rent on the expiration of the Lease Term only if Lessee has fully, faithfully and punctually performed all of Lessee's obligations hereunder, including the payment of all rent (other than Abated Rent) and all other monetary obligations and the surrender of the property in the physical condition required by this Lease. Lessee acknowledges that its right to receive credit for the Abated Rent is absolutely conditioned upon Lessee's full, faithful and punctual performance of its obligations under this Lease. If Lessee defaults and does not cure within any applicable grace period, the Abate Rent shall immediately become due and payable in full and this Lease shall be enforced as if there were no such rent abatement or other rent concession. In such case, Abated Rent shall be calculated based on the full initial rent payable under

this Lease.

15.04 Cumulative Remedies: Lessor's exercise of any right or remedy shall not prevent it from exercising any other right or remedy.

15.05 Late Payments: Any rent due under this Lease that is not paid to Lessor within ten (10) days of the date when due shall bear interest fifteen percent (15%) per annum from the date due until fully paid. The payment of interest shall not cure any default by Lessee under this Lease. In addition, Lessee acknowledges that the late payment by Lessee to Lessor, of rent, will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult and impractical to ascertain. Those costs may include, but are not limited to, administrative, processing and accounting charges, and late charges which may be imposed on Lessor by the terms of any ground lease, mortgage or trust deed covering the Premises. Accordingly, if any rent due from Lessee shall not

be received by Lessor or Lessor's designee within ten (10) days after the date due, then Lessee shall pay to Lessor, in addition to the interest provided above, a late charge in the amount of ten percent (10%) of each delinquent payment. Acceptance of a late charge by Lessor shall not constitute a waiver of Lessee's default with respect to the overdue amount, nor shall it prevent Lessor from exercising any of its other rights and remedies.

15.06 Right of Lessor to Perform: All covenants and agreements to be performed by Lessee under this Lease shall be performed at Lessee's sole cost and expense and without any abatement of rent or right of set off. If Lessee fails to pay any sum of money, other than rent, or fails to perform any other act on its part to be performed under this Lease, and the failure continues beyond any applicable grace period set forth in Section 15.01, then in addition to any other available remedies, Lessor may, at its election, make the payment or perform the other act on Lessee's part. Lessor's election to make the payment or perform the act on Lessee's part shall not give rise to any responsibility of Lessor to continue making the same or similar payments or performing the same or similar acts. Lessee shall, promptly upon demand by Lessor, reimburse Lessor for all sums paid by Lessor and all necessary incidental costs, together with interest at the maximum rate permitted by law from the date of the payment by Lessor. Lessor shall have the same rights and remedies if Lessee fails to pay those amounts as Lessor would have in the event of a default by Lessee in the payment of rent.

15.07 Default by Lessor: Lessor shall not be deemed to be in default in the performance of any obligation under this Lease unless, and until, it has failed to perform the obligation within thirty (30) days after written notice by Lessee to Lessor specifying in reasonable detail the nature and extent of the failure; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days are required for its performance, then Lessor shall not be deemed to be in default if it commences performance within the thirty (30) day period and thereafter diligently pursues the cure to completion.

15.08 Expenses and Legal Fees: Lessee shall reimburse Lessor upon demand, for any costs or expenses incurred by Lessor in connection with any breach or default of Lessee under this Lease, whether or not suit is commenced or judgment entered. Such costs shall include legal fees and costs incurred for the negotiation of a settlement, enforcement of rights or otherwise. Furthermore, if any action for breach of, or to enforce, the provisions of this Lease is commenced, the court in such action shall award to the party in whose favor a judgment is entered, a reasonable sum as attorneys' fees and costs. Such attorneys' fees and costs shall be paid by the losing party in such action. Lessee shall also indemnify Lessor against and hold lessor harmless from all costs, expenses, demands and liability incurred by Lessor if Lessor becomes or is made a party to any claim or action (a) instituted by Lessee, or by any third party if due to negligence by Lessee, or by or against any person holding any interest under or using the Premises by license of or agreement with Lessee; (b) for foreclosure for any lien for labor or material furnished to or for Lessee or such other person; (c) otherwise arising out of or resulting from any negligent act by Lessee or such other person; or (d) necessary to protect Lessor's interest under this Lease in a bankruptcy proceeding, or other proceeding under Title 11 of the United States Code, as amended. Lessee shall defend Lessor against any such claim or action at Lessee's expense with counsel reasonably acceptable to lessor or, at Lessee's election, Lessee shall reimburse Lessor for any legal fees or costs incurred by Lessor in any such claim or action.

ARTICLE 16 END OF TERM

16.01 Holding Over: This Lease shall terminate without further notice upon the expiration of the Term (herein "Expiration Date"), and any holding over by Lessee after the Expiration Date shall not constitute a renewal or extension of this Lease, or give Lessee any rights under this Lease, except when in writing, signed by both parties. If Lessee holds over for any period after the Expiration (or earlier termination) of the Term, Lessor may, at its option, treat Lessee as a tenant at sufferance only, commencing on the first (1st) day following the

termination of this Lease and subject to all of the terms of this Lease, except that the monthly rental shall be one hundred fifty percent (150%) of the greater of (a) the total monthly rental for the month immediately preceding the date of termination, or (b) the then currently scheduled rent for comparable space in the Building. If Lessee fails to surrender the Premises upon the expiration of this Lease despite demand to do so by Lessor, Lessee shall indemnify and hold Lessor harmless from all loss or liability, including, without limitation, any claims made by any succeeding tenant relating to such failure to surrender. Acceptance by Lessor of rent after the termination shall not constitute a consent to a holdover or result in a renewal of this Lease. The foregoing provisions of this Section are in addition to, and do not affect, Lessor's right of re-entry or any other rights of Lessor under this Lease or at law.

16.02 Merger on Termination: The voluntary or other surrender of this Lease by Lessee, or mutual termination of this Lease, shall terminate any or all existing subleases unless Lessor, at its option, elects in writing to treat the surrender or termination as an assignment to it of any or all subleases affecting the Premises.

16.03 Surrender of Premises: Removal of Property: Upon the Expiration Date, or upon any earlier termination of this Lease, Lessee shall quit and surrender possession of the Premises to Lessor in as good order, condition and repair as when received or as hereafter may be improved by Lessor or Lessee, reasonable wear and tear and repairs, which are Lessor's obligation excepted, and shall without expense to Lessor, remove or cause to be removed from the Premises all personal property and debris, except for any items that Lessor may by written authorization allow to remain. Lessee shall repair all damage to the Premises resulting from the removal, which repair shall include the patching and filling of holes and repair of structural damage, provided that Lessor may instead elect to repair any structural damage at Lessee's expense. If Lessee shall fail to comply with the provisions of this Section, Lessor may effect the removal and/or make any repairs, and the cost to Lessor shall be additional rent payable by Lessee upon demand. If requested by Lessor, Lessee shall execute, acknowledge and deliver to Lessor an instrument in writing releasing and quitclaiming to Lessor, all right, title and interest of Lessee in the Premises.

16.04 Termination; Advance Payments: Upon termination of this Lease under Article 12 (Damage or Destruction), Article 13 (Eminent Domain) or any other termination not resulting from

Lessee's default, and after Lessee has vacated the Premises in the manner required by this Lease, and equitable adjustment shall be made concerning advance rent, and any other advance payments made by Lessee or Lessor, and Lessor shall refund the unused portion of the security deposit to Lessee or Lessee's successor.

ARTICLE 17 PAYMENTS AND NOTICES

All sums payable by Lessee to Lessor shall be paid, without deduction or offset, in lawful money of the United States to Lessor at its address set forth in Section 1.08 of the Basic Lease Terms, or at any other place as Lessor may designate in writing. Unless this Lease expressly provides otherwise, as for example in the payment of rent pursuant to Section 4.01, all payments shall be due and payable within five (5) days after demand. All payments requiring proration shall be prorated on the basis of a thirty (30) day month and a three hundred sixty (360) day year. Any notice, election, demand, consent, approval or other communication to be given, or other document to be delivered by either party to the other, may be delivered in person to an officer or duly authorized representative of the other party, or may be deposited in the United States mail, duly registered or certified, postage prepaid, return receipt requested, and addressed to the other party at the address set forth in Section 1.08 of the Basic Lease Terms, or if to Lessee, at that address, or from and after the Commencement Date, at the Premises (whether or not Lessee has departed from, abandoned or vacated the Premises). Either party may, by written notice to the other, served in the manner provided in this Article, designate a different address. If any notice or other document is sent by mail, it shall be deemed served or delivered upon actual receipt or refusal thereof. If more than one Lessee is named under this Lease, service of any notice upon any one of them shall be deemed as service upon all of them.

ARTICLE 18 LIMITATION OF LIABILITY

In consideration of the benefits accruing hereunder, Lessee agrees that in the event of any actual or alleged failure, breach or default of this Lease by Lessor: (i) the sole and exclusive remedy shall be against Lessor and its assets - Lessor's liability shall be limited to its interest in the Center; (ii) no member of Lessor shall be sued or named as a party in any suit or action (except as may be necessary to secure jurisdiction of the partnership); (iii) no service of process shall be made against any member of Lessor (except as may be necessary to secure jurisdiction of the partnership; (iv) no member of Lessor shall be required to answer or otherwise plead to any service of process; (v) no judgment may be taken against any member of Lessor; (vi) any judgment taken against any member of Lessor may be vacated and set aside at any time without hearing; (vii) no

writ of execution will ever be levied against the assets of any member of Lessor; and (viii) these covenants and agreements are enforceable both by Lessor and also by any member of Lessor. Lessee agrees that each of the foregoing provisions shall be applicable to any covenant or agreement either expressly contained in this Lease or imposed by statute or at common law.

ARTICLE 19 BROKER'S COMMISSION

The parties recognize as the broker(s) who negotiated this Lease, the firm(s), if any, whose name(s) is (are) stated Section 1.09 of the Basic Lease Terms, and agree that the party designated in Section 1.09 shall be solely responsible for the payment of brokerage commissions to those broker(s), and that the other party shall have no responsibility for the commissions unless otherwise provided in this Lease. Lessee warrants that it has had no dealings with any other real estate broker or agent in connection with the negotiation of this Lease, and Lessee agrees to indemnify and hold Lessor harmless from any cost, expense or liability (including reasonable attorneys' fees) for any compensation, commissions or charges claimed by any other real estate broker or agent employed or claiming to represent or to have been employed by Lessee in connection with the negotiation of this Lease. The foregoing agreement shall survive the Expiration or earlier termination of this Lease. If Lessee fails to take possession of the Premises or if this Lease otherwise terminates prior to the Expiration Date, Lessor shall be entitled to recover the unamortized portion of any brokerage commission funded by Lessor in addition to any other damages to which Lessor may be entitled.

ARTICLE 20 TRANSFER OF LESSOR'S INTEREST

In the event of any transfer of Lessor's Interest in the Premises, including a so-called sale-leaseback, the transferor shall be automatically relieved of all obligations on the part of Lessor accruing under this Lease from and after the date of the transfer, provided that any funds held by the transferor, in which Lessee has an interest, shall be turned over, subject to that interest, to the transferee, and Lessee is notified of the transfer as required by law. No holder of a mortgage and/or deed of trust to which this Lease is, or may be, subordinate, and no landlord under a so-called sale-leaseback shall be responsible in connection with the security deposit, unless the mortgagee or holder of the deed of trust or the landlord actually receives the security deposit. It is intended that the covenants and obligations contained in this Lease on the part of the Lessor shall, subject to the foregoing, be binding on Lessor, its successors and assigns, only during, and in respect to, their respective successive periods of ownership.

ARTICLE 21 INTERPRETATION

21.01 Gender and Number: Whenever the context of this Lease requires, the words "Lessor" and "Lessee" shall include the plural and well as the singular, and words used in neuter, masculine or feminine genders shall include the others.

21.02 Headings: The captions and headings of the Articles and Sections of this Lease are for convenience only, and are not a part of this Lease and shall have no effect upon its construction or interpretation.

21.03 Joint and Several Liability: If there is more than one Lessee, the obligations imposed upon Lessee shall be joint and several, and the act of, or notice from, or notice or refund to, or the signature of, any one or more of them shall be binding on all of them with respect to the tenancy of this Lease, including, but not limited to, any renewal, extension, termination, or modification of this Lease.

21.04 Successors: Subject to Articles 10 and 20, all rights and liabilities given to or imposed upon Lessor and Lessee shall extend to and bind their respective heirs, executors, administrators, successors and assigns. Nothing contained in this Section is intended, or shall be construed, to grant to any person other than Lessor and Lessee and their successors and assigns any rights or remedies under this Lease.

21.05 Time of Essence: Time is of the essence with respect to the performance of every provision of this Lease, in which time of performance is a factor.

21.06 Severability: If any term or provision of this Lease, (the deletion of which would not adversely affect the receipt of any material benefit by either party or the deletion of which is consented to by the party adversely affected), shall be held invalid or unenforceable to any extent, the remainder of this Lease shall not be affected and each term and provision of this Lease shall be valid and enforceable to the fullest extent permitted by law.

21.07 Entire Agreement: The parties hereto declare and represent that no promise, inducement or agreement not herein expressed has been made to them, that this document embodies and sets forth the entire agreement and understanding between them relating to the subject matter hereof, and that it merges and supersedes all prior discussions, agreements, understandings,

representations, conditions, warranties and covenants between them on said subject matter.

21.08 Covenants and Conditions: All of the provisions of this Lease shall be construed to be conditions as well as covenants as though the words specifically expressing or imparting covenants and conditions were used in each separate provision.

21.09 Counterparts: This Lease may be executed in one or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

21.10 All indemnities set forth in this Lease shall survive the expiration or earlier termination of this Lease.

21.11 Attachments: In addition to all of the exhibits referred to above, attached are the following documents which also constitute a part of this Lease: Utilities Information Form and Center Signage Guidelines.

LESSOR: SPENCER AIRPORT CENTER LLC
By: Its Members
THE GUARDIAN LIFE INSURANCE COMPANY OF AMERICA

By: /s/ Michael Noulas

Michael Noulas, Second Vice President, Real Estate

NEVADA REAL ESTATE GROUP, LLC, a Nevada limited liability company

By: /s/ Bradford H. Miller

Bradford H. Miller, Manager

By: /s/ Lee W. Phelps

Lee W. Phelps, Manager

LESSEE: CASINOVATIONS INCORPORATED

By: /s/ Steven J. Blad

Steven J. Blad, President and Chief Executive

Officer

By: /s/ Jay L. King

Jay L. King, Chief Financial Officer

If Lessee shall be a corporation, then authorized officers must sign on behalf of the corporation. The Lease must be executed by the President or Vice President and the Secretary or Secretary/Treasurer, unless the By-Laws or a Resolution of the Board of Directors shall otherwise provide, in which event, the By-Laws, or a certified copy of the Resolution, as the case may be, must be furnished. Also, the appropriate corporate seal must be affixed.

SECURED PROMISSORY NOTE

$2,351,705.00 (U.S) Las Vegas, Nevada
December 3, 1998

For value received, Casinovations Incorporated, a Washington corporation (together with its successors and assigns, "Borrower"), promises to pay to the order of Steven L. Forte and Cheryl Forte (together with their successors and assigns who become holders of this Note, "Lender"), the principal amount of Two Million Three Hundred Fifty One Thousand Seven Hundred Five and no/100ths Dollars ($2,351,705.00 U.S.).

1. INTEREST.

Borrower also promises to pay to the order of Lender interest on the outstanding principal amount of this Promissory Note ("Note") at a fixed rate of interest equal to six and one-half percent (6 1/2%) percent per annum during the first year this Note remains outstanding, and eight percent (8%) per annum thereafter. Interest hereunder shall be calculated for the actual number of days elapsed on the basis of a 360-day year. This Note shall be amortized over a ten (10) year period from the date hereof.

2. SCHEDULED PAYMENTS.

Throughout the first year this Note is outstanding, and without prior demand therefor, Borrower shall make payments of interest only, payable on the six month and one year anniversary dates of this Note, in the amounts of $76,430.41 and $76,430.41, respectively. Thereafter, Borrower shall make monthly payments without prior demand therefor of principal and interest on the amount outstanding hereunder, on the first day of each month beginning on January 1, 2000, in the amount of $28,532.67 for each such payment and continuing thereafter until December 3, 2003 ("Maturity Date"), at which time all unpaid principal and all accrued and unpaid interest under this Note shall be due and payable in full.

3. SECURITY.

This Note is secured by (i) 848,682 shares of the common stock ("Common Stock") of Borrower, in accordance with the terms of a certain Stock Pledge Agreement dated as of the date hereof between Borrower and Lender and (ii) a first priority security interest in Borrower's patents ("Patents") for the Random Ejection Shuffler and Fantasy 21 table game, in accordance with the terms of a certain Security Agreement dated as of the date hereof between Borrower and Lender ("Security Agreement").

4. EARLY PAYMENT DISCOUNT.

In the event this Note is repaid in full within 180 days of the date hereof, Borrower shall be entitled to a five percent (5%) discount (the "Discount") on the outstanding balance of principal and interest hereunder at the time of repayment; PROVIDED, HOWEVER, that the entitlement to the Discount is non-transferable and is available to Borrower only to the extent that a Change of Control (as hereinafter defined) has not occurred at any time during such 180 day period. For purposes of this Note, "Change of Control" means the acquisition of more than fifty percent (50%) of the voting power of Borrower by a person other than Richard S. Huson or his affiliates.

5. MANDATORY PRINCIPAL REDUCTIONS.

In the event that Borrower completes its offering of 1,500,000 shares of Common Stock (the "Offering") pending as of the date hereof pursuant to that certain Registration Statement Form SB-2/A (Commission File No. 333-31373), Borrower shall, pursuant to the payment schedule set forth in the following two paragraphs, make payments to reduce the outstanding principal of this Note by no more than the amount of Seven Hundred Fifty Thousand and no/100ths Dollars ($750,000.00 U.S.).

(a) Borrower shall make payments to reduce the outstanding principal of this Note as follows: (i) upon the sale of 500,000 shares of Common Stock for cash in the Offering, Borrower shall reduce the outstanding principal of this Note in the amount of Two Hundred Fifty Thousand and no/100ths Dollars ($250,000.00 U.S.) within fifteen (15) calendar days after the receipt by Borrower of the proceeds from such sale; and (ii) upon completion of the Offering and if Borrower sells 1,500,000 shares of Common Stock in the Offering, Borrower shall repay an additional Five Hundred Thousand and no/100ths Dollars ($500,000.00 U.S.) within forty-five (45) calendar days after the close of the Offering.

(b) In the event that Borrower fails to complete the entire Offering, but sells at least 500,000 shares of Common Stock for cash in the Offering, Borrower shall make payments to reduce the outstanding principal of this Note (the "Modified Principal Reduction") as follows:

<TABLE>
<CAPTION>

<S>	<C>	<C>
Modified Principal Reduction =	$750,000.00 x	NUMBER OF SHARES OF COMMON STOCK SOLD FOR CASH / 1,500,000 Shares of Common Stock

</TABLE>

The Modified Principal Reduction shall be paid as follows: (i) an initial principal reduction of up to Two Hundred Fifty Thousand and no/100ths Dollars ($250,000.00 U.S.) shall be paid within fifteen (15) calendar days after the receipt by Borrower of the proceeds from the sale of 500,000 shares of Common Stock for cash (if and only if such sum has not already been paid pursuant to subparagraph 5(a)(i) hereof) and (ii) the balance of the Modified Principal Reduction, if any, shall be repaid on or before forty-five (45) calendar days after the close of the Offering.

6. SUBSEQUENT OFFERING PRINCIPAL REDUCTION.

In the event that Borrower issues and sells shares of Common Stock in a registered public offering subsequent to the Offering (a "Subsequent Offering"), Borrower shall make additional principal reductions of this Note pursuant to the following three alternative principal reduction schedules. FIRST, if Borrower receives net cash proceeds, excluding those proceeds received by selling stockholders, from a Subsequent Offering less than or equal to $3,000,000, Borrower shall reduce the then outstanding principal of this Note by 25%. SECOND, if Borrower receives net cash proceeds, excluding those proceeds received by selling stockholders, from a Subsequent Offering of greater than $3,000,000 and less than or equal to $10,000,000, Borrower shall reduce the then outstanding principal of this Note by 50%. THIRD, if Borrower receives net cash proceeds, excluding those proceeds received by selling stockholders, from a Subsequent Offering of greater than $10,000,000, Borrower shall reduce the then outstanding principal of this Note by 100%; PROVIDED, HOWEVER, that the obligation of Borrower to reduce the outstanding principal of this Note upon the sale of shares in a Subsequent Offering does not arise in the event that Borrower registers shares of Common Stock with the Securities and Exchange Commission on a (i) Registration Statement on Form S-8 or other applicable

form with respect to employee benefit plans, or (ii) Registration Statement on Form S-4 or other applicable form in conjunction with a reincorporation or reorganization of Borrower.

7. MANDATORY SECURITY RELEASE.

Notwithstanding any other provision hereof, Lender shall release its security interest in the Patents in accordance with Section 7 of the Security Agreement upon: (a) the request of the Company for release of the security interest for the purposes of future financing, either debt or equity, for the

Company, and (b) the reduction of fifty percent (50%) of the outstanding principal of the Note by the Company. Upon the occurrence of (a) and (b) of this Section 7, the following actions shall occur in the order as follows: (y) Lender shall release its security interest in the Patents in accordance with Section 7 of the Security Agreement; and (z) the Note shall be amended to reflect the release of the aforementioned security interest and to include a due-on-sale provision whereby the remaining balance of the Note will be due and owing upon a Change of Control.

8. DEFAULT.

The occurrence of any of the following shall constitute a default ("Default") under this Note, the Security Agreement, Stock Pledge Agreement and that certain binding letter of intent dated May 28, 1998 (the "Transaction Documents"):

(a) Failure of Borrower to make any payment under the Transaction Documents and the failure of Borrower, after notice of such failure, to cure such failure within ten (10) calendar days of such notice;

(b) Failure of Borrower to perform any other covenant, agreement or other obligations contained in the Transaction Documents and the failure of Borrower, after notice of such failure, to cure such failure to either: (i) cure such failure within fifteen (15) calendar days (or within thirty (30) calendar days if Borrower is not reasonably able to cure, to be extended at the sole discretion of Lender); or (ii) (A) submit a written plan to Lender within fifteen (15) calendar days of such notice to cure such failure, and (B) pursue such written plan with due diligence, but in no event more than thirty (30) days after notice of such default is given;

(c) Falsity of any warranty, representation, or statement made or furnished to Lender by Borrower in any material respect when made or furnished, unless Lender determines in its sole discretion that the value of all or a substantial portion of the Collateral, or Lender's security interest in such Collateral, is not materially impaired;

(d) Voluntary filing of petition under the Bankruptcy Code of 1978, as amended, or any other similar or successor federal statute relating to bankruptcy, insolvency arrangements or reorganizations, or any state bankruptcy or insolvency statute;

(e) Filing of an involuntary petition under the Bankruptcy Code of 1978, as amended, or any other similar or successor federal statute relating to bankruptcy, insolvency arrangements or reorganizations, or any state bankruptcy or insolvency statute, unless the same is discharged within sixty (60) calendar days;

(f) Adjudication of bankruptcy or dissolution of Borrower;

(g) Appointment of a trustee or receiver for Borrower or Borrower's assets;

(h) Seizure of any portion of Borrower's assets that is not discharged within ten (10) calendar days;

(i) Transfer or encumbrance of all or any portion of Borrower's interest in the Collateral without obtaining the prior consent of Lender or as expressly permitted by the Transaction Documents.

Upon the occurrence of a Default, Lender may declare any or all of Borrower's obligations immediately due and payable, without notice to or demand upon Borrower. In such event, Lender shall have the rights and remedies to the fullest extent possible, all of which shall be cumulative and not exclusive, of a secured party under the Uniform Commercial Code of the State of Nevada and any applicable federal statute. Where additional notice or cure periods are required by law, said periods and those contained in this Section 8 shall run concurrently. Nothing in this Section 8 shall be construed as extending the term of this Note or the date upon which a default occurs, and no decision to forego any remedy for any given default shall be deemed a waiver on the part of Lender of any right relating to any other Default. No failure to give notice of any default shall constitute a waiver of such default for any remedy which may be available in connection therewith. This Section 8 shall be strictly construed, and shall not impair the exercise of any remedy not referred to herein immediately upon Default, including, without limitation, a mandatory or prohibitive injunction or restraining order or the appointment of a receiver.

9. GENERAL PROVISIONS.

(a) Both principal and interest shall be paid by Borrower in lawful money of the United States of America such that Lender shall have received immediately available funds for the credit of Borrower by not later than 5:00 p.m. Pacific time on the date that such payment is due. Any payment made after 5:00 p.m. Pacific time shall be deemed received on the next Business Day. If any Payment becomes due on any day which is not a Business Day, such Payment shall be made on the next succeeding Business Day. The term "Business Day" means those weekdays which are not local, state or national holidays.

(b) All payments hereunder shall be made to Lender at the following address: 315 Francisco Street, Henderson, Nevada 89014, attn.: Steven L. Forte (or such other place as Lender may

designate to Borrower in writing). All payments hereunder shall be credited first to the interest then due and the balance of any such payment (if any) shall be credited to the outstanding principal hereunder.

(c) Borrower may prepay the entire unpaid principal balance and accrued interest under this Note (or any portion thereof) at any time without penalty.

(d) All payments hereunder shall be made without deduction for any present or future taxes, levies, imposts, deductions, charges or withholdings, and any such amounts shall be paid by Borrower. Borrower shall pay the amounts necessary such that the gross amount of principal and interest payments received by Lender is not less than that required by this Note. All stamp and documentary taxes shall be paid by Borrower. If, notwithstanding the foregoing sentences, Lender pays any such taxes, Borrower shall reimburse Lender for the amount paid if, as and to the extent such reimbursement is permitted by applicable law. Borrower shall furnish to Lender official tax receipts or other evidence of payment of all such taxes.

(e) If any attorney is engaged by Lender or if Lender incurs any costs, expenses or losses because of any Default or to enforce or defend any provision of this Note, then Borrower shall pay, upon demand, the reasonable attorneys' fees and all costs, expenses and losses so incurred by Lender together with interest thereon until paid as if such unpaid attorneys' fees and all costs, expenses and losses had been added to the principal owing hereunder. Interest on the amount of attorneys' fees and all costs, expenses and losses so unpaid shall be compounded monthly and shall be due and payable upon demand.

(f) No waiver of any Default shall be implied from any failure of Lender to take or any delay by Lender in taking action with respect to any such Default or from any previous waiver of any similar or unrelated Default. A waiver of any term hereof must be made in writing and shall be limited to the express written terms of such waiver.

(g) Borrower waives presentment, demand, notice of dishonor, notice of default or delinquency, notice of acceleration, notice of protest and nonpayment, notice of costs, expenses or losses and interest thereon, notice of interest on interest and late charges and diligence in taking any action to collect any sums owing under this Note.

(h) TIME IS OF THE ESSENCE WITH RESPECT TO EVERY PROVISION HEREOF.

(i) This Note shall be construed and enforced in

accordance with the laws of the State of Nevada, except to the extent that Lender shall at any time have greater rights under Federal law; and all persons and entities in any manner obligated under this Note consent to the jurisdiction of any Federal or State court within the State of Nevada selected by Lender and also consent to service of process by any means authorized by Nevada or Federal law.

(j) This Note is hereby expressly limited so that in no contingency or event whatsoever, whether by acceleration of maturity of the debt evidenced hereby or otherwise, shall the amount paid or agreed to be paid to Lender for the use, forbearance or detention of the money advanced or to be advanced under this Note exceed the highest lawful rate permissible under the laws of the State of Nevada as applicable to Borrower. If, from any circumstances whatsoever, fulfillment of any provision hereof or of any other agreement, evidencing or securing the debt, at the time performance of such provisions shall be due, shall involve the payment of interest in excess of that authorized by law, the obligation to be fulfilled shall be reduced to the limit so authorized by law, and if from any circumstances, Lender shall ever receive as interest an amount which would exceed the highest lawful rate applicable to the Borrower, such amount which would be excessive interest shall be applied to the reduction of the unpaid principal balance of the debt evidenced hereby and not to the payment of interest.

"BORROWER"

CASINOVATIONS INCORPORATED, a Washington corporation

By:/s/ Steven J. Blad

Steven J. Blad
Its: Chief Executive Officer

SHAREHOLDER AGREEMENT

THIS SHAREHOLDER AGREEMENT (this "Agreement") is made as of this 14th day of December 1998 by and between Casinovations Incorporated, a Washington corporation (the "Company"), Richard Huson, an individual ("Huson"), Bob Smith, an individual ("Smith") and Ron Keil, an individual ("Keil", collectively with Huson and Smith, the "Shareholders").

RECITALS

WHEREAS, the Department of Corporations of the State of California has stated that, as a condition precedent to the qualification of the Company's common stock for offer, sale or issuance in the State of California, certain shareholders must agree for themselves, their successors, assigns, heirs, administrators or executors that certain shares of the Company's common stock shall be subject to certain disabilities (the "Disabilities") until such disabilities are removed by the Commissioner of the Department of Corporations of the State of California.

WHEREAS, Huson and Randy Sines ("Sines") have executed that certain Shareholder Agreement dated August 27, 1998 whereby Huson and Sines agreed to subject a certain number of their shares, 1,363,551 shares (the "Huson Restricted Shares") and 470,851 shares (the "Sines Restricted Shares"), respectively, to the Disabilities;

WHEREAS, subject to the Disabilities, Sines desires to transfer, sell and assign the Sines Restricted Shares to the Shareholders and the Shareholders desire to purchase the Sines Restricted Shares from Sines;

WHEREAS, the Shareholders and Sines have submitted that certain Application for Consent to Transfer Securities Pursuant to Section 25121 of the Corporate Securities Law of 1968 (the "Application") to the Department of Corporations of the State of California in order to obtain prior approval to the transfer of the Sines Restricted Shares by Sines to the Shareholders (the "Trasnfer");

WHEREAS, upon the approval of the Transfer by the Department of Corporations of the State of California, the Shareholders desire to subject a certain portion of their respective shares to the aforementioned disabilities and desire to enter into this Agreement for the purposes of subjecting such shares to the Disabilities;

NOW, THEREFORE, in consideration of the several and mutual promises, agreements, covenants, understandings, undertakings, representations and warranties hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree that the Recitals are true and correct and by this reference incorporated herein as if fully set forth, and the parties further covenant and agree as follows:

1. APPLICABLE SHARES. The Shareholders hereby agree that the following shares shall be restricted pursuant to the terms of this Agreement:

a. 181,788 shares of the Company's common stock to be held of record by Huson upon consummation of the Transfer (the "Huson Shares");

b. 173,438 shares of the Company's common stock to be held of record by Smith upon consummation of the Transfer (the "Smith Shares"); and

c. 115,625 shares of the Company's common stock to be held of record by Keil upon consummation of the Transfer (the "Keil Shares", collectively with the Huson Shares and the Smith Shares, the "Shareholder Shares").

The shares of the Company's common stock to be designated as the Shareholder Shares shall be selected at the discretion of Huson, Smith and Keil as long as the stock certificates evidencing the respective shares of Huson, Smith and Keil are surrendered to the Company as of or immediately after the Effective Date (as defined herein) to comply with the terms of this Agreement.

2. DISABILITIES. Subject to Section 3 of this Agreement, the Shareholders hereby agree that the Shareholder Shares shall be subject to the Disabilities as described below until such Disabilities are removed by the Commissioner of the Department of Corporations of the State of California:

a. The Shareholder Shares shall not participate in cash or property dividends paid by the Company;

b. The Shareholder Shares shall not participate in or be entitled to any distribution of assets in the event of a liquidation of the Company;

c. All certificates evidencing the Shareholder Shares

shall bear upon their face a legend (the "Legend") prominently stamped or printed thereon and in capital letters of not less than ten-point type, as follows:

> THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS, INCLUDING WAIVERS OF DIVIDENDS AND ASSETS; AND IT IS UNLAWFUL TO CONSUMMATE A SALE OR TRANSFER OF THEM, OR ANY INTEREST THEREIN, WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMMISSIONER OF CORPORATIONS OR THE STATE OF CALIFORNIA.

d. The holders or persons entitled to said Shareholder Shares shall not consummate a sale or transfer of such Shareholder Shares, or any interest therein, or receive any consideration therefor, without the prior written consent of the Commissioner of the Department of Corporations of the State of California; except that transfers may be effected without such consent pursuant to the order or process of any court on condition that any certificates evidencing the Shareholder Shares issued to such transferee shall contain the Legend.

3. EFFECTIVE DATE. This Agreement shall become effective immediately upon the date (the "Effective Date") of the approval of the Department of Corporations of the State of California authorizing the Transfer.

4. TERMINATION. This Agreement shall terminate upon written order or direction of the Commissioner of the Department of Corporations of the State of California thus removing the Disabilities. In the event that the Disabilities are removed as to a portion of the Shares, the shares from which the Disabilities have been removed will be allocated pro rate between the Huson Shares and the Sines Shares.

5. COOPERATION. The Company and the Shareholders agree to cooperate fully with one another in order to achieve the purposes of this Agreement and to take all actions and execute and deliver all documents. whether or not specifically described herein, that may be required to carry out the purposes and intent of this Agreement.

6. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Nevada.

7. AMENDMENTS AND MODIFICATIONS. The Company and the

Shareholders agree that no amendment or modification of this Agreement shall be deemed effective unless and until it is an express writing executed by both the Company and the Shareholders, and notification of such amendment or modification is provided to the Department of Corporations of the State of California.

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

9. BINDING EFFECT. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors, predecessors, parents, affiliates, subsidiaries, divisions, officers, directors, shareholders, employees, advisors, consultants, insurers, attorneys, heirs, executors, administrators and any persons claiming rights by, through or under them.

IN WITNESS WHEREOF, the Company and Shareholders have signed this Agreement as of the date first written above.

"HUSON"	"SMITH"
RICHARD HUSON	BOB SMITH
By: /s/ Richard Huson Richard Huson, an individual	By: /s/ Bob Smith Bob Smith, an individual
"KEIL"	THE "COMPANY"
RON KEIL	CASINOVATIONS INCORPORATED
By: /s/ Ron Keil Ron Keil, an individual	By: /s/ Steven J. Blad Steven J. Blad, President

RELEASE AND ASSIGNMENT AGREEMENT

THIS RELEASE AND ASSIGNMENT AGREEMENT (this "Agreement") is made and entered into as of the 15th day of January 1999 (the "Effective Date"), by and between Steven L. Forte, an individual, and Cheryl Forte, an individual (collectively, the "Fortes"), and Casinovations Incorporated, a Washington corporation (the "Company", collectively with the Fortes, the "Parties").

RECITALS

WHEREAS, the Company executed a certain replacement promissory note in the principal amount of $135,047.46 dated August 31, 1998 in favor of Steven and Cheryl Forte (the "Replacement Note");

WHEREAS, the Fortes agreed to sell, transfer, assign and deliver to the Company and the Company agreed to purchase and acquire from the Fortes all rights, titles and interests of the Fortes in and to the certain assets and rights (contractual or otherwise) of the Fortes, wherever located, as follows: (a) 848,682 shares of the Company's common stock (the "Shares") for $2.50 per share of common stock; (b) an option to purchase 20,000 shares of Company's common stock (the "Option") for $1.50 per underlying share of common stock; and (c) the right to receive a royalty on sales of the Random Ejection Shuffler, Fantasy 21 table game and the Safety-Peek playing card (the "Royalty) (collectively, the "Forte Transaction").

WHEREAS, the Forte Transaction was evidenced by a purchase agreement (the "Purchase Agreement"), a promissory note in the principal amount of Two Million Three Hundred Fifty One Thousand Seven Hundred Five and no/100ths Dollars ($2,351,705.00 U.S.) (the "Note"), a security agreement (the "Security Agreement"), and a stock pledge agreement (the "Pledge Agreement, collectively, with the Replacement Note, the Purchase Agreement, the Note and the Security Agreement, the Forte Documents").

WHEREAS, the execution and delivery of the Forte Documents were contingent upon the approval by the Nevada State Gaming Control Board (the "Board") of the Random Ejection Shuffler and the terms and conditions of the Forte Transaction with such approval granted by the Board on December 3, 1998.

WHEREAS, the Parties executed a letter agreement dated December 4, 1998 in which the Parties agreed to, among other things, cancel the Forte Documents in exchange for a series of three payments by the Company to the Fortes of $500,000 on December

7, 1998, $500,000 on December 28, 1998 and $250,000 on January 15, 1998 (the "Payments").

WHEREAS, the Company has provided the Fortes with the payment of $500,000 on December 7, 1998, $500,000 on December 28, 1998 and $250,000 on January 15, 1999.

WHEREAS, the Parties desire to enter into this Agreement for the purposes of acknowledging the delivery of the Payments and releasing the Company from any of its obligations under the Forte Transaction, the Forte Documents and any other matter related thereto.

NOW, THEREFORE, for and in consideration of the several and mutual promises, agreements, covenants, understandings, undertakings, representations and warranties hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree that the Recitals are true and correct and by this reference incorporated herein as if fully set forth and further covenant and agree as follows:

ARTICLE I
RELEASE AND ASSIGNMENT

1.1 ASSIGNMENT OF RIGHTS, TITLES, BENEFITS AND INTERESTS

In acknowledging the delivery of the Payments by the Company to the Fortes, the Fortes hereby (a) deliver to the Company the original Forte Documents; (b) absolutely and unconditionally transfer, set over and

assign to the Company the Forte Documents such that such documents shall be of no further force and effect; (c) absolutely and unconditionally transfer, set over and assign to the Company all of the Fortes' acquired rights, titles, benefits and interests currently owned or hereinafter acquired, as a result of the Forte Transaction; and (d) forever relinquish to the Company any and all past, present and future interests, rights or claims, direct or indirect, in the Forte Documents, the Shares, the Option and the Royalty.

1.2 RELEASE

For valuable consideration, the sufficiency of which is hereby acknowledged, the Fortes, each jointly and/or individually, on behalf of themselves, their respective affiliates, employees, attorneys, heirs, executors and administrators, hereby remise, acquit and forever release the Company, and its respective

successors, predecessors, parents, affiliates, subsidiaries, divisions, including, but not limited to their respective officers, directors, shareholders, managers, employees, advisors, consultants, insurers, attorneys, heirs, executors, administrators and authorized representatives from any and all claims, demands, damages, debts, liabilities, actions, causes of action or suits of whatsoever kind or nature, presently known or unknown, actual or contingent, asserted or unasserted, foreseeable or unforeseeable, unanticipated or unsuspected, which any of them has or may have now or in the future, arising directly or indirectly out of or involving the Shares, the Option, the Royalty, the Forte Transaction, the Forte Documents and/or this Agreement and any other matter related thereto, save and except for those matters for addressed in Section 1.3, the representations and warranties contained in Article II hereof and, as described in the Letter Agreement, the mutually acceptable termination of that certain employment and non-compete agreement by and between the Company and Steven Forte dated March 15, 1996, and as amended June 15, 1996.

1.3 FUTURE LITIGATION

The Parties, jointly and/or individually, covenant and agree to forever refrain from instituting, prosecuting, maintaining, or assisting with any claims, suits and actions, which arise out of, or is or may be, in whole or in part, based upon, related to or connected with this Agreement, the Shares, the Option, the Royalty, the Forte Transaction, the Forte Documents and any other matter related thereto as they relate to the Parties.

1.4 FURTHER ASSURANCES

The Parties hereby acknowledge that they will use their best efforts to take, or cause to be taken, all appropriate action, and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement.

ARTICLE II
REPRESENTATIONS AND WARRANTIES OF SELLERS

The Fortes hereby make the following representations and warranties to the Company and warrant that the following are true and accurate on the date hereof:

2.1 AUTHORITY

The Fortes have the full right, power, legal capacity and authority to enter into, and perform its obligations under this Agreement, including the execution and delivery of this Agreement and the transfer, assignment, delivery and cancellation of the Forte Documents in favor of the Company.

2.2 NO ASSIGNMENT

The Fortes hereby represent and warrant that they have not, either directly or indirectly, transferred, assigned, granted or otherwise forfeited any interest, claim, lien, pledge, option, encumbrance, charge, agreement, or other arrangement with respect to the Forte Documents.

2.3 DIFFERENCE IN FACTS

The Fortes fully understand that the facts presently known to them may later be found to be different, and expressly accept and assume the risk that the facts may be found to be different. The release and indemnification contained herein shall be effective in all respects and shall not be subject to termination or rescission because of any such difference in facts.

2.4 NO VIOLATION

Neither the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby, nor the fulfillment of the terms hereof by the Fortes will conflict with, or result in a breach of or default under, any of the terms or provisions of any agreement, note, indenture, mortgage, deed of trust, instrument lease, franchise or any other understanding to which Sellers are a party or by which it or any of its assets or properties are bound.

ARTICLE III
GENERAL PROVISIONS

3.1 ENTIRE AGREEMENT

This Agreement (together with all exhibits, documents, agreements and instruments executed or furnished in connection herewith) constitutes the entire agreement between the parties pertaining to the subject matter hereof, and supersedes any and all prior or contemporaneous written or oral negotiations, agreements, representations, and understandings of the parties with respect to such subject matter.

3.2 EXPENSES

If any legal action or any arbitration or other proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute, breach, default, or misrepresentation in

connection with any of the provisions of this Agreement, the successful or prevailing party or parties shall be entitled to recover reasonable attorneys' fees and other costs incurred in that action or proceeding, in addition to any other relief to which it may be entitled.

3.3 MODIFICATION, AMENDMENT OR WAIVER

This Agreement may not be amended, supplemented or otherwise modified, and none of its terms may be waived, unless such amendment, supplement, modification or waiver is in an express writing and executed by the party or parties to be bound thereby. The failure of any party at any time or times to require performance of any provision hereof shall not affect the right of such party at a later time to enforce the same, and no waiver of any term or provision hereof on any one occasion shall be deemed to be a waiver of the same or any other provision hereof at any subsequent time or times.

3.4 BINDING EFFECT; ASSIGNMENT

This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors, predecessors, parents, affiliates, subsidiaries, divisions, officers, directors, shareholders, employees, advisors, consultants, insurers, attorneys, heirs, executors, administrators and any persons claiming rights by, through or under them; provided, however, that no assignment of any rights or delegation of any obligations provided for herein may be made by either party to this Agreement without the prior written consent of the other party.

3.5 CONSTRUCTION

This Agreement shall be construed in accordance with its intent and without regard to any presumption or any other rule requiring construction against the party causing the same to be drafted.

3.6 GOVERNING LAW

This Agreement shall be governed by and construed in accordance with the laws of the State of Nevada in effect on the date of this Agreement without resort to any conflict of laws principles, and the courts of the State of Nevada shall have sole and exclusive jurisdiction over any matter brought under, or by reason of, this Agreement.

3.7 SEVERABILITY

If any term, provision, covenant or condition of this Agreement, or any application thereof, should be held by a court of competent jurisdiction to be invalid, void or unenforceable, all terms, provisions, covenants and conditions of this Agreement, and all applications thereof, not held invalid, void or unenforceable, shall continue in full force and effect and shall in no way be affected, impaired or invalidated thereby, provided that the invalidity, voidness or enforceability of such term, provision, covenant or condition does not materially impair the ability of the parties to consummate the transactions contemplated hereby.

3.8 NEUTRAL INTERPRETATION

The provisions contained herein shall not be construed in favor of or against any party because that party or its counsel drafted this Agreement, but shall be construed as if all parties prepared this Agreement, and any rules of construction to the contrary are hereby specifically waived. The terms of this Agreement were negotiated at arm's length by the parties hereto.

3.9 COUNTERPARTS

This Agreement may be executed at different times and in multiple counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement on the date first set forth above.

"FORTES"	THE "COMPANY"
STEVEN L. FORTE, an individual	CASINOVATIONS INCORPORATED, a Washington corporation
/s/ Steven L. Forte --- Steven L. Forte	By: /s/ Steven J. Blad --- Steven J. Blad Its: Chief Executive Officer and President
CHERYL FORTE, an individual	

/s/ Cheryl Forte

Cheryl Forte

AGREEMENT

THIS AGREEMENT (this "Agreement") entered into as of the 24th day of March, 1999, by and between Dominion Income Management, Inc., a Washington corporation ("Dominion"), and Casinovations Incorporated, a Washington corporation and all successors thereto ("Casinovations").

W I T N E S S E T H:

WHEREAS, by virtue of that certain Subscription Agreement for Casinovations common stock dated December 4, 1998 by and between Dominion and Casinovations (the "Subscription Agreement"), Dominion offered to purchase 200,000 shares of Casinovations common stock (the "Shares") for $500,000;

WHEREAS, Casinovations accepted the Subscription Agreement and payment of $500,000 and caused to be issued and delivered to Dominion that certain Casinovations Stock Certificate No. CVI 1088 dated December 14, 1998 in the amount of 200,000 shares (the "Stock Certificate");

WHEREAS, First Global Securities, Inc., located at 390 East Colorado Boulevard, Suite 500, Pasadena, California 91101, whose principal is Noble Trenham, an individual (collectively and hereinafter referred to as "Trenham/First Global"), acted for and on behalf of Casinovations as placement agent in connection with the execution of the Subscription Agreement and placement of the Shares to Dominion;

WHEREAS, the Shares were placed pursuant to that certain registration statement on Securities and Exchange Commission Form SB-2, as amended, which registration statement was declared effective by the Securities and Exchange Commission (Registration No. 333-31373) (the "Registration Statement");

WHEREAS, Dominion has contacted Trenham/First Global and Casinovations demanding the right to revoke and/or rescind the Subscription Agreement;

WHEREAS, Dominion has alleged that it executed the Subscription Agreement in reliance upon statements, representations and assurances given to Dominion by Trenham/First Global that were untrue or misleading and that such statements, representations and assurances provide sufficient basis for future legal action against Trenham/First Global and Casinovations;

WHEREAS, Casinovations communicated Dominion's concerns and allegations to Trenham/First Global and, as a result, received from Trenham/First Global an indemnification, as memorialized in that certain Indemnity Agreement dated January 15, 1999 by and between Casinovations and Trenham/First Global, to hold Casinovations and its successors harmless from any losses, demands, settlements or other damages resulting from or related to Dominion's concerns and allegations, the Subscription Agreement, the Shares and any other matter related thereto.

WHEREAS, Casinovations, Dominion and Trenham/First Global have had communications directly and through counsel regarding the basis for Dominion's demand to

revoke and/or rescind said Subscription Agreement and Casinovations has continually asserted the validity of the Subscription Agreement;

WHEREAS, although Casinovations neither admits nor denies Dominion's concerns and allegations, Casinovations and Dominion enter into this Agreement solely for the purposes of avoiding litigation without agreeing with the other party's position with respect to validity or claims of any kind whatsoever that Casinovations and Dominion intend to fully pursue against Trenham/First Global;

NOW THEREFORE, in consideration of the mutual covenants, promises, representations, understandings and agreements hereinafter set forth, Dominion and Casinovations hereto agree that the recitals set forth above are true and accurate and are hereby incorporated in and made a part of this Agreement, and further covenant and agree as follows:

1. PAYMENT. At the Closing (as defined herein), Casinovations will pay or cause to be paid to Dominion $450,000 in consideration for the rescission of the Subscription Agreement. At the Closing, the Subscription Agreement will be deemed rescinded, and null and void; however, the Shares will remain issued and outstanding, subject to the offering terms of the Registration Statement, and available, at Casinovations' sole and absolute discretion, to be sold to an investor under the terms of the Registration Statement or otherwise.

2. CLOSING. The Closing will take place on or before 5:00 p.m. Las Vegas, Nevada time on Friday, April 30, 1999 (the "Closing"). The location of the Closing will be at a time and a place mutually agreed by the parties. Further, Dominion and Casinovations agree that the placement of the appropriate funds and documents in the hands of their respective counsel by the

dates provided for herein shall be deemed satisfactory for the Closing to occur.

(a) DELIVERY ITEM OF CASINOVATIONS. At the Closing, Casinovations shall deliver the following:

(i) Cash, cashiers check, or certified funds payable to Dominion in the amount of $450,000.

(b) DELIVERY ITEMS OF DOMINION. At the Closing, Dominion shall deliver to Casinovations the following:

(i) The Stock Certificate, endorsed in blank and with signature medallion;

(ii) An irrevocable stock or bond power for said Shares in form and substance reasonably acceptable to Casinovations and its counsel consistent with Section 2(b)(i); and

(iii) Such other and further documents and instruments that may be reasonably required by Casinovations to complete and facilitate the rescission in accordance with this Agreement.

3. PERFORMANCE. Dominion agrees that performance by Casinovations in accordance herewith will constitute full, complete and unconditional performance by Casinovations. Dominion will look solely to Trenham/First Global for performance, payment, documentation and completion of all obligations solely to and by Trenham/First Global, including, but not limited to, the payment of $50,000 to Dominion, and will not look to Casinovations for any performance, liability, obligation, guaranty, satisfaction or performance whatsoever of any kind or any nature by Casinovations in respect of the obligations of Trenham/First Global.

4. FURTHER ASSURANCES. Dominion and Casinovations hereby acknowledge that they will use their reasonable best efforts to take, or cause to be taken, all appropriate action, and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement. In case at any time after the Closing any further action is necessary to carry out the purposes of this Agreement, Dominion and Casinovations will use their reasonable best efforts to take all such necessary action.

5. AUTHORITY. Dominion and Casinovations, respectively, have all requisite corporate power and authority to enter into and perform this Agreement and to carry out their respective obligations under this Agreement. This Agreement and the transactions contemplated by this Agreement have been duly and validly authorized by all necessary corporate action on the part of both Dominion and Casinovations, respectively. This Agreement has been duly executed and delivered by both Dominion and Casinovations and constitutes the legal, valid and binding obligation of both Dominion and Casinovations, enforceable against either Dominion or Casinovations in accordance with its terms.

6. IRREVOCABLE PROXY. As further consideration for this Agreement, in accordance with Section 23B.07.220 of the Revised Code of Washington, Dominion hereby grants to Casinovations an irrevocable proxy coupled with an interest to Casinovations to vote all of the Shares at the Casinovations Annual Meeting of Stockholders scheduled for Monday, March 29, 1999, in Las Vegas, Nevada, and to vote the Shares in such manner and for such items as Casinovations shall determine in its sole and absolute discretion, including, but not limited to, in favor of the agenda items for (a) the election of all Casinovations' directors, (b) the reincorporation of Casinovations from the state of Washington to the state of Nevada, and (c) the approval of the Casinovations Stock Option Plan, as described in that certain Proxy Statement of Casinovations dated March 6, 1999, and for such other matters that may come before the stockholders of Casinovations from time to time through and including the Closing provided for herein.

7. RELEASE. From the Closing and that day forward, for valuable consideration, the sufficiency of which is hereby acknowledged, Dominion, on behalf of itself, its successors, predecessors, parents, affiliates, subsidiaries, divisions, including, but not limited to its officers, directors, stockholders, managers, employees, advisors, consultants, insurers, attorneys, heirs, executors, administrators and authorized representatives, hereby remises, acquits and forever releases Casinovations, and its successors, predecessors, parents, affiliates, subsidiaries, divisions, including, but not limited to its officers, directors, shareholders, managers, employees, advisors, consultants, insurers, attorneys, heirs, executors, administrators and authorized representatives from

any and all claims, demands, damages, debts, liabilities, actions, causes of action or suits of whatsoever kind or nature,

presently known or unknown, actual or contingent, asserted or unasserted, foreseeable or unforeseeable, unanticipated or unsuspected, which any of them has or may have now or in the future, arising directly or indirectly out of or involving the obligations owed Trenham/First Global and any other matter related thereto.

8. MUTUAL RELEASE. From the Closing and that day forward, for valuable consideration, the sufficiency of which is hereby acknowledged, Dominion and Casinovations, on behalf of themselves, their respective successors, predecessors, parents, affiliates, subsidiaries, divisions, including, but not limited to their respective officers, directors, stockholders, managers, employees, advisors, consultants, insurers, attorneys, heirs, executors, administrators and authorized representatives, hereby remise, acquit and forever release each other, and their respective successors, predecessors, parents, affiliates, subsidiaries, divisions, including, but not limited to their respective officers, directors, shareholders, managers, employees, advisors, consultants, insurers, attorneys, heirs, executors, administrators and authorized representatives from any and all claims, demands, damages, debts, liabilities, actions, causes of action or suits of whatsoever kind or nature, presently known or unknown, actual or contingent, asserted or unasserted, foreseeable or unforeseeable, unanticipated or unsuspected, which any of them has or may have now or in the future, arising directly or indirectly out of or involving the Shares, the Subscription Agreement and any other matter related thereto as they relate to Dominion and Casinovations.

9. FUTURE LITIGATION. Dominion and Casinovations, on behalf of themselves, their respective successors, predecessors, parents, affiliates, subsidiaries, divisions, including, but not limited to their respective officers, directors, stockholders, managers, employees, advisors, consultants, insurers, attorneys, heirs, executors, administrators and authorized representatives, covenant and agree to forever refrain from instituting, prosecuting, maintaining, or assisting with any claims, suits and actions against the other, which arise out of, or is or may be, in whole or in part, based upon, related to or connected with the Shares, the Subscription Agreement and any other matter related thereto as they relate to Dominion and Casinovations.

10. RESERVATION. By entry of this Agreement, and any related agreements, amendments or writings between Dominion and Casinovations, Dominion and Casinovations reserve all claims that they have or may have against Trenham/First Global under any agreements, understandings or otherwise and the entry by Dominion and Casinovations into this Agreement, the transactions contemplated by this Agreement or any other transaction by and between Dominion and Casinovations shall in no way, by

implication or otherwise, be deemed or construed to be a waiver, diminishment of claim, or release by Dominion or Casinovations, their respective affiliates, stockholders or other parties claiming by or through either Dominion or Casinovations against Trenham/First Global.

11. GENERAL PROVISIONS.

(a) AMENDMENT; MODIFICATION; WAIVER. This Agreement may not be amended, supplemented or otherwise modified, and none of its terms may be waived, unless such amendment, supplement, modification or waiver is in an express writing and executed by the party or parties to be bound thereby. The failure of any party at any time or times to require performance of any provision hereof shall not affect the right of such

party at a later time to enforce the same, and no waiver of any term or provision hereof on any one occasion shall be deemed to be a waiver of the same or any other provision hereof at any subsequent time or times.

(b) ASSIGNMENT; BINDING EFFECT. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors, predecessors, parents, affiliates, subsidiaries, divisions, officers, directors, shareholders, employees, advisors, consultants, insurers, attorneys, heirs, executors, administrators and any persons claiming rights by, through or under them; provided, however, that no assignment of any rights or delegation of any obligations provided for herein may be made by either party to this Agreement without the prior written consent of the other party.

(c) BINDING ARBITRATION. Any dispute, claim or controversy of any kind, whether in contract or tort, statutory or common law, legal or equitable, now existing or hereafter arising under or in connection with, or in any way pertaining to, this Agreement shall be resolved through binding arbitration as governed by Chapter 38 of the Nevada Revised Statutes. If a lawsuit is commenced by either Dominion or Casinovations and an answer, not including an application to compel arbitration, has been filed by the other party, arbitration may thereafter be elected only upon the consent of both Dominion or Casinovations. The decision shall be binding on Dominion and Casinovations unless the decision is vacated by the court as provided in Section

38.145 of the Nevada Revised Statutes.

(i) ARBITRATOR SELECTION. If arbitration is elected, Dominion or Casinovations shall select an arbitrator. If Dominion or Casinovations cannot agree on one arbitrator, each party shall select an arbitrator who will, in turn, select a third arbitrator. The third arbitrator shall be a person who has neither a business nor personal relationship with either Dominion or Casinovations or their respective legal counsel. All decisions made by a majority of the arbitrators shall be binding on Dominion and Casinovations.

(ii) ARBITRATION RULES. Except as provided by Chapter 38 of the Nevada Revised Statutes or agreed upon by Dominion and Casinovations, the arbitration shall be conducted according to the Rules of the American Arbitration Association now in effect or later adopted. The arbitrator(s) shall rule on all relevant aspects of the case, including the award of injunctive relief, damages, or any other legal or equitable remedies; the amount of attorneys' fees and the decision as to who will pay them; and the costs incurred to resolve the dispute, including the decision as to whom is to pay the fees of the arbitrator(s).

(iii) JUDGMENT. Judgment, if any, upon award(s) rendered by the arbitrator(s) may be entered into in any court having competent jurisdiction.

(d) ENTIRE AGREEMENT. This Agreement (including all exhibits, schedules and other documents referred to in this Agreement (the "Incorporated Documents"), all of which are hereby incorporated by reference), constitute the entire agreement, and supersedes all prior discussions, negotiations, agreements and understandings (both

written and oral) among Dominion and Casinovations with respect to the subject matter of this Agreement. All obligations of either Dominion or Casinovations under any Incorporated Document shall constitute an obligation of such party under this Agreement. Any capitalized terms used in any Incorporated Document which are not otherwise defined therein shall have the respective meanings given such terms in this Agreement.

(e) EXPENSES. Dominion and Casinovations shall each pay all costs and expenses incurred or to be incurred by each of them respectively in negotiating and preparing this Agreement and in taking whatever actions may be necessary or appropriate to consummate the transactions contemplated by this Agreement, including the costs of obtaining any consents or approvals.

(f) GOVERNING LAW; VENUE. This Agreement shall be governed by and construed in accordance with the laws of the State of Nevada in effect on the date of this Agreement without resort to any conflict of laws principles, and the courts of the State of Nevada shall have sole and exclusive jurisdiction over any matter brought under, or by reason of, this Agreement.

(g) NEUTRAL INTERPRETATION. The provisions contained herein shall not be construed in favor of or against any party because that party or its counsel drafted this Agreement, but shall be construed as if all parties prepared this Agreement, and any rules of construction to the contrary are hereby specifically waived. The terms of this Agreement were negotiated at arm's length by the parties hereto.

(h) NO THIRD PARTIES BENEFITED. This Agreement is made and entered into for the sole protection and benefit of Dominion and Casinovations, their respective successors and assigns, and no other person or persons shall have any benefit or right of action hereon.

(i) NOTICE. Any and all notices required under this Agreement shall be in writing and shall be either (i) hand-delivered; (ii) mailed, first-class postage prepaid, certified mail, return receipt requested; (iii) transmitted via telecopier provided that confirmation is obtained; or (iv) delivered via a nationally recognized overnight courier service, using the following information:

To Casinovations: 6744 South Spencer Street
Las Vegas, Nevada 89119
Attention: President
Telephone: (702) 733-7195
Facsimile: (702) 733-7197

To Dominion: 15302 25th Drive S.E.
Mill Creek, Washington 98102
Telephone: (425) 742-2276
Facsimile: (425) 338-3175

(j) SEVERABILITY. If any term, provision, covenant or

condition of this Agreement, or any application thereof, should be held by a court of competent

jurisdiction to be invalid, void or unenforceable, all terms, provisions, covenants and conditions of this Agreement, and all applications thereof, not held invalid, void or unenforceable, shall continue in full force and effect and shall in no way be affected, impaired or invalidated thereby, provided that the invalidity, voidness or enforceability of such term, provision, covenant or condition does not materially impair the ability of the parties to consummate the transactions contemplated hereby.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

"Casinovations"	"Dominion"
CASINOVATIONS INCORPORATED, a Washington corporation	DOMINION INCOME MANAGEMENT, INC. a Washington corporation
By: ---------- Steven J. Blad, President and Chief Executive Officer	By: ---------- Andrew Evans, _____

CASINOVATIONS INCORPORATED

SUBSIDIARIES OF REGISTRANT

Casinovations Nevada Incorporated

CONSENT OF INDEPENDENT CERTIFIED ACCOUNTANTS

We hereby consent to the use in this annual report on Form 10-KSB for the year ended December 31, 1998 filed in behalf of Casinovations Incorporated of our report dated February 5, 1999, relating to the financial statements of Casinovations Incorporated as of December 31, 1998.

/s/ James E. Scheifley & Associates, P.C.
James E. Scheifley & Associates, P.C.
Certified Public Accountants

March 25, 1999
Denver, Colorado

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