

EXHIBIT B

SOFTWARE PUBLISHING AGREEMENT

This Software Publishing Agreement (this "Agreement"), dated as of 9/3/97, 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 Product" means any software program designed only to work in conjunction with one or more of the Products (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 Product" means any work that is derived in any manner, directly or indirectly, from one or more of the Products or any aspect thereof or incorporates or utilizes one or more of the Products 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 a Product, which (a) causes the Product to not conform to its specifications, (b) causes incorrect results, (c) causes incorrect functions to occur, or (d) renders the Product inoperable. Errors shall not include any defects in or caused by: (i) Sierra Set-Up or Sierra Internet Gaming System referred to under paragraph 3.2 or (ii) modifications of the Product by Sierra or its licensees.

"Foreign Translation" means any translation of a Product to a language other than English.

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

"Net Revenue" means the gross revenue earned (whether or not actually received) by Sierra from the distribution of a Product (excluding Licensing Revenue) less: (i) a reserve of 20% of gross revenue for credits or refunds for returned, defective or discounted units of such Product; and (ii) any and all third party royalties and fees paid by Sierra in connection with revenues from sale and distribution of such Product. "Net Revenue" excludes revenue earned from distribution of products other than the specific Product. If Sierra earns revenue from distribution of a Product in combination with one or more other products, such revenue will be allocated between such Product and any 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 a Product directly to an end user that is available through retail channels, 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 the given Product. On a quarterly basis, Sierra will determine the actual allocations made by Sierra for the items set forth in clause (i).

"Platform Extension" means any adaptation of a Product to any other electronic platform or operating system not described in Appendix A or the Delivery Schedule (as defined in Section 2.1).

"Product" means any software program developed, being developed or to be developed by Valve for Sierra under this Agreement, as identified in Appendix A (or any substitute or additional Product specified in a new Appendix A in accordance with Section 2.2) or a subsequent Delivery Schedule entered into by and between Sierra and Valve pursuant to this Agreement. The term "Product" will include Sequel Products developed by Valve in accordance with Section 2.7 and will not, unless Sierra consents otherwise in writing, include Add-On Products, Platform Extensions, Foreign Translations and the like.

"Product in Development" means any Product that Valve is developing under this Agreement that (a) has reached the Prototype Milestone and is subject to a written, agreed upon Delivery Schedule (including Appendix A and Appendix B), and (b) has not yet been accepted by Sierra for the final version milestone.

"Prototype Milestone" means a functioning software prototype of the game

demonstrating a working graphics engine, game play elements and interface. In addition to the software prototype, the prototype milestone will include a rough design specification describing all game elements including back story; and art sketches or computer art to demonstrate the look and feel of the game, game environments and a sampling of characters and objects to be found in the game and a detailed project schedule sufficient to complete the descriptions contained in Appendix B.

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

"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) not unique to the Products, 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, in all cases developed or licensed by Valve from a third party and used for the development and/or operation of the Products. "Valve Underlying Technology" shall not include the following with respect to the Products: the title, storyline, theme, plot, scenes and characters.

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

2.1 Development and Delivery of Products. Valve will develop, make and deliver to Sierra at least three (3) Products in accordance with and as otherwise specified in this Agreement, Appendix A and Appendix B ("Delivery Schedule"), subject to early termination in accordance with Section 5. The parties will agree upon the Delivery Schedule and will execute an updated Appendix A and Appendix B for each Product upon Sierra's acceptance of the Prototype Milestone. The parties acknowledge that the Products on the initial Appendix A may be substituted or added to in accordance with Section 2.2. Valve further acknowledges that principal issue to be agreed upon for the first three Products identified on the initial Appendix A (unless such Products are substituted in accordance with Section 2.2) will be the Delivery Schedule, and Valve will not withhold its agreement on any Delivery Schedule proposed by Sierra for such Products that specifies a completion schedule of at least eighteen (18) months. The Delivery Schedules 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 each Product prior to delivery of such Product to Sierra. Sierra shall conduct configuration testing on each Product after the beta version milestone for such Product.

2.2 Procedure for Selection of Products for Development. If at any time during the term of this Agreement (as set forth in the provisions of Section 5) Valve devises any new concept for a software program Valve shall make such concept available to Sierra in the form of a written software proposal setting forth the specifications and particulars of the concept (including, without limitation a description of look and feel, game play, plot line and

sketches) and Valve's best estimate of a completion date for a product based on the concept before making the concept available to any third party. Sierra shall have sixty (60) days from the date on which it receives the written software proposal to determine whether it shall commence development of the concept as a Product. If Sierra notifies Valve that Sierra wishes to commence development of the concept as a Product, Valve will begin development and promptly complete the Prototype Milestone for such Product, and Sierra will pay Valve a total of \$60,000 through completion of the Prototype Milestone for such Product, in accordance with the following schedule: \$30,000 upon Sierra's notice that it wishes to commence development of the concept as a Product, and \$30,000 upon Sierra's acceptance of the Prototype Milestone. Upon completion and acceptance of the Prototype Milestone, the parties will negotiate in good faith the terms and conditions of the Delivery Schedule for the Product (to include, without limitation, milestones and payment schedules). In the event that Sierra does not elect to commence development of the concept as a Product within sixty (60) days from the date on which it receives the written software proposal, Valve shall be free to negotiate with third parties for the development of the concept (subject to Section 2.3). In the event that Sierra and Valve do not enter into a written Delivery Schedule for the Product within sixty (60) days after Sierra's acceptance of the Prototype Milestone, Valve shall be free to negotiate with third parties for the development of the Product (subject to Section 2.3). Prior to entering into any agreement with a third party or accepting any third party offer regarding development, distribution, publishing or the like with respect to a concept or Product about which Valve is permitted to negotiate with third parties, Valve must fully disclose that proposed agreement or offer to Sierra, and Sierra shall have the right, at its sole option, to enter into an agreement with Valve on substantially the same terms and conditions. If Sierra does not exercise its option to enter into such agreement with Valve and Valve enters into the agreement with the third party, Valve will promptly repay any royalties advanced to Valve with respect to developing the Prototype Milestone for such Product under this Section 2.2.

2.3 Number of Products in Development. Notwithstanding any contrary provisions contained elsewhere in this Agreement, Sierra may, but shall not be required to fund Valve's development of more than three (3) Products at any one time (i.e. Products which have not yet completed the final version milestone). Notwithstanding anything else contained in this Agreement, Valve will not commence development of any concept or product for its own account or under any arrangement with a third party until Valve has at least the first three Products in Development under this Agreement.

2.4 Development Costs for Foreign Translations. If Sierra requests Valve to develop Foreign Translations, Valve shall develop such Foreign Translation on a reasonably prompt schedule (not to exceed 3 months) and Sierra shall pay for the costs of the translations and actors and Valve shall be responsible for integrating these elements into the Products.

2.5 Third Party Software Technology. Valve will be responsible for obtaining any and all third party rights (including, without limitation, from Id Software) necessary in connection with Sierra's exercise of its rights under this Agreement. In addition, if rights become available for Valve to use third party technology (including, without limitation, 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 such third party or through Valve in connection with Valve's development of any Platform Extension hereunder.

2.6 Ownership of Intellectual Property Rights and Valve Underlying Technology. The Intellectual Property Rights (excluding the Valve Underlying Technology) in each Product, including, without limitation, the title, storyline, theme, plot, scenes and characters associated with such Product, will vest in and be transferred and assigned to Sierra when the final version milestone for such Product is completed. The Intellectual Property Rights (excluding the Valve Underlying Technology) in each Product will be the exclusive property of Sierra. Through Sierra's ownership of such Intellectual Property Rights in the Products, 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 any and all Products to Sierra.

2.7 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 such Products to Valve necessary for such development. If Sierra elects to have a Sequel Product developed and neither party has notified the other of any termination of this Agreement under Section 5, 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.

2.8 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 the Products 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 the Products, 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 titles and any and all other trademarks or trade names under which Sierra may from time to time market the Products or any Derivative Product, Add-On Product, Foreign Translation, Platform Extension, and Sequel Product.

2.9 Packaging. Sierra will manufacture the Product packages for its use (including the box, manuals, registration cards, license agreements and media). The design and manufacture of all packages for the Products 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 the Products will include the following credit line: "Development by Valve, L.L.C." the placement and prominence of which will be at Sierra's discretion.

2.10 Corrections; Updates. For a period of one year from the commercial release of each Product, 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 corrections, enhancements, modifications and/or updates to a Product, Valve shall promptly make all such corrections, enhancements, modifications and/or updates available to Sierra, on such media as Sierra may reasonably request.

2.11 Design and Milestone Schedule Changes. In the event Sierra wishes to materially alter the design specification or Delivery Schedule for a Product, 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.

2.12 License to Valve Underlying Technology. Valve grants to Sierra a perpetual, 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 the Products and any Add-On Products, Derivative Products, Foreign Translations, Platform Extensions and Sequel Products.

Section 3. Manufacturing, Promotion and Distribution

3.1 Sierra's Manufacturing, Promotion and Distribution Efforts: The release and distribution of each Product shall 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 the Products, and Valve acknowledges that Sierra may in its sole discretion limit, suspend or terminate the manufacture, promotion or distribution of a Product 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 a Product, 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 a Product within one year of the first commercial shipment of such Product, Sierra shall grant a nonexclusive, perpetual, worldwide license to Valve to distribute such Product (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 such Product, except taxes on Valve's net income or gross receipts. Sierra agrees that it will use its diligent efforts to market and license the Products at such prices as to meet the demand for same and will offer for license the Products in a manner not to bring into disrepute the goodwill of Valve. Further, Sierra shall distribute copies of the Products 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 is deemed to have approved. Sierra agrees not to engage in any deceptive, misleading, or unethical practices concerning the Products that are or might be detrimental to Valve, not to knowingly or recklessly make any false or misleading representation with regard to the Products and not to bundle the Products with any material that may be regarded as defamatory, libelous or obscene.

3.2 Sierra's Tools. Valve shall use the Sierra Set-Up, which is to be provided by Sierra free of charge, for Product 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 the Products. Valve shall return all copies of any tools and any hardware provided by Sierra upon the earlier of completion of the Products 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 each Product at no charge for Valve's internal use. Sierra shall not owe Valve royalties on copies of the Products provided to Valve.

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

Section 4. Compensation

4.1 Advance Against Royalties. Sierra will make royalty advance payments of One Million Five Hundred Thousand Dollars (\$1,500,000) for each of the first three (3) Products set forth in Appendix A, and in accordance with the milestones set forth in the

Delivery Schedule for each Product, and only upon Sierra's reasonable satisfaction that such milestones have been achieved. Royalty advances for any subsequent Products will be agreed upon at the time the Delivery Schedule is negotiated for such Product. The payment for each milestone on a specific Product will be subject to Sierra's approval that each such milestone has been satisfied. In the event that Sierra does not believe a milestone has been achieved on a Product, Sierra will notify Valve of that fact within fifteen (15) days 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 such Product 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) of a Product, Sierra will have up to four (4) weeks to evaluate the Product, and during such evaluation period, Valve will have no obligation to continue work on such Product. During the four (4) week evaluation period, Sierra may cancel the development of the Product being evaluated at Sierra's sole discretion. In the event of cancellation by Sierra during this period, all rights Valve granted Sierra herein concerning the Product being evaluated shall revert to Valve and the \$60,000 royalty advances for that Product shall be non-refundable; however, Valve will make a one-time payment of \$30,000 to Sierra in the event that Valve sells or licenses the canceled Product or any derivative thereof to a third party.

4.3 Royalty Fee for Products. Sierra will pay Valve a royalty on each Product at a rate of twenty-five percent (25%) of Net Revenue and of Licensing Revenue, 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 on each Product, Sierra will submit to Valve reports specifying the Net Revenue and the Licensing Revenue occurring during the previous quarter for each Product. For amounts less than \$100 on a Product, Sierra will submit to Valve reports annually specifying the Net Revenue and the Licensing Revenue for such Product. Valve shall not receive any royalty on the reasonable number of copies of the Products distributed by Sierra without charge for demonstration, promotional or other purposes. Sierra may adjust any future royalty payment on any Product for any past overpayments that may have occurred and/or any adjustments to the Net Revenue calculation for that same Product and any other Products to the extent necessary to correct for any past overpayments and/or adjustments. Royalties for any Sequel Product developed by Valve will be subject to negotiation as set forth in paragraph 2.6 above.

4.4 Royalty Fee for Platform Extensions. Sierra will pay Valve a royalty on Platform Extensions produced by Valve under this Agreement at a rate of twenty-five percent (25%) of net revenue (calculated in the same manner as Net Revenue as though such Platform Extensions were the Product from which they are adapted) and licensing revenues (calculated in the same manner as Licensing Revenues as though such Platform Extensions were the Product from which they are adapted) in the same manner as in paragraph 4.3. If Sierra decides to port a Product to another platform through Valve under this Agreement

(including, without limitation, Macintosh or Ultra 64), Sierra will cover the costs to port such Product 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 a Product 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 of that Product 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 a Product and for that Product's Platform Extensions. In the event Sierra should decide to port a Product 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 together with all related documentation, programmer's notes and other items reasonably required for a competent programmer to adapt such Product to other platforms and will promptly deliver such items (and any other components of the applicable Product) to Sierra. 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 the Product.

4.5 Royalty Fee for Add-On Products. Sierra will pay a royalty on Add-On Products produced by Valve under this Agreement at a rate of twenty-five percent (25%) of net revenue (calculated in the same manner as Net Revenue as though such Add-On Products were the Product with which the Add-On Product is intended to work) and licensing revenues (calculated in the same manner as Licensing Revenues as though such Add-On Product was the Product with which the Add-On Product is intended to work) in the same manner as in paragraph 4.3, if such Add-On Products are developed solely by Valve. If Sierra or a third party develops an Add-On Product, Sierra will pay a royalty at a rate of twelve and one-half percent (12.5%) of net revenue (calculated in the same manner as Net Revenue as though such Add-On Product was the Product with which the Add-On Product is intended to work) and licensing revenue (calculated in the same manner as Licensing Revenue as though such Add-On Product was the Product with which the Add-On Product is intended to work) in the same manner as in paragraph 4.3.

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 version of each Product and not with respect to any Sequel Product) at a rate of ten percent (10%) of net revenue (calculated in the same manner as Net Revenue as though such Derivative Product was the Product from which the Derivative Product is derived) and licensing revenue (calculated in the same manner as Licensing Revenue as though such Derivative Product was the Product from which the Derivative Product is derived) in the same manner as in paragraph 4.3. Sierra shall not owe Valve any royalties on Derivative Products first released after any Sequel of that Product not developed by Valve has been released.

4.7 Royalty Fee for Foreign Translations. Sierra will pay a royalty on any Foreign Translation produced by Valve under this Agreement at a rate of twenty-five percent (25%) of net revenue (calculated in the same manner as Net Revenue as though such Foreign Translation was the Product upon which such Foreign Translation is based) and licensing revenue (calculated in the same manner as Licensing Revenue as though such Foreign Translation was the Product upon which such Foreign Translation is based) in the same manner as in paragraph 4.3..

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 Payment; 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).

Sierra's obligation to remit full royalties earned by Valve pursuant to this Section 4 on a Product shall not begin until the amount of royalties recovered by Sierra on that Product exceeds any royalty advances paid or deemed paid pursuant to this Section 4 or the Delivery Schedule for that Product. Until such time, Sierra shall retain ninety (90) percent of the total royalties due to Valve pursuant to the provisions of this Section 4 on that Product (or any Add-On Product, Derivative Product, Foreign Translation, Sequel Product or Platform Extension of that Product) to be credited against any royalty advance for that Product, and shall advance the remaining royalties to Valve.

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.

5.3.1 Termination of Agreement. Sierra may terminate this Agreement at its sole option for any reason and at any time regardless of the stage of development of any Product, without any further liability to Valve.

5.3.2 Termination of Specific Products. Sierra may, at any time, cancel the development of any one or more Products in Development. Upon any such cancellation, all rights Valve granted Sierra herein concerning such cancelled Product shall revert to Valve and all royalty advances for that Product shall be non-refundable; however, Valve will make a one-time payment equal to the amount of all royalties advanced to Sierra in the event that Valve sells or licenses the canceled Product or any derivative thereof to a third party.

5.4 Termination for Convenience by Valve. At any time when Valve has three Products in Development, Valve may deliver written notice to Sierra specifying that Valve intends to terminate this Agreement upon completion of the Products in Development. Thereafter, upon Sierra's acceptance of all such Products for manufacturing under Section 3.1, this Agreement will terminate; provided that Valve's obligations under Section 2.9 will continue for each Product until the first anniversary of Sierra's acceptance for manufacturing.

5.5 Termination for Valve's Breach. If this Agreement is terminated due to material breach by Valve, Valve shall be obligated to return all royalty advances all for unfinished Products in Development (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 one or more Products, Valve is not obligated to return royalty advances for any Products to be completed by Sierra, but Valve shall not be entitled to receive any royalty payments under paragraphs 4.3, 4.4, 4.5, 4.6, and/or 4.7 for such Products, 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) together with all associated documentation and a list of all commercially available tools used in the development of such Products for purpose of Sierra completing, making, marketing and distributing such Products. At such time, the Intellectual Property Rights (excluding Valve Underlying Technology) in and associated with such work-in-progress of such Products 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 in connection with the completion and development of such Products, 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 secrets and confidential information, and Sierra shall protect against unauthorized dissemination and use. After completion of a Product by Sierra, all Intellectual Property Rights (excluding Valve Underlying Technology) in such Product shall vest in Sierra and shall be the exclusive property of Sierra.

5.6 Survival. Sections 4, 6 and 7 and paragraph 2.5 (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. Termination of this Agreement for any reason will not affect Sierra's rights with respect to Products completed prior to the date of such termination. Cancellation of development of any Product under Section 5.3.2 will not affect Valve's obligation to develop any other Product.

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 all Products 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) all Products will perform substantially in accordance with Appendices A and B, will be of a high quality and consistent with Valve's "Half Life" product and have been scanned for viruses in accordance with industry standards; (v) the medium on which the Products are furnished to Sierra will be free from defects in materials and workmanship; (vi) Valve has not previously and will not grant any rights in any Product to any third party that are inconsistent with the grant, transfer and assignment of rights granted to Sierra in this Agreement; (vii) all Products 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 all Products to Valve except for third party licenses of components of such Products; (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 any Product 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) the Product titles do 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, 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 PARAGRAPH 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 or any Product trademark, or the proprietary rights in or related to any of them, it

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	<i>mtad</i>
To "Valve":	Valve, L.L.C. 520 Kirkland Way, #201 Kirkland, WA 98033 Attn: Managing Director Phone: (425) 889-9642 Facsimile: (425) 889-9642	

will promptly notify Valve thereof. Sierra acknowledges that Valve may take such action as it 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 expense. In no event, however, shall Valve be required to take any action if it deems it inadvisable to do so. In the event Sierra prosecutes an infringement lawsuit under this provision, any recovery shall be used first to reimburse Sierra and Valve for their respective attorneys' fees and expenses, pro rata, and then shall be split evenly between Sierra and Valve.

Section 7. Miscellaneous

7.1 Conduct of Business. Each party shall conduct its business with respect to the Products 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.

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.

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 any of the Products, Delivery Schedules and additions or substitutes for Appendix A 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.

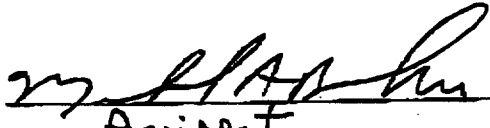
7.11 Applicable Law; Forum. This Agreement shall be interpreted, construed and enforced in accordance with the laws of the State of Washington, without reference to its choice of law rules. The provisions of the 1980 U.N. Convention on Contracts for the International Sale of Goods shall not apply. Valve 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.

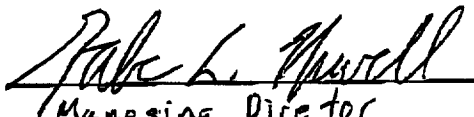
7.12 Affiliates. Any and all references to a party to this Agreement shall include its affiliates and subsidiaries.

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

Appendix A

	<u>Product 1</u>	<u>Product 2</u>	<u>Product 3</u>
Working Title:	Prospero	Half-Life 2	Prospero 2
Target Computer:	TBD	TBD	TBD
Operating System:	TBD	TBD	TBD
RAM Requirements:	TBD	TBD	TBD
Media:	TBD	TBD	TBD
Additional Hardware Support (e.g. 3D Card)	TBD	TBD	TBD
Foreign Languages:	French, German,*	French, German,*	French, German,*
Target Ship Date of English Version	TBD	TBD	TBD

Product 1 Description: TBD

Product 2 Description: TBD

Product 3 Description: TBD

PRODUCT ADVANCES (AGGREGATE, PER PRODUCT):

Product 1: \$1.5 Million -- Payment schedule TBD (based on milestones set forth in current Appendix B)

Product 2: \$1.5 Million -- Payment schedule TBD (based on milestones set forth in current Appendix B)

Product 3: \$1.5 Million -- Payment schedule TBD (based on milestones set forth in current Appendix B)

TBD = To be agreed upon and documented with submission and approval of prototype.

* = Additional foreign language translations to be decided and agreed upon with submission and approval of prototype.

Appendix B

Delivery and Milestone Schedule

AA = Advance Amount

1. Prototype Milestone

AA =\$60,000. Date: TBD

Milestone Description: As defined in Agreement

2. Acceptance of Prototype by Sierra

AA =\$160,000. Date: As per section 4.2.

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

3. Delivery of Final Design Document

AA =\$160,000. Date: TBD.

Milestone Description: Valve has completed final detailed game specification describing all intended gameplay elements, game behavior, art\character design, sound design, level\room design and technical design.

4. Single Player Version Playable

AA =\$160,000. Date: TBD

Milestone Description: TBD.

5. Multiplayer Version Playable (If not applicable to game, Sierra and Valve will agree to an intermediate milestone between Single Player Version and Alpha Version)

AA = \$160,000. Date:TBD.

Milestone Description: TBD.

6. Alpha Version

AA = \$160,000. Date: TBD.

Milestone Description: TBD.

7. Demo Version

AA = \$160,000. Date: TBD.

Milestone Description: TBD

8. Beta Version

AA = \$160,000. Date: TBD

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.

9. Final Version

AA = \$160,000. Date: TBD.

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

10. Foreign Versions Complete

AA = \$160,000. Date: TBD.

Milestone Description: A version of the game delivered with all game text and voices localized to the languages agreed upon in Schedule A.

SCHEDULE 3.1

To be amended

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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.