

EXHIBIT A

SOFTWARE PUBLISHING AGREEMENT

This Software Publishing Agreement (this "Agreement"), dated as of April 27, 1997, 1997, is made by and between **Sierra On-Line, Inc.**, a Delaware corporation, along with its affiliates, subsidiaries and related entities (collectively, "Sierra"), doing business at 3380 - 146th Place S.E., Suite 300, Bellevue, WA 98007, and Valve, L.L.C. ("Valve"), a Washington limited liability company, doing business at 520 Kirkland Way, #201, Kirkland, WA 98033. Sierra and Valve agree as follows:

Section 1. Definitions

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

"Add-On Products" means any software program designed only to work in conjunction with Quiver (e.g., scenario disk, add-on levels, level editor) and which will not include any application designed to operate as a stand-alone product.

"Derivative Products" means any work that is derived in any manner, directly or indirectly, from Quiver or any aspect thereof or incorporates or utilizes Quiver or any part or aspect thereof (including, without limitation, software programs, books, films, television, video, cartoons, clothing or any other consumer or commercial product). Derivative Products do not include Valve Underlying Technology, Foreign Translations, Add-On Products, Sequel Products or Platform Extensions.

"Errors" means any bug, error or defect in Quiver, which (a) causes Quiver to not conform to its specifications, (b) causes incorrect results, (c) causes incorrect functions to occur, or (d) renders Quiver inoperable. Errors shall not include any defects in or caused by: (i) Sierra Set-Up referred to under paragraph 3.2 or (ii) modifications of Quiver by Sierra or its licensees.

"Foreign Translations" means any translation of Quiver to a language other than English, German and French.

"Intellectual Property Rights" means, collectively, worldwide Patents, Trade Secrets, Copyrights, moral rights, trade names, Trademarks, rights in trade dress and all other intellectual property rights and proprietary rights, whether arising under the laws of the United States or any other state, country or jurisdiction, including all rights or causes of action for infringement or misappropriation of any of the foregoing. "Patents" means all patent rights and all right, title and interest in all letters patent or equivalent rights and applications for letters patent or rights and any reissuing division, continuation or continuation in part application throughout the world. "Trade Secrets" means all right, title and interest in all trade secrets and trade secret rights arising under the common law, state law, federal law or laws of foreign countries. "Copyrights" means all copyright rights, and all other literary property and author rights and all right, title and interest in all copyrights, copyright registrations, certificates of copyright and copyrighted interests throughout the world. "Trademarks" means all trademark and service mark rights arising under the common law, state law, federal law and laws of foreign countries and all right, title and interest in all trademarks, service marks, trademark and service mark applications and registrations and trademark and service mark interests throughout the world.

"Licensing Revenues" means the gross revenue actually received by Sierra from licensing Quiver to third parties whereby Sierra authorizes such third parties to reproduce and distribute physical or electronic copies of Quiver, including, without limitation, to online networks (e.g., AOL, Mpath) less any and all third party royalties and fees paid by Sierra in connection with such revenues.

"Net Revenue" means the gross revenue earned (whether or not actually received) by Sierra from the distribution of Quiver (excluding Licensing Revenues) less: (i) third party charges, paid by Sierra, for transportation, handling, insurance, taxes, duties and other governmental and "pass-through" charges on or after sale of units of Quiver; (ii) costs of raw material and all finished goods sold (e.g., cost of product duplication, manufacturing and assembly, including related labor and overhead charge; cost of documentation, labels and packaging; etc.); (iii) a reserve of 10% of gross revenue for credits or refunds for returned, defective or discounted units of Quiver; (iv) a reserve of 1.00% of gross revenue as an allowance for bad debts (to be adjusted, at Sierra's reasonable discretion, based on changes in the percentage of Sierra's gross revenue reserved as bad debt in Sierra's audited financial statements); (v) 4.7% of gross revenue for sales costs (e.g., sales commissions, discounts, distributor and reseller allowances, advertising, general promotions, marketing costs, etc.); and (vi) any and all third party royalties and fees paid by Sierra in connection with revenues from sale and distribution of Quiver. "Net Revenue" excludes revenue earned from distribution of products other than Quiver. If Sierra earns revenue from distribution of Quiver in combination with one or more other products, such revenue will be allocated between Quiver and such other products on the basis of the current or most recent wholesale prices of components of a compilation or bundle. For purposes of calculating gross revenue the following shall apply: if Sierra distributes Quiver directly to an end user, the gross revenue earned by Sierra from such end user shall be deemed to be Sierra's then current applicable dealer list price for such unit of Quiver. On a quarterly basis, Sierra will determine the actual allocations made by Sierra for the items set forth in clause (iii) and (iv); provided, however, that the actual credits for returns under (iii) will not exceed 10% of gross revenue over the term of this Agreement, but may exceed 10% for a particular quarter if less than 10% in actual returns was credited in any previous quarter.

"Platform Extensions" means any adaptation of the Quiver software program to any other electronic platform or operating system not described in Appendix A.

"Quiver" means the Quiver CD-ROM (current working title) to be developed by Valve for Sierra under this Agreement, which includes the German and French language versions, as described in Appendix A and in accordance with Delivery Schedule described in Appendix B.

"Sequel Products" means any software program which extends or continues the Quiver setting, puzzles, environment, structure, characters, plot, theme, name, location or similar elements or are subsequent versions of Quiver which include significant enhancements, additional features or improvements to Quiver.

"Valve Underlying Technology" means computer source codes (including, but not limited to, C code, assembly language, and QC code) and computer binary code that are (i) proprietary to Valve or its third-party licensors and (ii) shipped with Quiver, including but not limited to the 3-D engine, all Valve (and its third-party licensor's) proprietary utilities and development tools, proprietary 3D models and proprietary levels, textures, animation data, sound and music (except to the extent the foregoing conflicts with the rights granted to Sierra in Section 2.4) in all cases

developed or licensed by Valve from a third-party and used for the development and/or operation of Quiver. "Valve Underlying Technology" shall not include the following with respect to Quiver: the title, storyline, theme, plot, scenes, characters and character designs.

Section 2. Development and Delivery of Quiver; License; Rights

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2.1 Development and Delivery of Quiver. Valve will develop, make and deliver to Sierra Quiver in accordance with and as otherwise specified in this Agreement, Appendix A and Appendix B ("Delivery Schedule"). The Delivery Schedule may be amended in writing from time to time by mutual agreement of the parties. Valve shall perform all quality assurance and other error/bug testing, but not configuration testing, on Quiver prior to delivery of Quiver to Sierra. Sierra shall conduct configuration testing after the beta version milestone.

2.2 Development Costs for Foreign Translations. If Sierra requests Valve to develop Foreign Translations, Sierra shall pay for the costs of the translations and actors and Valve shall be responsible for integrating these elements into Quiver. Sierra shall also pay for the costs of the translations and actors for the German and French language versions of Quiver and Valve shall be responsible for integrating these elements into such foreign language versions of Quiver.

2.3 id Software Technology for Platform Extensions. If rights become available for Valve to use id Software technology in connection with any Platform Extensions, Valve will use commercially reasonable efforts to assist Sierra in obtaining such rights, whether directly from id or through Valve in connection with Valve's development of any Platform Extension hereunder.

Deleted

2.4 Ownership of Intellectual Property Rights and Valve Underlying Technology. The Intellectual Property Rights (excluding the Valve Underlying Technology) in Quiver, including, without limitation, the title, storyline, theme, plot, scenes, characters and character designs associated with Quiver, will vest in and be transferred and assigned to Sierra when the final version milestone is completed. The Intellectual Property Rights (excluding the Valve Underlying Technology) in Quiver will be the exclusive property of Sierra. Through Sierra's ownership of such Intellectual Property Rights in Quiver, Sierra may make or have made, and accordingly own all rights, title and interest in Add-On Products, Derivative Products, Foreign Translations, Platform Extensions and Sequel Products. Valve retains ownership of or license rights to Valve Underlying Technology, subject to the licenses granted to Sierra in this Agreement. Valve shall cooperate in completing or filing any documents necessary to transfer the Intellectual Property Rights in Quiver to Sierra.

2.5 Development of Add-On Products, Derivative Products, Foreign Translations, Platform Extensions and Sequel Products; Right of First Negotiation On Sequel Products. If Sierra chooses to have Valve develop Add-On Products, Derivative Products, Foreign Translations, Platform Extensions and/or Sequel Products, Sierra shall grant any necessary nonexclusive, nontransferable, limited licenses in the Intellectual Property Rights in Quiver to Valve necessary for such development. If Sierra elects to have a Sequel Product developed, Sierra will notify Valve of its intention and the proposed terms and conditions upon which such development may occur. Valve and Sierra will negotiate in good faith for thirty (30) days thereafter to reach mutually acceptable terms. If the parties fail to reach agreement within such thirty (30) day period, Sierra shall be free thereafter to have any third party develop such Sequel Product. Sierra has no license or other right to

use the Valve Underlying Technology in any Sequel Product, unless the parties otherwise agree in writing.

2.6 Trade Names. Valve hereby grants to Sierra a nonexclusive, perpetual, worldwide, royalty-free right to use the names "Valve, L.L.C. and "Valve" in connection with the advertisement, promotion and distribution of Quiver and in connection with the advertisement, promotion and distribution of Add-On Products, Derivative Products, Foreign Translations, Platform Extensions and Sequel Products that Valve develops. Sierra may use Sierra's names and marks to promote and identify Quiver, Add-On Products, Derivative Products, Foreign Translations, Platform Extensions and Sequel Products. Sierra shall at all times retain all ownership of all trademarks and trade names in and to the name "Quiver" and any and all other trademarks or trade names under which Sierra may from time to time market Quiver or any Derivative Products, Add-On Products, Foreign Translations, Platform Extensions, and Sequel Products. Sierra acknowledges that all goodwill, now existing and hereafter created, that is associated with the trademarks "Quake," "id Software," and the id Software logo exclusively belongs to id Software, Inc.

2.7 Packaging. Sierra will manufacture Quiver packages for its use (including the box, manuals, registration cards, license agreements and media). The design and manufacture of all packages for Quiver shall be under the sole discretion and control of Sierra. Notwithstanding the foregoing, Sierra will consult with Valve about such designs and provide Valve a reasonable opportunity to comment on such designs. Sierra shall ensure that any packaging, manual or game copy of Quiver will include the following credit line: "Development by Valve, L.L.C." the placement and prominence of which will be at Sierra's discretion. Valve hereby grants to Sierra a sublicense to include the phrase "based on QUAKE Technology" or similar language as agreed in writing by id Software (the "QUAKE Credit") within Quiver or the packaging thereof; provided that id Software reserves the right to approve or disapprove any use of the QUAKE Credit. Sierra shall provide id Software with an exact prototype of the Quiver materials which use the QUAKE Credit for review, prior to release or distribution by Sierra. Sierra shall make all revisions and modifications to the QUAKE Credit as requested by id Software and shall not vary from any approved prototype; provided, however, Sierra shall control the size and placement of such QUAKE Credit.

2.8 Corrections; Updates. For a period of one year from the commercial release of Quiver, Valve shall, free of charge, correct all Errors in a commercially reasonable time (depending on the severity of such Errors) after receipt of notice from Sierra regarding the same and shall promptly furnish such corrections to Sierra. If Valve fails to correct such Errors in a commercially reasonable time, Sierra may choose to fix or have fixed by third parties and subsequently charge Valve for such fixes. If Valve makes any enhancements, modifications and/or updates to Quiver, Valve shall promptly make all such enhancements, modifications and/or updates available to Sierra, on such media as Sierra may reasonably request.

2.9 Design and Milestone Schedule Changes. In the event Sierra wishes to materially alter the design specification or Delivery Schedule, Sierra shall give Valve notice in writing of the changes required (the "Change Request"). Valve shall respond to a Change Request within seven (7) days of receipt by a notice (the "Change Proposal") detailing in good faith the impact of such changes on the milestone schedule and the costs of development if the changes are implemented immediately. If Sierra wishes to accept the changes including any additional royalty advances, then Sierra will countersign and return a copy of the Change Proposal within seven (7) days of receipt, and the Change Proposal will be incorporated into this Agreement as an amendment.

2.10 License to Valve Underlying Technology. Valve grants to Sierra a perpetual (with respect to Valve proprietary Valve Underlying Technology only), worldwide, nonexclusive right and license (or sublicense, as the case may be) under and to the Valve Underlying Technology in object code form only in order to do everything necessary to manufacture, have manufactured, distribute (whether on media or for on-line gaming), market, promote, and sell Quiver, subject to the term of Valve's technology license dated September 1, 1996 from id Software concerning the id owned portions of Valve Underlying Technology.

2.11 Copyright Notices. Sierra agrees to place the following credit on the packaging and media for Quiver:

This product contains software technology licensed from id Software, Inc. ("id Technology"). id Technology © 1996 id Software, Inc. All Rights Reserved. WINSOCK Tunnel Copyright © 1996 MPATH Interactive, Inc. All Rights Reserved.

Section 3. Manufacturing, Promotion and Distribution

3.1 Sierra's Manufacturing, Promotion and Distribution Efforts. The release and distribution of Quiver will be subject to Sierra's final approval. Sierra shall determine in its sole discretion the nature and scope of any manufacturing, promotional and distribution efforts undertaken by Sierra with respect to Quiver, and Valve acknowledges that Sierra may in its sole discretion limit, suspend or terminate the manufacture, promotion or distribution of Quiver at any time and for any reason without incurring any liability to Valve. Sierra is under no obligation to maximize the royalties payable to Valve. In the event Sierra elects to suspend (for at least six (6) months) or terminate the distribution of Quiver, Sierra will use commercially reasonable efforts to deliver written notice of such suspension or termination to Valve not less than ninety (90) days prior to such suspension or termination. If Sierra elects to suspend (for at least six (6) months) or terminate distribution of Quiver within one year of the first commercial shipment of Quiver, Sierra shall grant a nonexclusive, perpetual, worldwide license to Valve to distribute Quiver (but no Add-On Products, Derivative Products, Foreign Translations, Platform Extensions or Sequel Products) through other distributors. Sierra shall be responsible for all taxes regarding the distribution of Quiver, except taxes on Valve's net income or gross receipts. Sierra agrees that it will use its diligent efforts to market and license Quiver at such prices as to meet the demand for same and will offer for license Quiver in a manner not to bring into disrepute the goodwill of id Software or Valve. Further, Sierra shall distribute copies of Quiver pursuant to one (1) or more end user license agreements (except with respect to cartridge sales) in the form of Schedule 3.1, which end user license agreement Valve has approved. Sierra agrees not to engage in any deceptive, misleading, or unethical practices concerning Quiver that are or might be detrimental to id Software or Valve, not to knowingly or recklessly make any false or misleading representation with regard to Quiver and not to bundle Quiver with any material that may be regarded as defamatory, libelous or obscene. Other than the warranties set forth in Schedule 3.1, Sierra may only give warranties regarding Quiver, as approved in writing and in advance, by id Software and Valve.

3.2 Sierra's Tools. Valve shall use the Sierra Set-Up, which is to be provided by Sierra free of charge, for Quiver installation. Upon Valve's request, Sierra may provide Valve other tools owned by Sierra free of charge, including, without limitation, Sierra Message Editor, for the sole purpose of developing Quiver. Valve shall return all copies of any tools and any hardware provided

by Sierra upon the earlier of completion of Quiver or termination of this Agreement, and Valve agrees not to copy or reverse engineer, decompile, disassemble or otherwise derive or attempt to derive source code from such tools. The tools that Sierra provides to Valve under this paragraph 3.2 constitute trade secret and confidential information, and Valve shall protect against unauthorized dissemination and use. Valve shall not disclose to third parties knowledge about Sierra's tools without the prior written consent from Sierra. Subject to the nonexclusive, nontransferable, limited license granted to Valve in this paragraph 3.2, Sierra retains ownership rights to all of Sierra's tools.

3.3 Valve Internal Use. Sierra shall provide Valve with forty-five (45) copies of Quiver at no charge for Valve's or id Software's internal use. When and if id Software requests in writing, Sierra shall sell to id Software (or to Valve on behalf of id Software) a reasonable number of additional copies of Quiver at Sierra's cost to manufacture, for id Software's use for archival or promotional purposes, but not for resale or free distribution. Sierra shall not owe Valve royalties on such sales to id Software.

3.4 Customer Support. Sierra shall provide all technical support to persons acquiring Quiver from Sierra.

Section 4. Compensation

4.1 Advance Against Royalties. Sierra will make royalty advance payments, totaling Eight Hundred Thousand Dollars (\$800,000), in accordance with the milestones set out in the Delivery Schedule and only upon Sierra's reasonable satisfaction that such milestones have been achieved. Sierra's obligation to remit royalties under paragraph 4.3 does not begin until the amount of royalties due exceeds the royalty advances paid or deemed paid under this paragraph 4.1. The payment for each milestone will be subject to Sierra's approval that each milestone has been satisfied. In the event that Sierra does not believe a milestone has been achieved, Sierra will notify Valve of that fact within fifteen (15) days (or five (5) days concerning Milestone No. 10) after Valve has submitted the pertinent deliverable, together with reasonably detailed comments specifying the basis for the rejection. Valve will then resubmit materials to Sierra within thirty (30) days of the rejection notification. This procedure will continue until Sierra is reasonably satisfied that the milestone has been satisfied or until Sierra terminates future development efforts of Quiver in the manner provided in this Agreement.

4.2 Evaluation and Cancellation. Upon receipt of the working prototype and design specification (as described in the Delivery Schedule), Sierra will have up to four (4) weeks to evaluate Quiver, and during such evaluation period, Valve will have no obligation to continue work on Quiver. During the four (4) week evaluation period, Sierra may cancel the development of Quiver at Sierra's sole discretion. In the event of cancellation by Sierra during this period, all rights Valve granted Sierra herein concerning Quiver shall revert to Valve and the \$60,000 royalty advance (\$30,000 upon execution of Agreement and \$30,000 upon delivery of working prototype and design specifications) will be non-refundable (except for a cancellation pursuant to section 7.13, in which case such advance shall be refundable); however, Valve will make a one-time payment of \$30,000 to Sierra in the event that Valve sells or licenses Quiver or any derivative thereof to another publisher.

4.3 Royalty Fee for Quiver. Sierra will pay Valve a royalty on Quiver at a rate of twenty-seven percent (27%) of Net Revenue and of Licensing Revenues, as follows: Within forty (40) days following the end of each of Sierra's fiscal quarters during the term of this Agreement, and

for each royalty payment of more than \$100, Sierra will submit to Valve reports specifying the Net Revenue and the Licensing Revenues occurring during the previous quarter. For amounts less than \$100, Sierra will submit to Valve reports annually specifying the Net Revenue and the Licensing Revenues. Valve shall not receive royalty on the reasonable number of copies of Quiver distributed by Sierra without charge for demonstration, promotional or other purposes. Sierra may adjust any future royalty payment for any past overpayments that may have occurred and/or any adjustments to the Net Revenue calculation. The twenty-seven percent (27%) royalty rate set forth above shall be automatically reduced to twenty-five percent (25%) if the U.S. version of Quiver has not been reasonably approved by Sierra for commercial production in final form by November 12, 1997 and to twenty-three percent (23%) if the U.S. version of Quiver has not been reasonably approved by Sierra for commercial production in final form by December 1, 1997. Royalties for any Sequel Product developed by Valve will be subject to negotiation as set forth in Section 2.5 above.

4.4 Royalty Fee for Platform Extensions. Sierra will pay Valve a royalty on Platform Extensions at a rate of twenty-seven percent (27%) of net revenue (calculated in the same manner as Net Revenue as though such Platform Extensions were Quiver) and licensing revenues (calculated in the same manner as Licensing Revenues as though such Platform Extensions were Quiver) in the same manner as in paragraph 4.3. If Sierra decides to port Quiver to another platform (including, without limitation, Macintosh or Ultra 64), Sierra will cover the costs to port to another platform, however, all costs are recoverable as if they were royalty advances paid to Valve. For example, if Sierra pays \$100,000 to a third party or incurs \$100,000 in internal development costs to port Quiver to Macintosh, this cost shall be deemed a royalty advance as under paragraph 4.1 and Sierra's obligation to remit royalties for such Platform Extension does not begin until the amount of royalties due for such Platform Extension exceeds the royalty advances paid hereunder. There shall be no cross collateralization between the royalty advances paid for Quiver and for Platform Extensions. In the event Sierra should decide to port Quiver to other platforms, Valve shall provide Sierra with, and grants a nonexclusive, perpetual, worldwide license (or sublicense, as the case may be) to use and modify, all Valve Underlying Technology (except with regard to the id technology portion of the Valve Underlying Technology, the foregoing license is limited by Valve's ability to obtain rights to such platform(s) from id as described in Section 2.3id) together with all related documentation, programmer's notes and other items reasonably required for a competent programmer to adapt Quiver to other platforms. The Valve Underlying Technology that Valve provides to Sierra under this paragraph 4.4 constitutes trade secret and confidential information, and Sierra shall protect against unauthorized dissemination and use. Sierra shall not disclose to third parties knowledge about Valve Underlying Technology without the prior written consent of Valve. Sierra shall return all copies of any Valve Underlying Technology provided to Sierra upon completion of such other platforms of Quiver. The twenty-seven percent (27%) royalty rate set forth above shall be automatically reduced to twenty-five percent (25%) if the U.S. version of Quiver has not been reasonably approved by Sierra for commercial production in final form by November 12, 1997 and to twenty-three percent (23%) if the U.S. version of Quiver has not been reasonably approved by Sierra for commercial production in final form by December 1, 1997.

4.5 Royalty Fee for Add-On Products. Sierra will pay a royalty on Add-On Products at a rate of twenty-seven percent (27%) of net revenue (calculated in the same manner as Net Revenue as though such Add-On Products were Quiver) and licensing revenues (calculated in the same manner as Licensing Revenues as though such Add-On Products were Quiver) in the same manner as in paragraph 4.3, if such Add-On Product(s) is developed solely by Valve. If Sierra or a third party develops such Add-On Products, Sierra will pay a royalty at a rate of thirteen and one-half

percent (13.5%) of net revenue (calculated in the same manner as Net Revenue as though such Add-On Products were Quiver) and licensing revenues (calculated in the same manner as Licensing Revenues as though such Add-On Products were Quiver) in the same manner as in paragraph 4.3. The twenty-seven percent (27%) and thirteen and one-half percent (13.5%) royalty rates set forth above shall be automatically reduced to twenty-five percent (25%) and twelve and one-half percent (12.5%), respectively, if the U.S. version of Quiver has not been reasonably approved by Sierra for commercial production in final form by November 12, 1997 and to twenty-three percent (23%) and eleven and one-half percent (11.5%), respectively, if the U.S. version of Quiver has not been reasonably approved by Sierra for commercial production in final form by December 1, 1997.

4.6 Royalty Fee for Derivative Products. Sierra will pay Valve a royalty on Derivative Products (but only with respect to the first commercially released Quiver product and not with respect to any Sequel Products) at a rate of ten percent (10%) of net revenue (calculated in the same manner as Net Revenue as though such Derivative Products were Quiver) and licensing revenues (calculated in the same manner as Licensing Revenues as though such Derivative Products were Quiver) in the same manner as in paragraph 4.3. Sierra shall not owe Valve any royalties on Derivative Products first released after any Sequel has been released.

4.7 Royalty Fee for Foreign Translations. Sierra will pay a royalty on Foreign Translations at a rate of twenty-seven percent (27%) of net revenue (calculated in the same manner as Net Revenue as though such Foreign Translations were Quiver) and licensing revenues (calculated in the same manner as Licensing Revenues as though such Foreign Translations were Quiver) in the same manner as in paragraph 4.3. The twenty-seven percent (27%) royalty rate set forth above shall be automatically reduced to twenty-five percent (25%) if the U.S. version of Quiver has not been reasonably approved by Sierra for commercial production in final form by November 12, 1997 and to twenty-three percent (23%) if the U.S. version of Quiver has not been reasonably approved by Sierra for commercial production in final form by December 1, 1997.

4.8 Records; Inspection. Upon at least fifteen (15) days' advance written notice to Sierra by Valve, and not more than once in any twelve (12) month period, Valve may have an independent accounting firm gain access during Sierra's normal business hours to all relevant accounting records in order to verify the accuracy of Sierra's royalty computations. Valve's right to inspect Sierra's records is limited to the most recent past three (3) years (except for tax related matters which shall be a period of seven (7) years) months from the date of the written notice. Sierra's right to adjust royalty payments under paragraphs 4.3, 4.4, 4.5, 4.6 and 4.7 is also limited to the most recent past eighteen (18) months. Such information is confidential and proprietary to Sierra and shall not be disclosed or used by such accounting firm or Valve, except as required for verification. Sierra shall promptly pay to Valve any underpayment of royalty fees made to Valve under this Agreement. Valve shall promptly refund to Sierra any overpayment of royalty fees, other than royalty advances, made to Valve under this Agreement. All expenses incurred in connection with any such audit shall be borne by Valve; provided, that in the event any audit discloses an underpayment by Sierra of more than five percent (5%) with respect to the royalty fees payable in any quarter, Sierra shall reimburse Valve for any reasonable costs associated with such audit.

4.9 Full Compensation. Payment of the amounts specified in this Section 4 shall constitute full compensation to Valve for the rights granted, transferred and assigned to Sierra herein. Sierra may withhold and apply any royalty or other amounts owing to Valve under this Agreement against any refund or other amounts owing by Valve to Sierra under this Agreement or otherwise

(including without limitation, any damages, costs or expenses incurred by Sierra on account of any breach of Valve's representations, warranties or obligations set forth in this Agreement).

If Valve does not receive the applicable royalty payment on or before the due date of such payment, Sierra agrees to pay and shall pay interest on royalties owed to Valve from such date as specified in the following sentence at a rate per annum equal to the Index Rate plus four percent (4%). For purposes of clarification, the interest will begin to accrue on the first (1st) day following the due date of the royalty payment, unless the royalty payment is paid timely. The "Index Rate" shall be the prime rate as published in the Wall Street Journal's "Money Rates" table. If multiple prime rates are quoted in the table, then the highest prime rate will be the Index Rate. In the event that the prime rate is no longer published in the "Money Rates" table, then Valve will choose a reasonable substitute Index Rate which is based upon comparable information. The applicable interest rate will be determined and take effect on the first day of each month.

Section 5. Term

5.1 Term. Subject to termination as provided below, the term of this Agreement shall be perpetual.

5.2 Termination. If either party (the "defaulting party") materially defaults in the performance of any of its obligations under this Agreement and the default is not cured within thirty (30) days after the nondefaulting party gives the defaulting party written notice of the default, the nondefaulting party may immediately terminate this Agreement. A reasonable dispute over calculation of royalties, as opposed to material failure to account for royalties, is not considered a breach of the Agreement. Either party may terminate in the event that the other party files bankruptcy or has its assets liquidated. The parties may also mutually terminate this Agreement in writing.

5.3 Termination by Sierra. Sierra may terminate this Agreement at its sole option for any reason and at any time during or after the development of Quiver, without any further liability to Valve. In the event of such termination during the development of Quiver: (a) Sierra forfeits any royalty advances already paid to Valve; (b) Sierra shall pay the royalty advance associated with the next scheduled milestone that Valve is working on at the time of the termination by Sierra; and (c) the Intellectual Property Rights in Quiver shall transfer to Valve. In the event of Sierra's termination of this Agreement after the completion of Quiver, Sierra shall grant a nonexclusive, perpetual, worldwide license to Valve to distribute Quiver (but not any derivatives thereof) through other distributors. Sierra's obligation under this paragraph 5.3 (b) shall not apply in case of cancellation under paragraph 4.2.

5.4 Termination Caused by Valve. If this Agreement is terminated due to material breach by Valve and prior to the final acceptance of Quiver by Sierra, Valve shall be obligated to return all royalty advances (to the extent not already credited against royalties payable to Valve) to Sierra, in addition to other remedies Sierra may have available under this Agreement. If this Agreement is terminated due to material breach by Valve and if Sierra subsequently wishes to complete development of Quiver, Valve is not obligated to return royalty advances but will not be entitled to receive any royalty payments under paragraphs 4.3, 4.4, 4.5, 4.6, and/or 4.7, and Valve will deliver and assign over all work-in-progress to Sierra including the grant of a perpetual, nonexclusive, worldwide license (or sublicense, as the case may be) to Valve Underlying

Technology (as described below and excluding that portion licensed from id Software) together with all associated documentation and a list of all commercially available tools used in the development of Quiver for purpose of Sierra completing, making, marketing and distributing Quiver. At such time, the Intellectual Property Rights (excluding Valve Underlying Technology) in and associated with such work-in-progress of Quiver will vest in and be transferred and assigned to Sierra and shall be the exclusive property of Sierra and Valve hereby grants a nonexclusive, perpetual, worldwide license (or sublicense, as the case may be) to Sierra to use and modify Valve Underlying Technology (excluding that portion licensed from id Software) in connection with the completion and development of Quiver, Add-On Products, Derivative Products, Foreign Translations, Platform Extensions and Sequel Products. The Valve Underlying Technology that Valve provides to Sierra under this paragraph constitute trade secret and confidential information, and Sierra shall protect against unauthorized dissemination and use. After completion of Quiver by Sierra, all Intellectual Property Rights (excluding Valve Underlying Technology) in Quiver shall vest in Sierra and shall be the exclusive property of Sierra.

5.5 Survival. Sections 4, 6 and 7 and paragraph 2.4 (together with all other provisions of this Agreement which may reasonably be interpreted or construed as surviving termination of this Agreement) shall survive termination of this Agreement.

Section 6. Representations; Indemnification; Limitation of Liability

6.1 Representations and Warranties by Valve. Valve represents and warrants to Sierra that: (i) Valve has all rights and authority to transfer all Intellectual Property Rights in Quiver to Sierra; (ii) Valve has the sole and exclusive right to grant the rights, sublicenses and licenses granted to Sierra under this Agreement; (iii) that the Valve Underlying Technology do not and will not infringe any patent, copyright, trade secret right or other proprietary right of third parties; (iv) Quiver will perform substantially in accordance with Appendices A and B and has been scanned for viruses in accordance with industry standards; (v) the medium on which Quiver is furnished to Sierra will be free from defects in materials and workmanship; (vi) Valve has not previously and will not grant any rights in Quiver to any third party that are inconsistent with the grant, transfer and assignment of rights granted to Sierra in this Agreement; (vii) Quiver will be created by employees of Valve within the scope of their employment and under obligation to assign inventions to Valve, or by independent contractors under written obligations to assign all rights in Quiver to Valve except for third-party licenses of components of Quiver; (viii) the names "Valve, L.L.C." and "Valve" used as required do not and will not infringe any trademark, trade name or other proprietary rights of third parties; and (ix) this Agreement has been duly authorized, executed and delivered by Valve and constitutes a valid, binding and enforceable agreement of Valve; and (x) Valve shall have made or shall make any and all payments required to be made to all authors, licensors, participants in the production of the works, performances or computer software embodied in Quiver or other persons having legal or contractual rights of any kind to participate in any income arising in respect of the exploitation of such works or performances or the use of such computer software, conditioned upon Sierra's payment of royalties due hereunder.

6.2 Representations and Warranties by Sierra. Sierra represents and warrants to Valve that this Agreement has been duly authorized, executed and delivered by Sierra and constitutes a valid, binding and enforceable agreement of Sierra. Sierra further warrants that: (a) "Quiver" does not and will not infringe any trademark or trade name of any third party; (b) Add-On Products, Derivative Products, and Sequel Products (except those portions thereof developed by, or

sublicensed to Sierra by, Valve) do not and will not infringe any patent, trademark, trade name, copyright, trade secret right or other proprietary rights of third parties; (c) Sierra will comply with all laws [including, without limitation, § 22 U.S.C. § 2778 and 22 U.S.C. C.F.R. Parts 120-130 (1995)], regulations, ordinances and statutes applicable to Sierra's performance hereunder, including, but not limited to, the import/export laws and regulations of the United States and its governmental and regulatory agencies (including, without limitation, the Bureau of Export Administration and the U.S. Department of Commerce) and all applicable international treaties and laws; and (d) Sierra will pay all sales tax, tariffs, duties and other taxes applicable to Sierra performance under this Agreement.

6.3 Indemnity. Valve shall indemnify, defend and hold Sierra harmless from and against any and all claims, losses, liabilities, judgments and expenses (including reasonable attorneys' fees) resulting from or attributable to actual or alleged violation of any representations or warranties set forth in paragraph 6.1. Sierra shall indemnify, defend and hold Valve harmless from and against any and all claims, losses, liabilities, judgments and expenses (including reasonable attorneys' fees) resulting from or attributable to actual or alleged violation of any representations or warranties set forth in paragraph 6.2. The party seeking indemnification shall promptly notify the indemnifying party to control the defense and settlement of such claim and shall cooperate with the indemnifying party in such defense.

6.4 Consequential Damages. EXCEPT AS PROVIDED IN SECTION 6.3 ABOVE, NEITHER VALVE NOR SIERRA SHALL BE LIABLE TO THE OTHER OR ANY THIRD PARTY FOR ANY INCIDENTAL OR CONSEQUENTIAL DAMAGES ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT, INCLUDING LOSS OF REVENUE OR PROFIT, EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

In the event Sierra learns of any infringement or imitation of the Valve Underlying Technology, the id Software or Quake trademarks, or the proprietary rights in or related to any of them, it will promptly notify Valve thereof. Sierra acknowledges that Valve and id Software may take such action as each deems advisable for the protection of its rights in and to such proprietary rights, and Sierra shall, if requested by Valve, cooperate in all respects therein at Valve's (or id Software's) expense. In no event, however, shall Valve or id Software be required to take any action if it deems it inadvisable to do so, and Sierra, without the express written permission of id Software, shall have no right to bring any action or proceeding relating to this infringement or potential infringement or that which involves directly or indirectly any issue the litigation of which may affect the interest of id Software. In the event Sierra prosecutes an infringement lawsuit under this provision, any recovery shall be used first to reimburse Sierra, Valve and id Software for their respective attorneys' fees and expenses, pro rata, and then shall be split evenly between Sierra, Valve and id Software.

Section 7. Miscellaneous

7.1 Conduct of Business. Each party shall conduct its business with respect to Quiver and the manufacture, promotion, distribution and support thereof in a manner as to reflect favorably upon the reputation of the other party and to not injure the goodwill of the other party.

7.2 Notices. All notices, demands, requests and other communications shall be in writing or by written telecommunication, and shall be given when delivered personally to the addressee or if mailed by certified mail, return receipt requested, postage prepaid, or sent by written telecommunication, when delivered to the addresses specified below. Either party may from time to time change its address, facsimile number or designated individual by notice to the other party.

To "Sierra":

Sierra On-Line, Inc.
3380 - 146th Place S.E., Suite 300
Bellevue, WA 98007
Attn: General Counsel
Phone: (206) 649-9800
Facsimile: (206) 641-7617

To "Valve":

Valve, L.L.C.
520 Kirkland Way, #201
Kirkland, WA 98033

Attn: President
Phone: 206-889-9642
Facsimile: 206-889-9642

7.3 Successors. This Agreement will be fully binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns. Without limiting the foregoing, Valve shall not assign its rights or obligations under this Agreement without Sierra's prior written consent, not to be unreasonably withheld. After delivery and acceptance of the final version of Quiver to Sierra hereunder, Valve may thereafter assign all of its rights and obligations under this Agreement to a successor by way of merger or sale of all or substantially all of Valve's assets without the requirement of obtaining Sierra's prior written consent.

7.4 Force Majeure. Neither party shall be liable for or in breach of this Agreement on account of any delay or failure to perform as required under this Agreement as a result of any cause, condition or circumstance beyond such party's reasonable control.

7.5 Limitation on Liability. Except as provided in Paragraph 6.2, neither party will be liable to the other under or in connection with this Agreement for special, incidental, consequential or punitive damages of any nature, for any reason, including without limitation, the breach of this Agreement or any termination of this Agreement, whether such liability is asserted on the basis of contract, tort or otherwise, even if the other party has been warned of the possibility of such damages.

7.6 Attorneys' Fees. In the event of any legal action to enforce this Agreement, the party that prevails in such action will be entitled, in addition to any other relief granted, to recover from the other party the costs and expenses of such enforcement, including reasonable attorneys' fees and the fees and expenses of expert witnesses.

7.7 Entire Understanding. The terms set forth in this Agreement, Appendix A, Appendix B, and other written specifications describing Quiver signed by both parties constitute the

entire agreement of the parties with respect to the subject matter and supersede and cancel all prior and contemporaneous understandings and oral agreements.

7.8 Waiver. A waiver by either party of any term or condition of this Agreement in any instance will not be deemed or construed as a waiver of such term or condition for the future, or any subsequent breach thereof.

7.9 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

7.10 Severability. In the event that any provision of this Agreement shall be held invalid, illegal or unenforceable under applicable law, the remainder of this Agreement shall remain valid and enforceable, unless such invalidity, illegality or unenforceability substantially diminishes the rights and obligations, taken as a whole, of any party.

7.11 Applicable Law; Forum. This Agreement shall be interpreted, construed and enforced in accordance with the laws of the State of Washington, without reference to its choice of law rules. The provisions of the 1980 U.N. Convention on Contracts for the International Sale of Goods shall not apply. Valve and Sierra irrevocably consent to the venue and jurisdiction of the state and federal courts located in King County, Washington with regard to any suit, proceeding or claim arising under or otherwise occurring by reason of this Agreement, and agrees not to commence or prosecute any suit, proceeding or claim except in the aforementioned courts.

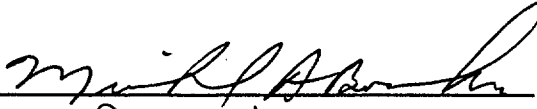
7.12 Affiliates. Any and all references to a party to this Agreement shall include its affiliates and subsidiaries.


7.13 Condition Precedent. Sierra shall have the option, by notifying Valve in writing within 10 days of the Id Cancellation Period (as defined below), to void this agreement with the result that the parties will be put back in their pre-contract positions, in the event that, within the 2 month period beginning on the effective date of this agreement ("Id Cancellation Period"), Sierra does not obtain an acknowledgment and agreement from id Software, Inc., in a form reasonably acceptable to Sierra, that notwithstanding the early termination of id's arrangement with Valve for any reason or Sierra's termination of Valve for cause hereunder, the sublicenses to the id technology contained herein will continue for the original term of Valve's agreement with id. The parties agree and understand that if Sierra is required to pay id directly for any royalties Valve would otherwise owe id for Sierra's sublicense of such technology, Sierra shall be entitled to a credit for such payments directly made to id and shall be entitled to offset such amounts against any amounts otherwise owing to Valve under this Agreement. In the event of cancellation by Sierra under this section, Sierra will pay to Valve a cancellation fee of \$60,000. Additionally Valve will remit to Sierra any advances received from Sierra under this agreement including any advances paid under Section 4.2.

IN WITNESS WHEREOF, the parties have entered into and signed this Agreement as of the date and year first above written.

"Sierra:"
Sierra On-Line, Inc.

"Valve:"
Valve, L.L.C.

By 
Its President

By 
Its Managing Director

Now called "Half Life"

Appendix A

Working Title: ~~Quiver~~
Target Computer: TBD
Operating System: Windows '95
RAM Requirements: 16 megs
Media: CD-ROM
Languages: English, French, German

Brief Product Description:

"Quiver (current working title) is a 3-D, first person, action game. The single-player game will contain 16 levels which are roughly equivalent to 2 Quake levels in terms of complexity and duration and is expected to contain approximately 30 hours of gameplay. In addition, Quiver will feature multiplayer support and a yet to be determined number of multiplayer only levels.

Quiver will utilize the Quake 3D engine and networking technology under license from id Software. Quiver will feature several enhancements to the Quake engine including: support for high-color (16 bit modes), enhanced creature animation, improved creature artificial intelligence, modifiable world textures, fog and translucency, atmospheric effects, enhanced Quake C (for object and creature authoring), engine based cinematics and 3D hardware support.

Appendix B

Delivery and Milestone Schedule

AA = Advance Amount

1. Execution of Agreement, Prototype Started

AA =\$30,000.

Milestone Description: Date on which both parties have signed the agreement.

2. Working Prototype and Design Specification

AA =\$30,000. Date: 5/5/97

Milestone Description: A functioning prototype and rough design specification will be completed. At a minimum the functioning prototype will include one working level which will demonstrate the user interface, combat with NPC, and at least one monster animated and interacting with the player.

Graphics Engine: Engine will support 16 bit graphics and improved animation system for animated 3D models.

3. Acceptance of project by Sierra

AA =\$40,000. Date: As per section 4.2.

Milestone Description: Sierra has accepted the prototype and chooses to continue with the project.

4. Delivery of Final Design Document

AA =\$50,000. Date: 5/19/97.

Milestone Description: Valve has completed detailed game specification describing all intended game elements, game behavior and level designs.

5. Single Player Version Playable

AA =\$100,000. Date: 6/12/97

Milestone Description: Single player version is fully playable. All UI screens are functional. At least 6 of the levels are playable.

6. Multiplayer Version Playable

AA = \$100,000. Date: 7/12/97.

Milestone Description: LAN/Internet based multi-player is fully functional. Players can join in to games dynamically, chat and play a multiplayer level. At least 2 multiplayer levels in the game are complete.

7. Alpha Version

AA = \$100,000. Date: 8/12/97.

Milestone Description: All game logic and the majority of content is completed. Game is feature complete and all technology enhancements to engine are functioning and working in the game. Single and multi-player versions fully playable.

8. Demo Version

AA = \$100,000. Date: 9/1/97.

Milestone Description: A distributable demo version (<10 Megabytes in size) is completed. Precise description to be determined, but at the very least will contain a small sampling of creatures, the game engine, and multiplayer. Intention is to demonstrate the look and feel of the game for prospective buyers.

9. Beta Version

AA = \$100,000. Date: 10/12/97.

Milestone Description: Configuration testing has been completed. All game logic and content is complete. Game is stable enough for widespread distribution. Minor bug fixing and game balancing is ongoing. All information for manuals and documentation has been delivered.

10. Final Version

AA = \$100,000. Date: 11/12/97.

Milestone Description: A stable build of the game with no serious or fatal bugs as determined by Sierra's quality assurance.

11. German Version Complete

AA = \$25,000. Date: 12/12/97.

Milestone Description: A version of the game delivered with all game text and voices localized to the German language.

12. French Version Complete

AA = \$25,000. Date 12/19/97.

Milestone Description: A version of the game delivered with all game text and voices localized to the French language.

SCHEDULE 3.1

You are entitled to use this product for your own use, but may not copy, reproduce, translate, publically perform, display, or reduce to any electronic medium or machine- readable form, reproductions of the software or manual to other parties in any way, nor sell, rent or lease the product to others without prior written permission of Sierra. You may use one copy of the product on a single computer. YOU MAY NOT NETWORK THE PRODUCT OR OTHERWISE INSTALL IT OR USE IT ON MORE THAN ONE COMPUTER AT THE SAME TIME.

UNAUTHORIZED REPRESENTATIONS: SIERRA WARRANTS ONLY THAT THE PROGRAM WILL PERFORM AS DESCRIBED IN THE USER DOCUMENTATION. NO OTHER ADVERTISING, DESCRIPTION, OR REPRESENTATION, WHETHER MADE BY A SIERRA DEALER, DISTRIBUTOR, AGENT, OR EMPLOYEE, SHALL BE BINDING UPON SIERRA OR SHALL CHANGE THE TERMS OF THIS WARRANTY.

IMPLIED WARRANTIES LIMITED: EXCEPT AS STATED ABOVE, SIERRA MAKES NO WARRANTY, EXPRESS OR IMPLIED, REGARDING THIS PRODUCT. SIERRA DISCLAIMS ANY WARRANTY THAT THE SOFTWARE IS FIT FOR A PARTICULAR PURPOSE, AND ANY IMPLIED WARRANTY OF MERCHANTABILITY SHALL BE LIMITED TO THE NINETY (90) DAY DURATION OF THIS LIMITED EXPRESS WARRANTY AND IS OTHERWISE EXPRESSLY AND SPECIFICALLY DISCLAIMED. SOME STATES DO NOT ALLOW LIMITATIONS ON HOW LONG AN IMPLIED WARRANTY LASTS, SO THE ABOVE LIMITATION MAY NOT APPLY TO YOU.

NO CONSEQUENTIAL DAMAGES: SIERRA SHALL NOT BE LIABLE FOR SPECIAL, INCIDENTAL, CONSEQUENTIAL OR OTHER DAMAGES, EVEN IF SIERRA IS ADVISED OF OR AWARE OF THE POSSIBILITY OF SUCH DAMAGES. THIS MEANS THAT SIERRA SHALL NOT BE RESPONSIBLE OR LIABLE FOR LOST PROFITS OR REVENUES, OR FOR DAMAGES OR COSTS INCURRED AS A RESULT OF LOSS OF TIME, DATA OR USE OF THE SOFTWARE, OR FROM ANY OTHER CAUSE EXCEPT THE ACTUAL COST OF THE PRODUCT. IN NO EVENT SHALL SIERRA'S LIABILITY EXCEED THE PURCHASE PRICE OF THIS PRODUCT. SOME STATES DO NOT ALLOW THE EXCLUSION OR LIMITATION OF INCIDENTAL OR CONSEQUENTIAL DAMAGES, SO THE ABOVE LIMITATION OR EXCLUSION MAY NOT APPLY TO YOU.