

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

MICRO GENERAL CORP

CIK: **67383** | IRS No.: **952621545** | State of Incorporation: **DE** | Fiscal Year End: **1231**
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SIC: **3590** Misc industrial & commercial machinery & equipment

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

Annual report pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the fiscal year ended December 31, 1997 Commission File No.0-8358

MICRO GENERAL CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE 95-2621545
(State or other jurisdiction of (I.R.S. Employer Identification
incorporation or organization) No.)

14711 Bentley Circle Tustin, California 92780
(Address of principal executive offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (714) 731-0557

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, \$.05 par value

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to
such filing requirements for the past 90 days.

YES X NO

As of December 31, 1997, the aggregate market value of the voting stock held
by non-affiliates of the registrant was \$985,052 .

As of December 31, 1997, the registrant had 1,949,666 shares of common stock,
\$.05 par value outstanding.

The information required by Part III (items 10,11,12 and 13) is incorporated
by reference to portions of the registrant's definitive proxy statement for
the 1998 annual meeting of shareholders which will be filed with the
Securities and Exchange Commission within 120 days after the close of the 1997
fiscal year.

PART I

Item 1. BUSINESS

Introduction

Micro General Corporation (the "Company") designs, markets and sells parcel shipping systems and electronic postal scales for use in shipping departments and office mailrooms. The Company earns revenues both from the initial sale of shipping systems and scales and from subsequent rate updates resulting from rate changes by the United States Postal Service ("USPS"), United Parcel Service ("UPS") and other parcel carriers (see the following "Rate Change Modifications" discussion). The Company's products reduce labor costs in shipping parcels and letters and, by consistent use of accurate weight and corresponding shipping or postage rates, can significantly reduce shipping and postage rate errors.

The Company's products are programmed with the current shipping rates of USPS, UPS, Roadway Parcel Service ("RPS"), Federal Express ("FedEx") and other major carriers. The high-end models of the Company's parcel shipping systems and each of the Company's postal scale models also permit the customer to choose additional carriers' rates from the Company's rate library. The Company's ability to customize a shipping system or postal scale to include additional carriers' rates in accordance with each customer's shipping or mailing preferences permits the customer to choose the optimum carrier and class of service for a particular parcel or letter by quickly "rate shopping" between the standard shipping or postal rate of different carriers.

Development of the Company's Business

In March 1981, the Company acquired all of the outstanding stock of Coda Enterprises, Inc., a California corporation ("CODA"). Since its 1978 inception, CODA had designed and manufactured an electronic postal scale and a piece-count scale and had sold those products under a private label contract with a distributor of mailroom equipment. In December 1981, CODA merged with the Company and the Company changed its name to Micro General Corporation. The Company has since redirected its resources to the development of its microprocessor-based parcel shipping systems and postal scales. The Company has initiated in recent years a postal meter development project to facilitate its entry into this lucrative market. In 1988, the Company reincorporated in Delaware.

Industry Overview

Prior to 1956, the USPS provided the sole means of letter or parcel delivery throughout the United States. Currently many other companies such as UPS, FedEx and others, provide nationwide coverage in the package delivery business. There are currently more than 30 letter and parcel delivery companies which compete directly with the USPS. Additionally, deregulation of the airline and trucking industries has lessened certain prior barriers to reducing the cost of delivering letters and parcels by these particular modes of transportation.

In order to provide reliable delivery information regarding the location of en-route parcels, parcels must be uniquely tagged or bar-coded so that package origin, destination, class of service and other data can be quickly read and input into the carrier's information system. The ability to produce this tag has created a significant potential opportunity for the Company within the mailing and shipping industry. These products also make data entry less difficult. Although carriers are currently investing in plant and equipment to automate the handling of parcels and letters, many of their customers still use hand ledgers, manual zip-to-zone charts, spring scales and other conventional mechanical equipment which lack the accurate weight/cost precision of the Company's family of microprocessor-based and computer-based

products.

The Company believes that the number of UPS and other parcel carrier users who might have a need for the Company's products represents a significant market.

Products and Markets

The Company's family of microprocessor-based, computer-based parcel shipping systems and postal scales are as follows:

Parcel Shipping Systems. The Company believes its parcel shipping systems offer cost and productivity advantages over manual methods of parcel shipping recording for businesses which consistently use UPS, the USPS or other parcel carriers. First, the Company's parcel shipping systems automate transaction recording and label identification on a package-by-package basis. For example, a system's "manifest" printout, by itself, adequately documents parcel shipments for pickup, delivery and accurate billing by a carrier. Additionally, these systems allow the user to determine the most economically acceptable method of shipment, to determine and apply the correct shipping charge, and to record data relevant to the transaction for use both by the shipper and the parcel carrier.

The user places the parcel on the system's electronic scale platform (which has a maximum rating of 150 pounds), then enters the desired carrier and class of service and the parcel's destination zip code. Each entry is accomplished by pushing a single, clearly identified button. The user can instantly display the rates for alternative carriers and classes of service by depressing a single key for each such inquiry. When a carrier and class of service have been selected, the user enters a package identification number and, with a single keystroke, prints the shipping label. Simultaneously, the transaction is automatically entered into a computerized memory which both the carrier and the shipper's accounting department can access.

The suggested retail prices for the Company's parcel shipping systems range from \$795 to \$3,000, excluding options.

Computer-based Shipping Systems. The Company currently offers computer software and "turn-key" systems for shipping and warehouse automation. The software programs include many of the standard features already found in the Company's parcel shipping systems. The software programs have the ability to take advantage of all of the carriers now offered with the Company's other products. The suggested retail prices for the Company's software programs, which can be sold with or without equipment, range from \$1,195 to \$5,000, excluding options.

Mailing Scales. The Company currently offers both digital electronic scales as well as mechanical spring scales. The Company's digital display electronic postal scales are primarily designed for office mailroom use. Relying upon Company-designed microprocessor-based circuitry, parcel or letter weight is instantly displayed in digital format. When a class of service is selected on the membrane switch keyboard, the precise postage is computed and displayed. Sophisticated features, such as the ability to connect directly to a printer to provide instantaneous accounting for transactions or to an electronic postage meter for automatic setting and dispensing of postage, are possible because of the microprocessor-based design. Use of the Company's scales enables businesses to decrease postage costs by eliminating the inefficiencies and errors which commonly occur when mechanical scales and manual rate tables are used. The Company's postal scales are available in maximum weight capacity ratings of 1 to 150 pounds. The suggested retail prices for the Company's postal scales range from approximately \$10 to \$1,295,

excluding options.

Tape Dispensing Systems. The Company currently offers a manual and electronic gummed tape dispensing system. This system is used for securing boxes for shipment. The suggested retail price for the Company's tape dispensing system is \$330 to \$1,150, excluding options.

Rate Change Modifications. Currently, the Company maintains a rate library containing rate information for most national and regional parcel carriers. The Company updates this library whenever a carrier's rate change occurs.

Modifying the Company's units in the field to reflect rate changes by the USPS, UPS or other carriers in the Company's rate library is done by inserting programmable read-only memory chips ("PROMS") into designated slots in the Company's parcel shipping systems and postal scales or via floppy disk updates for computer-based systems. The Company generally charges a fee for each new PROM or disk it provides. Alternatively, the Company will, for a one-time fee, provide updated rate PROMS as required for a specified period of time. As the Company's installed unit base grows, potential revenues associated with rate changes represent a significant source of revenue and profit for the Company. PROMS related to rate changes are sold both to dealers and directly by the Company for its installed customer base. For each rate PROM sold to an end-user customer, a percentage of the purchase price is generally credited to the dealer that originally sold the system to the customer, provided that the dealer is still an authorized Company dealer. No such allowances are paid where sales of the underlying equipment were not through dealers.

Marketing, Sales, Warranties and Customers

Marketing and Sales. The Company's strategy is to select market niches in which its technology provides price and/or performance advantages over products offered by the market leaders. The Company's position is primarily in software, but the unique appearance, functionality and built in "ease of use" of its products are also considered to be significant competitive advantages. With the increase of UPS owned equipment and free software available to the customers, the Company seeks new products to replace the customers lost to UPS equipment.

The Company sells its dealer products through a network of more than 140 dealers located throughout the United States and Canada, although approximately 30 dealers account for the majority of the Company's sales. The Company believes the loss of any particular dealer would not have a material adverse effect on the Company's operating results. All dealer orders accepted by the Company are shipped and invoiced to dealers at discounts from the Company's suggested retail list price. The Company's normal sales terms to its qualified dealers are net 30 days from invoice date. Company sales are generally final and are supported by a Company-issued order entry acknowledgment which specifies all terms and conditions of the contracted sales transaction. However, in addition to any product returns resulting from product defects, the Company is obligated under some of its dealer agreements to accept the return of unopened inventory from terminated dealers (subject to a restocking fee). The Company, at its discretion, periodically permits dealers to return products for credit or exchange (subject to a restocking fee in most cases) due to dealers' lost sales or dealers' errors in ordering or evaluating end-user customer needs. Returns as a percentage of product sales for 1997, 1996, and 1995, were 13%, 19%, and 16%, respectively. The Company believes that the allowance for sales returns at December 31, 1997 and December 31, 1996, is adequate in light of historical experience.

The Company typically experiences significantly higher revenues in the first quarter of each year, which is attributable to the sales of carrier rate changes. When a USPS or UPS rate change occurs many product users update their machines with new rates which provides significant rate change revenues to the Company.

A comparison of first quarter sales in the last 3 years in relation to annual sales is as follows:

	1st Quarter	Annual Sales	%
1997	\$1,040,051	\$1,774,051	59%
1996	\$1,470,389	\$2,155,378	68%
1995	\$2,173,689	\$4,041,921	54%

Even though history has shown that the carrier rate changes traditionally have occurred in the first quarter, the Company believes this should not be included as a seasonal impact. There can be no assurance as to the timing of future rate changes.

In 1990, the Company established a network of manufacturer's representatives to sell the retail products to stationary stores, direct mail houses, wholesalers and office product resellers. This portion of the business in 1997, 1996 and 1995 represents 14%, 20% and 29% of the Company's total product sales, respectively.

Warranties. Individual dealers have responsibility for installation and service of the Company's products. The Company's distributed products are sold with a 90-day warranty on material and labor. The Company bears the costs incurred in providing such in-warranty repairs. The Company invoices the dealers on a time and materials basis for out-of-warranty repairs performed by the Company. In 1997, 1996, and 1995 the Company's costs to perform both in-warranty and out-of-warranty repairs, in the aggregate were 5%, 8 %, and 13%, respectively, of total product sales.

Customers. As of December 31, 1997, the Company estimates it had an aggregate installed base of approximately 20,000 parcel shipping systems, postal scales and piece count scales. Moreover, no individual dealer accounted for more than 10% of the Company's 1997 total net revenues.

Backlog. The Company typically enters facsimile orders from its dealers, considers these orders part of backlog, and schedules delivery for a date within 10 days from receipt of the order. Subsequent confirmation through a written purchase order is normally obtained. On a monthly basis, the Company generates a listing of scheduled and confirmed backlog. Backlog cancellations have historically been nominal. The backlog at December 31, 1997, is not material.

Competition

The Company competes in an industry characterized by intense and increasing competition. To the Company's knowledge, there are approximately 20 competitors engaged in either the sale or lease of electronic shipping systems or postal scales. Among these, Pitney Bowes, Inc. has a dominant position in the postage meter market, and UPS has a dominant position in the parcel shipping systems market.

The Company sells principally to shippers having moderate volumes of daily shipments. Various firms are selling parcel shipping software that customers use with their existing in-house computer systems. Also, various air express and other shipping firms are now providing free computerized parcel shipping systems and offering volume discounts to end-user customers

that maintain specified minimum shipping volumes.

The Company believes that the price/performance features of its products continue to compare favorably with their various competitors. Nevertheless, many of the Company's competitors have far greater financial and personnel resources than those of the Company, including direct sales branches and substantial marketing and product development programs. Consequently, there can be no assurance that future competition from such competitors will not have a material adverse effect on the Company's business.

United Parcel Service has mandated that beginning July 1, 1998, new installations of shipping systems will be required to be connected electronically to the carrier's computers. The Company's "EAGLE BEST RATE SHIPPER" and "SHIPPER LINK" products will comply by such dates. Products sold before this date are "grandfathered", and will not be subject to the new regulations. Through upgrades and product modifications, the Company does not expect any negative financial impact from this change.

Distribution

In recent years, the Company has increased the purchasing of completed units manufactured outside the United States. The foreign manufacturers take advantage of the tooling put in place by the Company, in order to provide the Company with parts for its specialized needs. In the fourth quarter of 1995, the Company resumed manufacturing in its California facility to improve quality and reduce costs on its larger model scales.

Finished product quality inspection and final testing is performed prior to shipment by Company personnel at the Company's Tustin, California facility.

Engineering and Development

For the years ended December 31, 1997, 1996 and 1995, the Company's expenditures for engineering, research and development approximated \$628,000, \$556,000, and \$638,000, respectively. In May 1995, the engineering department was moved to the Company's facility in Oxford, Connecticut. The Company's 1997 engineering, research and development activities included the UPS and RPS rate changes in the first quarter of 1997 and a new multi-carrier scale-based product, the Shipper Link, released in January 1998. The postage meter development project, started in 1995, is progressing and is scheduled for submission to the United States Postal service for testing and approval during the second quarter of 1998. Product release of the Company's postage meter is targeted for the third quarter of 1998. It has been reported, in various publications, that the U.S. Postal Service has announced the decertification of all mechanical postage meters in the U.S. with the phase-out period to be completed by March 1999. It is estimated that 774,000 meters are affected by this anticipated ruling. This ruling provides the Company with an opportunity to enter a major new market. Submission for approval to the U.S. Postal Service of the Company's first postage meter is expected by mid-1998.

Patents and Licenses

The Company has federally registered the trademarks "CODA", "MAILMATE ", "PC SHIPMATE ", "SMART METER ", "SMART LABEL ", "SHIP SAVER ", "SHIPMATE ", "SHIP MASTER ", "SHIP-EASY", "SHIP COMMANDER ", "Eagle Best Rate Shipper", and "SHIPPER LINK". During 1996 and 1997, the Company has applied for several patents which pertain to the postage meter project. Two such patents have been issued during 1997.

Employees

As of December 31, 1997, the Company employed 30 people. The Company's employees are not represented by a labor union and it has experienced no work stoppages. The Company believes that its employee relations are good. The Company augments its work force with temporary staff during periods of rate

change shipments.

Item 2. PROPERTIES

During 1996, the Company's executive office, distribution and service facility consisted of a 18,550 square feet in a building located in Santa Ana, California. The Company has leased this facility until the year 1999. In January 1997, the Company sub-leased its Santa Ana facility and relocated to a new site in Tustin, California. The Tustin facility consists of 7,711 square feet. This facility has been leased until the year 2000. In April 1995, the Company entered into a three-year lease for a 5,000 square foot research and development office in Oxford, Connecticut, which currently houses engineering, research and development, technical service and customer service.

Item 3. LEGAL PROCEEDINGS

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

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

None.

Executive Officers of the Registrant

The following sets forth the name, age and offices presently held by the Company's executive officers:

Thomas E. Pistilli	55	President, Chief Executive Officer, Chief Financial Officer and Director
John J. Horbal	60	Vice President - Engineering
Linda I. Morton	45	Corporate Secretary and Controller
Robert F. Baker	50	Vice President - Sales and Marketing

THOMAS E. PISTILLI

Mr. Pistilli has served as the President, Chief Executive Officer, Chief Financial Officer, and Director since November 1994. Prior to joining the Company, Mr. Pistilli served as a management consultant to the Company for approximately two years. Mr. Pistilli is the former President and Chief Executive Officer of International Mailing Systems, Inc. (ASCOM/HASLER), Shelton, Connecticut, where he served in that capacity for 11 years and overall with that Company for 18 years. Mr. Pistilli, a Certified Public Accountant, was previously employed by KPMG Peat Marwick LLP, for a period of seven years. Mr. Pistilli is a member of the Board of Directors, serving since November 1994.

JOHN J. HORBAL

Mr. Horbal joined the Company as Vice President-Research and Development in January 1995. Prior to joining the Company, Mr. Horbal was with ASCOM/HASLER and Better Packages, Shelton, Connecticut, for 25 years serving as Director of Engineering, Director of Research and Development, and Chief Engineer. He was named Vice President of Engineering in June 1995.

LINDA I. MORTON

Ms. Morton joined the Company in September 1983 serving in various management accounting positions. She was appointed Controller in August 1988 and Corporate Secretary in June 1991.

ROBERT F. BAKER

Mr. Baker joined the Company as Vice President - Sales and Marketing in January 1997. Prior to joining the Company, Mr. Baker was a Vice-President with Better Homes and Gardens Real Estate since 1989. Mr. Baker also served in various senior sales management positions with ASCOM/HASLER, Scriptomatic and Pitney Bowes.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Principal Market and Prices

During 1996, the Company's common stock was traded on the over-the-counter market on NASDAQ under the symbol MGEN. On January 10, 1997, the Company elected to have its common stock delisted from the Nasdaq SmallCap Market. The stock is now listed on the OTC Bulletin Board. The following table sets forth the range of high and low closing bid quotations per share of the Company's common stock for the fiscal quarters indicated as reported by the NASD on its monthly statistical reports. Such prices represent interdealer quotations without adjustment for retail markup, markdown, or commission and do not necessarily represent actual transactions.

Fiscal Quarters	Bid Price	
	High	Low
Year Ended December 31, 1997		
First Quarter	\$ 1.88	1.13
Second Quarter	1.38	1.00
Third Quarter	1.50	1.13
Fourth Quarter	2.38	1.75
Year Ended December 31, 1996		
First Quarter	\$ 3.50	1.50
Second Quarter	3.25	2.00
Third Quarter	3.38	2.00
Fourth Quarter	2.63	1.63

Number of Common Shareholders

The number of shareholders of record of the Company's common stock at December 31, 1997 was 596.

Dividends

The Company intends to continue its policy of retaining all earnings for reinvestment in the business operations of the Company. Under Delaware law, the Company's Board of Directors may declare and pay dividends on its outstanding shares in cash or property only out of the unreserved and unrestricted earned surplus. The Company has an accumulated deficit of \$5,407,674, as of December 31, 1997 and accordingly, Delaware law prohibits the Company from paying cash dividends except to the extent that the Company

has net profits in any fiscal year or the preceding fiscal year. There were no accumulated dividends as of December 31, 1997.

Item 6. SELECTED FINANCIAL DATA

This Annual Report Form 10-K contains forward looking statements, which are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements.

The following table summarizes selected financial data. This data is derived from and qualified in its entirety by the more detailed financial statements included elsewhere herein.

	Year Ended				
	(in thousands, except per share data)				
	12/31/97	12/31/96	12/31/95	12/31/94	12/31/93
Net Product Sales	\$ 672	\$ 834	\$ 1,743	\$ 2,710	\$ 3,104
Service and Rate Change Revenue	1,102	1,321	2,299	2,059	1,950
Total Revenues	1,774	2,155	4,042	4,769	5,054
Cost of Sales	1,526	1,399	1,937	2,863	2,864
Gross Profit	248	756	2,105	1,906	2,190
Net Earnings (Loss)	\$(1,525)	\$(1,182)	\$ (230)	\$ (297)	\$ 375
Net Earnings (Loss) Per Share					
Basic	\$ (0.78)	\$ (0.61)	\$ (0.12)	\$ (0.16)	\$.20
Diluted	\$ (0.78)	\$ (0.61)	\$ (0.12)	\$ (0.16)	\$.20
Weighted Average Number of Shares Used in Computation*					
Basic	1,949,563	1,948,541	1,940,666	1,883,876	1,882,240
Diluted	1,949,563	1,948,541	1,940,666	1,883,876	1,882,240

*Effective December 31, 1997, the company adopted Financial Accounting Standards No. 128 "Earnings per Share". All prior periods have been restated accordingly.

	Year Ended				
	(in thousands)				
	12/31/97	12/31/96	12/31/95	12/31/94	12/31/93
Working Capital	\$ 311	\$ 1,363	\$ 1,340	\$ 1,512	\$ 1,778
Total Assets	2,840	2,190	2,084	2,420	2,575
Shareholders' Equity (Deficiency)	(1,134)	391	1,572	1,736	2,027

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

A. Comparison of Fiscal 1997 and Fiscal 1996

Total revenue for the Company in 1997 decreased \$381,327 or 18% compared to the same period in 1996. The overall decrease is a combination of a decrease in product sales of \$93,484 or 14% in the dealer channel and \$69,076 or 42% in the retail channel, a decrease in service revenue of \$25,074 or 27%, and a decrease in rate change revenue of \$193,693 or 16%. The decline of sales in the retail channel is due to the Company's withdrawal from a major supplier's catalog who has exclusive arrangements with one large-scale supplier. The decrease in the dealer channel is the result of continued pressure on the manifest industry by United Parcel Service and other carriers who provide free software and equipment to customers and a decrease in placement of new systems. The decrease in the rate change revenue is a result of a decline in the customer base due to replacement of Company systems by carrier systems. The Company is continuing to develop new products for the dealer channel. Introduction of the Shipper Link in December 1997, allows the dealers to provide a product that will perform like a scale-based manifest system, but allow electronic transmission of shipper data to carriers like a PC -based system. The Company is currently working on new products that will provide electronic transmission features. Sales of the Company's computer-based software program, "The Eagle-Best Rate Shipper", were lower than expected due to a delay in releasing of the Windows version. Release of the Windows version occurred in January 1998.

Cost of sales for product sales increased \$132,108 or 13%. The service and rate change revenue costs decreased \$4,282 or 1% as compared to the same period in 1996. The increase in the cost of product sales is due to lower sales volume resulting in labor and overhead in the manufacturing facility being absorbed by fewer units produced.

Gross margin overall decreased 67% for the year ended December 31, 1997 as compared to the prior year. The primary reason was attributable to lower product sales with a 19% decrease in product sales compared to 1996.

Operating expenses for the Company in 1997 decreased \$305,980 or 16% as compared to the prior year. The decrease is a result of a number of factors including the reduction in the selling, general and administrative expense of \$139,270 or 10% due to downsizing. The decrease in engineering and development expenses is a result of an increase of \$71,684 in actual expense offset by an increase in the capitalization of \$215,804 of costs relating to the postage meter project. The introduction of the postage meter is anticipated for late 1998, after submission to the U.S. Postal Service for testing and approval during the 2nd quarter 1998. The provision for doubtful receivables decreased \$19,192 as compared to 1996 due to a decrease in the accounts receivable balance.

Interest expense for the Company in 1997 increased \$147,878 as compared to the prior year. This increase is due to the interest associated with convertible notes issued August 1, 1996 and the additional notes issued November 25, 1997 (see note 7).

The net loss of \$1,525,360 is \$343,194 or 29% higher than the prior

year. The loss is primarily attributable to lower total revenue for 1997. The decline in profit, due to lower sales revenue, was partially offset by lower operating expenses and capitalized costs associated with the meter project.

B. Comparison of Fiscal 1996 and Fiscal 1995

Total revenue for the Company in 1996 decreased \$1,886,543 or 47% compared to the same period in 1995. The overall decrease was a combination of a decrease in product sales of \$561,572 or 46% in the dealer channel and \$346,762 or 68% in the retail channel, a decrease in service revenue of \$75,025 or 45%, and a decrease in rate change revenue of \$903,184 or 42%. The decline of sales in the retail channel is a result of a consolidation of various superstores and catalogue houses who have exclusive arrangements with one large-scale supplier. The decrease in the dealer channel is primarily the result of continued pressure on the manifest industry by United Parcel Service and other carriers who provide free software and equipment to customers. The decrease in the rate change revenue was a result of only a single UPS rate change in February 1996 versus both a UPS and USPS rate change in both January and August 1995. The Company developed new products for the dealer channel. The introduction in May 1996 of a low priced computer-based software program "The Eagle-Best Rate Shipper" along with the retail version, "The Eagle Parcel Center 2000" in early 1997 increased sales volume as the dealers become more acclimated and better trained to market this product.

Cost of sales for product sales decreased \$341,099 or 25%. The service and rate change revenue costs decreased \$197,769 or 34% as compared to the same period in 1995. The decrease is due to lower sales and a reduction in other product costs.

Gross margin overall decreased 64% for the year ended December 31, 1996 as compared to the prior year. The primary reason was attributable to lower product sales with a 43% decrease in gross margin compared to 1995.

Operating expenses for the Company in 1996 decreased \$458,195 or 20% as compared to the prior year. The decrease is a result of a number of factors including the reduction in the selling, general and administrative expense of \$215,097 or 13% due to downsizing and a decrease in engineering and development expense of \$81,336 and the capitalization of \$146,198 of costs relating to the postage meter project. The provision for doubtful receivables decreased \$15,564 as compared to 1995.

Interest expense for the Company in 1996 increased \$54,538 as compared to the prior year. This increase is due to the interest associated with convertible notes signed August 1, 1996 (see note 7).

The net loss of \$1,182,166 increased \$952,514 or 415% from a loss of \$229,652 in the prior year. The loss is primarily attributable to lower rate change revenue for 1996 due to only one rate change versus two in 1995. The decline in profit, due to lower sales revenue, was partially offset by lower operating expenses and deferred research and development expense. The profit associated with one rate change is approximately \$700,000.

C. Financial Condition, Liquidity and Capital Resources

The Company's ability to generate cash depends on rate change revenue, long term debt, the sale of inventory and collection of accounts receivable.

The Company's 1997 cash balance decreased \$94,688 or 23% from December 31, 1996. The decrease compared to December 31, 1996 is primarily attributable to a decrease in sales and an increase in spending related to the "Meter Project." At December 31, 1997, the Company had borrowed \$3,000,000 from the convertible notes (see note 7) and \$600,000 from the new notes signed November, 1997. The Company's 1997 net accounts receivable balance decreased \$6,251 or 6% from December 31, 1996 levels. This decrease is due to reduced sales.

Working capital has ranged from \$1,362,595 in 1996 to \$310,713 in 1997. The Company's current ratio at December 31, 1997 was 1.3 compared to 5.6 at December 31, 1996. The decline is due to the increase in current liabilities relating to the notes payable signed in November 1997, and the current portion of the convertible notes issued August 1, 1996.

The Company's total inventories decreased \$186,939 or 18% at December 31, 1997 as compared to the prior year end. The decrease in inventory is related to the sale of products and reduced purchasing throughout the year.

The Company provided cash through the two financing agreements entered into on August 1, 1996, to provide additional funding primarily for the retirement of bank debt, operations, and to fund the Company's ongoing development of a series of high-level security postage meters designed to comply with the new United States Postal Service proposed regulations and two additional notes issued November 25, 1997 (see note 7). At December 31, 1997, the Company was in compliance with all financial covenants associated with the convertible notes or has received waivers from the noteholders.

The Company is currently operating without a revolving line of credit agreement to fund working capital requirements. Current liquidity is being funded through the aforementioned product sales, service and rate change revenues and note payables.

Based upon the Company's current cash projections which demonstrate a cash shortfall using these sources of liquidity, its lack of a revolving credit agreement and the uncertainty regarding its ability to access other sources of liquidity, substantial doubt exists regarding its ability to continue as a going concern.

Management is pursuing additional sources of new capital. Based on the terms of the current notes, note holders would have to approve any additional funding. The Company also believes that new product introduction in 1997 will reduce operating losses.

The Company's investment in capital expenditures for 1997 increased slightly over 1996. There were no material commitments for capital expenditures as of December 31, 1997. The Company's only significant domestic capital expenditures in the near future will relate to the manufacture of it's line of postage meters.

The Company does not engage in any material off balance sheet financing.

Inflation

The effect of inflation on operating results has, historically, been insignificant.

Year 2000

Many computer programs use only the last two digits of a year to store or process dates. This is the case with the accounting program used by the Company. As a result, the programs may treat dates after 1999 as earlier than dates before 2000. This could adversely affect routines such as calculating depreciation or aging accounts receivable. The Company is currently assessing the issue and will correct this defect in the Company's program. The Company expects the defect will be corrected without material cost before the year 2000. The Company's products are not impacted by the year 2000 changeover. The Company's customers, suppliers and service providers may use computer programs with similar defects which, to the extent not corrected, may adversely affect the Company's operations, such as the receipt of supplies, services, purchase orders and payments of accounts receivable.

While the Year 2000 considerations are not expected to materially impact the Company's internal operations, they may have an effect on some of our customers and suppliers, and thus indirectly affect the Company. It is not possible to quantify the aggregate cost to the Company with respect to customers and suppliers with Year 2000 problems, although the Company does not anticipate it will have a material adverse impact on its business.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item is incorporated herein by reference to the financial statements and supplementary data listed in Item 14 of Part IV of this Report.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated herein by reference is the information required by this Item in the Company's definitive proxy statement for the 1998 annual meeting of shareholders which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the Company's fiscal year ended December 31, 1997.

Item 11. EXECUTIVE COMPENSATION

Incorporated herein by reference is the information required by this Item in the Company's definitive proxy statement for the 1998 annual meeting of shareholders which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the Company's fiscal year ended December 31, 1997.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated herein by reference is the information required by this Item in the Company's definitive proxy statement for the 1998 annual meeting of shareholders which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the Company's fiscal year ended December 31, 1997.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated herein by reference is the information required by this Item in the Company's definitive proxy statement for the 1998 annual meeting of shareholders which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the Company's fiscal year ended December 31, 1997.

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

Documents filed with Report

Financial Statements

The financial statements listed on the accompanying Index to Financial Statements and Schedule are filed as part of this report.

Financial Statement Schedule

The financial statement schedule listed on the accompanying Index to Financial Statements and Schedule are filed as part of this report.

Exhibits

The exhibits listed on the accompanying Index to Exhibits are filed as part of this report.

Reports on Form 8-K

No reports on Form 8-K were filed by the Company during the last quarter of the fiscal year ended December 31, 1997.

MICRO GENERAL CORPORATION
Annual Report - Form 10-K
Items 8, 14(a)(1) and 14(a)(2)
Financial Statements and Schedules
December 31, 1997, 1996 and 1995
(With Independent Auditors' Report Thereon)

MICRO GENERAL CORPORATION

Index to Financial Statements and Schedule

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Statements of Shareholders' Equity (Deficiency) - Years ended December 31, 1997, 1996 and 1995	4
Statements of Cash Flows - Years ended December 31, 1997, 1996 and 1995	5
Notes to Financial Statements	6
Schedule Valuation and Qualifying Accounts - Schedule II	

All other schedules are omitted as the required information is inapplicable or the information is presented in the financial statements or notes thereto.

Independent Auditors' Report
The Board of Directors and Shareholders
Micro General Corporation:

We have audited the accompanying balance sheets of Micro General Corporation as of December 31, 1997 and 1996 and the related statements of operations, shareholders' equity (deficiency) and cash flows for each of the years in the three-year period ended December 31, 1997. 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 Micro General Corporation as of December 31, 1997 and 1996 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1997 in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 2 to the financial statements, the Company has suffered recurring losses from operations and has limited working capital resources that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMP PEAT MARWICK LLP
Orange County, California
February 20, 1998

MICRO GENERAL CORPORATION
Balance Sheets
December 31, 1997 and 1996

Assets (Note 7)	1997	1996
	-----	-----
Current assets:		
Cash	\$ 318,845	413,533
Accounts and notes receivable, less allowance for doubtful receivables and sales returns of \$16,141 and \$35,333 in 1997 and 1996, respectively	97,223	103,474

Inventories (note 3)	853,033	1,039,972
Prepaid expenses	264,970	104,993
	-----	-----
Total current assets	1,534,071	1,661,972
Equipment and improvements, net (note 4)	209,351	207,659
Other assets, net (note 5)	1,096,115	320,598
	-----	-----
	\$2,839,537	2,190,229
	=====	=====

Liabilities and Shareholders' Equity (Deficiency)

Current liabilities:

Notes payable (note 7)	\$ 850,000	--
Accounts payable	163,455	65,480
Accrued expenses	203,791	173,040
Deferred revenue	6,112	60,857
	-----	-----
Total current liabilities	1,223,358	299,377
	-----	-----
Long-term debt (note 7)	2,750,000	1,500,000
	-----	-----

Shareholders' equity (deficiency) (note 8):

Preferred stock, \$.05 par value. Authorized 1,000,000 shares; none issued and outstanding	--	--
Common stock, \$.05 par value. Authorized 10,000,000 shares; issued and outstanding 1,949,666 and 1,949,166 shares in 1997 and 1996, respectively	97,483	97,458
Additional paid-in capital	4,176,370	4,175,708
Accumulated deficit	(5,407,674)	(3,882,314)
	-----	-----
Total shareholders' equity (deficiency)	(1,133,821)	390,852
Commitments and contingencies (note 10)	--	--
	-----	-----
	\$2,839,537	2,190,229
	=====	=====

See accompanying notes to financial statements.

MICRO GENERAL CORPORATION

Statements of Operations

Years ended December 31, 1997, 1996 and 1995

	1997	1996	1995
	-----	-----	-----
Revenues:			
Product sales, net of returns of \$86,061, \$158,435 and \$278,839 in 1997, 1996 and 1995, respectively	\$ 672,049	834,609	1,742,943
Service and rate change revenues (note 10)	1,102,002	1,320,769	2,298,978
	-----	-----	-----
Total revenues	1,774,051	2,155,378	4,041,921

Cost of sales:			
Products	1,141,026	1,008,918	1,350,017
Service and rate changes	385,316	389,598	587,367
	-----	-----	-----
Total cost of sales	1,526,342	1,398,516	1,937,384
	-----	-----	-----
Gross profit	247,709	756,862	2,104,537
Operating expenses:			
Selling, general and administrative	1,319,955	1,459,225	1,674,322
Engineering and development	266,242	410,362	637,896
Provision for (collections of) doubtful receivables	(6,305)	16,285	31,849
	-----	-----	-----
Operating loss	(1,332,183)	(1,129,010)	(239,530)
Interest and other income (expense), net	(192,377)	(52,356)	10,678
	-----	-----	-----
Loss before income tax expense	(1,524,560)	(1,181,366)	(228,852)
Income tax expense (note 6)	800	800	800
	-----	-----	-----
Net loss	\$(1,525,360)	(1,182,166)	(229,652)
	=====	=====	=====
Loss per common share:			
Basic	\$ (.78)	(.61)	(.12)
Diluted	(.78)	(.61)	(.12)
	=====	=====	=====
Weighted average common shares used in computing per share amounts:			
Basic	1,949,563	1,948,541	1,940,666
Diluted	1,949,563	1,948,541	1,940,666
	=====	=====	=====

See accompanying notes to financial statements.

MICRO GENERAL CORPORATION
Statements of Shareholders' Equity (Deficiency)
Years ended December 31, 1997, 1996 and 1995

<TABLE>

	<S>	<S>	<S>	<S>	<S>	<S>	<S>
	Preferred stock Shares	Amount	Common stock Shares	Amount	Additional paid-in capital	Accumulated deficit	Total shareholders equity (deficiency)
	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1994	--	\$ --	1,888,166	\$94,408	4,111,883	(2,470,496)	1,735,795
Stock options exercised (note 8)	--	--	60,000	3,000	62,625	--	65,625
Net loss	--	--	--	--	--	(229,652)	(229,652)
	-----	-----	-----	-----	-----	-----	-----
Balance at December 31, 1995	--	--	1,948,166	97,408	4,174,508	(2,700,148)	1,571,768

Stock options exercised (note 8)	--	--	1,000	50	1,200	--	1,250
Net loss	--	--	--	--	--	(1,182,166)	(1,182,166)

Balance at December 31, 1996	--	--	1,949,166	97,458	4,175,708	(3,882,314)	390,852
Stock options exercised (note 8)	--	--	500	25	662	--	687
Net loss	--	--	--	--	--	(1,525,360)	(1,525,360)

Balance at December 31, 1997	--	\$ --	\$1,949,666	\$97,483	4,176,370	(5,407,674)	(1,133,821)
=====							

See accompanying notes to financial statements.

</TABLE>

MICRO GENERAL CORPORATION
Statements of Cash Flows
Years ended December 31, 1997, 1996 and 1995

	1997	1996	1995
	-----	-----	-----
Cash flows from operating activities:			
Net loss	\$ (1,525,360)	(1,182,166)	(229,652)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	90,547	111,223	108,281
Provision for (collections of) doubtful receivables	(6,305)	16,285	31,849
Provision for sales returns	86,061	158,435	62,739
Decrease (increase) in assets:			
Accounts and notes receivable	(73,505)	71,797	173,855
Income tax receivable	--	--	7,000
Inventories	186,939	284,137	(183,926)
Prepaid expenses	(159,977)	34,440	133,999
Other assets, net	(792,307)	(308,558)	(15,000)
Increase (decrease) in liabilities:			
Accounts payable	97,975	14,202	(244,793)
Accrued expenses	30,751	8,495	(63,527)
Deferred revenue	(54,745)	39,180	(138,176)
	-----	-----	-----
Net cash used in operating activities	(2,119,926)	(752,530)	(357,351)
	-----	-----	-----
Cash flows used in investing activities--capital expenditures	(75,449)	(95,409)	(100,900)
	-----	-----	-----
Cash flows from financing activities:			
Proceeds from notes payable	2,100,000	1,500,000	--
Net proceeds (repayment) of notes payable to bank	--	(275,000)	275,000
Issuance of common stock	687	1,250	65,625

Net cash provided by financing activities	2,100,687	1,226,250	340,625
Net increase (decrease) in cash	(94,688)	378,311	(117,626)
Cash at beginning of year	413,533	35,222	152,848
Cash at end of year	\$ 318,845	413,533	35,222
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 174,158	54,539	2,000
Income taxes	800	800	800

See accompanying notes to financial statements.

MICRO GENERAL CORPORATION
Notes to Financial Statements
December 31, 1997, 1996, 1995

(1) Summary of Significant Accounting Policies

General

The operations of Micro General Corporation (the Company) consist of the design, purchase, distribution and manufacturing of computerized parcel shipping systems, postal scales and piece-count scales. Product sales are achieved through the use of authorized company dealers and through dealers in the office products and superstore channels throughout the United States.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and investments with original maturities of three months or less.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market (net realizable value).

Equipment and Improvements

Equipment and improvements are stated at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the respective equipment and improvements.

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

The Company adopted the provisions of Statement of Financial Accounting Standard No. 121 (Statement No. 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," on January 1, 1996. This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a

comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Adoption of this Statement did not have a material impact on the Company's financial position, results of operations or liquidity.

New Accounting Pronouncements

Effective December 31, 1997, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS No. 128). This statement replaces the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All loss per share amounts for all periods have been restated to conform to the SFAS No. 128 requirements.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Warranties

The Company's products are sold with a 90-day warranty on materials and workmanship. Estimated warranty costs based on historical experience are accrued as an expense at the time products are sold.

Intangible Assets

Intangible assets are classified under other assets and are amortized on a straight-line basis over periods ranging from 10 to 15 years.

Capitalized Software Development Costs

Software development costs incurred after the establishment of technological feasibility are capitalized and amortized using the straight-line method over the estimated economic life of the product.

Revenue Recognition

Product sales are recorded by the Company when products are shipped to dealers and customers. Rate change revenues are recorded by the Company at the time memory chips are reprogrammed with new tariffs and shipped to the customer.

The Company collects fees from some customers in anticipation of future rate changes. Customers prepaying future rate changes receive memory chips with

the new tariffs, upon notice of a rate change, without paying an additional charge. These prepaid rate change fees are recorded as revenue on a pro rata basis over the prepaid period.

Sales Returns

The majority of the Company's product sales are to its authorized dealers who resell the Company's products. The Company's policy is that all sales are final, but dealers may, at the Company's sole discretion and subject to a restocking fee, return certain out-of-warranty products in exchange for products of comparable sales value. Additionally, dealers may, at the Company's sole discretion, be permitted to return their unopened inventory in the event they or the Company terminate their dealership agreement, again subject to a restocking fee. Upon acceptance of returned goods, the Company reconditions the goods, at a nominal cost, and restocks them in inventory to be sold at a later date. The Company provides an allowance for such returns equal to the estimated gross profit on the portion of sales estimated to be returned. This specific allowance is a component of the Company's allowance for doubtful receivables and sales returns.

Fair Value of Financial Instruments

The carrying amount of cash, accounts receivable, deferred revenue, notes receivable, prepaid expenses, other assets, accounts payable and accrued expenses are measured at cost which approximates their fair value due to the short maturity of these instruments.

The fair values of notes payable and long-term debt are estimated based on quoted market prices for similar issues.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stock Option Plan

Prior to January 1, 1996, the Company accounted for its stock option plan in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On January 1, 1996, the Company adopted Statement of Financial Accounting Standard No. 123 (SFAS No. 123), "Accounting for Stock-Based Compensation," which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income (loss) and pro forma earnings (loss) per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123 (note 8).

(2) Liquidity and Going Concern

The Company has suffered losses from operations for each of the years in the three years ended December 31, 1997. In addition, the Company is currently operating without a revolving line of credit agreement to fund working capital requirements. Current liquidity is being funded through product sales, service and rate change revenues.

Based upon the recurring losses from operations, the Company's current cash projections which demonstrate a cash shortfall using the above-mentioned sources of liquidity, its lack of a revolving credit agreement and the uncertainty regarding its ability to access other sources of liquidity, substantial doubt exists regarding the Company's ability to continue as a going concern.

Management is pursuing additional sources of new capital. Based on the terms of the current notes, note holders would have to approve any additional funding. The Company also believes that new product introductions in 1997 will reduce operating losses.

(3) Inventories

Inventories are comprised of the following at December 31, 1997 and 1996:

	1997	1996
	-----	-----
Parts and supplies	\$ 646,594	683,936
Purchased finished goods	180,738	333,376
Consigned inventory	25,701	22,660
	-----	-----
	\$ 853,033	1,039,972
	=====	=====

(4) Equipment and Improvements

Equipment and improvements consist of the following at December 31, 1997 and 1996:

	Useful life	1997	1996
	-----	-----	-----
Production equipment, including tooling	5 years	\$ 454,501	446,232
Office furniture and equipment	5 years	667,026	617,480
Leasehold improvements	5 years	24,246	39,347
		-----	-----
		1,145,773	1,103,059
Less accumulated depreciation and amortization		(936,422)	(895,400)
		-----	-----
		\$ 209,351	207,659
		=====	=====

(5) Other Assets

Other assets consist of the following at December 31, 1997 and 1996:

	Estimated useful life	1997	1996
	-----	-----	-----
Software development costs	5 years	\$ 1,054,865	262,558

Excess cost of assets purchased over fair market value	15 years	232,531	232,531
Deferred loan fees and commitment fee	5 years	50,000	50,000
License rights	10 years	41,382	41,382
Other intangible assets	15 years	23,388	23,388
		-----	-----
		1,402,166	609,859
Less accumulated amortization		(306,051)	(289,261)
		-----	-----
		\$ 1,096,115	320,598
		=====	=====

During July 1996, the Company reached the technological feasibility stage of software development on the Meter Project, which, in accordance with Statement of Financial Accounting Standard No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," is the point after which qualified software development costs may be capitalized. The amounts capitalized at December 31, 1997 and 1996 are mainly comprised of salary expense, departmental overhead and an allocation of other indirect costs. All such capitalized costs were incurred subsequent to the achievement of technological feasibility.

(6) Income Taxes

Income tax expense for the three years ended December 31, 1997 represents the state minimum tax.

The expected income tax benefit computed by multiplying loss before income tax expense by the statutory Federal income tax rate of 34% differs from the actual income tax expense as follows:

	1997	1996	1995
	-----	-----	-----
Expected tax benefit	\$ (518,000)	(402,000)	(78,000)
Effect of net operating loss carryforward not recognized for financial statement purposes	513,000	395,000	71,000
Nondeductible amortization of the excess cost of assets purchased over fair market value	5,000	7,000	7,000
State income tax expense	800	800	800
	-----	-----	-----
	\$ 800	800	800
	=====	=====	=====

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 1997 and 1996 are as follows:

	1997	1996
	-----	-----
Deferred tax assets:		
Net operating loss carryforwards	\$ 1,701,000	1,118,000

Reserves and accruals not recognized for income tax purposes	--	56,000
Tax credit carryforwards	75,000	80,000
Accelerated depreciation for financial statement purposes in excess of income tax depreciation	16,000	8,000
	-----	-----
Total deferred tax assets	1,792,000	1,262,000
Less valuation allowance	(1,792,000)	(1,262,000)
	-----	-----
Net deferred tax assets	\$ --	--
	=====	=====

The net change in the total valuation allowance during 1997 was an increase of \$530,000. Management believes the existing net deductible temporary differences will reverse during periods in which the Company will have the ability to utilize the deductions to offset other reversing temporary differences which give rise to taxable income. However, there can be no assurance that the Company will generate any earnings or any specific level of continuing earnings in future years which may also facilitate the realization of the net deferred tax assets.

At December 31, 1997, the Company had net operating loss carryforwards of approximately \$4,551,000 and \$1,734,000 for Federal and state income tax purposes, respectively. If not used to offset future taxable income, the net operating loss carryforwards will expire at various years between 2006 and 2012. The Company also has investment tax credit and research and experimentation credit carryforwards aggregating approximately \$75,000 which expire during the period 1998 to 2002.

(7) Notes Payable/Long-Term Debt

On August 1, 1996, the Company entered into a \$3 million financing agreement which provided additional funding primarily for the retirement of bank debt, operations, and to fund the Company's ongoing development of a series of high-level security postage meters designed to comply with the new United States Postal Service proposed regulations. Two 9.5%, five-year convertible notes were made available, one in the amount of \$1 million and one in the amount of \$2 million, and are held by Cal West Service Corporation (CalWest), a California corporation and 38% holder of Micro General common stock and Dito Caree L.P. Holding (Dito Caree), a Nevada cooperation which owns 5% of the common stock of Micro General, respectively. As stipulated in the note agreements, a maximum of 85% of these borrowings must be used to fund the Meter Project and the remaining 15% may be used for operations. Amendment to the 85%/15% split is at the sole discretion of the note holders. At December 31, 1997, the Company was not in compliance with this stipulation but did obtain waivers from both note holders.

The debt, secured by the assets of the Company, can be converted into 1,344,438 shares of the Company's common stock at prices ranging from \$2.00 to \$2.50 per share. At December 31, 1997, there was \$3,000,000 outstanding on these notes. In conjunction with the \$3,000,000 financing agreement, the Company paid a 1% commitment fee to the noteholders. This fee amounted to \$20,000 and \$10,000 to Dito Caree and CalWest, respectively, and is being amortized over the term of the notes.

Repayment of the notes is on an interest-only basis for the first two years, with principal and interest payments for the remaining three years of the

term.

On November 25, 1997, the Company entered into a \$600,000 financing agreement which provided additional funding to be used by the Company for cash flow purposes. Two 9.00% notes were issued in the amount of \$400,000 and \$200,000 and are held by Dito Caree and CalWest, respectively.

Interest on the two notes is to be paid quarterly. The Company has the right to prepay all or a portion of the interest and principal due on the notes at any time prior to the due date of May 31, 1998. All payments must be allocated two-thirds to Dito Caree and one-third to CalWest.

In conjunction with the short-term notes, the Company issued to the note holders, two detachable warrant certificates, one in the amount of 100,000 shares to Dito Caree and one in the amount of 50,000 shares to CalWest, giving the note holders the right to purchase 150,000 shares of the Company's common stock at \$1.50 per share. The warrants can be exercised any time between November 25, 1997 and November 25, 2002.

Principal maturities of the notes payable and long-term debt are as follows:

1998	\$ 850,000
1999	1,000,000
2000	1,000,000
2001	750,000

Total	\$3,600,000
	=====

At December 31, 1997, the Company was in compliance with restrictive debt covenants on the \$600,000 notes payable and received waivers from the note holders for the events of noncompliance on the \$3,000,000 long-term debt.

(8) Stock Option Plans

Under terms of the Company's Incentive Stock Option Plan (the Plan), the exercise price of options granted is to be equal to the stock's fair market value at the date of grant. Common stock initially available for option under the Plan was 220,000 shares. Options are exercisable no later than 5 years from the date of grant. Options which are not exercised or canceled revert back to the Plan and are subject to subsequent reissuance. This Plan expired on October 7, 1991 and was renewed at the 1993 annual shareholders' meeting. There are no remaining shares available for grant under this Plan as of December 31, 1997.

In 1995, the Company's Board of Directors approved a new stock option plan (the 1995 Plan). Common stock available for option under the 1995 Plan is 132,499 shares and all shares were available for grant as of December 31, 1997.

The per share weighted-average fair value of stock options granted during 1997, 1996 and 1995 was \$0.77, \$1.02 and \$1.05 on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	1997	1996	1995
	-----	-----	-----
Expected dividend yield	0%	0%	0%

Risk-free interest rate range	5.94%-6.73%	5.91%-6.48%	5.96%-7.47%
Volatility factor	67.05%	46.49%	46.49%
Expected life	4 years	4 years	4 years
	=====	=====	=====

The Company applies APB Opinion No. 25 in accounting for its Plan and, accordingly, no compensation cost has been recognized for its stock options in the financial statements. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net loss would have been increased to the pro forma amounts indicated below:

	1997	1996	1995
	-----	-----	-----
Net loss:			
As reported	\$ (1,525,360)	(1,182,166)	(229,652)
Pro forma	(1,686,197)	(1,304,893)	(324,677)
	=====	=====	=====
Net loss per share:			
As reported:			
Basic	\$ (.78)	(.61)	(.12)
Diluted	(.78)	(.61)	(.12)
	=====	=====	=====
Pro forma:			
Basic	\$ (.86)	(.67)	(.17)
Diluted	(.86)	(.67)	(.17)
	=====	=====	=====

Pro forma net loss reflects only options granted since January 1, 1995. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net loss amounts presented above because compensation cost is reflected over the options' vesting period and compensation cost for options granted prior to January 1, 1995 is not considered.

A summary of all stock option transactions for the three-year period ended December 31, 1997 follows:

	Shares	Weighted average exercise price
	-----	-----
Options granted and outstanding:		
At December 31, 1994	189,500	\$ 1.46
Granted	110,000	2.31
Exercised	(60,000)	1.09
Canceled	(100,000)	1.52
	-----	-----
At December 31, 1995	139,500	2.25
Granted	26,500	2.26
Exercised	(1,000)	1.25
Canceled	(20,000)	2.22
	-----	-----
At December 31, 1996	145,000	2.26
Granted	78,000	1.38
Exercised	(500)	1.38
Canceled	(6,500)	2.24
	-----	-----

At December 31, 1997

216,000

\$ 1.94

=====

=====

The aggregate value of options outstanding at December 31, 1997, 1996 and 1995 was approximately \$419,000, \$328,000 and \$314,000, respectively. At December 31, 1997, options for 96,667 shares of common stock were vested and exercisable at prices ranging from \$1.25 to \$2.50 per share.

(9) 401(k) Plan

The Company maintains a 401(k) plan whereby all employees who have completed three months of service may elect to make pretax contributions of 1% to 20% of their annual pay not to exceed contributions of \$9,500 per year. The Company has a 25% employer matching program contingent upon Company earnings of at least \$100,000. As the Company did not meet the minimum earnings requirement for employer matching in 1997, 1996, and 1995, no Company contributions were made to the plan for those years.

(10) Commitments and Contingencies

Noncancelable operating lease commitments consist principally of the lease for the Company's distribution and administrative facility. In February 1994, the Company extended this facility lease through 1999. In December 1996, the Company entered into a four-year lease agreement for a new distribution and administration facility and in turn entered into an agreement to sublease the old distribution and administration facility for the same lease term and same lease payments. Sublease income is shown below as a reduction to total future lease payments. At December 31, 1997, the Company was committed to the following noncancelable operating lease payments:

Year ending December:	
1998	\$ 183,000
1999	92,000
2000	65,000

	340,000
Less sublease income	(143,000)

Net minimum lease payments	\$ 197,000
	=====

Rental expense was approximately \$113,000 in 1997, \$150,000 in 1996, and \$130,400 in 1995.

The Company has a license agreement with Pitney Bowes which enables the Company to manufacture and sell certain products. The license agreement expires in 2004. Annual expenses for the license agreement are minor.

From time to time, the United States Postal Service (USPS) or United Parcel Service (UPS) change their rates. For a fee, the Company provides its customers with programmable memory chips with the new tariffs which can be inserted into the Company's products. In some instances, customers prepay a fee to the Company which assures they will receive new programmable memory chips for all rate changes which occur within a predetermined period. In other instances, customers incur a fee for each time they decide to procure a new programmable memory chip. The Company has experienced UPS rate changes in 1997, 1996 and 1995 and a USPS rate change in 1997 and 1995. During 1997,

1996, and 1995, the Company recorded revenues from rate changes totaling approximately \$1,035,000, \$1,229,000 and \$2,132,000, respectively. Gross profits related to rate changes in 1997, 1996 and 1995 totaled approximately \$725,000, \$902,000 and \$1,805,000, respectively. A UPS rate change also occurred in February 1998. However, there can be no assurance that future rate changes by UPS or USPS will occur.

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

MICRO GENERAL CORPORATION

Valuation and Qualifying Accounts

Years ended December 31, 1997, 1996 and 1995

<TABLE>

Description -----	Balance at beginning of period ----- <C>	Additions to costs and expenses (account recoveries) ----- <C>	Deductions ----- <C>	Balance at end of period ----- <C>
Allowance for doubtful receivables:				
Year ended December 31, 1997	\$ 28,333	(6,305)	12,887	9,141
	=====	=====	=====	=====
Year ended December 31, 1996	\$ 39,594	16,285	27,546	28,333
	=====	=====	=====	=====
Year ended December 31, 1995	\$ 74,749	31,849	67,004	39,594
	=====	=====	=====	=====
Allowance for sales returns:				
Year ended December 31, 1997	\$ 7,000	86,061	86,061	7,000
	=====	=====	=====	=====
Year ended December 31, 1996	\$ 7,000	158,435	158,435	7,000
	=====	=====	=====	=====
Year ended December 31, 1995	\$ 7,000	62,739	62,739*	7,000
	=====	=====	=====	=====

* Represents gross profit on sales returns.

</TABLE>

SIGNATURES

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

Dated: March 31, 1998

MICRO GENERAL CORPORATION
By: /s/ Thomas E. Pistilli
Thomas E. Pistilli
President
Chief Executive Officer
Chief Financial Officer

By: /s/ Linda I. Morton
Linda I. Morton
Controller
Corporate Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates so indicated.

Signature	Title	Date
/s/ Thomas E. Pistilli Thomas E. Pistilli	President and Director	March 31, 1998
/s/ John J. Cahill John J. Cahill	Director	March 31, 1998
/s/ William P. Foley ,II William P. Foley, II	Director	March 31, 1998
/s/ George E. Olenik George E. Olenik	Director	March 31, 1998
/s/ Richard H. Pickup Richard H. Pickup	Director	March 31, 1998
/s/ Carl A. Strunk Carl A. Strunk	Director	March 31, 1998

Index of Exhibits	Page#
3.1 Restated Articles of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 25, 1988 (the "1988 Form 10-K Amendment 1"))	
3.11 Restated Articles of Incorporation of the Company - Article Fourth of the Certificate of Incorporation((Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (the "1996 Form 10-K"))	
3.2 Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the "1988 Form 10-K Amendment 1")	
10.1 Incentive Stock Option Plan and form of Incentive Stock Option Agreement in use prior to 1987 (incorporated by reference to Exhibit 10.1 to the 1984 Form 10-K) Option Plan and form of Incentive Stock Option Agreement in use commencing in 1987 (incorporated by reference to Exhibit 10 to the Company's Annual Report for the year ended December 28,1986 (the "1986 Form 10-K"))	
10.3 Lease of 1740 E. Wilshire Ave., Santa Ana, California, 92705, facilities between Shaw Investment and the Company (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 25, 1988 (the "1988 Form 10-K Amendment 1"))	
10.4 Lease of 115 Hurley Road., Oxford, Connecticut, 06478, facilities	

- between Hurley Farms Business Park and the Company dated March 20, 1995. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (the "1996 Form 10-K"))
- 10.5 Sub-lease of 1740 E. Wilshire Ave., Santa Ana, California, 92705 facilities between Micro General Corporation and Secure Communications dated October 29, 1996. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (the "1996 Form 10-K"))
- 10.6 Leases of 14711 Bentley Circle, Tustin, California, 92780 facilities between Andrew S. Friedman and the Company dated November 6, 1996. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (the "1996 Form 10-K"))
- 10.16.3 Amendment to Loan Agreement between the Company and Silicon Valley Bank dated December 10, 1993. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1993)
- 10.16.4 Amendment to Loan Agreement between the Company and Silicon Valley Bank dated January 27, 1994. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1994)
- 10.17 Loan Agreement between the Company and First Bank and Trust dated November 15, 1995. (Incorporated by Reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1995)
- 10.18 Convertible Note Purchase Agreement between Micro General Corporation and CalWest Service Corporation dated August 1, 1996. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (the "1996 Form 10-K"))
- 10.19 Convertible Note Purchase Agreement between Micro General Corporation and Dito Caree L.P. dated August 1, 1996. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (the "1996 Form 10-K"))
- 10.20 Loan Agreement and Agreement to issue Detachable Warrants between Micro General Corporation and CalWest Service Corporation and Dito Caree L.P. Holding dated November 25, 1997 (filed herewith) 40
- 23.1 Consent of KPMG Peat Marwick LLP (filed herewith) 38

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Micro General Corporation:

We consent to the incorporation by reference in the Registration Statement No. 33-22240, No. 2-85485 and No. 2-92490 on Form S-8 of Micro General Corporation (the Company) of our report dated February 20, 1998, relating to the balance sheets of Micro General Corporation as of December 31, 1997 and December 31, 1996 and the related statements of operations, shareholders' equity(deficiency) and cash flows for the three-year period ended December 31, 1997 and the related schedule, which report appears in the December 31, 1997 annual report on Form 10-K of Micro General Corporation.

Our report, dated February 20, 1998, contains an explanatory paragraph that states that the Company has suffered recurring losses from operations and has limited working capital resources which raise substantial doubt about its ability to continue as a going concern. The financial statements and financial statement schedule do not include any adjustments that might result from the outcome of that uncertainty.

/s/ KPMG PEAT MARWICK LLP

Orange County, California
March 31, 1998
Page 1
March 30, 1998

<TABLE> <S> <C>

<ARTICLE> 5

<CIK> 0000067383

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LOAN AGREEMENT AND AGREEMENT TO ISSUE DETACHABLE WARRANTS

THIS LOAN AGREEMENT AND AGREEMENT TO ISSUE DETACHABLE WARRANTS is made and is effective this 25th day of November, 1997 (the "Agreement"), by and between MICRO GENERAL CORPORATION, a corporation duly organized and existing under the laws of the State of Delaware (hereinafter the "Company"), having its principal office at 1740 E. Wilshire Blvd., Santa Ana, California 92705, CALWEST SERVICE CORPORATION, a corporation duly organized and existing under the laws of the State of California (hereinafter "CalWest"), and DITO CAREE L.P. HOLDING, a Nevada limited partnership (hereinafter "Dito Caree") (with CalWest and Dito Caree hereinafter collectively being referred to as the "Lenders").

RECITALS

A. The Company has requested from the Lenders funds and the Lenders have agreed to make a loan to the Company, with said funds to be advanced to the Company pursuant to a series of advances.

B. In order to evidence the Company's agreement to repay the loans to the Lenders, the Company has duly authorized the issuance of two (2) separate promissory notes, one in the principal amount of \$400,000 in favor of Dito Caree, and one in the principal amount of \$200,000 in favor of CalWest.

C. As an inducement and as consideration for the Lenders to make the loans and acquire the notes (without regard to whether the Company may ultimately request, pursuant to the terms of the notes, the full amount of the \$600,000 loans), the Company has agreed to deliver to the Lenders detachable warrants which shall authorize the holders thereof to purchase and acquire, pursuant to the terms of said warrants, up to 150,000 shares of the Company's five cent (\$.05) par value common stock (the "Common Stock"). Upon exercise of the warrants pursuant to the terms thereof, a detachable warrant authorizing the issuance of 100,000 shares shall be issued to Dito Caree, and a detachable warrant authorizing the acquisition of 50,000 shares shall be issued to CalWest.

D. In order to set forth the terms and conditions upon which the loans are to be made, the notes are to be issued, and the warrants are to be issued, the parties reach this agreement.

NOW, THEREFORE, in consideration of the promises and mutual agreements set forth and made herein, the parties agree as follows:

ARTICLE I

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

SECTION 101. Definitions. For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise

requires:

(1) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;

(2) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles, and, except as otherwise herein expressly provided, the term "generally accepted and account principles" with respect to any computation required or permitted hereunder shall mean such accounting principles as are generally accepted at the date of such computations; and

(3) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or other subdivision.

"Administrative Agent" means CalWest Service Corporation, a California corporation, which shall act as agent for the Lenders.

"Agreement" means this instrument as originally executed or, if amended or supplemented as herein provided, as so amended or supplemented.

"Board of Directors" means either the board of directors of the Company or any duly authorized committee of the board of directors of the Company.

"Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in the City of Los Angeles, California are authorized or required to close.

"Common Stock" means the five cents (\$.05) par value Common Stock of the Company as the same exists at the date of the execution of this Agreement or shares of any class or classes resulting from any reclassification or reclassifications thereof and which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company and which are not subject to redemption by the Company; provided, however, that if at any time there shall be more than one such resulting class, the share of each such class then so issuable shall be substantially in the proportion which the total number of shares of such class resulting from all such reclassifications bears to the total number of shares of all such classes resulting from all such reclassifications.

"Company" means the Person named as the "Company" in the first paragraph of this instrument until a successor corporation shall have become such pursuant to applicable provisions of this Agreement, and thereafter "Company" shall mean such successor corporation.

"Convertible Note Purchase Agreement" means the Agreement between the Company and Lenders dated July 10, 1996 pursuant to which convertible notes were issued to Lenders.

"Corporation" includes corporations, associations, companies and business trusts.

"Detachable Warrant" means the form of warrant issued to Lenders under the terms and provisions of Article III of this Agreement.

"Dollars" and "\$" means the lawful money of the United States of America.

"Event of Default" has the meaning specified in Section 601 hereof.

"Executive Employee" means any employee of the Company who holds the title of Vice President or above.

"Exercise Notice" has the meaning specified in Section 304 hereof.

"Exercise Price" has the meaning specified in Section 301 hereof.

"Holder of Warrant" means any person or entity who shall hold a warrant issued under the terms and provisions of Article III of this Agreement.

"Indebtedness" means money borrowed.

"Interest Payment Date" has the meaning specified in Section 202 hereof.

"Lenders," when used herein, means collectively CalWest Service Corporation and Dito Caree L.P. Holding.

"Note," when used in the singular, means the Note executed by the Company and delivered to the Lenders under this Agreement as specified in the recitals hereof; and "Notes," when used in the plural, means collectively the two Notes executed by the Company and delivered to the Lenders under this Agreement as specified in the recitals hereof.

"Note Rate" has the meaning specified in Section 202 hereof.

"Officer's Certificate" means a certificate signed by the President of the Company and delivered to the Lenders describing with particularity the use of proceeds of an advance on the Note, representing that there are no defaults under this Agreement, the Note or the Security Agreement, or relating to such other matters as may be required hereunder.

"Payment Date" shall mean an Interest Payment Date or a Principal Payment Date.

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Principal Payment Date" means any date on which a payment of principal and interest on the Note shall be due.

"Security Agreement" has the meaning specified in Section 204 hereof.

"Subsidiary" means any corporation more than fifty percent (50%) of the outstanding voting stock of which is at the time owned, directly or indirectly, by the Company or by one or more other Subsidiaries, or by the Company and one or more other Subsidiaries. For purposes of this definition, the term "voting stock" means stock which ordinarily has voting power for the election of directors, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

"Warrant" means the right to purchase Common Stock of the Company as evidenced by a detachable warrant referenced in Article III of this Agreement.

SECTION 102. Effect of Headings and Table of Contents. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

SECTION 103. Successors and Assigns. All covenants and agreements in this Agreement by either party shall bind its successors and assigns, whether so expressed or not. Any act or proceeding by any provision of this Agreement authorized or required to be done or performed by any board, committee or officer of either party shall and may be done and performed with like force and effect by the board, committee or officer of any corporation that shall at the time be the lawful sole successor of either party. Nothing set forth in this Section shall be deemed to represent a consent to any assignment of rights in the event any such assignment of rights shall otherwise be restricted under other terms or provisions of this Agreement.

SECTION 104. Severability Clause. In case any provision of this Agreement or in the Note shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 105. Benefits of Agreement. Nothing in this Agreement or in the Note, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder any benefit or any legal or equitable right, remedy or claim under this Agreement.

SECTION 106. Governing Law. Each provision of this Agreement, the Note and the Security Agreement shall be governed by and construed in accordance with the laws of the State of California.

SECTION 107. Legal Holidays. In any case where the date of maturity of or interest on or principal of the Note or the date fixed for redemption or for purchase of the Note or the last day on which Lenders have the right to convert the Note shall not be a Business Day then (notwithstanding any other provision of this Agreement or of the Note) payment of such interest, premium or principal or conversion of the Note need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date of maturity or the date fixed for

redemption or for purchase or the last day for conversion, and interest shall accrue for the period from and after such date of maturity or date fixed for redemption or for purchase or last day for conversion to such next succeeding Business Day.

SECTION 108. Execution in Counterparts. This Agreement may be executed in any number of counterparts, including facsimile counterparts, each of which shall be an original, but all of which counterparts shall together constitute one and the same instrument.

SECTION 109. Attorneys' Fees. Should suit be filed seeking enforcement or interpretation of this Agreement and/or the Note, the prevailing party in any such action shall be entitled to receive in addition to any other sums awarded to such party, attorneys' fees and all other costs of collection actually incurred in such action.

SECTION 110. Notices. All notices or other communications required or permitted hereunder shall be in writing, and shall be personally delivered or sent by registered or certified mail, postage prepaid, return receipt requested, overnight courier, or by facsimile, addressed to the parties as set forth herein. Any such notice shall be deemed received upon the earlier of (a) if personally delivered, the date of delivery to the address of the person to receive such notice, (b) if mailed, four (4) business days after the date of posting by the United States post office, (c) if given by overnight courier, upon receipt by the person to receive such notice, or (d) if sent by facsimile, when sent.

To the Company: Micro General Corporation
 14711 Bentley Circle
 Tustin, California 92780
 Attn: President
 Facsimile: (714) 731-9193

To CalWest: CalWest Service Corporation
 3916 State St., Suite 300
 Santa Barbara, California 93105
 Attn: President
 Facsimile: (805) 898-7148

To Dito Caree: Dito Caree L.P. Holding
 610 Newport Center Drive, Suite 1300
 Newport Beach, California 92660
 Attn: President
 Facsimile: (714) 759-9539

Any notice, request, demand, direction or other communication sent by telecopy must be confirmed within forty-eight (48) hours by letter mailed or delivered in accordance with the foregoing. Notice of change of address shall be given by written notice in the manner detailed in this Section 110. Rejection or other refusal to accept or the inability to deliver because of a changed address of which no notice was given shall be deemed to constitute receipt of

the notice, demand, request or communication sent.

ARTICLE II

THE NOTES

SECTION 201. Form Generally. The Notes shall be in substantially the form set forth on Exhibit "A" attached hereto, but with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Agreement, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with applicable securities laws.

SECTION 202. Designation, Amount and Issuance of Note and Additional Advances.

(a) The Notes shall be issued by the Company, each of which shall be designated as "Promissory Note," and each Note shall be one of two (2) such Promissory Notes, to wit, the Notes that are the subject of this Agreement and which Notes shall memorialize the entire \$600,000 loan, one Note in the face amount of \$400,000 in favor of Dito Caree, and the other Promissory Note in the face amount of \$200,000 in favor of CalWest. The initial disbursement of principal under the terms of each of the Notes shall represent a combined total of \$200,000 (with 2/3 of said amount representing a loan by Dito Caree and being evidenced by the Dito Caree Note, and 1/3 of representing a loan by CalWest and being evidenced by the CalWest Note). An additional disbursement of \$200,000 shall be made within three (3) business days after the receipt by the Administrative Agent of a request for disbursement by the Company made anytime after December 1, 1997 and prior to December 31, 1997, said additional disbursement of the loan of funds to be made 2/3 by Dito Caree and 1/3 by CalWest, and the balance of such principal to be disbursed under said Notes to be made within three (3) days after receipt of request for disbursement by the Administrative Agent received at any time after December 15, 1997 and prior to December 31, 1997. Lender shall have no obligation to make any disbursement under the Notes until the Administrative Agent shall have received an Officer's Certificate with respect to each such disbursement in compliance with the requirements of Section 901(a) hereof.

(b) The Note shall be dated as of the date of the first disbursement in the sum of \$200,000 as referenced in Section 202(a) hereinabove, and the Note shall bear interest from and after the date of that disbursement and each additional disbursement on the amount of funds under the Note at the rate of nine percent (9%) per annum (the "Note Rate"), with interest paid quarterly with said Note to be payable on May 30, 1998 (the "Due Date"). On such Due Date, the entire unpaid balance of the Note, including principal and all accrued but unpaid interest, shall be due and payable.

(c) The Company shall have the right to prepay, in whole or in part, all or any portion of the interest or principal due upon the Notes at any time prior to the due date, providing any payment upon such Notes shall be

allocated 2/3 to the Dito Caree Note and 1/3 to the CalWest Note. The Company shall have the right to request sn advance of a sum less than the total \$600,000 principal amount of the Notes, in which event the loan shall represent only the sums advanced and received by the Company.

SECTION 203. Execution of the Note. The Note shall be executed on behalf of the Company by its President or one of its Vice Presidents, under its corporate seal reproduced thereon, and by its Secretary, one of its Assistant Secretaries, its Chief Financial Officer, or any Assistant Treasurer.

SECTION 204. Security for the Notes. In order to secure the prompt repayment of principal and interest on the Note, and the full performance by the Company under the Note and this Agreement, the Company shall grant to Lenders a security interest in all of its inventory, accounts receivable, Intellectual Property and any other of its significant assets, and agreed to execute a General Assignment and Security Agreement (the "Security Agreement") in favor of Lenders in substantially the form attached hereto as Exhibit "B." The Company agrees to execute such documents and to take any other actions reasonably necessary to grant and perfect the security interests of Lenders in the property described above, including the execution of the UCC financing statements and any amendments to the Security Agreement, as shall be necessary to perfect Lenders' security interests. The Administrative Agent shall file a UCC financing statement for both of the Notes of Lenders issued under the terms of this Agreement. Said Security Agreement shall be subordinate to the Security Agreement previously issued by the Company in favor of both Lenders to secure performance of the Convertible Note Purchase Agreement.

ARTICLE III

ISSUANCE OF DETACHABLE WARRANTS

SECTION 301. Warrants Issued. In consideration for Lenders making the loans as provided hereunder, and in consideration for the risks which Lenders may incur as a result of making said loans, and for other material consideration, the Company shall, simultaneous with the execution of this Agreement, issue and deliver to Lenders two (2) certificates evidencing detachable warrants, which shall grant to the holders of said warrants the right to purchase from the Company 150,000 shares of the Company's Common Stock, with the right of exercise of purchase of Common Stock to be exercised by the holder of the warrants at any time after the issuance date and prior to 5:00 p.m. (PST) on November 25, 2002. One warrant certificate shall represent 100,000 shares and be issued in favor of Dito Caree, and one warrant certificate shall represent 50,000 shares and be issued in favor of CalWest. Each warrant is issued under the terms of the detachable warrant certificate and shall grant to the holder the right to purchase from the Company one (1) fully paid and non-assessable share for each warrant at an Exercise Price of one dollar and fifty cents (\$1.50), subject to any adjustment based upon the provisions of Section 303 of this Agreement (the "Exercise Price"). The Holder of the Warrant certificate may exercise a warrant, in whole or in part, pursuant to the terms specified in the holder's certificate and, at the

holder's election, the holder may assign all or a portion of the warrants to one or more third party assignees.

SECTION 302. Form of Warrant and Notice of Exercise. The form of the warrant shall be substantially in the form of Exhibit "C" attached hereto, with the Exercise Notice attached to said warrant to be utilized by the holders to exercise the rights of purchase of shares under the warrant. The holders of a warrant shall, at any time during the term of said warrant, have the right to exercise said warrant by acquiring one (1) share of Common Stock of the Company for each warrant so held.

SECTION 303. Anti-Dilution Rights. The Company will not, by any voluntary action, avoid or seek to avoid performance of any of the terms of the detachable warrant, as is set forth in Section 301 hereinabove, but will at all times, in good faith, carry out the provisions and intent of Section 301 and the warrants issued under such Section and take all actions as may be necessary or appropriate to protect against the impairment of any rights of Lenders, or any holder of the warrant to exercise rights thereunder and to purchase Common Stock. In the event, at any time prior to the full exercise by any holder of the warrant of all rights to purchase Common Stock, the Company shall sell or otherwise transfer any Common Stock or adjust in any manner its capital structure, the Company undertakes and agrees to make adjustments as may be necessary to protect the holder of the warrant to purchase a number of shares of Common Stock for a price per share equal to the price per share originally contemplated under the terms of the Warrant and to adhere to and comply with all provisions set forth in the warrant concerning anti-dilution rights extended to the holder of the warrant.

SECTION 304. Manner of Exercise of Warrants. The warrants, as represented by those certificates as issued under the provisions of Section 301 of this Agreement, shall be exercisable, at the election of the holder of the warrant, either in their entirety or, from time to time, for a part only the number of warrants specified in the certificate issued to the holder of the warrant and in the Exercise Notice with respect to the exercise thereof. If not all of the warrants evidenced by a certificate are exercised at any time prior to the expiration of the warrant, a new certificate or certificates (as the case may be) shall be promptly issued for the balance of the warrants not so exercised, by the Company. All certificates surrendered upon exercise of the warrants shall be cancelled by the Company. Upon surrender of any certificate and payment of the exercise price, the Company shall promptly issue and cause to be delivered to, or upon the written order of, the holder of the warrant and, in such case, the name or names as the holder of the warrant may designate, a certificate or other documents representing the share or shares issuable upon the exercise of the warrants evidenced by said certificate. The certificate representing the shares shall be deemed to have been issued and any person so designated therein shall be deemed to become a holder of record of such shares as of the date of the surrender of any certificate and the payment of the exercise price by the holder of the warrant.

SECTION 305. Notice to Lenders Prior to Certain Corporate Actions.

In case:

(a) the Company shall authorize the granting to the holders of its Common Stock generally of rights, Warrants or options to subscribe for or purchase any shares of stock of any class or of any other rights; or

(b) there shall be any reorganization of the Common Stock (other than a change in the par value of the Common Stock), or any permissible consolidation or merger to which the Company is a party, or any permissible conveyance, transfer, sale or lease of the Company's properties and assets as, or substantially as, an entity; or

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

then the Company shall cause to be given to Lenders, in the manner provided in Section 110 hereof, and with respect to the events described in subsections (a), (b) and (c) of this Section 305, as promptly as possible, but in any event at least twenty (20) days prior to the applicable date hereinafter specified, a notice stating (i) the date on which the Company expects to file a Registration Statement covering the Common Stock, or (ii) the date on which such reorganization, reclassification, consolidation, merger, conveyance, transfer, sale, lease, dissolution, liquidation, or winding up is expected to become effective or occur, and, if applicable, the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, conveyance, transfer, sale, lease, dissolution, liquidation, or winding up.

SECTION 306. Reservation of Shares of Common Stock. The Company covenants that it will at all times reserve and keep available, free from preemptive rights, out of the aggregate of its authorized but unissued shares of Common Stock, for the purpose of effecting issuance of shares upon exercise of warrants, the full number of shares of Common Stock deliverable upon exercise of a warrant.

SECTION 307. Taxes Upon Exercise. The Company will pay any and all documentary stamp or similar issue or transfer taxes payable in respect of the issue or delivery of shares of Common Stock upon exercise of the warrants pursuant thereto.

SECTION 308. Covenants as to Common Stock. The Company covenants that all shares of Common Stock which may be delivered upon exercise of the Warrants will, upon delivery, be duly and validly issued and fully paid and non-assessable, free of all liens and charges and not subject to any preemptive rights.

SECTION 309. Piggyback Registration Rights. If the Company shall determine to register any of its securities, either for its own account or for the account of a security holder or holders, other than a registration relating solely to employee benefit plans, or a registration on any

registration form that does not permit secondary sales, the Company will promptly give to Lenders written notice thereof and use its best efforts to include in such registration (and any related qualification under applicable Blue Sky laws or other compliance), and any underwriting involved therein, Common Stock specified in a written request made by Lenders within twenty (20) days after the written notice of the Company provided for above is given. Such written request may specify all or a part of Lenders' Common Stock. If the registration of which the Company gives notice is for a registered public offering involving an underwriting, the Company shall so advise as a part of the written notice given as required above. In such event the right of Lenders to registration shall be conditioned upon Lenders' participation in such underwriting and the inclusion of its Common Stock in the underwriting. Lenders shall enter with the Company into an underwriting agreement in customary form with the representative of the underwriter or underwriters selected by the Company. Notwithstanding the above, if the representative of the underwriters advises the Company in writing that marketing factors require a limitation of the number of shares to be underwritten, the representative may exclude Lenders' Common Stock from, or limit the number of shares of Lenders' Common Stock to be included in, the registration and underwriting. The number of shares of securities that are entitled to be included in the registration and underwriting shall be allocated first to the Company for securities being sold for its own account, then to Lenders to the extent of securities they have elected to sell for their own accounts, and thereafter to all other owners of Common Stock with the right to participate in such registration and underwriting pro rata in proportion to the percentage of all outstanding Common Stock owned by each such person immediately prior to commencement of such registration and underwriting. If any person does not agree to the terms of any such underwriting, he shall be excluded therefrom by written notice from the Company or the underwriter. Any Common Stock or other securities excluded or withdrawn from such underwriting shall be withdrawn from such registration. If shares are so withdrawn from the registration or if the number of shares of Common Stock to be included in such registration is increased during the period of such registration, the Company shall offer first to Lenders and then, if additional shares may be sold in the registration to all other persons who have retained the right to include securities in the registration, the right to include additional securities in the registration in an aggregate amount equal to the number of shares so withdrawn, with such shares to be allocated among the persons requesting additional inclusion pro rata in proportion to the percentage that each person's Common Stock represents of the total amount of Common Stock owned by all such persons prior to commencement of such registration and underwriting.

ARTICLE IV

COVENANTS OF THE COMPANY

For so long as this Agreement shall remain in effect, the Company covenants that:

SECTION 401. Payment of Principal and Interest. It will duly and punctually pay the principal of and interest on the Notes at the place, at the

respective times and in the manner provided in the Notes; and each installment of principal and/or interest on the Notes shall be paid by mailing checks or wire transferring funds for the amount due to Lenders in the manner reasonably calculated to cause such funds to be received on or prior to a Payment Date.

SECTION 402. Corporate Existence. Subject to Article VIII hereof, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence.

SECTION 403. Payment of Taxes and Other Claims. The Company has paid and will in the future pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (a) all taxes, assessments and governmental charges levied or imposed upon the Company or upon the income, profits or property of the Company, and (b) all lawful claims against the Company for labor, materials and supplies which in the case of either clause (a) or (b) of this Section 403, if unpaid, might by law become a lien upon its property; provided, however, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

SECTION 404. Dividends/Compensation. It shall not (a) declare, pay or make any dividend or distribution (in cash, property or obligations) on any shares of any class of its capital stock (now or hereafter outstanding) of the Company or on any Warrants, options or other rights with respect to any shares of any class of capital stock (now or hereafter outstanding) of the Company, or apply any of its funds, property or assets to the purchase, redemption, sinking fund or other retirement of any shares of any class of capital stock (now or hereafter outstanding) of the Company or any option, Warrant or other right to acquire shares of the Company's capital stock, or (b) make any deposit for any of the foregoing purposes. No additional salary, bonus or other cash or non-cash compensation shall be paid to any of the Company's Executive Employees in an amount greater than the amount set forth in any existing employment contracts with such individuals, or, in the case of "at-will" Executive Employees, any increase in the compensation paid for such Executive Employees shall require the prior written approval of the Company's Board of Directors and the Administrative Agent, which approval will not be unreasonably withheld. No non-cash compensation shall be paid to any employees of the Company without the prior written approval of the Company's Board of Directors and the Administrative Agent, which approval will not be unreasonably withheld.

SECTION 405. Corporate Existence; Foreign Qualification. It will do and cause to be done at all times all things necessary to (a) maintain and preserve the corporate existence of the Company, (b) be duly qualified to do business in good standing as foreign corporations in each jurisdiction where the nature of its business makes such qualification necessary, and (c) comply with all contractual obligations and requirements of law binding upon it.

SECTION 406. Books, Records and Inspections. It shall:

(a) maintain, and cause each of its Subsidiaries, if any, to maintain complete and accurate books and records;

(b) permit and cause each of its Subsidiaries, if any, to permit access at reasonable times by Lenders to its books and records;

(c) permit, and cause each of its Subsidiaries, if any, to permit Lenders to inspect at reasonable times its properties and operations; and

(d) permit, and cause each of its Subsidiaries, if any, to permit Lenders to discuss its business, operations and financial condition with its officers and employees or with its outside auditors.

SECTION 407. Compliance with Laws. It shall comply with all federal, state and local laws, rules and regulations related to its businesses.

SECTION 408. Maintenance of Permits. It shall maintain all permits, licenses and consents as may be required for the conduct of its business by any state, federal or local government agency or instrumentality.

SECTION 409. Capital Expenditures/Debt. The Company not, without the express prior written consent of Lenders, make only those capital expenditures with the proceeds of the Notes consistent with Business Plans and representations heretofore made by the Company to Lenders under and pursuant to the terms of the Convertible Note Purchase Agreement.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

The Company hereby represents and warrants as follows to Lenders:

SECTION 501. Customer Contracts. The Company represents and warrants to Lenders that, as of the date hereof, to its knowledge all contracts and agreements between it and purchasers of its goods and services (whether payable in cash or in kind) are valid and in full force and effect, all amounts due and owing to the Company thereunder have been paid, no default exists either on the part of the Company or of any other party to any such contract and that the list of such contracts appearing documents heretofore provided to Lenders are true, accurate and correct.

SECTION 502. Board of Directors. As of the date hereof, the list of Directors making up its Board of Directors, as previously set forth on Schedules provided to Lenders under the Convertible Note Purchase Agreement, is true, accurate and correct, and all such Directors have been duly elected by valid shareholder action in the manner required by the Certificate of Incorporation and/or the bylaws of the Company.

SECTION 503. Organization of the Company. The Company is a

corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has no active Subsidiaries at the date hereof. The Company has corporate power to own or lease its properties and to carry on its business as and in the places where such properties are now owned, leased or operated, and its business is now conducted, and the Company has complied in all material respects with all material federal, state and local laws with respect to the operation and the conduct of its business. Copies of the Certificate of Incorporation and all amendments thereto, bylaws as amended and currently in force, stock records and corporate minutes and records of the Company heretofore made available to Lenders and are complete and correct at the date hereof.

SECTION 504. Capital Stock; Options.

(a) Company has authorized capital stock consisting of 10,000,000 shares of Common Stock, five cent (\$.05) par value, of which 1,948,166 shares are issued and outstanding, and 1,000,000 shares of Preferred Stock, five cent (\$.05) par value, none of which are issued or outstanding. All of the issued and outstanding shares of Common Stock are duly authorized and validly issued, fully paid and non-assessable, were offered, issued and sold in accordance with applicable federal and state securities laws, and there are no preemptive rights in respect thereof. There are no other classes of stock of the Company other than the Common Stock.

(b) There are no outstanding options, warrants, rights, calls, commitments, conversion rights, plans or other agreements or instruments of any character providing for the purchase or other acquisition by the holders thereof or issuance of the Company's securities of any description, except those rights as may have been granted under the terms of the Convertible Note Purchase Agreement and under the terms and provisions of this Agreement.

SECTION 505. Corporate Authority. The Company has full legal right and corporate power and authority, without the consent of any other person, to make, execute, deliver and perform this Agreement and the transactions contemplated hereby, and the execution, delivery and performance of this Agreement by the Company has been duly authorized by all necessary corporate action of the Company.

SECTION 506. Notes and Accounts Receivable. To its knowledge, all Notes receivable and accounts receivable are valid obligations of the respective makers thereof and are not subject to any valid offset or counterclaim or any assignment, claim, lien or security interest.

SECTION 507. Actions, Suits, Etc. There are no actions, suits, claims, complaints, charges, hearings, investigations, arbitrations (or other dispute resolution proceedings) or other proceedings pending or, to its knowledge, threatened against, by or affecting the Company in any court or panel or before any arbitrator or governmental agency, domestic or foreign, other than (a) actions related to garnishments of employee wages, or (b) routine matters covered by insurance. The Company has not been charged with, and to its knowledge is not under investigation with respect to, any charge

concerning any violation of any provisions of any federal, state or other applicable law or administrative regulation with respect to its business. There are no judgments unsatisfied against the Company and no consent decrees to which the Company is subject. The Company is not involved in or threatened with any labor dispute which could have a material adverse effect on the business and operations of the Company.

SECTION 508. Material Contracts. As a part of the Convertible Note Purchase Agreement, the Company did provide to Lenders an accurate schedule of each of the hereinafter-described instruments, commitments, agreements, arrangements and understandings relating to the business of which the Company is a party or is bound. No changes or modifications exist to such list, except as is set forth on Schedule 508 attached hereto.

(a) Real estate leases, personal property leases, licenses of intellectual property, technical information or software, employment contracts and benefit plans.

(b) Any contract for capital expenditures or for the purchase of goods or services in excess of \$5,000.

(c) Any instrument evidencing indebtedness (other than routine purchase orders), any liability for borrowed money, any obligation for the deferred payment of the purchase price for property in excess of \$5,000 (excluding normal trade payables), or any instrument guaranteeing any indebtedness, obligation or liability.

(d) Any advertising contract not terminable without payment or penalty on thirty (30) days (or less) notice.

(e) Any license or royalty agreement.

(f) Any contract for the purchase or sale of any assets in excess of \$5,000 other than in the ordinary course of business or granting an option or preferential rights to purchase or sell any assets in excess of \$5,000.

(g) Any contract containing covenants not to compete in any line of business or with any person in any geographical area.

(h) Any contract relating to the acquisition of a business or the equity of any other person.

(i) Any other contract, commitment, agreement, arrangement or understanding related to its business which provides for payment or performance by any party thereto having an aggregate value of \$5,000 or more, and is not terminable without payment or penalty on thirty (30) days (or less) notice.

Accurate, correct and complete copies of each such contract have been made available to Lenders. Each contract is in full force and effect and is valid,

binding and enforceable as to the Company in accordance with its terms. The Company and, to the Company's knowledge, each other party has complied in all material respects with all material commitments and obligations on its part to be performed or observed under each such contract. The Company has not received any written or, to its knowledge, other notice of a default, offset or counterclaim under any contract, or any other written or, to its knowledge, other communication calling upon the Company to comply with any provision of any contract or asserting noncompliance by the Company.

SECTION 509. Absence of Undisclosed Liabilities. To its knowledge, the Company does not have any material indebtedness, liability or obligation of any nature, whether absolute, accrued, contingent or otherwise, related to or arising from the operation of its business or the ownership, possession or use of any assets.

SECTION 510. Accuracy of Information. None of the information furnished by the Company to Lenders in writing shall contain any untrue statement of a material fact or shall omit to state a material fact required to be stated therein or necessary in order to make the statements there, in the light of circumstances under which they were made, not misleading.

SECTION 511. Real Estate Leases. Schedule 411, previously provided to Lenders under and pursuant to the terms of the Convertible Note Purchase Agreement, sets forth an accurate, correct and complete list of all real estate which is leased or subleased by the Company, including identification of the lease or sublease, street address, and list of material contracts, agreements, leases, subleases, options and commitments, oral or written, affecting such real estate or any interest therein to which the Company is a party or by which the Company is bound.

SECTION 512. Personal Property Leases. The Company has previously provided, to Lenders, in connection with the Convertible Note Purchase Agreement a listing of all personal property leases and said listing is accurate, correct and constitutes a complete list of each lease of personal property used in the business of the Company which provides for annual lease payments in excess \$5,000.

SECTION 513. Intellectual Property. The Company has previously provided in connection with Schedule 413 as a part of the Convertible Note Purchase Agreement a listing of intellectual property, and said listing contains an accurate, correct and complete list and summary description of all patents, trademarks, trademark rights, trade names, trade styles, trade dress, service marks, copyrights and applications for any of the foregoing utilized by the business (the "Intellectual Property"). During the preceding five (5) years, the Company has not been known by or done business under any name other than Micro General Corporation. Schedule 413 contains an accurate, correct and complete list and summary description of all licenses and other agreements relating to any Intellectual Property. Except as set forth on said Schedule 413, with respect to the Intellectual Property, (a) the Company is the sole and exclusive owner and, to the knowledge of the Company, has the sole and exclusive right to use the Intellectual Property; (b) no action, suit,

proceeding or investigation is pending or, to the Company's knowledge, threatened; (c) to the knowledge of the Company, none of the Intellectual Property interferes with, infringes upon, conflicts with or otherwise violates the rights of others or is being interfered with or infringes upon by others, and none is subject to any outstanding order, decree, judgment, stipulation or charge; (d) there are no royalty, commission or similar arrangements, and no licenses, sublicenses or agreements, pertaining to any of the Intellectual Property; (e) the Company has not agreed to indemnify any person for or against any infringement of or by the Intellectual Property; and (f) the Intellectual Property constitutes all such assets, properties and rights which are used in or necessary for the conduct of its business. To the knowledge of the Company, the operation of its business by the Company after the date hereof, in the manner and geographic areas in which its business is currently conducted by the Company or is to be conducted as a result of its plans to expand its business into other geographic areas, will not interfere with or infringe upon any currently issued United States Letters Patent or trademarks currently registered in the Primary Register of the United States Patent and Trademark Office. The Company is not subject to any judgment, order, writ, injunction or decree of any court or any federal, state, local or other governmental agency or instrumentality, domestic or foreign, or any arbitrator, and has not entered into or is not a party to any contract which restricts or impairs the use of any Intellectual Property.

SECTION 514. Trade Secrets. The Company has provided to Lenders a listing and summary description of all information in the nature of the Company proprietary information, including databases, compilations of information, copyrightable material and technical information. The Company represents it has the right to use such information by virtue of its ownership or by virtue of the license agreements which permit its utilization. The Company has no knowledge of any violation of any trade secret or copyrights with respect to any such information which the Company uses. The Company further has the right to use all electronic processing systems, information systems, hardware, computer software programs, indexes, program specifications, charts, procedures, source codes, input data, routines, data bases, layouts and formats, record file layouts, diagrams, functional specifications and narrative descriptions which the Company uses and/or is reasonably necessary for the Company to use in the conduct of its business.

SECTION 515. Insurance. The Company has adequate policies of insurance in force in which the Company is named as an insured loss payee or an additional insured covering the Company's assets and the pursuit of its business, premiums on all of such policies have been paid, and copies of all of such policies shall be delivered to Lenders pursuant to the date of this Agreement and the Company shall, simultaneously with the date of this Agreement, cause Lenders to be named as loss payees or additional insureds on all such policies or coverages available.

ARTICLE VI

DEFAULTS; REMEDIES

SECTION 601. Events of Default. "Event of Default," wherever used herein with respect to the Notes, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) By the Company.

(1) default in the payment of any installment of principal and/or interest on the Notes as and when they become due and payable, whether by virtue of the terms of the Notes as to payments of principal and/or interest, at maturity, in connection with any redemption, or otherwise and the passage of seven (7) days following written notice thereof to the Company; or

(2) default in the performance, or breach, of any material covenant, representation or warranty of the Company in this Agreement and the passage of thirty (30) days following written notice thereof to the Company, or, if such default cannot be cured within such thirty (30) days, commencement of the cure of such default within such thirty (30) days and diligent prosecution of such cure to completion; or

(3) the entry by a court having jurisdiction in the premises of (a) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization or other similar law, or (b) a decree or order adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under any applicable federal or state law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of all or substantially all of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or for any such other decree or order unstayed and in effect for a period of 45 consecutive days; or

(4) the commencement by the Company of a voluntary case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization or other similar law or the consent by it to the entry of a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization or other similar law, other consent by it to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or similar official of the Company or of all or substantially all of its property, or the making by it of a general assignment for the benefit of creditors; or

(5) until all sums due under the Notes have been repaid, or any increase by the Company of the number of members of its Board of Directors to a number greater than the number who hold office at the time of

execution of the Notes, or any change in the actual members of the Company's Board of Directors, without the prior written consent of the Lenders; or

(6) the failure of the Company to provide any information or report to the Lenders required to be provided pursuant to Article VII hereof and the passage of thirty (30) days following written notice thereof to the Company, or, if such default cannot be cured within such thirty (30) days, commencement of the cure of such default within such thirty (30) days and diligent prosecution of such cure to completion.

(b) By the Lenders. The failure of the Lenders to fund pursuant to this Agreement in the event proper certifications and requests for funds or advances are made and the Company is in compliance with all of the covenants of this Agreement and the Notes.

SECTION 602. Acceleration of Maturity, Rescission and Annulment; Other Remedies.

(a) Lenders' Remedies.

(i) Upon the occurrence of an Event of Default under any event described in Section 601(a) (other than an Event of Default described in Sections 601(a)(4) and 601(a)(5) hereof), then in every such case Lenders may declare the principal amounts of the Notes to be due and payable immediately, by a notice in writing to the Company and upon any such declaration such principal amounts shall become immediately due and payable. The Company specifically acknowledges and agrees that the occurrence of any Event of Default under any event described in Section 601(a) hereof will automatically cause all existing Notes to be in default, and all Events of Default under all Notes must be cured before any one Event of Default shall be deemed cured.

(ii) At any time after a declaration of acceleration with respect to the Notes has been made and before a judgment or decree for payment of the money due has been obtained by Lenders as hereinafter in this Article provided, Lenders may, by written notice to the Company, rescind and annul such declaration and its consequences if (1) the Company has paid to Lenders a sum sufficient to pay (a) all overdue interest on the Notes, (b) the principal on the Notes which have become due otherwise than by such declaration of acceleration and interest thereon at the Note Rate, (c) to the extent that payment of such interest is lawful, interest upon overdue interest the Note Rate, and (d) all sums paid or advanced by Lenders hereunder and the actual compensation, expenses, disbursements and advances of Lenders, their agents and counsel; and (1) all Events of Default with respect to the Notes, other than the nonpayment of the principal of the Notes which have become due solely by such declaration of acceleration, have been cured or waived by Lenders. No such rescission shall affect any subsequent default or impair any right consequent thereon. In the case of any Event of Default described in Section 601(a)(4) or 601(a)(4), all unpaid principal of and accrued interest on the Notes shall be due and payable immediately without any declaration or other act on the part of Lenders.

(b) The Company's Remedies. Upon the occurrence of an Event of Default as described in Section 601(b) hereof, the Company may then enforce as against Lenders obligations to fund or advance any unadvanced portions of principal under the terms of the Notes.

SECTION 603. Collection of Indebtedness and Suits for Enforcement.

(a) The Company covenants that if default is made in the payment of any principal and/or interest on the Notes when such principal and/or interest becomes due and payable, whether at a time specified in the Notes, at maturity of the Notes or in connection with any redemption or otherwise, the Company will, upon demand of Lenders, pay to it the whole amount then due and payable on the Notes for principal and interest and, to the extent that payment of such interest shall be legally enforceable, interest on any overdue principal and on any overdue interest, at the Not Rate, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of Lenders, their agents and counsel, it being understood that as to the Lenders, any payments will be applied on a pro rata basis among the Lenders based on each Lender's respective Note amount. If the Company fails to pay such amounts forthwith upon such demand, Lenders may prosecute a proceeding to judgment or final decree and may enforce the same against the Company or any other obligor on the Notes and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or of any other obligor on the Notes, wherever situated, it being understood that any monies collection shall be applied on a pro rata basis among the Lenders based on each Lender's respective Note. In addition, Lenders may give notice to customers of the Company that all payments under contracts listed on Schedule 401 shall, until further notice, be paid directly to Lender, and the Company consents to each such notice.

(b) If an Event of Default with respect to the Notes occurs, Lenders may in their discretion proceed to protect and enforce their rights by such appropriate judicial proceeding as it shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Agreement or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

SECTION 604. Lenders May File Proofs of Claim. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or of any other obligor on the Notes or the property of the Company or of such other obligor or their creditors, Lenders (irrespective of whether the principals of the Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether it shall have made any demand on the Company for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise.

(a) to file and prove a claim for the whole amount of principal and interest owing and unpaid in respect of the Notes and to file such other

papers and documents as may be necessary or advisable in order to have the claims of Lenders (including any claim to the right to own Common Stock or for the reasonable compensation, expenses, disbursements and advances of Lenders, its agents and counsel) allowed in such judicial proceeding; and

(b) to collect and receive any monies or other property payable or deliverable on any such claims.

SECTION 605. Application of Money Collected. Any money collected by Lenders pursuant to this Article VI shall be applied in the following order, at the date or dates fixed by Lenders and, in case of the distribution of such money on account of principal or interest, upon presentation of the Notes and the notation thereon of the payment if only partially said and upon surrender thereof if fully paid;

First: To the costs and expenses of Lenders in collecting sums due them hereunder;

Second: To the payment of the amounts due and unpaid first for interest on and then for principal of all outstanding Notes, applied on a pro rata basis among the Lenders based on each Lender's respective Notes; and

Third: To the payment of the remainder, if any, to the Company or any other person lawfully entitled thereto.

SECTION 606. Rights and Remedies Cumulative. No right or remedy hereon conferred upon or reserved to Lenders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 607. Delay or Omission Not Waiver. No delay or omission of Lenders to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default. Every right and remedy given by this Article VI or by law may be exercised from time to time, and as often as may be deemed expedient by Lenders.

SECTION 608. Waiver of Stay or Extension Laws. The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit of advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Agreement; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to Lenders, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE VII

REPORTS BY COMPANY

SECTION 701. Annual Statement. The Company shall file with the Lenders, such information, documents, other reports and such summaries thereof as Lenders shall request immediately upon request, but without request, the Company shall deliver to Lenders audited financial statements of the Company prepared by independent certified public accountants within ninety (90) days of the end of the Company's fiscal year in the event at such date any portion of the loan obligation shall be outstanding.

SECTION 702. Quarterly Financial Reports. Throughout the term of this Agreement and for so long as any amount remains unpaid under the Notes, the Company shall furnish Lenders with copies of its quarterly financial reports no later than forty-five (45) days following the end of the subject fiscal quarter.

ARTICLE VIII

CONSOLIDATION, MERGER, CONVEYANCE, TRANSFER, SALE OR LEASE

SECTION 801. Company May Consolidate or Enter into Other Similar Transaction upon Certain Terms. The Company shall not consolidate with or merge into any other corporation or convey, transfer, sell or lease its properties and assets as, or substantially, as an entirety to any person, issue any capital stock (including Common Stock) of the Company unless (a) prior to such transaction, the Company has notified Lenders in writing of the contemplated or intended transaction; and (b) upon any such consolidation, merger, sale, conveyance or exchange of or by the Company (i) the Company is the continuing corporation and the Company's Common Stock outstanding immediately prior to the merger is not exchanged for securities, cash or other property of another corporation, (ii) there is an exchange of the Notes for other securities in connection with such transaction, or (iii) the due and punctual payment of the principal of and interest on, the Notes, according to their tenor, and the due and punctual performance and observance of all of the covenants and conditions of the Agreement to be performed by the Company, are expressly assumed by a Note supplemental to the Notes by the corporation formed by such consolidation, or whose securities, cash or other property will immediately after the merger be owned, by virtue of the merger, by the holders of Common Stock of the Company immediately prior to the merger, or by the corporation that shall have acquired such property or securities. Furthermore, the Company shall not consolidate with or merge into any other corporation or convey, transfer, sell or lease its properties and assets as, or substantially as, an entirety to any person, or enter into any statutory exchange of securities with another corporation, unless the Company shall have delivered to Lenders and Officer's Certificate stating that such transaction and such supplemental agreement comply with this Agreement.

SECTION 802. Assumption of Obligations. Anything set forth in this

Article VIII to the contrary notwithstanding, no transaction involving any form of reorganization, consolidation or merger with or by the Company shall occur without adequate provision being made for the discharge and payment of the Notes in accordance with their terms and preservation of rights to the holders of the warrants issued as a portion of this transaction.

ARTICLE IX

CONDITIONS PRECEDENT

SECTION 901. Conditions Precedent. The obligation of Lenders to purchase the Notes and to make all individual disbursements thereunder is expressly conditioned upon the following:

(a) The Lenders' receipt from the Company, as delivered to the Administrative Agent, in each instance, of an Officer's Certificate signed by its President satisfactory to Lenders in which such President represents and warrants to the Lenders, and each of them, on behalf of the Company that:

(1) use of the proceeds from such Notes shall be utilized for business purposes of the Company;

(2) that each of the representations and warranties made by the Company are true, accurate and correct as of the date of each additional disbursement or advance under the Notes; and

(3) there are no defaults under this Agreement, the Notes or the Security Agreement.

(b) The Lenders' receipt of a Certificate of Good Standing certified by the Secretary of State of the State of Delaware as to the corporate status of the Company; and

(c) Full compliance by the Company with each and every provision of the Security Agreement, including the delivery of all documents, data and other materials required thereunder.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, and their respective seals to be hereunto fixed and attested, all as of the day and year first above written.

MICRO GENERAL CORPORATION,
a Delaware corporation

By: /s/ Linda Morton
Name: Linda Morton
Title: Corporate Secretary

CALWEST SERVICE CORPORATION,
a California corporation

By: /s/ Carl A. Strunk

Name: Carl A. Strunk
Title: Vice President, Treasurer

DITO CAREE L.P. HOLDING,
a Nevada limited partnership

By: /s/ David B. Hehn
Name: David B. Hehn
Title: President, Gamebusters Inc.
its General Partner

LOAN AGREEMENT AND AGREEMENT TO ISSUE DETACHABLE WARRANTS
by and between

MICRO GENERAL CORPORATION,
a Delaware corporation

(as Borrower)

and

CALWEST SERVICE CORPORATION,
a California corporation

and

DITO CAREE L.P. HOLDING,
a Nevada limited partnership

(as Lenders)

Dated as of November 25, 1997

MICRO GENERAL CORPORATION
PROMISSORY NOTE

\$200,000.00
California

Irvine,

November 25, 1997

MICRO GENERAL CORPORATION, a corporation duly organized and existing under the laws of Delaware (hereinafter the "Company," which term includes any successor corporation or corporations under the Agreement hereinafter referred to), for value received, hereby promises to pay to CALWEST SERVICE CORPORATION, a California corporation, at its office at 17911 Von Karman Avenue, Suite 500, Irvine, California 92614, or order ("Lender"), the principal sum of Two Hundred Thousand Dollars (\$200,000), or so much thereof as shall have been disbursed by Lender and which at that time remains unpaid, together with simple interest thereon from the date hereof at the rate of nine percent (9%) per annum, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, payable as follows: Accrued interest shall be paid on February 25, 1998 and the entire unpaid balance of this Note, including principal and all accrued interest, shall be due and payable on May 30, 1998. All payments shall be applied first to accrued interest and then to principal.

This Note may be prepaid in whole or in part at any time with the prior written consent of Lender so long as the Company gives ten (10) days' prior written notice to Lender of the Company's intent to prepay this Note or any portion hereof. Any prepayment upon this Note shall require a proportionate payment, in such proportion as this Note shall bear to the entire obligation owing to Dito Caree L.P. Holding and CalWest Service Corporation, as Lenders. Such notice of prepayment shall state the proposed payment date and the principal amount to repaid.

The obligation of this Note shall be subordinate to the obligations of the Company in favor of CalWest Service Corporation and Dito Caree L.P. Holding, as Lenders, under the terms and provisions of a Convertible Note Purchase Agreement.

This Note is duly authorized and issued by the Company, is designated as set forth on the fact hereof, and is limited to the aggregate principal amount of \$200,000 issued under and pursuant to the terms of a Loan Agreement and Agreement to Issue Detachable Warrants dated November 25, 1997 duly executed and delivered by the Company and Dito Caree L.P. Holding and CalWest Service Corporation, as Lenders, to which Agreement reference is made hereby for further description of the rights, limitation of rights, obligations and duties thereunder by the Company and the Lenders. In case of an Event of Default shall have occurred under this Note or under the terms of the Agreement (as the term "Event of Default" is defined in said Agreement), the principal balance hereof and all accrued but unpaid interest thereon may be declared, and upon such declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in this Agreement.

IN WITNESS WHEREOF, the Company has caused this instrument to be signed manually or by facsimile by its duly authorized officers.

Dated: 11-25-97

MICRO GENERAL CORPORATION,
a Delaware corporation

By: /s/ Linda Morton
Name: Linda Morton
Title: Corporate Secretary

MICRO GENERAL CORPORATION
PROMISSORY NOTE

\$400,000.00
California

Irvine,

November 25, 1997

MICRO GENERAL CORPORATION, a corporation duly organized and existing under the laws of Delaware (hereinafter the "Company," which term includes any successor corporation or corporations under the Agreement hereinafter referred to), for value received, hereby promises to pay to DITO CAREE L.P. HOLDING, a Nevada limited partnership, at its office at 610 Newport Center Drive, Suite 1300, Newport Beach, California 92660, or order ("Lender"), the principal sum of Four Hundred Thousand Dollars (\$400,000), or so much thereof as shall have been disbursed by Lender and which at that time remains unpaid, together with simple interest thereon from the date hereof at the rate of nine percent (9%) per annum, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, payable as follows: Accrued interest shall be paid on February 25, 1998 and the entire unpaid balance of this Note, including principal and all accrued interest, shall be due and payable on May 30, 1998. All payments shall be applied first to accrued interest and then to principal.

This Note may be prepaid in whole or in part at any time with the prior written consent of Lender so long as the Company gives ten (10) days' prior written notice to Lender of the Company's intent to prepay this Note or any portion hereof. Any prepayment upon this Note shall require a proportionate payment, in such proportion as this Note shall bear to the entire obligation owing to Dito Caree L.P. Holding and CalWest Service Corporation, as Lenders. Such notice of prepayment shall state the proposed payment date and the principal amount to repaid.

The obligation of this Note shall be subordinate to the obligations of the Company in favor of CalWest Service Corporation and Dito Caree L.P. Holding, as Lenders, under the terms and provisions of a Convertible Note Purchase Agreement.

This Note is duly authorized and issued by the Company, is designated as set forth on the fact hereof, and is limited to the aggregate principal amount of \$400,000 issued under and pursuant to the terms of a Loan Agreement and

Agreement to Issue Detachable Warrants dated November 25, 1997 duly executed and delivered by the Company and Dito Caree L.P. Holding and CalWest Service corporation, as Lenders, to which Agreement reference is made hereby for further description of the rights, limitation of rights, obligations and duties thereunder by the Company and the Lenders. In case of an Event of Default shall have occurred under this Note or under the terms of the Agreement (as the term "Event of Default" is defined in said Agreement), the principal balance hereof and all accrued but unpaid interest thereon may be declared, and upon such declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in this Agreement.

IN WITNESS WHEREOF, the Company has caused this instrument to be signed manually or by facsimile by its duly authorized officers.

Dated:11/25/97

MICRO GENERAL CORPORATION,
a Delaware corporation

By: /s/ Linda Morton
Name: Linda Morton
Title: Corporate Secretary

GENERAL ASSIGNMENT AND SECURITY AGREEMENT

"Borrower:" Micro General Corporation,
Corporation,
a Delaware corporation

"Lenders:" CalWest Service
a California corporation
and
Dito Caree L.P. Holding,
a Nevada limited partnership

"Mailing Address:"
14711 Bentley Circle
Tustin, California 92780

Original Principal Amount:
\$600,000

Date of this Assignment:
November 25, 1997

1. Assignment and Grant of Security Interest; Collateral. For value received, and for the purpose of securing Borrower's obligations under the Loan and all obligations from Borrower to Administrative Agent, whenever arising, of whatever kind or nature, Borrower hereby transfers, assigns and sets over unto Administrative Agent, and grants to Administrative Agent a security interest in, all of Borrower's right, title and interest in and to all of its inventory, accounts receivable, intellectual property and any other of its significant assets (collectively, the "Collateral").

2. Power of Attorney. Borrower hereby irrevocably appoints Administrative Agent as Borrower's attorney in fact (such appointment being coupled with an interest) to demand, receive and enforce any and all of Borrower's rights with respect to the Collateral, and to perform any and all acts in the name of Borrower or, at the option of Administrative Agent, in the name of Administrative Agent with the same force and effect as if performed by Borrower in the absence of this General Assignment and Security Agreement (the "Assignment").

3. Obligations Secured. This Assignment secures:

(a) payment of the principal sum and interest thereon evidenced by one or more promissory notes (collectively, the "Note"), together with any amendments, extensions or renewals thereof, executed in favor of Lenders;

(b) payment of all other sums, with interest, becoming due and payable to Lenders under the Notes, or any other document or instrument executed and delivered to Lenders by Borrower in connection with the Loan evidenced by the Notes (collectively, the "Loan Documents"); and

(c) except as otherwise provided therein, performance and discharge of each and every obligation and agreement of Borrower under any of the Loan Documents.

4. Covenants of Borrower. Borrower agrees as follows:

(a) to appear in and defend any action or proceeding which affects or purports to affect the Collateral or the security of this Assignment, and to pay all costs and expenses thereof and all costs and expenses in any such action or proceeding in which Lenders may appear;

(b) to pay before delinquent all taxes and assessments affecting the Collateral and all costs or penalties hereon;

(c) not to remove the Collateral, or any part thereof, from its present location without first obtaining the express written consent of Administrative Agent;

(d) not to voluntarily transfer or permit any involuntary transfer of the Collateral or any interest therein by way of sale, creation of security interest, levy or other judicial process without first obtaining the written consent of Lenders;

(e) to execute and pay promptly on demand all costs and expenses of filing, and Borrower hereby appoints Administrative Agent and/or its attorney-in-fact to execute and file, financing statements, continuation statements, partial releases and termination statements deemed necessary or appropriate by Administrative Agent to establish the validity and priority of the security interest of Administrative Agent or any modification or expansion thereof and to pay all costs and expenses of any searches required by Administrative Agent; and Borrower will pay all other claims and charges

which, in the reasonable opinion of Administrative Agent, might prejudice, imperil or otherwise affect the Collateral or its security interest therein; and

(f) to append to this Assignment as an additional exhibit or schedule hereto, and to notify Lenders immediately upon becoming the owner of, any Collateral acquired after the date hereof, and to take such other actions as may be necessary to clarify that such after-acquired Collateral is covered by this Assignment.

5. Warranties of Borrower. Borrower represents, warrants and covenants that:

(a) With respect to any Collateral in which Borrower has an interest as of the date hereof, Borrower is the legal owner thereof, free of any interest (including, but not limited to, all rights, claims, liens or encumbrances whatsoever), except for interests of Lenders as created by the Convertible Note Purchase Agreement dated July 10, 1996 as to which Lenders are a party.

(b) With respect to any Collateral in which Borrower has no present interest, Borrower will be, at the time of acquisition of an interest therein, the lawful owner thereof, free of any interest (including, but not limited to, all rights, claims, liens or encumbrances whatsoever), except for interests of Lenders as created by the Convertible Note Purchase Agreement dated July 10, 1996 as to which Lenders are a party.

6. Expenses. If Borrower fails to do so within five (5) days after demand, Lenders may, but need not, perform any act required of Borrower and may, but need not, pay, purchase, contest or compromise any claim, debt, lien, charge or encumbrance which, in the judgment of Lenders, may affect or appear to affect the security of this Assignment and may, but need not, discharge taxes, liens, security interests or other encumbrances at any time levied or placed on the Collateral and make any payment for insurance on the Collateral and for maintenance and preservation of the Collateral; all sums to expended shall be immediately paid by Borrower upon demand by Lenders, with interest from the date of demand at the default rate described in the Note or if the Note does not contain a default rate, then with interest at five hundred (500) basis points in excess of the per annum rate provided in the Note, as adjusted from time to time.

7. Events of Default. Borrower shall be in the default under this Assignment upon Borrower being in default or breach of the Notes or upon the occurrence of an Event of Default under the Loan Agreement and Agreement to Issue Detachable Warrants of even date herewith between Borrower and Lenders (the "Note Agreement").

8. Rights Upon Default. Upon Borrower's default under this Assignment, Lenders (or Administrative Agents on behalf of Lenders) shall have the right to enforce Borrower's rights with respect to any and/or all of the Collateral. Upon the occurrence of any such default, Lenders may, without

affecting any of its rights or remedies against Borrower under any other instrument, document or agreement, and may exercise its rights under this Assignment as Borrower's attorney-in-fact or in any other manner permitted by law. In addition, with regard to the Collateral, Lenders shall be entitled to exercise all of the rights and remedies available to Lenders under the Uniform Commercial Code and all other rights and remedies at law and in equity available to secured creditors in the State of California. Without limiting the generality of the foregoing, upon default and failure to cure:

(a) Lenders may take immediate possession of the Collateral, and Borrower agrees: (1) upon demand, to assemble the Collateral and surrender possession thereof to Lenders peaceably at a place designated by Lenders; (2) that Lenders may employ any and all means reasonably necessary, in its sole discretion, to gain possession of the Collateral; and (3) that Lenders, their successors and assigns, agents, servants, attorneys and employees, are hereby released from any cause or causes of action, costs, claims, damages, demands, obligations, losses or liabilities whatsoever claimed to exist by reason of taking possession or removal of the Collateral;

(b) Lenders may sell and dispose of all or any portion of the Collateral as a unit or in parcels upon commercially reasonable terms, at public or private sale, conducted in Orange County, California, or the county and state in which the Collateral is located, with or without removal of the Collateral, upon the premises of Borrower, and upon the terms and in such manner as Lenders may determine, upon ten (10) days advance written notice to Borrower setting forth the time and place of such sale. Upon the sale of the Collateral, Lenders may retain all proceeds of sale equal to the amount of all indebtedness owed by Borrower to Lenders and interest, together with all sums sufficient to satisfy all other obligations of every class and character due by Borrower to Lenders by virtue of the provisions hereof, together with all costs incurred by Lenders and all charges of making such sale, including all expenses of repossession, storage, preparation for sale, advertising, sale of the Collateral and attorneys' fees and expenses. Lenders, or their agent, successors or assigns, may purchase all or any part of the Collateral at any such sale. Any and all unexpired insurance shall inure to the benefit of and pass to the purchaser of the Collateral at any sale held hereunder; and

(c) In addition to any rights or remedies provided herein, Lenders may have and exercise all other rights and remedies as provided for by law, and shall have the right to enforce one or more remedies hereunder successively or concurrently, and such action shall not estop or prevent Lenders from pursuing any further remedy which it may have hereunder or by law.

9. Waiver.

(a) Borrower waives all right to require Lenders to proceed against any other person or to apply any security which Lenders may hold at any time or to pursue any other remedy. Collateral of Borrower or guarantors of the Notes or of any other person may be released, substituted or added without affecting the liability of Borrower hereunder. Lenders may, at their election, exercise any right or remedy they may have against Borrower or any

security held by Lenders, including, without limitation, the right to foreclose any such security by judicial or non-judicial sale, without affecting or impairing in any way the rights of Lenders hereunder, and Borrower waives any defense arising out of the absence, impairment or loss of any right of reimbursement or subrogation or other right or remedy of Borrower against any party or any such security, whether resulting from such election by Lenders or otherwise. Borrower waives any right of subrogation or other right to participate in the Collateral until all obligations hereby secured have been paid in full. Borrower waives any defense arising by reason of any disability or other defense of Borrower or by reason of the cessation from any cause whatsoever of the liability of Borrower, except performance in full of the Loan Documents, including the full payment of the Notes.

(b) No default shall be waived by Lenders, except in writing, and no waiver of any default shall operate as a waiver of any other default or the same default on a future occasion.

10. Indemnification. Borrower agrees that Lenders shall not be liable to Borrower or to any other person for injury or damage that may result to any person or property by reason of the use or condition of the Collateral or any part thereof, and Borrower further agrees to defend and hold Lenders and the Collateral harmless from any and all costs, damages, demands, expenses, claims, losses or liability (including attorneys' fees) arising out of or connected with, directly or indirectly, the use, management or condition of the Collateral or to which Lenders may become exposed or which Lenders may incur in exercising any of Lenders' rights under this Assignment. Borrower acknowledges and agrees that Lenders have not assumed and do not hereby assume any of Borrower's obligations or duties under or in connection with the Collateral.

11. Further Action. Borrower agrees to do such further acts and things, and to execute and deliver such agreements and instruments, as Lenders may at any time reasonably request in connection with the administration or enforcement of this Assignment or related to the Collateral or any part thereof or in order better to assure and confirm unto Lenders their rights, powers and remedies hereunder.

12. Survival. All the representations, warranties and covenants of the parties contained in this Assignment shall survive the execution hereof.

13. Time of Essence. Time of the essence of this Assignment.

14. Binding Effect. This Assignment and the terms, conditions, covenants and agreements hereof are intended to and shall inure to the benefit of and extend and include the successors and assigns of Lenders and shall be binding upon the successors and assigns of Borrower. Lenders may assign this Assignment.

15. Attorneys' Fees. Should suit (including as part of any bankruptcy proceeding) be brought to enforce or construe this Assignment or by reason of any claimed default in the performance hereof by Borrower, the prevailing

party therein shall be awarded attorneys' fees as part of the judgment resulting from such suit.

16. Notices. All notes or other communications required or permitted hereunder shall be in writing, and shall be personally delivered or sent by registered or certified mail, postage prepaid, return receipt requested, overnight courier, or by facsimile, addressed to the parties as set forth herein. Any such notice shall be deemed received upon the earlier of (a) if personally delivered, the date of delivery to the address of the person to receive such notice, (b) if mailed, four (4) business days after the date of posting by the United States post office, (c) if given by overnight courier, upon receipt by the person to receive such notice, or (d) if sent by facsimile, when sent.

To the Company: Micro General Corporation
 14711 Bentley Circle
 Tustin, California 92780
 Attn: President
 Facsimile: (714) 731-9193

To CalWest: CalWest Service Corporation
 3916 State St., Suite 300
 Santa Barbara, California 93105
 Attn: President
 Facsimile: (805) 898-7148

To Dito Caree: Dito Caree L.P. Holding
 610 Newport Center Drive, Suite 1300
 Newport Beach, California 92660
 Attn: President
 Facsimile: (714) 759-9539

Any notice, request, demand, direction or other communication sent by telecopy must be confirmed within forty-eight (48) hours by letter mailed or delivered in accordance with the foregoing. Notice of change of address shall be given by written notice in the manner detailed in this section. Rejection or other refusal to accept or the inability to deliver because of a changed address of which no notice was given shall be deemed to constitute receipt of the notice, demand, request or communication sent.

17. Governing Law. This Assignment has been negotiated, executed and delivered at and shall be deemed to have been made in the State of California. This Assignment shall be governed by and construed in accordance with the laws of the State of California.

18. Entire Agreement. This Assignment and the Notes, and all other instruments, agreements and certificates executed by the parties in connection therewith or with reference thereto, embody the entire understanding and agreement between the parties hereto and thereto with respect to the subject matter hereof and thereof and supersede all prior agreements, understandings and inducements, whether express or implied, oral or written.

19. Controlling Effect. In the event of any inconsistencies between the provisions of this Assignment and the provisions of any other assignment ("Other Assignment") by which specific collateral or rights therein are assigned to Lender, or a security interest therein is assigned to Lender, whether heretofore, concurrently or hereafter executed by Borrower, the provisions of such Other Assignment shall control to the extent of said inconsistency. In the event of any inconsistency between this Assignment and the Note Agreement, the Note Agreement shall control to the extent of such inconsistency.

20. No Inducement. The parties hereto declare and represent that each has executed this Assignment voluntarily after having had the benefit of such party's separate counsel; that no promise, inducement or agreement not herein expressed has been made to them; and that the terms of this Assignment are contractual and not mere recital.

21. Miscellaneous. Wherever possible each provision of this Assignment shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision hereof shall be prohibited or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity without invalidating the remainder of such provision or remaining provisions of this Assignment. This Assignment shall not be modified or amended except in writing signed by both parties. This Assignment may be executed and delivered in any number of counterparts, including facsimile counterparts, all of which when executed and delivered shall have the force and effect of an original. In construing this Assignment, feminine or neuter pronouns shall be substituted for those masculine in form and vice versa in any place where the context so requires, and plural terms shall be substituted for singular and singular for plural in any place where the context so requires. The headings in this Assignment are inserted for convenience only and are not a part of the Assignment.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, and their respective seals to be hereunto fixed and attested, all as of the day and year first above written.

MICRO GENERAL CORPORATION

"Borrower"

by: /s/ Linda Morton

Name: Linda Morton

Title: Corporate Secretary

CALWEST SERVICE CORPORATION

"Lender"

By: /s/ Carl A. Strunk

Name: Carl A. Strunk

Title: Vice President, Treasurer

DITO CAREE L.P. HOLDING
"Lender"

By: /s/ David B. Hehn
Name: David B. Hehn
Title: President Gamebusters, Inc.
its: General Partner

MICRO GENERAL CORPORATION
(Formed Under the Laws of the State of Delaware)
DETACHABLE WARRANT CERTIFICATE

Date of Issuance: November 25, 1997

Number of Warrant Shares Subject
to this Certificate on the Date
of Issuance: 100,000

Registered Holder: Dito Caree L.P. Holding

Void after 5:00 p.m., Pacific Daylight Time, November 25, 2002

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR APPLICABLE STATE SECURITIES LAWS. SUCH SECURITIES MAY NOT BE SOLD, TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAWS AND, IF NECESSARY, RECEIPT OF AN OPINION OF COUNSEL SATISFACTORY TO MICRO GENERAL CORPORATION THAT REGISTRATION IS NOT REQUIRED.

ANY SECURITIES MAY ONLY BE SUBJECT PURSUANT TO THE TERMS AND PROVISIONS AND CONDITIONS SPECIFIED IN THAT CERTAIN "LOAN AGREEMENT AND AGREEMENT TO ISSUE DETACHABLE WARRANTS" DATED NOVEMBER 25, 1997, BY AND BETWEEN MICRO GENERAL CORPORATION AND DITO CAREE L.P., A NEVADA LIMITED PARTNERSHIP, AND CALWEST SERVICE CORPORATION, A CALIFORNIA CORPORATION AS LENDERS (THE "AGREEMENT"), A COMPLETE COPY OF WHICH IS AVAILABLE FOR INSPECTION AT THE OFFICES OF MICRO GENERAL CORPORATION AND A CONFORMED COPY WHICH WILL BE FURNISHED TO THE HOLDER OF SUCH SECURITIES UPON WRITTEN REQUEST AND UPON PAYMENT OF REASONABLE CHARGE. NO TRANSFER OF SUCH SECURITIES SHALL BE VALID OR EFFECTIVE UNLESS AND UNTIL ANY CONDITIONS RELATING TO TRANSFER OF SUCH SECURITIES SO SPECIFIED IN THE AGREEMENT SHALL HAVE BEEN COMPLIED WITH.

FOR VALUE RECEIVED, Micro General Corporation, a Delaware corporation

(the "Company") hereby certifies that Dito Caree L.P. Holding, a Nevada limited partnership ("Investor"), or any registered assignee of Investor, is the registered holder (the "Holder") of One Hundred Thousand (100,000) Series 2 Warrants (the "Warrants") to purchase from the Company 100,000 newly issued shares of Common Stock of the Company (each, a "Share") and collectively, the "Shares").

The Warrants evidenced by this Certificate are part of a duly authorized issue of Warrants to purchase a total of One Hundred Fifty Thousand (150,000) newly issued shares simultaneously with the making of loans by Cal West Service Corporation and Dito Caree L.P. under terms of the Agreement. This Warrant is issued simultaneously with the Warrant in favor of Cal West Service Corporation, which Warrant grants to the Holder thereof the right to acquire up to 50,000 shares upon exercise of said Warrant, which shares shall be the same type of shares which are acquired by exercise of the Warrant under this Certificate.

The Agreement is incorporated in this Certificate by this reference and must be referred to for a complete description of the rights, obligations and duties of the Company and the Holders of the warrants issued pursuant to the Agreement. In the event of any conflict between the terms of this Certificate and the terms of the Agreement, the terms of the Agreement will control. capitalized terms not defined in this Certificate will have the meanings assigned to them under the Agreement.

1. Exercise of Warrants (a) On or before 5:00 p.m. Pacific Standard Time on November 25, 2002, the Holder shall have the right to purchase from Company one (1) fully paid and nonassessable Share for each Warrant at the exercise price of ONE DOLLAR AND FIFTY CENTS (\$1.50) per Share, subject to any adjustment under paragraph 6 of this Certificate (the "Exercise Price"), and upon surrender to the Company at its principal office of this Certificate evidencing such Warrants, with the form of election to purchase attached hereto and signed, (specifying the number of Shares for which the Warrant is exercisable), and upon payment to the Company of the Exercise Price in cash, lawful currency of the United States of America, Share(s) shall be issued.

(b) The Warrants represented by this Certificate shall be exercisable, at the election of the Holder, either in their entirety or from time to time for part only of the number of warrants specified in this Certificate and in the notice with respect to the exercise thereof. If less than all of the Warrants evidenced by this Certificate are exercised at any time prior to the Maturity Date, a new Certificate or Certificates, as the case may be, shall promptly be issued for the balance of the Warrants not so exercised, but no fractional numbers. All Certificates surrendered upon exercise of Warrants shall be cancelled by Company.

(c) Upon surrender of any Certificate and payment of the Exercise Price, Company shall promptly issue and cause to be delivered to, or upon the written order of, the Holder, and in such name or names as the Holder may designate, a certificate or other document representing the Share or

Shares issuable upon the exercise of the Warrants evidenced by this Certificate. The certificate representing the Shares shall be deemed to have been issued and any person so designated to be named therein shall be deemed to have become a holder of record of such Shares as of the date of the surrender of any Certificate and payment of the Exercise Price.

2. Right to Transfer. (a) Notwithstanding anything contained in the Agreement or this Certificate to the contrary, the Warrants represented by this Certificate may be pledged, together with the rights of the Investor, in whole or in part, to any bank, savings and loan association or other institutional lender affiliated with Investor (in each case, an "Institutional Lender") as collateral to secure a bona fide loan from such Institutional Lender, and may be transferred to such Institutional Lender upon the foreclosure of the security interest created by such pledge, provided that such pledge or transfer (in each case, an "Institutional Transfer"), as the case may be, is in compliance with the Securities Act and any applicable state securities and insurance laws.

(b) Except as otherwise set forth below, the warrants represented by this Certificate may also be pledged, assigned, sold or otherwise transferred in whole or in part (in each case, a "Transfer") to any other "Person" or Persons" (as hereinafter defined), on the condition that such Transfer is in compliance with the Securities Act and any applicable state securities and insurance laws.

(c) With respect to any offer, sale or other disposition of any Warrants or any Shares acquired on exercise of any Warrants which have not been registered pursuant to the terms of the Agreement, the Holder will give written notice to the Company prior to any such offer, sale or other disposition describing briefly the manner thereof (the "Transfer Notice"), together, if requested by Company, with a written opinion of such Holder's counsel, to the effect that such offer, sale or other disposition may be effected without registration or qualification under any federal or state law then in effect. Within fifteen (15) days after receiving a Transfer Notice (the "Notice Period") and reasonably satisfactory opinion, if so requested, Company shall notify such Holder that such Holder may offer, sell or otherwise dispose of the Warrants or any Shares acquired on exercise of any Warrants, all in accordance with the terms of the Transfer Notice delivered to Company. Such transfer must be effected within ninety (90) calendar days following the Holder's receipt of written consent from Company with respect to such transfer. If company has determined that the opinion of counsel for the Holder is not reasonable satisfactory to Company, Company shall so notify the Holder within the Notice Period that such determination has been made. Each of the Warrants and Shares with respect to which any Warrant may be exercised thus transferred shall bear a legend as to the applicable restrictions on transferability in order to ensure compliance with the Securities Act unless, in the opinion of counsel for Company, it is determined that such legend is not required in order to ensure compliance and Company may issue stop transfer instructions to its transfer agent in connection with such restriction. In the event that Company fails to respond to a Transfer Notice prior to the expiration of the Notice Period, the Holder may sell or otherwise transfer the

Warrants or any Common Stock acquired as a consequence of exercising any Warrants in the manner described in such Transfer Notice; provided, however, that such transfer is effected within ninety (90) calendar days following the expiration of the Notice Period.

(d) The following terms shall be defined as follows: (i) "Person" or "Persons" means and includes natural persons, corporations, limited partnerships, general partnerships, joint stock companies, joint ventures, associations, companies, trusts, banks, trust companies, land trusts, business trusts or other organizations, whether or not legal entities, and governments and agencies and political subdivisions thereof; and (ii) "Investor Controlled Affiliates" shall be any trusts, corporations, associations, limited partnerships, general partnerships or other business entities in which more than fifty percent (50%) of the stock of each class having ordinary voting power or beneficial or other ownership interest, as appropriate, shall, at the time as of which any determination is being made, be owned or controlled, directly or indirectly by Investor or any general or limited partner of Investor, or as to which Investor or any general or limited partner of Investor is an "affiliate," as such term is defined under Rule 405 promulgated under the Securities Act and the regulations, rulings and decisions promulgated thereunder.

(e) Company may deem and treat each registered Holder of a Warrant Certificate as the absolute owner thereof (notwithstanding any notation of ownership or other writing thereon made by anyone) for the purpose of any exercise thereof, any distribution to the Holder, or any other purposes.

(f) Company shall promptly register any transfer of record ownership of any outstanding Certificates on the Company Register upon surrender thereof accompanied, if so required by Company, by a written instrument or instruments of transfer duly executed by Holder or by its duly authorized attorney. Upon a proper registration of transfer, a new Certificate shall be issued to the transferee and the surrendered Certificate shall be cancelled by Company; provided, however, in the event of a partial transfer, Company shall promptly issue to the transferor a new Certificate representing the retained portion of the transferor's Warrants and, in connection with any transfer permitted under terms of the Agreement, the transferor can require Company to reissue the Certificates representing the Warrants for any number of Warrants, but no fractional shares.

3. Fractional Shares. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of any Warrants. If the exercise of any Warrants results in a fraction, an amount of money equal to such fraction multiplied by the fair market value of one share of Common Stock on the date on which such conversion or exercise is deemed made shall be paid to the Holder otherwise entitled to such fraction.

4. Effect of Reclassifications. In case of any reclassification or change of outstanding shares of Common Stock issuable upon exercise of any Warrants (other than a change in par value, or from par value to no par value,

or from no par value to par value), or in case of any sale or conveyance to another corporation of all or substantially all of the assets of Company, the Holder shall have the right thereafter to exercise such Warrants to purchase the kind and amount of shares of stock and other securities of Company and property receivable upon such reclassification, change, sale or conveyance by a Holder of the number of shares as to which such Warrants might have been exercised immediately prior to such reclassification, change, sale or conveyance. This Paragraph 4 shall similarly apply to successive reclassifications and changes of shares of Common Stock and to successive sales or conveyances.

5. Company to Reserve Stock. Company covenants that it will at all times after the Date of Issuance hereof reserve and keep available out of its authorized common Stock, solely for the purpose of issue upon conversion of all outstanding Debentures and exercise of all outstanding Warrants. Company covenants that all shares of Common Stock which shall be so issuable shall, when issued pursuant to and in accordance with the terms of the Warrants and this Agreement, be duly and validly issued and fully paid and nonassessable.

6. Exercise Price Adjustments

(a) Adjustment for Stock Splits and Subdivisions. In the event Company should at any time or from time to time after the Effective Date fix a record date for the effectuation of a split or subdivision of the outstanding shares of Common Stock or the determination of Holders of Common Stock entitled to receive a dividend or other distribution payable in additional shares of Common Stock or other securities or rights convertible into, or entitling the Holders thereof to receive, directly or indirectly, additional shares of Common Stock without payment of any consideration by such Holder for the additional shares of Common Stock, then, as of such record date, the Exercise Price shall be appropriately decreased so that the number of shares of Common Stock issuable upon the exercise thereof shall be increased in proportion to such increase of outstanding shares.

(b) Adjustments for Reverse Stock Splits. If the number of shares of Common Stock outstanding at any time after the Effective Date is decreased by a combination of the outstanding shares of Common Stock then, following the record date of such combination, the Exercise Price for any Warrants shall be appropriately increased so that the number of shares of Common Stock issuable on exercise thereof shall be decreased in proportion to such decrease in outstanding shares.

(c) Adjustments for Recapitalizations. In the event that Company shall be recapitalized, consolidated with or merged into any other corporation, or shall sell or convey to any other corporation all or substantially all of its property as an entirety, provision shall be made as part of the terms of such recapitalization, consolidation, merger, sale or conveyance so that any Holder of Warrants may thereafter receive in lieu of the Common Stock otherwise issuable upon exercise of any Warrants, the same kind and amount of securities or assets as may be distributable upon such

recapitalization, consolidation, merger, sale or conveyance, with respect to the Common Stock.

(d) Adjustments for Dividends. In the event that Company shall at any time pay to the Holders of common Stock a dividend in Common Stock, the closing price of the Common Stock prior to the occurrence of such event utilized in the calculation of the Exercise Price upon the exercise of any Warrants shall be proportionately decreased in order that they may be properly compared to post-dividend closing prices in determining such exercise prices, effective following the close of business on the record date for determination of the Holders of Common Stock entitled to such dividend.

(e) Other Dividends. In the event that Company shall at any time pay any dividend or make any other distribution on its Common Stock in property, other than in cash or in Common Stock, then provision shall be made as part of the terms of such dividend or distribution so that the Holder of any Warrants surrendered for exercise after the record date for determination of Holders of Common Stock entitled to such dividend or distribution shall be entitled to receive the same kind and the same proportionate share of such property which he would have been entitled to receive had such Warrants been converted or exercised immediately prior to such record date.

(f) Adjustments. The adjustments referred to in this Paragraph 6 shall be made successively if more than one event listed herein shall occur.

7. Taxes and Expenses on Conversion. The issuance of certificates for Shares upon the exercise of any Warrants shall be made without charge to the exercising Holder for any expense or tax (other than federal or state income taxes) in respect of the issuance of such certificates, and such certificates shall promptly be issued in the name of, or in such names as may be directed by, the Holder.

8. Mutilated or Missing Certificates. Upon receipt by Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of any Warrant Certificate, and (in the case of loss, theft or destruction) of indemnity satisfactory to it, and upon reimbursement to Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of such Warrant Certificate, if mutilated, company will promptly make and deliver in lieu of such Warrant Certificates a new Warrant Certificate of like tenor and representing the same number of Warrants.

9. Warrants Detachable. The Warrants represented by this Certificate are detachable from those Promissory Notes which are issued by the Company pursuant to the terms of the Agreement. The effectiveness of these Warrants shall survive any payoff, satisfaction or discharge of the Notes or the obligations thereunder.

IN WITNESS WHEREOF, MICRO GENERAL CORPORATION has caused this Certificate to be signed by the person named below thereunto duly authorized on 11/25/97.

MICRO GENERAL CORPORATION

By: /s/ Linda Morton
Title: Corporate Secretary

EXERCISE OF WARRANT

, hereby irrevocably elects to exercise the purchase rights represented by this Certificate with respect to the following number of shares of Common Stock of MICRO GENERAL CORPORATION, a Delaware corporation (the "Company"), upon the terms and subject to the conditions specified in that certain Loan Agreement and Agreement to Issue Detachable Warrants dated November 25, 1997, by and between Company and Dito Caree L.P., a Nevada limited partnership and CalWest Service Corporation, a California corporation as Lenders.

Number of Shares

Exercise Price \$1.50 per Share

Total Cost:

Dated:

[Typed Name of Holder]

By:

Title:

* Subject to any adjustment as provided under terms and provisions of the Certificate or the Agreement.

MICRO GENERAL CORPORATION
(Formed Under the Laws of the State of Delaware)
DETACHABLE WARRANT CERTIFICATE

Date of Issuance: November 25, 1997

Number of Warrant Shares Subject
to this Certificate on the Date
of Issuance: 50,000

Registered Holder: CalWest Service Corporation

Void after 5:00 p.m., Pacific Daylight Time, November 25, 2002

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR APPLICABLE STATE SECURITIES LAWS. SUCH SECURITIES MAY NOT BE SOLD, TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAWS AND, IF NECESSARY, RECEIPT OF AN OPINION OF COUNSEL SATISFACTORY TO MICRO GENERAL CORPORATION THAT REGISTRATION IS NOT REQUIRED.

ANY SECURITIES MAY ONLY BE SUBJECT PURSUANT TO THE TERMS AND PROVISIONS AND CONDITIONS SPECIFIED IN THAT CERTAIN "LOAN AGREEMENT AND AGREEMENT TO ISSUE DETACHABLE WARRANTS" DATED NOVEMBER 25, 1997, BY AND BETWEEN MICRO GENERAL CORPORATION AND DITO CAREE L.P., A NEVADA LIMITED PARTNERSHIP, AND CALWEST SERVICE CORPORATION, A CALIFORNIA CORPORATION AS LENDERS (THE "AGREEMENT"), A COMPLETE COPY OF WHICH IS AVAILABLE FOR INSPECTION AT THE OFFICES OF MICRO GENERAL CORPORATION AND A CONFORMED COPY WHICH WILL BE FURNISHED TO THE HOLDER OF SUCH SECURITIES UPON WRITTEN REQUEST AND UPON PAYMENT OF REASONABLE CHARGE. NO TRANSFER OF SUCH SECURITIES SHALL BE VALID OR EFFECTIVE UNLESS AND UNTIL ANY CONDITIONS RELATING TO TRANSFER OF SUCH SECURITIES SO SPECIFIED IN THE AGREEMENT SHALL HAVE BEEN COMPLIED WITH.

FOR VALUE RECEIVED, Micro General Corporation, a Delaware corporation (the "Company") hereby certifies that CalWest Service Corporation, a California corporation ("Investor"), or any registered assignee of Investor, is the registered holder (the "Holder") of Fifty Thousand (50,000) Warrants (the "Warrants") to purchase from the Company Fifty Thousand (50,000) newly issued shares of Common Stock of the Company (each, a "Share") and collectively, the "Shares").

The Warrants evidenced by this Certificate are part of a duly authorized issue of Warrants to purchase a total of One Hundred Fifty Thousand (150,000) newly issued shares simultaneously with the making of loans by Cal West Service Corporation and Dito Caree L.P. under terms of the Agreement. This Warrant is issued simultaneously with the Warrant in favor of Dito Caree L.P. Holding, which Warrant grants to the Holder thereof the right to acquire up to 100,000 shares upon exercise of said Warrant, which shares shall be the same type of shares which are acquired by exercise of the Warrant under this Certificate.

The Agreement is incorporated in this Certificate by this reference and must be referred to for a complete description of the rights, obligations and duties of the Company and the Holders of the warrants issued pursuant to the

Agreement. In the event of any conflict between the terms of this Certificate and the terms of the Agreement, the terms of the Agreement will control. capitalized terms not defined in this Certificate will have the meanings assigned to them under the Agreement.

1. Exercise of Warrants (a) On or before 5:00 p.m. Pacific Standard Time on November 25, 2002, the Holder shall have the right to purchase from Company one (1) fully paid and nonassessable Share for each Warrant at the exercise price of ONE DOLLAR AND FIFTY CENTS (\$1.50) per Share, subject to any adjustment under paragraph 6 of this Certificate (the "Exercise Price"), and upon surrender to the company at its principal office of this Certificate evidencing such Warrants, with the form of election to purchase attached hereto and signed, (specifying the number of Shares for which the Warrant is exercisable), and upon payment to the Company of the Exercise Price in cash, lawful currency of the United States of America.

(b) The Warrants represented by this Certificate shall be exercisable, at the election of the Holder, either in their entirety or from time to time for part only of the number of warrants specified in this Certificate and in the notice with respect to the exercise thereof. If less than all of the Warrants evidenced by this Certificate are exercised at any time prior to the Maturity Date, a new Certificate or Certificates, as the case may be, shall promptly be issued for the balance of the Warrants not so exercised, but no fractional numbers. All Certificates surrendered upon exercise of Warrants shall be cancelled by Company.

(c) Upon surrender of any Certificate and payment of the Exercise Price, Company shall promptly issue and cause to be delivered to, or upon the written order of, the Holder, and in such name or names as the Holder may designate, a certificate or other document representing the Share or Shares issuable upon the exercise of the Warrants evidenced by this Certificate. The certificate representing the Shares shall be deemed to have been issued and any person so designated to be named therein shall be deemed to have become a holder of record of such Shares as of the date of the surrender of any Certificate and payment of the Exercise Price.

2. Right to Transfer. (a) Notwithstanding anything contained in the Agreement or this Certificate to the contrary, the Warrants represented by this Certificate may be pledged, together with the rights of the Investor, in whole or in part, to any bank, savings and loan association or other institutional lender affiliated with Investor (in each case, an "Institutional Lender") as collateral to secure a bona fide loan from such Institutional Lender, and may be transferred to such Institutional Lender upon the foreclosure of the security interest created by such pledge, provided that such pledge or transfer (in each case, an "Institutional Transfer"), as the case may be, is in compliance with the Securities Act and any applicable state securities and insurance laws.

(b) Except as otherwise set forth below, the warrants represented by this Certificate may also be pledged, assigned, sold or otherwise transferred in whole or in part (in each case, a "Transfer") to any

other "Person" or Persons" (as hereinafter defined), on the condition that such Transfer is in compliance with the Securities Act and any applicable state securities and insurance laws.

(c) With respect to any offer, sale or other disposition of any Warrants or any Shares acquired on exercise of any Warrants which have not been registered pursuant to the terms of the Agreement, the Holder will give written notice to the Company prior to any such offer, sale or other disposition describing briefly the manner thereof (the "Transfer Notice"), together, if requested by Company, with a written opinion of such Holder's counsel, to the effect that such offer, sale or other disposition may be effected without registration or qualification under any federal or state law then in effect. Within fifteen (15) days after receiving a Transfer Notice (the "Notice Period") and reasonably satisfactory opinion, if so requested, Company shall notify such Holder that such Holder may offer, sell or otherwise dispose of the Warrants or any Shares acquired on exercise of any Warrants, all in accordance with the terms of the Transfer Notice delivered to Company. Such transfer must be effected within ninety (90) calendar days following the Holder's receipt of written consent from Company with respect to such transfer. If company has determined that the opinion of counsel for the Holder is not reasonable satisfactory to Company, Company shall so notify the Holder within the Notice Period that such determination has been made. Each of the Warrants and Shares with respect to which any Warrant may be exercised thus transferred shall bear a legend as to the applicable restrictions on transferability in order to ensure compliance with the Securities Act unless, in the opinion of counsel for Company, it is determined that such legend is not required in order to ensure compliance and Company may issue stop transfer instructions to its transfer agent in connection with such restriction. In the event that Company fails to respond to a Transfer Notice prior to the expiration of the Notice Period, the Holder may sell or otherwise transfer the Warrants or any Common Stock acquired as a consequence of exercising any Warrants in the manner described in such Transfer Notice; provided, however, that such transfer is effected within ninety (90) calendar days following the expiration of the Notice Period.

(d) The following terms shall be defined as follows: (i) "Person" or "Persons" means and includes natural persons, corporations, limited partnerships, general partnerships, joint stock companies, joint ventures, associations, companies, trusts, banks, trust companies, land trusts, business trusts or other organizations, whether or not legal entities, and governments and agencies and political subdivisions thereof; and (ii) "Investor Controlled Affiliates" shall be any trusts, corporations, associations, limited partnerships, general partnerships or other business entities in which more than fifty percent (50%) of the stock of each class having ordinary voting power or beneficial or other ownership interest, as appropriate, shall, at the time as of which any determination is being made, be owned or controlled, directly or indirectly by Investor or any general or limited partner of Investor, or as to which Investor or any general or limited partner of Investor is an "affiliate," as such term is defined under Rule 405 promulgated under the Securities Act and the regulations, rulings and decisions promulgated thereunder.

(e) Company may deem and treat each registered Holder of a Warrant Certificate as the absolute owner thereof (notwithstanding any notation of ownership or other writing thereon made by anyone) for the purpose of any exercise thereof, any distribution to the Holder, or any other purposes.

(f) Company shall promptly register any transfer of record ownership of any outstanding Certificates on the Company Register upon surrender thereof accompanied, if so required by Company, by a written instrument or instruments of transfer duly executed by Holder or by its duly authorized attorney. Upon a proper registration of transfer, a new Certificate shall be issued to the transferee and the surrendered Certificate shall be cancelled by Company; provided, however, in the event of a partial transfer, Company shall promptly issue to the transferor a new Certificate representing the retained portion of the transferor's Warrants and, in connection with any transfer permitted under terms of the Agreement, the transferor can require Company to reissue the Certificates representing the Warrants for any number of Warrants, but no fractional shares.

3. Fractional Shares. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of any Warrants. If the exercise of any Warrants results in a fraction, an amount of money equal to such fraction multiplied by the fair market value of one share of Common Stock on the date on which such conversion or exercise is deemed made shall be paid to the Holder otherwise entitled to such fraction.

4. Effect of Reclassifications. In case of any reclassification or change of outstanding shares of Common Stock issuable upon exercise of any Warrants (other than a change in par value, or from par value to no par value, or from no par value to par value), or in case of any sale or conveyance to another corporation of all or substantially all of the assets of Company, the Holder shall have the right thereafter to exercise such Warrants to purchase the kind and amount of shares of stock and other securities of Company and property receivable upon such reclassification, change, sale or conveyance by a Holder of the number of shares as to which such Warrants might have been exercised immediately prior to such reclassification, change, sale or conveyance. This Paragraph 4 shall similarly apply to successive reclassifications and changes of shares of Common Stock and to successive sales or conveyances.

5. Company to Reserve Stock. Company covenants that it will at all times after the Date of Issuance hereof reserve and keep available out of its authorized common Stock, solely for the purpose of issue upon conversion of all outstanding Debentures and exercise of all outstanding Warrants. Company covenants that all shares of Common Stock which shall be so issuable shall, when issued pursuant to and in accordance with the terms of the Warrants and this Agreement, be duly and validly issued and fully paid and nonassessable.

6. Exercise Price Adjustments

(a) Adjustment for Stock Splits and Subdivisions. In the event Company should at any time or from time to time after the Effective Date fix a record date for the effectuation of a split or subdivision of the outstanding shares of Common Stock or the determination of Holders of Common Stock entitled to receive a dividend or other distribution payable in additional shares of Common Stock or other securities or rights convertible into, or entitling the Holders thereof to receive, directly or indirectly, additional shares of Common Stock without payment of any consideration by such Holder for the additional shares of Common Stock, then, as of such record date, the Exercise Price shall be appropriately decreased so that the number of shares of Common Stock issuable upon the exercise thereof shall be increased in proportion to such increase of outstanding shares.

(b) Adjustments for Reverse Stock Splits. If the number of shares of Common Stock outstanding at any time after the Effective Date is decreased by a combination of the outstanding shares of Common Stock then, following the record date of such combination, the Exercise Price for any Warrants shall be appropriately increased so that the number of shares of Common Stock issuable on exercise thereof shall be decreased in proportion to such decrease in outstanding shares.

(c) Adjustments for Recapitalizations. In the event that Company shall be recapitalized, consolidated with or merged into any other corporation, or shall sell or convey to any other corporation all or substantially all of its property as an entirety, provision shall be made as part of the terms of such recapitalization, consolidation, merger, sale or conveyance so that any Holder of Warrants may thereafter receive in lieu of the Common Stock otherwise issuable upon exercise of any Warrants, the same kind and amount of securities or assets as may be distributable upon such recapitalization, consolidation, merger, sale or conveyance, with respect to the Common Stock.

(d) Adjustments for Dividends. In the event that Company shall at any time pay to the Holders of common Stock a dividend in Common Stock, the closing price of the Common Stock prior to the occurrence of such event utilized in the calculation of the Exercise Price upon the exercise of any Warrants shall be proportionately decreased in order that they may be properly compared to post-dividend closing prices in determining such exercise prices, effective following the close of business on the record date for determination of the Holders of Common Stock entitled to such dividend.

(e) Other Dividends. In the event that Company shall at any time pay any dividend or make any other distribution on its Common Stock in property, other than in cash or in Common Stock, then provision shall be made as part of the terms of such dividend or distribution so that the Holder of any Warrants surrendered for exercise after the record date for determination of Holders of Common Stock entitled to such dividend or distribution shall be entitled to receive the same kind and the same proportionate share of such property which he would have been entitled to receive had such Warrants been converted or exercised immediately prior to such record date.

(f) Adjustments. The adjustments referred to in this Paragraph 6 shall be made successively if more than one event listed herein shall occur.

7. Taxes and Expenses on Conversion. The issuance of certificates for Shares upon the exercise of any Warrants shall be made without charge to the exercising Holder for any expense or tax (other than federal or state income taxes) in respect of the issuance of such certificates, and such certificates shall promptly be issued in the name of, or in such names as may be directed by, the Holder.

8. Mutilated or Missing Certificates. Upon receipt by Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of any Warrant Certificate, and (in the case of loss, theft or destruction) of indemnity satisfactory to it, and upon reimbursement to Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of such Warrant Certificate, if mutilated, company will promptly make and deliver in lieu of such Warrant Certificates a new Warrant Certificate of like tenor and representing the same number of Warrants.

9. Warrants Detachable. The Warrants represented by this Certificate are detachable from those Promissory Notes which are issued by the Company pursuant to the terms of the Agreement. The effectiveness of these Warrants shall survive any payoff, satisfaction or discharge of the Notes or the obligations thereunder.

IN WITNESS WHEREOF, MICRO GENERAL CORPORATION has caused this Certificate to be signed by the person named below thereunto duly authorized on ___11/25/97.

MICRO GENERAL CORPORATION

By: /s/ Linda Morton

Title: Corporate Secretary

EXERCISE OF WARRANT

, hereby irrevocably elects to exercise the purchase rights represented by this Certificate with respect to the following number of shares of Common Stock of MICRO GENERAL CORPORATION, a Delaware corporation (the "Company"), upon the terms and subject to the conditions specified in that certain Loan Agreement and Agreement to Issue Detachable Warrants dated November 25, 1997, by and between Company and Dito Caree L.P., a Nevada limited partnership and CalWest Service Corporation, a California corporation as Lenders.

Number of Shares

Exercise Price \$1.50 per Share

Total Cost:

Dated:

[Typed Name of Holder]

By:

Title:

* Subject to any adjustment as provided under terms and provisions of the Certificate or the Agreement.