

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

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

Date of report (Date of earliest event reported) August 14, 2000

Titan Motorcycle Co. of America

(Exact Name of Registrant as Specified in Charter)

Nevada

000-24477

86-0776876

(State or Other Jurisdiction
of Incorporation)(Commission
File Number)(IRS Employer
Identification No.)2222 West Peoria Avenue, Phoenix, Arizona
(Address of Principal Executive Offices)85029
(Zip Code)

Registrant's telephone number, including area code

(602) 861-6977

(Former Name or Former Address, if Changed Since Last Report)

ITEM 5. OTHER EVENTS.

SALE OF CONVERTIBLE SECURITIES

On August 14, 2000, Titan Motorcycle Co. of America sold \$375,000 in principal amount of its 12% Convertible Debentures and a Warrant to purchase 512,580 shares of Titan's common stock to Esquire Trade & Finance and \$375,000 in principal amount of its 12% Convertible Debentures and a Warrant to purchase 512,580 shares of Titan's common stock to Celeste Trust Reg. in a private placement for a total of \$750,000 in gross proceeds to Titan. The terms and conditions of the private placement are described more fully in the Securities Purchase Agreement attached as Exhibit 10.1 to this report.

Unless and until shareholder approval is obtained, the Debentures are convertible at any time into a maximum of 3,500,235 shares of Titan's common stock. The Debentures are convertible at the lower of a fixed conversion price or a variable conversion price. The fixed conversion price is equal to 70% of the average of the closing bid price of Titan's common stock for the five trading days immediately preceding the closing date, or \$0.42 per share. The variable conversion price is equal to 70% of the average of the five lowest closing bid prices (which need not be consecutive days) of Titan's common stock during the 22 trading days immediately preceding the applicable conversion date. As of the closing date, the variable conversion price was \$0.32 per share. The conversion price and the number of shares of common stock underlying the Debentures are subject to adjustment for stock splits, stock dividends, combinations, capital reorganizations and similar events relating to Titan's common stock.

The Debentures are secured by the grant of a security interest in all of Titan's assets, subject to a senior security interest in favor of Wells Fargo Credit, Inc., Titan's senior lender, as more fully described in the Security Interest and Pledge Provisions in the form attached as Exhibit 4.4 to this report.

The Debentures are redeemable at any time by the holders in the event of default by Titan. Each of the following constitutes an "Event of Default" pursuant to the terms of the Debentures:

- - Titan defaults in the payment of principal or interest on the Debentures and continues to do so for a period of 5 business days;
- - Any of the representations or warranties made by Titan in the Debentures, the Securities Purchase Agreement, the Registration Rights Agreement or in any certificate or financial or other written statements furnished by Titan in connection with the execution and delivery of the Debentures or the Securities Purchase Agreement are deemed to be false or misleading in any material respect at the time made;
- - Titan fails to authorize or to cause its transfer agent to issue shares of Common Stock upon exercise by the Holder of the conversion rights of the Holder in accordance with the terms of the Debentures, fails to transfer or to cause its transfer agent to transfer any certificate for shares of Common Stock issued to the Holder upon conversion of the Debentures and when required by the Debentures or the Registration Rights

Agreement, and such transfer is otherwise lawful, or fails to remove any restrictive legend on any certificate or fails to cause its transfer agent to remove such restricted legend, in each case where such removal is lawful, as and when required by the Debentures, or the Registration Rights Agreement, and any such failure continues uncured for 5 business days;

- - Titan fails to perform or observe, in any material respect, any other covenant, term, provision, condition, agreement or obligation of the Debentures and such failure continues uncured for a period of 30 days after written notice from the Holder;
- - Titan fails to perform or observe, in any material respect, any covenant, term, provision, condition, agreement or obligation of Titan under the Securities Purchase Agreement or the Registration Rights Agreement and such failure continues uncured for a period of 30 days after written notice from the Holder (other than a failure to cause the Registration Statement to become effective no later than the Required Effective Date, as defined and provided in the Registration Rights Agreement, as to which no such cure period shall apply);
- - Titan (1) admits in writing its inability to pay its debts generally as they mature; (2) makes an assignment for the benefit of creditors or commences proceedings for its dissolution; or (3) applies for or consents to the appointment of a trustee, liquidator or receiver for its or for a substantial part of its property or business;
- - A trustee, liquidator or receiver is appointed for Titan or for a substantial part of its property or business without its consent and is not discharged within 60 days after such appointment;
- - Any governmental agency or any court of competent jurisdiction at the instance of any governmental agency assumes custody or control of the whole or any substantial portion of the properties or assets of Titan and is not dismissed within 60 days thereafter;
- - Any money judgment, writ or warrant of attachment, or similar process in excess of \$200,000 in the aggregate is entered or filed against Titan or any of its properties or other assets and remains unpaid, unvacated, unbonded or unstayed for a period of 60 days or in any event later than 5 days prior to the date of any proposed sale thereunder;
- - Bankruptcy, reorganization, insolvency or liquidation proceedings or other proceeding for relief under any bankruptcy law or any law for the relief of debtors is instituted by or against Titan and, if instituted against Titan, is not dismissed within 60 days after such institution or Titan by any action or answer approves of, consents to, or acquiesces in any such proceedings or admit the material allegations of, or defaults in answering a petition filed in any such proceeding;

- - Titan is in default to its senior lender under the terms of the then applicable agreements between Titan and its senior lender and any such failure continues uncured for 30 days; or

- - Titan has its Common Stock suspended or delisted from trading on the Nasdaq/SmallCap Market for in excess of 20 trading days.

The terms and conditions of the Debentures are more fully described in the form of Debenture attached as Exhibit 4.1 to this report.

The Warrants are exercisable at a price equal to 105% of the market price of the Common Stock as of the closing date, or \$.643125 per share, and expire August 31, 2005. The terms and conditions of the Warrants are more fully described in the form of warrant attached as Exhibit 4.2 to this report.

Under the Registration Rights Agreement attached as Exhibit 4.3 to this report, Titan has agreed to file a registration statement with the SEC covering the resale of the shares underlying the Debentures and the Warrants. Titan also has agreed to file a pre-effective amendment with the SEC to its existing registration statement on Form S-3 covering the resale of the shares of Common Stock underlying the Series C Convertible Preferred Stock and warrants issued in connection with that offering, which registration statement must be declared effective by August 29, 2000.

AMENDMENTS TO THE SERIES A AND B CERTIFICATES AND SUBSCRIPTION AGREEMENTS

As a condition to the sale of the Debentures and the Warrants, Titan was required to obtain the consent of the holders of its Series A and Series B Convertible Preferred Stock. In exchange for this consent, and a waiver of certain preemptive rights, Titan agreed to amend certain provisions of the Series A and Series B Subscription Agreements and the respective Amended and Restated Certificates of Designations for the Series A and Series B Convertible Preferred Stock. These amendments included accelerating the initial reset dates and shortening the respective reset periods used in determining the variable conversion price at which the Series A and Series B Convertible Preferred Stock may be converted into shares of common stock. The effect of these amendments is to accelerate the ability of the holders of the Series A and Series B Convertible Preferred Stock to convert their shares of preferred stock at a variable conversion price, which in each case is based on the current market price of Titan's common stock. Because the price of Titan's common stock has declined significantly since the closing of the Series A and Series B Convertible Preferred Stock, the price at which the holders of the Series A and Series B Convertible Preferred Stock may convert their shares of preferred stock on their respective initial reset dates also will decline significantly from their fixed conversion prices, resulting in the possibility of a substantially increased number of shares that may be issued upon conversion.

The specific amendments are more fully described in the Amended and Restated Certificates of Designations for the Series A and Series B Convertible Preferred Stock attached as Exhibits 3.1 and 3.2 to this report.

AMENDMENTS TO THE SERIES C CERTIFICATE

As a condition to the sale of the Debentures, the purchasers of the Debentures (who currently are the same investors as the holders of the Series C Convertible Preferred Stock)

required that Titan agree to amend certain provisions of the Certificate of Designations for the Series C Convertible Preferred Stock and agree to accelerate effectiveness of the registration statement covering the shares of Common Stock underlying the Series C Convertible Preferred Stock to a date not later than 15 days after the Closing Date, or August 29, 2000. The principal amendments to the Certificate of Designations for the Series C Convertible Preferred Stock include a change in the method of determining the conversion price applicable to the conversion of the Series C Convertible Preferred Stock and a change in the ranking of the Series C Convertible Preferred Stock relative to the ranking of the Series A and Series B Convertible Preferred Stock.

Prior to the amendment, the Series C Convertible Preferred Stock was convertible at a fixed conversion price equal to \$0.95 per share for the first six months from the date of issuance. Thereafter, the conversion price was adjusted every three months to be the lower of (a) 80% of the average market price for the lowest three trading days during the last ten trading days prior to the adjustment date and (b) either (i) the current conversion price if 80% of the average market price was less than or equal to 200% of the current conversion price, or (ii) \$.95 if 80% of the average market price was more than 200% of the current conversion price. The Certificate of Designations was amended to provide for a new conversion price equal to the lesser of a fixed conversion price equal to 70% of the average of the closing bid price for the 5 trading days immediately preceding the Closing Date, or \$0.42 per share, or a variable conversion price equal to 70% of the average of the closing bid price for the lowest 5 trading days (which need not be consecutive) during the 22 consecutive trading days ending on the trading day immediately preceding the relevant conversion date. As of the closing date, the variable conversion price was \$0.32 per share.

Prior to the amendment, the Series C Convertible Preferred Stock was junior to the Series A and Series B Convertible Preferred Stock in terms of liquidation preference and payment of dividends. The Certificate of Designations was amended (with the consent of the holders of the Series A and Series B Convertible Preferred Stock) to subordinate the rights of the Series A and Series B Convertible Preferred Stock to the rights of the Series C Convertible Preferred Stock from the date of the amendment until the effective date of a registration statement covering the shares underlying the Series C Convertible Preferred Stock and related warrants. Once this registration statement is declared effective, the Series A and Series B Convertible Preferred Stock will once again be senior to the Series C Convertible Preferred Stock.

The specific amendments to the Series C Convertible Preferred Stock are more fully described in the First Amended and Restated Certificate of Designations for the Series C Convertible Preferred Stock attached as Exhibit 3.3 to this report.

AMENDMENT TO THE WELLS FARGO CREDIT FACILITY

As a condition to the sale of the Debentures, Titan was required to obtain the consent of its senior lender, Wells Fargo Credit, Inc. In connection with obtaining that consent, Titan and the holders of the Debentures were required to enter into an Intercreditor Agreement with Wells Fargo in the form attached as Exhibit 10.2 to this report, which provides generally for the respective rights of the holders of the Debentures and Wells Fargo as secured lenders. In addition, Titan and Wells Fargo entered into a Second Amendment to the Amended and Restated Loan and Security Agreement in the form attached as Exhibit 10.3 to this report, pursuant to which Wells Fargo (1) consented to the transaction described herein; (2) agreed to modify certain financial covenants regarding minimum net worth and net income; and (3) agreed to extend the time that Titan had to deliver certain financial information to Wells Fargo.

ASSOCIATED RISKS

Despite the recent cash infusion from the sale of the Debentures, Titan is still experiencing a liquidity crisis.

As described in a report on Form 8-K filed by Titan on July 20, 2000, Titan currently is experiencing a liquidity crisis. Despite the raising of additional funds from the sale of the Debentures, Titan must raise substantial additional capital and replace its credit facility with a new senior lender in order to survive. The line of credit with Wells Fargo terminates on September 11, 2000. If Titan is unable to raise substantial additional capital and replace its existing credit facility before it becomes due, it may be forced to liquidate or file for reorganization under federal bankruptcy laws. Even if Titan is able to avoid liquidation or reorganization, its inability to raise additional capital is likely to continue to have a material adverse effect on its operations as more fully described in the report on Form 8-K filed July 20, 2000.

The amendments to the Certificates of Designations are likely to cause substantial additional dilution to holders of Titan's common stock.

Because the market price of Titan's common stock has declined significantly since the dates of issuance of the Series A, Series B and Series C Convertible Preferred Stock, and because the conversion prices of the Series A, Series B and Series C Convertible Preferred Stock are equal to the lesser of a fixed conversion price or a variable conversion price, which is based on a percentage ranging from 70% to 100% of the market price immediately prior to a conversion, the overall effect of the changes described in this report is to accelerate the ability of the holders of the Series A, Series B, and Series C Convertible Preferred Stock to convert their shares at significantly lower variable conversion prices than their respective fixed conversion prices, resulting in a corresponding significant increase in the number of shares of Titan's common stock that may be issued upon conversion. If all shares of Series A, Series B and Series C Convertible Preferred Stock were converted as of the date of this report (assuming the initial reset date of the Series B Convertible Preferred Stock was August 14, 2000 rather than January 1, 2000), Titan would be required to issue a total of 14,865,775 additional shares of its Common Stock. As a result, the amendments to the Series A, Series B and Series C Convertible Preferred Stock may result in substantial dilution to the holders of Titan's Common Stock. Even if the price of Titan's Common Stock rises above the fixed conversion prices of the Series A, Series B and Series C Convertible Preferred Stock, the method of calculating the conversion prices will cap the conversion price at the fixed conversion price.

If the market price of Titan's Common Stock continues to decline, the number of shares issuable upon conversion of the Series A, Series B and Series C Convertible Preferred Stock will continue to increase, resulting in further dilution to the holders of Titan's Common Stock. The issuance and resale of significant additional shares of Common Stock may result in further price declines.

Titan anticipates a significant loss for second quarter.

Titan anticipates that, due to substantial adjustments in inventory levels and valuations and the establishment of a significant reserve in the second quarter of 2000, taken in conjunction with certain affiliated store receivables and motorcycle repossession and resale, it will report a significant loss in the second quarter of 2000 and continue to be unprofitable in the third quarter of 2000. Although not finalized as of the Closing Date, writedowns, adjustments and reserves could have a combined adverse effect on second quarter results of up to \$2.0 million. Depending on final resolution of these issues, this number could be more or less than what Titan is anticipating. In addition, the establishment of additional reserves could cause Titan to be in default under its revised financial covenants with Wells Fargo, which Titan will attempt to cure through obtaining a waiver from the bank or agreeing to an additional amendment to the Amended and Restated Loan and Security Agreement. There can be no assurance that Titan will be successful in this regard.

If Titan defaults on its obligations, it may be forced to redeem certain securities.

The terms of the Securities Purchase Agreement for the Debentures and the Series C Convertible Preferred Stock include covenants that require Titan, among other things, to:

- obtain shareholder approval to issue shares upon conversions greater than 20% of Titan's currently outstanding Common Stock;
- maintain its Nasdaq SmallCap Market listing
- issue shares of Common Stock upon conversion on a timely basis;
- file and obtain effectiveness of registration statements by specific dates; and
- avoid defaults under its credit facility with Wells Fargo.

If Titan defaults on any of these covenants, it may be required to redeem the Debentures or the Series C Convertible Preferred Stock at a time when it does not have sufficient funds to do so. In this case, Titan may be forced into liquidation or reorganization under the federal bankruptcy laws.

Titan's Common Stock may be delisted from Nasdaq.

As described in a previous report on Form 8-K filed with the SEC on July 20, 2000, Titan was notified by Nasdaq that it was not in compliance with Nasdaq's continued SmallCap Market criteria. Specifically, Nasdaq noted that Titan did not have either \$2 million in net tangible assets, \$35 million of market capitalization or \$5 million in net income. Nasdaq also inquired into the reasons why the report of the independent accountants on the financial statements included in Titan's Form 10-KSB for the fiscal year ended January 1, 2000 included an explanatory paragraph discussing going concern issues. Subsequent to Nasdaq's notification, Titan's Series A and Series B Convertible Preferred Stockholders agreed to modify the terms of their preferred stock so that the preferred stock would be characterized under generally accepted accounting principles as equity rather than as mezzanine instruments, which had the effect of increasing Titan's net tangible assets. Titan's management currently is evaluating the accounting consequences of the amendments to the Series A, Series B, and Series C Convertible Preferred Stock, which may negatively impact Titan's net tangible assets for Nasdaq compliance purposes. Titan also advised Nasdaq that the explanatory paragraph discussing going concern issues arose principally because its primary financing source, its line of credit with Wells Fargo, expired on April 10, 2000 and at year-end Titan did not have another facility available to refinance this debt and Titan continued to incur losses from operations. Although Titan has received an extension of its credit facility with Wells Fargo until September 11, 2000, there can be no assurance that Titan will be able to secure a replacement credit facility by the extended termination date or that Titan can comply with the financial and other covenants as modified. As of the date of this report, Nasdaq had not advised Titan whether its plan of compliance was acceptable to maintain Titan's Nasdaq listing. As a result, it is unclear whether Nasdaq will take action to delist Titan's securities and, if so, what the timing of such an action would be.

If Titan fails to maintain its Nasdaq SmallCap Market listing for its securities, trading in its stock is likely to be materially adversely effected. Among other things, Titan's Common Stock would then constitute "penny stock," which would place increased regulatory burden upon brokers, making them less likely to make a market in the stock.

In addition, if Titan is delisted, it will constitute a default under the terms of the Securities Purchase Agreements covering the Debentures and the Series C Convertible Preferred Stock, and, if such delisting is deemed to be within Titan's control, it also will trigger redemption under the terms of the Series A and Series B Convertible Preferred Stock. As a result, Titan may be required to redeem the Debentures and the Series A, Series B, and Series C Convertible

Preferred Stock at a time when it does not have sufficient funds to do so. In this case, Titan may be forced into liquidation or reorganization under the federal bankruptcy laws.

Titan must replace its existing credit facility by September 11, 2000 to continue in operation.

Titan may not be able to replace its credit facility with a new lender before the termination of its existing credit facility on September 11, 2000. If Titan is unable to replace its existing credit facility on a timely basis or otherwise defaults on its existing credit facility, Titan will be forced into liquidation or reorganization under the federal bankruptcy laws.

Titan could lose its commercial flooring arrangements.

In July 2000, Titan was notified of default under and cancellation of flooring arrangements for certain affiliated dealerships. Under the terms of the wholesale financing agreement with the flooring company, Titan was required to repurchase approximately \$1.3 million in motorcycles sold to these affiliated dealerships and held in inventory.

In connection with the repurchase of \$1.3 million in motorcycle inventory, Titan entered into a forbearance agreement with its commercial flooring company that requires Titan to repurchase the related motorcycles over a maximum three month period with a required minimum payment in three equal installments. The final installment is due on October 17, 2000. Titan has delivered approximately one-third of the related motorcycles and satisfied the required first installment in August 2000.

There can be no assurance that Titan will be able to sell the remaining motorcycles or meet the installment payment requirements. If Titan is unable to comply with the terms of the forbearance agreement, its ability to sell motorcycles funded with commercial flooring may be eliminated, which would have a material adverse impact on Titan's financial condition.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS.

(c) Exhibits.

EXHIBIT
NUMBER DESCRIPTION

- | | |
|------|---|
| 3.1 | Amended and Restated Certificate of Designations for Series A Preferred Stock to be filed August 16, 2000 with the Nevada Secretary of State |
| 3.2 | Amended and Restated Certificate of Designations for Series B Preferred Stock to be filed August 16, 2000 with the Nevada Secretary of State |
| 3.3 | Amended and Restated Certificate of Designations for Series C Preferred Stock to be filed August 16, 2000 with the Nevada Secretary of State |
| 4.1 | Form of Debenture issued to Esquire Trade & Finance, Inc. and Celeste Trust Reg. |
| 4.2 | Form of Warrant issued to Esquire Trade & Finance, Inc. and Celeste Trust Reg. |
| 4.3 | Registration Rights Agreement with Esquire Trade & Finance Inc. and Celeste Trust Reg., dated as of August 14, 2000 |
| 4.4 | Security Interest and Pledge Provisions, dated as of August 14, 2000 by and among the Company, Esquire Trade & Finance Inc. and Celeste Trust Reg. |
| 10.1 | Securities Purchase Agreement with Esquire Trade & Finance Inc. and Celeste Trust Reg., dated as of August 14, 2000 |
| 10.2 | Intercreditor Agreement dated as of August 14, 2000 by and among the Company, Esquire Trade & Finance, Inc. , Celeste Trust Reg. and Wells Fargo Credit, Inc. |
| 10.3 | Second Amendment to Amended and Restated Loan and Security Agreement dated as of August 14, 2000 by and between the Company and Wells Fargo Credit, Inc. |
| 10.4 | Consent and Waiver Agreement, dated as of August 14, 2000 by and among the Company, Advantage Fund II Ltd. and Koch Investment Group Limited |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Titan Motorcycle Co. of America

/s:/Francis S. Keery

Francis S. Keery
Chief Executive Officer

Dated: August 14, 2000

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
3.1	Amended and Restated Certificate of Designations for Series A Preferred Stock to be filed August 16, 2000 with the Nevada Secretary of State
3.2	Amended and Restated Certificate of Designations for Series B Preferred Stock to be filed August 16, 2000 with the Nevada Secretary of State
3.3	Amended and Restated Certificate of Designations for Series C Preferred Stock to be filed August 16, 2000 with the Nevada Secretary of State
4.1	Form of Debenture issued to Esquire Trade & Finance, Inc. and Celeste Trust Reg.
4.2	Form of Warrant issued to Esquire Trade & Finance, Inc. and Celeste Trust Reg.
4.3	Registration Rights Agreement with Esquire Trade & Finance Inc. and Celeste Trust Reg., dated as of August 14, 2000
4.4	Security Interest and Pledge Provisions, dated as of August 14, 2000 by and among the Company, Esquire Trade & Finance Inc. and Celeste Trust Reg.
10.1	Securities Purchase Agreement with Esquire Trade & Finance Inc. and Celeste Trust Reg., dated as of August 14, 2000
10.2	Intecreditor Agreement dated as of August 14, 2000 by and among the Company, Esquire Trade & Finance, Inc. , Celeste Trust Reg. and Wells Fargo Credit, Inc.
10.3	Second Amendment to Amended and Restated Loan and Security Agreement dated as of August 14, 2000 by and between the Company and Wells Fargo Credit, Inc.
10.4	Consent and Waiver Agreement, dated as of August 14, 2000 by and among the Company, Advantage Fund II Ltd. and Koch Investment Group Limited

TITAN MOTORCYCLE CO. OF AMERICA

SECOND AMENDED AND RESTATED CERTIFICATE OF DESIGNATIONS OF SERIES A
CONVERTIBLE PREFERRED STOCK

(Pursuant to Section 78.1955 of the General Corporation
Law of the State of Nevada)

Titan Motorcycle Co. of America, a Nevada corporation (the "Corporation"), in accordance with the provisions of Section 78.1955 of the General Corporation Law of the State of Nevada (the "NGCL"), DOES HEREBY CERTIFY:

That pursuant to authority vested in the Board of Directors of the Corporation by the Restated Articles of Incorporation of the Corporation, the Board of Directors of the Corporation, by unanimous written consent dated September 10, 1999, adopted a resolution providing for the creation of a series of the Corporation's Preferred Stock, \$.001 par value, which series is designated as "Series A Convertible Preferred Stock"; and

That upon the recommendation of the Board of Directors of the Corporation, an amendment to such resolution setting forth the terms of the Series A Convertible Preferred Stock was duly approved by the holders of the Series A Convertible Preferred Stock pursuant to a written consent dated June 1, 2000, which resolution as so amended and restated was set forth in an Amended and Restated Certificate of Designations which was filed with the Secretary of State of the State of Nevada on July 19, 2000; and

That upon the recommendation of the Board of Directors of the Corporation, a second amendment to such resolution setting forth the terms of the Series A Convertible Preferred Stock was duly approved by the holders of the Series A Convertible Preferred Stock pursuant to a written consent dated as of August 11, 2000, which resolution as so amended and restated is as follows:

RESOLVED, that pursuant to authority vested in the Board of Directors by the Restated Articles of Incorporation of the Corporation, the Board of Directors does hereby amend and restate the terms of the following series of Preferred Stock, \$.001 par value (hereinafter called the "Preferred Stock"), of the Corporation, and to the extent that the voting powers and the designations, preferences and relative, participating, optional or other special rights thereof and the qualifications, limitations or restrictions of such rights have not been set forth in the Restated Articles of Incorporation of the Corporation, does hereby fix the same as follows:

SERIES A CONVERTIBLE PREFERRED STOCK

SECTION 1. DEFINITIONS. As used herein, the following terms shall have the following meanings:

"Accrual Amount" means with respect to any share of Series A Convertible Preferred Stock on any date the amount of all accrued but unpaid dividends on such share from the Issuance Date to the date of determination.

"Affiliate" means, with respect to any person, any other person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the subject person; for purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such person, whether through the ownership of voting securities or by contract or otherwise.

"Aggregated Person" means, with respect to any person, any person whose beneficial ownership of shares of Common Stock would be aggregated with the beneficial ownership of shares of Common Stock by such person for purposes of Section 13(d) of the Exchange Act, and Regulation 13D-G thereunder.

"AMEX" means the American Stock Exchange, Inc.

"Average Market Price" for any date means the arithmetic average of the Market Price for each of the Trading Days during the applicable Measurement Period.

"Bimonthly Reset Date" means the date occurring every two months after the Second Reset Date on the 17th day of each such month through the third anniversary of the Issuance Date (for example, the first three Bimonthly Reset Dates shall occur on November 17, 2000, January 17, 2001 and March 17, 2001).

"Blackout Period" means the period of up to 30 consecutive days after the date the Corporation notifies holders of shares of Series A Convertible Preferred Stock who are bound by any Registration Rights Agreement that such holders are required, pursuant to Section 4(d) of the Registration Rights Agreements, to suspend offers and sales of Registrable Securities pursuant to the Registration Statement as a result of an event or circumstance described in Section 3(f)(1) of the Registration Rights Agreements, during which period, by reason of Section 3(f)(2) of the Registration Rights Agreements, the Corporation is not required to amend the Registration Statement or to supplement the related prospectus.

"Board of Directors" or "Board" means the Board of Directors of the Corporation.

"Business Day" means any day other than a Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by law to remain closed.

"Cash and Cash Equivalent Balances" of any person on any date shall be determined from such person's books maintained in accordance with Generally Accepted Accounting Principles, and means, without duplication, the sum of (1) the cash accrued by such person and its subsidiaries on a consolidated basis on such date and available for use by such person and its subsidiaries on such date and (2) all assets which would, on a consolidated balance sheet of such person and its subsidiaries prepared as of such date in accordance with Generally Accepted Accounting Principles, be classified as cash or cash equivalents.

"Common Stock" means the Common Stock, \$.001 par value, of the Corporation.

"Computation Date" means, if a Redemption Limitation Event occurs, any of (1) the date which is 30 days after such Redemption Limitation Event occurs, if any Redemption Limitation Event is continuing on such date, (2) each date which is 30 days after a Computation Date, if any Redemption Limitation Event is continuing on such date, and (3) the date on which all Redemption Limitation Events cease to continue.

"Control Notice" means a notice given by the Corporation to the holders of shares of the Series A Convertible Preferred Stock, in accordance with Section 7(a)(5) or Section 11(b)(4), stating that an Inconvertibility Day or an Optional Redemption Event, as the case may be, has occurred by reason of events which are not solely within the control of the Corporation.

"Conversion Agent" means Signature Stock Transfer, Inc., or its duly appointed successor, as conversion agent for the Series A Convertible Preferred Stock pursuant to the Transfer Agent Agreement.

"Conversion Amount" initially shall be equal to \$1,000.00, subject to adjustment as herein provided.

"Conversion Date" means, with respect to each conversion of shares of Series A Convertible Preferred Stock pursuant to Section 10, the date on which the Conversion Notice relating to such conversion is actually received by the Conversion Agent, whether by mail, courier, personal service, telephone line facsimile transmission or other means.

"Conversion Notice" means a written notice, duly signed by or on behalf of a holder of shares of Series A Convertible Preferred Stock, stating the number of shares of Series A Convertible Preferred Stock to be converted in the form specified in the Subscription Agreements.

"Conversion Price" means:

(1) for any Conversion Date during the period from the Issuance Date through the date immediately prior to the Initial Reset Date, the Fixed Conversion Price;

(2) for any Conversion Date during the Reset Period commencing on the Initial Reset Date, the lesser of:

(a) 130% of the Fixed Conversion Price; and

(b) 90% of the Average Market Price during the Measurement Period for the Initial Reset Date; and

(3) for any Conversion Date during each Reset Period commencing on the Second Reset Date and on each successive Bimonthly Reset Date thereafter, the lesser of:

(a) 130% of the Conversion Price in effect for the previous Reset Period; and

(b) 90% of the Average Market Price during the Measurement Period for such Bimonthly Reset Date;

provided, however, that the Conversion Price applicable to a particular conversion shall be subject to reduction as provided in Section 10(b)(6); and provided further, however, that if a Redemption Limitation Event occurs, then, in addition to any other right or remedy of any holder of shares of Series A Convertible Preferred Stock, thereafter the Conversion Price for the shares not redeemed shall be reduced on each Computation Date by an amount equal to five percent of the amount that the Conversion Price otherwise would have been without any reduction pursuant to this proviso (pro rated in the case of any Computation Date which is less than 30 days after a Redemption Limitation Event occurs or less than 30 days after another Computation Date), such reduction not to exceed a maximum aggregate reduction for all Computation Dates of 30% of the amount that the Conversion Price otherwise would have been without any reduction pursuant to this proviso, such reduction to remain in effect for 30 days after the end of the Redemption Limitation Event.

"Conversion Rate" shall have the meaning provided in Section 10(a).

"Converted Market Price" means, for any share of Series A Convertible Preferred Stock as of any date of determination, an amount equal to the product obtained by multiplying (x) the number of shares of Common Stock which would, at the time of such determination, be issuable on conversion in accordance with Section 10(a) of one share of Series A Convertible Preferred Stock if a Conversion Notice were given by the holder of such share of Series A Convertible Preferred Stock on the date of such determination (determined without regard to any limitation on conversion based on beneficial ownership contained in Section 10(a)) times (y) the Average Market Price of the Common Stock during the Measurement Period for the date of such determination.

"Corporation Optional Redemption Notice" means a notice given by the Corporation to the holders of shares of Series A Convertible Preferred Stock pursuant to Section 9(a) which notice shall state (1) that the Corporation is exercising its right to redeem all or a

portion of the outstanding shares of Series A Convertible Preferred Stock pursuant to Section 9(a), (2) the number of shares of Series A Convertible Preferred Stock held by such holder which are to be redeemed, (3) the Redemption Price per share of Series A Convertible Preferred Stock to be redeemed or the formula for determining the same, determined in accordance herewith, and (4) the applicable Redemption Date.

"Current Price" means with respect to any date the arithmetic average of the Market Price of the Common Stock on the ten consecutive Trading Days commencing 15 Trading Days before such date.

"Debenture Closing Date" means the date the holders of the Series C Convertible Preferred Stock purchase from the Corporation \$750,000 aggregate principal amount of convertible debentures in accordance with the Consent and Waiver Agreement, dated as of August 9, 2000, between the Corporation and the holders of the Series A Convertible Preferred Stock and the Series B Convertible Preferred Stock.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Final Redemption Date" means the date of redemption of shares of Series A Convertible Preferred Stock pursuant to Section 9(b), determined in accordance therewith.

"Final Redemption Notice" means a notice given by the Corporation to each holder of Series A Convertible Preferred Stock pursuant to Section 9(b), which notice shall state (1) that the Corporation is exercising its right to redeem all outstanding shares of Series A Convertible Preferred Stock pursuant to Section 9(b), (2) the number of shares of Series A Convertible Preferred Stock held by such holder which are to be redeemed, (3) the Final Redemption Price per share of Series A Convertible Preferred Stock held by such holder which are to be redeemed, determined in accordance herewith, and (4) the Final Redemption Date.

"Final Redemption Price" means, for any share of Series A Convertible Preferred Stock on any date, an amount equal to the sum of (i) \$1,000 plus (ii) an amount equal to the Accrual Amount on the share of Series A Convertible Preferred Stock to be redeemed to the Final Redemption Date, plus (iii) an amount equal to the accrued and unpaid interest on cash dividends in arrears on such share of Series A Convertible Preferred Stock to the Final Redemption Date (determined as provided in Section 5).

"Fixed Conversion Price" means \$2.6812 (subject to equitable adjustments from time to time on terms reasonably determined by the Board of Directors for stock splits, stock dividends, combinations, recapitalizations, reclassifications and similar events occurring or with respect to which "ex-" trading commences on or after the date of filing of this Certificate of Designations with the Secretary of State of the State of Nevada).

"Generally Accepted Accounting Principles" for any person means the generally accepted accounting principles and practices applied by such person from time to time in the preparation of its audited financial statements.

"Inconvertibility Day" means any Trading Day on which the Corporation would not have been required to convert in accordance with Section 10(a) any shares of Series A Convertible Preferred Stock as a consequence of the limitations set forth in Section 7(a)(1) had all outstanding shares of Series A Convertible Preferred Stock held by such holder on such Trading Day been converted into Common Stock on such Trading Day (without regard to the limitation, if any, on beneficial ownership by such holder contained in Section 10(a)).

"Inconvertibility Notice" shall have the meaning provided in Section 7(a)(2).

"Indebtedness" as used in reference to any person means all indebtedness of such person for borrowed money, the deferred purchase price of property, goods and services and obligations under leases which are required to be capitalized in accordance with Generally Accepted Accounting Principles and shall include all such indebtedness guaranteed in any manner by such person and all indebtedness secured by mortgage or other lien upon property owned by such person, although such person has not assumed or become liable for the payment of such indebtedness, and, for all purposes hereof, such indebtedness shall be treated as though it has been assumed by such person, but excluding specifically accounts payable and accrued expenses.

"Initial Reset Date" means the earlier of (i) the Debenture Closing Date and (ii) August 17, 2000.

"Issuance Date" means September 17, 1999.

"Junior Dividend Stock" means, collectively, the Common Stock and any other class or series of capital stock of the Corporation ranking junior as to dividends to the Series A Convertible Preferred Stock.

"Junior Liquidation Stock" means the Common Stock or any other class or series of the Corporation's capital stock ranking junior as to liquidation rights to the Series A Convertible Preferred Stock.

"Junior Stock" shall have the meaning provided in Section 10(b)(8).

"Liquidation Preference" means, for each share of Series A Convertible Preferred Stock, the sum of (i) an amount equal to the Accrual Amount thereon to the date of final distribution to such holders and (ii) \$1,000.00.

"Majority Holders" means at any time the holders of shares of Series A Convertible Preferred Stock which shares constitute a majority of the outstanding shares of Series A Convertible Preferred Stock.

"Market Price" of the Common Stock on any date means the closing bid price for one share of Common Stock on such date on the first applicable among the following: (a) the national securities exchange on which the shares of Common Stock are listed which constitutes the principal securities market for the Common Stock, (b) the Nasdaq, if the Nasdaq constitutes

the principal market for the Common Stock on such date, or (c) the Nasdaq SmallCap, if the Nasdaq SmallCap constitutes the principal securities market for the Common Stock on such date, in any such case as reported by Bloomberg, L.P.; provided, however, that if during any Measurement Period or other period during which the Market Price is being determined:

(i) The Corporation shall declare or pay a dividend or make a distribution to all holders of the outstanding Common Stock in shares of Common Stock or fix any record date for any such action, then the Market Price for each day in such Measurement Period or such other period which day is prior to the earlier of (1) the date fixed for the determination of stockholders entitled to receive such dividend or other distribution and (2) the date on which ex-dividend trading in the Common Stock with respect to such dividend or distribution begins shall be reduced by multiplying the Market Price (determined without regard to this proviso) for each such day in such Measurement Period or such other period by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding at the close of business on the earlier of (1) the record date fixed for such determination and (2) the date on which ex-dividend trading in the Common Stock with respect to such dividend or distribution begins and the denominator of which shall be the sum of such number of shares and the total number of shares constituting such dividend or other distribution;

(ii) The Corporation shall issue rights or warrants to all holders of its outstanding shares of Common Stock, or fix a record date for such issuance, which rights or warrants entitle such holders (for a period expiring within forty-five (45) days after the date fixed for the determination of stockholders entitled to receive such rights or warrants) to subscribe for or purchase shares of Common Stock at a price per share less than the Market Price (determined without regard to this proviso) for any day in such Measurement Period or such other period which day is prior to the end of such 45-day period, then the Market Price for each such day shall be reduced so that the same shall equal the price determined by multiplying the Market Price (determined without regard to this proviso) by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding at the close of business on the record date fixed for the determination of stockholders entitled to receive such rights or warrants plus the number of shares which the aggregate offering price of the total number of shares so offered would purchase at such Market Price, and the denominator of which shall be the number of shares of Common Stock outstanding on the close of business on such record date plus the total number of additional shares of Common Stock so offered for subscription or purchase. In determining whether any rights or warrants entitle the holders to subscribe for or purchase shares of Common Stock at less than the Market Price (determined without regard to this proviso), and in determining the aggregate offering price of such shares of Common Stock, there shall be taken into account any consideration received for such rights or warrants, the value of such consideration, if other than cash, to be determined in good faith by a resolution of the Board of Directors of the Corporation;

(iii) The outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock or a record date for any such subdivision shall be fixed, then the Market Price of the Common Stock for each day in such

Measurement Period or such other period which day is prior to the earlier of (1) the day upon which such subdivision becomes effective and (2) the date on which ex-dividend trading in the Common Stock with respect to such subdivision begins shall be proportionately reduced, and conversely, in case the outstanding shares of Common Stock shall be combined into a smaller number of shares of Common Stock, the Market Price for each day in such Measurement Period or such other period which day is prior to the earlier of (1) the date on which such combination becomes effective and (2) the date on which trading in the Common Stock on a basis which gives effect to such combination begins, shall be proportionately increased;

(iv) The Corporation shall, by dividend or otherwise, distribute to all holders of its Common Stock shares of any class of capital stock of the Corporation (other than any dividends or distributions to which clause (i) of this proviso applies) or evidences of its indebtedness, cash or other assets including securities (but excluding any rights or warrants referred to in clause (ii) of this proviso, dividends and distributions paid exclusively in cash and any capital stock, evidences of indebtedness, cash or assets distributed upon a merger or consolidation) (the foregoing hereinafter in this clause (iv) of this proviso called the "Securities"), or fix a record date for any such distribution, then, in each such case, the Market Price for each day in such Measurement Period or such other period which day is prior to the earlier of (1) the record date for such distribution and (2) the date on which ex-dividend trading in the Common Stock with respect to such distribution begins shall be reduced so that the same shall be equal to the price determined by multiplying the Market Price (determined without regard to this proviso) by a fraction, the numerator of which shall be the Market Price (determined without regard to this proviso) for such date less the fair market value (as determined in good faith by resolution of the Board of Directors of the Corporation) on such date of the portion of the Securities so distributed or to be distributed applicable to one share of Common Stock and the denominator of which shall be the Market Price (determined without regard to this proviso) for such date; provided, however, that in the event the then fair market value (as so determined) of the portion of the Securities so distributed applicable to one share of Common Stock is equal to or greater than the Market Price (determined without regard to this clause (iv) of this proviso) for any such Trading Day, in lieu of the foregoing adjustment, adequate provision shall be made so that the holders of shares of Series A Convertible Preferred Stock shall have the right to receive upon conversion of the shares of Series A Convertible Preferred Stock the amount of Securities the holders of shares of Series A Convertible Preferred Stock would have received had the number of shares of Common Stock to be issued in payment of such dividends on the shares of Series A Convertible Preferred Stock been issued, or had the holders of shares of Series A Convertible Preferred Stock converted the shares of Series A Convertible Preferred Stock, in either such case immediately prior to the record date for such distribution (provided, however, that if such Securities are not then available, the Corporation shall substitute cash or securities or other property of equivalent value on terms reasonably satisfactory to the holders of shares of Series A Convertible Preferred Stock). If the Board of Directors of the Corporation determines the fair market value of any distribution for purposes of this clause (iv) by reference to the actual or when issued trading market for any securities comprising all or part of such distribution, it must in

doing so consider the prices in such market on the same day for which an adjustment in the Market Price is being determined.

For purposes of this clause (iv) and clauses (i) and (ii) of this proviso, any dividend or distribution to which this clause (iv) is applicable that also includes shares of Common Stock, or rights or warrants to subscribe for or purchase shares of Common Stock to which clause (i) or (ii) of this proviso applies (or both), shall be deemed instead to be (1) a dividend or distribution of the evidences of indebtedness, assets, shares of capital stock, rights or warrants other than such shares of Common Stock or rights or warrants to which clause (i) or (ii) of this proviso applies (and any Market Price reduction required by this clause (iv) with respect to such dividend or distribution shall then be made) immediately followed by (2) a dividend or distribution of such shares of Common Stock or such rights or warrants (and any further Market Price reduction required by clauses (i) and (ii) of this proviso with respect to such dividend or distribution shall then be made), except that any shares of Common Stock included in such dividend or distribution shall not be deemed "outstanding at the close of business on the date fixed for such determination" within the meaning of clause (i) of this proviso;

(v) The Corporation or any subsidiary of the Corporation shall (x) by dividend or otherwise, distribute to all holders of its Common Stock cash in (or fix any record date for any such distribution), or (y) repurchase or reacquire shares of its Common Stock (other than an Option Share Surrender) for, in either case, an aggregate amount that, combined with (1) the aggregate amount of any other such distributions to all holders of its Common Stock made exclusively in cash after the Issuance Date and within the 12 months preceding the date of payment of such distribution, and in respect of which no adjustment pursuant to this clause (v) has been made, (2) the aggregate amount of any cash plus the fair market value (as determined in good faith by a resolution of the Board of Directors of the Corporation) of consideration paid in respect of any repurchase or other reacquisition by the Corporation or any subsidiary of the Corporation of any shares of Common Stock (other than an Option Share Surrender) made after the Issuance Date and within the 12 months preceding the date of payment of such distribution or making of such repurchase or reacquisition, as the case may be, and in respect of which no adjustment pursuant to this clause (v) has been made, and (3) the aggregate of any cash plus the fair market value (as determined in good faith by a resolution of the Board of Directors of the Corporation) of consideration payable in respect of any Tender Offer by the Corporation or any of its subsidiaries for all or any portion of the Common Stock concluded within the 12 months preceding the date of payment of such distribution or completion of such repurchase or reacquisition, as the case may be, and in respect of which no adjustment pursuant to clause (vi) of this proviso has been made (such aggregate amount combined with the amounts in clauses (1), (2) and (3) above being the "Combined Amount"), exceeds 10% of the product of the Market Price (determined without regard to this proviso) for any day in such Measurement Period or such other period which day is prior to the earlier of (A) the record date with respect to such distribution and (B) the date on which ex-dividend trading in the Common Stock with respect to such distribution begins or the date of such repurchase or reacquisition, as the case may be, times the number of shares of Common Stock outstanding on such date,

then, and in each such case, the Market Price for each such day shall be reduced so that the same shall equal the price determined by multiplying the Market Price (determined without regard to this proviso) for such day by a fraction (i) the numerator of which shall be equal to the Market Price (determined without regard to this proviso) for such day less an amount equal to the quotient of (x) the excess of such Combined Amount over such 10% and (y) the number of shares of Common Stock outstanding on such day and (ii) the denominator of which shall be equal to the Market Price (determined without regard to this proviso) for such day; provided, however, that in the event the portion of the cash so distributed or paid for the repurchase or reacquisition of shares (determined per share based on the number of shares of Common Stock outstanding) applicable to one share of Common Stock is equal to or greater than the Market Price (determined without regard to this clause (v) of this proviso) of the Common Stock for any such day, then in lieu of the foregoing adjustment with respect to such day, adequate provision shall be made so that the holders of shares of Series A Convertible Preferred Stock shall have the right to receive upon conversion of shares of Series A Convertible Preferred Stock the amount of cash the holders of shares of Series A Convertible Preferred Stock would have received had the holders of shares of Series A Convertible Preferred Stock converted shares of Series A Convertible Preferred Stock immediately prior to the record date for such distribution or the payment date of such repurchase, as applicable; or

(vi) A Tender Offer made by the Corporation or any of its subsidiaries for all or any portion of the Common Stock shall expire and such Tender Offer (as amended upon the expiration thereof) shall require the payment to stockholders (based on the acceptance (up to any maximum specified in the terms of the Tender Offer) of Purchased Shares (as defined below)) of an aggregate consideration having a fair market value (as determined in good faith by resolution of the Board of Directors of the Corporation) that combined together with (1) the aggregate of the cash plus the fair market value (as determined in good faith by a resolution of the Board of Directors of the Corporation), as of the expiration of such Tender Offer, of consideration paid or payable in respect of any other Tender Offers by the Corporation or any of its subsidiaries for all or any portion of the Common Stock expiring within the 12 months preceding the expiration of such Tender Offer and in respect of which no adjustment pursuant to this clause (vi) has been made, (2) the aggregate amount of any cash plus the fair market value (as determined in good faith by a resolution of the Board of Directors of the Corporation) of consideration paid in respect of any repurchase or other reacquisition by the Corporation or any subsidiary of the Corporation of any shares of Common Stock (other than an Option Share Surrender) made after the Issuance Date and within the 12 months preceding the expiration of such Tender Offer and in respect of which no adjustment pursuant to clause (v) of this proviso has been made, and (3) the aggregate amount of any distributions to all holders of Common Stock made exclusively in cash within 12 months preceding the expiration of such Tender Offer and in respect of which no adjustment pursuant to clause (v) of this proviso has been made, exceeds 10% of the product of the Market Price (determined without regard to this proviso) for any day in such period times the number of shares of Common Stock outstanding on such day, then, and in each such case, the Market Price for such day shall be reduced so that the same shall equal the price determined by multiplying the Market Price (determined without regard to this proviso) for any day in such period times the number of shares of Common Stock outstanding on such day, then, and in each such case, the Market Price for such day shall be reduced so that the same shall equal the price determined by multiplying the Market Price (determined without regard to this proviso)

for such day by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding on such day multiplied by the Market Price (determined without regard to this proviso) for such day and the denominator of which shall be the sum of (x) the fair market value (determined as aforesaid) of the aggregate consideration paid or payable to stockholders based on the acceptance (up to any maximum specified in the terms of the Tender Offer) of all shares validly tendered and not withdrawn as of the last time tenders could have been made pursuant to such Tender Offer (the "Expiration Time") (the shares deemed so accepted, up to any such maximum, being referred to as the "Purchased Shares") and (y) the product of the number of shares of Common Stock outstanding (less any Purchased Shares) on such day times the Market Price (determined without regard to this proviso) of the Common Stock on the Trading Day next succeeding the Expiration Time.

"Maximum Share Amount" means 3,429,400 shares of Common Stock, or such greater number of shares as permitted by the rules of the Nasdaq SmallCap or other securities market on which the Common Stock is then listed (such amount to be subject to equitable adjustment from time to time on terms reasonably determined by the Board of Directors for stock splits, stock dividends, combinations, capital reorganizations and similar events relating to the Common Stock occurring or with respect to which "ex-" trading commences after the date of filing this Certificate of Designations with the Secretary of State of the State of Nevada).

"Measurement Period" means, with respect to any date, the period of ten consecutive Trading Days ending on the Trading Day prior to such date.

"Nasdaq" means the Nasdaq National Market.

"Nasdaq SmallCap" means the Nasdaq SmallCap Market.

"Net Cash and Cash Equivalent Balances" of any person on any date means an amount not less than zero equal to the consolidated Cash and Cash Equivalent Balances of such person and its subsidiaries on such date less the amount of any outstanding Indebtedness of such person or any of its subsidiaries which, directly or indirectly, is secured in whole or in part by, or restricts the use of, the consolidated Cash and Cash Equivalent Balances of such person and its subsidiaries.

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

"NYSE" means the New York Stock Exchange, Inc.

"Option Share Surrender" means the surrender of shares of Common Stock to the Corporation in payment of the exercise price or tax obligations incurred in connection with the exercise of a stock option granted by the Corporation to any of its employees, directors or consultants.

"Optional Redemption Event" means any one of the following events:

(1) For any period of five consecutive Trading Days there shall be no closing bid price of the Common Stock on the Nasdaq, the Nasdaq SmallCap, the NYSE or the AMEX;

(2) The Common Stock ceases to be listed for trading on any of the Nasdaq, the Nasdaq SmallCap, the NYSE or the AMEX and is not simultaneously listed on one of the other such markets or exchanges;

(3) The inability for 30 or more days (whether or not consecutive) of any holder of shares of Series A Convertible Preferred Stock to sell such shares of Common Stock issued or issuable on conversion of shares of Series A Convertible Preferred Stock pursuant to the Registration Statement for any reason other than a Blackout Period on each of such 30 days;

(4) The Corporation shall (A) default in the timely performance of the obligation to issue shares of Common Stock upon conversion of shares of Series A Convertible Preferred Stock as and when required by Section 10 or (B) fail or default in the timely performance of any material obligation (other than as specifically set forth elsewhere in this definition) to a holder of shares of Series A Convertible Preferred Stock under the terms of this Certificate of Designations or under the Subscription Agreements, the Registration Rights Agreements, the Warrants or any other agreement or document entered into in connection with the issuance of shares of Series A Convertible Preferred Stock, as such instruments may be amended from time to time; provided, however, that (i) with respect to the first two occurrences of an event described in clause (A) above, each of such events shall be an Optional Redemption Event only if such default shall have continued for a period of three Trading Days after notice thereof is given to the Corporation by any holder of shares of Series A Convertible Preferred Stock and (ii) an event described in clause (B) above shall be an Optional Redemption Event only if such failure or default shall have continued for a period of 30 days after notice thereof is given to the Corporation by any holder of shares of Series A Convertible Preferred Stock.

(5) (A) Any consolidation or merger of the Corporation with or into another entity (other than a merger or consolidation of a subsidiary of the Corporation with or into the Corporation or a wholly-owned subsidiary of the Corporation) where the shareholders of the Corporation immediately prior to such transaction do not collectively own at least 51% of the outstanding voting securities of the surviving corporation of such consolidation or merger immediately following such transaction and (i) such transaction materially and adversely affects the rights of any holder of shares of Series A Convertible Preferred Stock or (ii) the common stock of the surviving corporation is not listed for trading on the NYSE, the AMEX, the Nasdaq or the Nasdaq SmallCap; or (B) any sale or other transfer of all or substantially all of the assets of the Corporation unless (i) the shareholders of the Corporation immediately prior to such transaction own at least 51% of the outstanding voting securities of the transferee of such assets, (ii) the common stock of such transferee is listed for trading on the NYSE, the AMEX, the Nasdaq or the Nasdaq SmallCap and (iii) such transferee assumes all of the obligations of the Corporation to the holders of the Series A Convertible Preferred Stock under this

Certificate of Designations, the Subscription Agreements and the other instruments contemplated hereby and thereby; or

(6) The adoption of any amendment to the Corporation's Articles of Incorporation, without the consent of the Majority Holders, which materially and adversely affects the rights of any holder of shares of Series A Convertible Preferred Stock.

"Optional Redemption Notice" means a notice from a holder of shares of Series A Convertible Preferred Stock to the Corporation which states (1) that the holder delivering such notice is thereby requiring the Corporation to redeem shares of Series A Convertible Preferred Stock pursuant to Section 11, (2) to such holder's knowledge, a summary of the circumstances constituting the Optional Redemption Event giving rise to such redemption, and (3) the number of shares of Series A Convertible Preferred Stock held by such holder which are to be redeemed.

"Optional Redemption Price" means the greater of (i) the Premium Price on the applicable redemption date and (ii) the Converted Market Price on the applicable redemption date.

"Parity Dividend Stock" means any class or series of the Corporation's capital stock ranking, as to dividends, on a parity with the Series A Convertible Preferred Stock, including, without limitation, the Series B Convertible Preferred Stock.

"Parity Liquidation Stock" means any class or series of the Corporation's capital stock having parity as to liquidation rights with the Series A Convertible Preferred Stock, including, without limitation, the Series B Convertible Preferred Stock.

"Premium Percentage" means 120%.

"Premium Price" means, for any share of Series A Convertible Preferred Stock as of any date of determination, the sum of (a) the product obtained by multiplying (x) the sum of (1) the Conversion Amount plus (2) an amount equal to the Accrual Amount on such share of Series A Convertible Preferred Stock to the date of determination, times (y) the Premium Percentage plus (b) an amount equal to the accrued and unpaid interest on cash dividends in arrears (as provided in Section 5) to the date of determination.

"Redemption Date" means the date of a redemption of shares of Series A Convertible Preferred Stock pursuant to Section 9(a), determined in accordance therewith.

"Redemption Limitation Event" means the failure of the Corporation to pay the applicable redemption price when due for some or all of the shares of Series A Convertible Preferred Stock required to be redeemed pursuant to Section 7 or Section 11 by reason of a restriction contained in the Company's loan agreements or facilities with Wells Fargo Credit, Inc., or with any other institutional lender, whether such agreements or facilities are now existing or hereafter created; and such Redemption Limitation Event shall be deemed to continue until

such redemption price is paid in full in accordance with the terms of this Certificate of Designations.

"Redemption Price" means the greater of (i) the Premium Price on the applicable Redemption Date and (ii) the Converted Market Price on the applicable Redemption Date; provided, however, that if the Corporation, as certified by an officer of the Corporation in the Corporation Optional Redemption Notice, has Net Cash and Cash Equivalent Balances which, together with the amount of all definitive, binding commitments available to the Corporation (which may include available borrowing capacity under instruments which also reflect outstanding Indebtedness) on or prior to the applicable Redemption Date to fund payment of the Redemption Price (as defined in this proviso) of the shares of Series A Convertible Preferred Stock to be redeemed, are sufficient, after taking into account the Corporation's net cash requirements during the period from the date the Corporation Optional Redemption Notice is given to the Redemption Date, to pay such Redemption Price of the shares of Series A Convertible Preferred Stock to be redeemed, the "Redemption Price" means the Premium Price on the applicable Redemption Date.

"Registration Rights Agreements" means the several Registration Rights Agreements entered into between the Corporation and the original holders of the shares of Series A Convertible Preferred Stock, as amended or modified from time to time in accordance with their respective terms.

"Registration Statement" means the Registration Statement required to be filed by the Corporation with the SEC pursuant to Section 2(a) of the Registration Rights Agreements.

"Reorganization Event" means a capital reorganization, reclassification, or similar transaction involving the capital stock of the Corporation (other than with a wholly-owned subsidiary of the Corporation), a consolidation, merger or business combination of the Corporation with another corporation or entity, or the sale or conveyance of all or substantially all of the assets of the Corporation.

"Reset Period" means (i) with respect to the Reset Period commencing on the Initial Reset Date, the period commencing on the Initial Reset Date and ending on September 16, 2000, and (ii) with respect to each subsequent Reset Period, the applicable two month period commencing on the Second Reset Date and on each Bimonthly Reset Date thereafter and ending on the day immediately prior to the next Bimonthly Reset Date.

"SEC" means the United States Securities and Exchange Commission.

"SEC Effective Date" means the date the Registration Statement is first declared effective by the SEC.

"Second Reset Date" means September 17, 2000.

"Senior Dividend Stock" means any class or series of capital stock of the Corporation ranking senior as to dividends to the Series A Convertible Preferred Stock.

"Senior Liquidation Stock" means any class or series of capital stock of the Corporation ranking senior as to liquidation rights to the Series A Convertible Preferred Stock.

"Series A Convertible Preferred Stock" means the Series A Convertible Preferred Stock, \$.001 par value, of the Corporation.

"Series B Convertible Preferred Stock" means the Series B Convertible Preferred Stock, \$.001 par value, of the Corporation.

"Series C Convertible Preferred Stock" means the Series C Convertible Preferred Stock, \$.001 par value, of the Corporation.

"Share Limitation Redemption Date" means each date on which the Corporation is required to redeem shares of Series A Convertible Preferred Stock as provided in Section 7(a).

"Share Limitation Redemption Price" means the greater of (a) the Premium Price on the applicable Share Limitation Redemption Date and (b) the Converted Market Price on the applicable Share Limitation Redemption Date.

"Stockholder Approval" shall mean the approval by a majority of the votes cast by the holders of shares of Common Stock (in person or by proxy) at a meeting of the stockholders of the Corporation (duly convened at which a quorum was present), or a written consent of holders of shares of Common Stock entitled to such number of votes given without a meeting, of the issuance by the Corporation of 20% or more of the Common Stock of the Corporation outstanding on the Issuance Date for less than the greater of the book or market value of such Common Stock on conversion of the Series A Convertible Preferred Stock, as and to the extent required under Rule 4310(c)(25)(H) of the Nasdaq SmallCap as in effect from time to time or any successor, replacement or similar provision thereof or of any other market on which the Common Stock is listed for trading.

"Subordination Period" means the period commencing on the date this Second Amended and Restated Certificate of Designations is filed with and accepted by the Secretary of State of the State of Nevada and ending on the date the SEC first declares effective Registration Statement No. 333-41868 (or any successor registration statement) filed by the Corporation with the SEC which, among other things, registers for resale the shares of Common Stock issuable upon conversion of the Series C Convertible Preferred Stock.

"Subscription Agreements" means the several Subscription Agreements by and between the Corporation and the original holders of shares of Series A Convertible Preferred Stock pursuant to which the shares of Series A Convertible Preferred Stock were issued.

"Tender Offer" means a tender offer or exchange offer.

"Trading Day" means a day on whichever of (x) the national securities exchange, (y) the Nasdaq or (z) the Nasdaq SmallCap, which at the time constitutes the principal securities market for the Common Stock, is open for general trading.

"Transfer Agent Agreement" means the Transfer Agent Agreement, dated as of September 15, 1999, by and among the Corporation, the Conversion Agent and the original holders of the Series A Convertible Preferred Stock for the benefit of the holders from time to time of shares of Series A Convertible Preferred Stock.

"Warrants" means the Common Stock Purchase Warrants issued by the Corporation in connection with the issuance of the shares of Series A Convertible Preferred Stock.

SECTION 2. DESIGNATION AND AMOUNT. The shares of such series shall be designated as "Series A Convertible Preferred Stock", and the number of shares constituting the Series A Convertible Preferred Stock shall be 4,000, and shall not be subject to increase. The Corporation shall not issue any shares of Series A Convertible Preferred Stock other than pursuant to the Subscription Agreements, unless such issuance shall have been approved by the Majority Holders. Any shares of Series A Convertible Preferred Stock which are redeemed by the Corporation and retired and any shares of Series A Convertible Preferred Stock which are converted in accordance with Section 10 shall be restored to the status of authorized, unissued and undesignated shares of the Corporation's class of Preferred Stock and shall not be subject to issuance, and may not thereafter be outstanding, as shares of Series A Convertible Preferred Stock.

SECTION 3. [RESERVED.]

SECTION 4. RANK. Subject to Section 12(b), all Series A Convertible Preferred Stock shall rank (i) senior to the Common Stock, now or hereafter issued, as to payment of dividends and distribution of assets upon liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary, (ii) on a parity with the Series B Convertible Preferred Stock as to payment of dividends and distribution of assets upon liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, (iii) subject to the proviso to this clause (iii), senior to the Series C Convertible Preferred Stock and any additional series of the class of Preferred Stock which series the Board of Directors may from time to time authorize, both as to payment of dividends and distribution of assets upon liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary; provided, however, that during the Subordination Period only and at no other time, the Series C Convertible Preferred Stock shall rank senior to the Series A Convertible Preferred Stock as to such payment of dividends and distribution of assets, and (iv) senior to any additional class of preferred stock (or series of preferred stock of such class) which the Board of Directors or the stockholders may from time to time authorize in accordance herewith.

SECTION 5. DIVIDENDS AND DISTRIBUTIONS. (a) The holders of shares of Series A Convertible Preferred Stock shall be entitled to receive, when, as, and if declared by the Board of Directors out of funds legally available for such purpose, dividends at the rate of \$60.00 per

annum per share, and no more, which shall be fully cumulative, shall accrue without interest (except as otherwise provided herein as to dividends in arrears) from the date of original issuance of each share of Series A Convertible Preferred Stock and shall be payable quarterly on March 1, June 1, September 1 and December 1 of each year commencing December 1, 1999 (except that if any such date is a Saturday, Sunday, or legal holiday, then such dividend shall be payable on the next succeeding day that is not a Saturday, Sunday, or legal holiday) to holders of record as they appear on the stock books of the Corporation on such record dates, which record dates must be not more than 20 nor less than 10 days preceding the payment dates for such dividends, as shall be fixed by the Board. Dividends on the Series A Convertible Preferred Stock shall be paid in cash or, in lieu of paying such dividends and subject to the limitations in Section 5(b) hereof, the amount of such dividends shall be included in the Accrual Amount for each share, at the option of the Corporation as hereinafter provided. The amount of the dividends payable per share of Series A Convertible Preferred Stock for each quarterly dividend period shall be computed by dividing the annual dividend amount by four. The amount of dividends payable for the initial dividend period and any period shorter than a full quarterly dividend period shall be computed on the basis of a 360-day year of twelve 30-day months. Dividends required to be paid in cash pursuant to Section 5(b) which are not paid on a payment date, whether or not such dividends have been declared, will bear interest at the rate of 14% per annum until paid (or such lesser rate as shall be the maximum rate allowable by applicable law). No dividends or other distributions, other than the dividends payable solely in shares of any Junior Dividend Stock, shall be paid or set apart for payment on any shares of Junior Dividend Stock, and no purchase, redemption, or other acquisition shall be made by the Corporation of any shares of Junior Dividend Stock (except for Option Share Surrenders), unless and until all accrued and unpaid cash dividends on the Series A Convertible Preferred Stock and interest on dividends in arrears at the rate specified herein shall have been paid or declared and set apart for payment.

If at any time any dividend on any Senior Dividend Stock shall be in arrears, in whole or in part, no dividend shall be paid or declared and set apart for payment on the Series A Convertible Preferred Stock unless and until all accrued and unpaid dividends with respect to the Senior Dividend Stock, including the full dividends for the then current dividend period, shall have been paid or declared and set apart for payment, without interest. No full dividends shall be paid or declared and set apart for payment on any Parity Dividend Stock for any period unless all accrued but unpaid dividends (and interest on dividends in arrears at the rate specified herein) have been, or contemporaneously are, paid or declared and set apart for such payment on the Series A Convertible Preferred Stock. No full dividends shall be paid or declared and set apart for payment on the Series A Convertible Preferred Stock for any period unless all accrued but unpaid dividends have been, or contemporaneously are, paid or declared and set apart for payment on the Parity Dividend Stock for all dividend periods terminating on or prior to the date of payment of such full dividends. When dividends are not paid in full upon the Series A Convertible Preferred Stock and the Parity Dividend Stock, all dividends paid or declared and set apart for payment upon shares of Series A Convertible Preferred Stock (and interest on dividends in arrears at the rate specified herein) and the Parity Dividend Stock shall be paid or declared and set apart for payment pro rata, so that the amount of dividends paid or declared and set apart for payment per share on the Series A Convertible Preferred Stock and the Parity Dividend Stock shall in all cases bear to each other the same ratio that accrued and unpaid dividends per share on

the shares of Series A Convertible Preferred Stock and the Parity Dividend Stock bear to each other.

Any references to "distribution" contained in this Section 5 shall not be deemed to include any stock dividend or distributions made in connection with any liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary.

(b) If (x) prior to any dividend payment date the Corporation notifies the holders of Series A Convertible Preferred Stock that the dividends with respect to such date will be paid in cash or (y) on any dividend payment date the Corporation is not in compliance in all material respects with its obligations to the holders of the Series A Convertible Preferred Stock (including, without limitation, its obligations under the Subscription Agreements, the Registration Rights Agreements, the Warrants and this Certificate of Designations) and such noncompliance continues for a period of ten days after notice thereof is given to the Corporation by any holder of Series A Convertible Preferred Stock, such dividends must be timely paid in cash. If clauses (x) or (y) of the foregoing sentence do not apply on any dividend payment date, the Corporation may, but shall not be required to, pay the applicable dividends in cash. The amount of any dividends not paid in cash shall be included in the Accrual Amount for each share of Series A Convertible Preferred Stock.

(c) Neither the Corporation nor any subsidiary of the Corporation shall redeem, repurchase or otherwise acquire in any one transaction or series of related transactions any shares of Common Stock, Junior Dividend Stock or Junior Liquidation Stock if the number of shares so repurchased, redeemed or otherwise acquired in such transaction or series of related transactions (excluding any Option Share Surrender) is more than 10% of the number of shares of Common Stock, Junior Dividend Stock or Junior Liquidation Stock, as the case may be, outstanding immediately prior to such transaction or series of related transactions unless the Corporation or such subsidiary offers to purchase for cash from each holder of shares of Series A Convertible Preferred Stock at the time of such redemption, repurchase or acquisition the same percentage of such holder's shares of Series A Convertible Preferred Stock as the percentage of the number of outstanding shares of Common Stock, Junior Dividend Stock or Junior Liquidation Stock, as the case may be, to be so redeemed, repurchased or acquired at a purchase price per share of Series A Convertible Preferred Stock equal to the greater of (i) the Premium Price in effect on the date of purchase pursuant to this Section 5(c) and (ii) the Converted Market Price on the date of purchase pursuant to this Section 5(c).

(d) Neither the Corporation nor any subsidiary of the Corporation shall (1) make any Tender Offer for 10% or more of the outstanding shares of Common Stock, unless the Corporation contemporaneously therewith makes an offer, or (2) enter into an agreement regarding such a Tender Offer for outstanding shares of Common Stock by any person other than the Corporation or any subsidiary of the Corporation, unless such person agrees with the Corporation to make an offer, in either such case to each holder of outstanding shares of Series A Convertible Preferred Stock to purchase for cash at the time of purchase in such Tender Offer the same percentage of shares of Series A Convertible Preferred Stock held by such holder as the percentage of outstanding shares of Common Stock actually purchased in such Tender Offer at a price per share of Series A Convertible Preferred Stock equal to the greater of (i) the Premium

Price in effect on the date of purchase pursuant to this Section 5(d) and (ii) the Converted Market Price on the date of purchase pursuant to this Section 5(d).

SECTION 6. LIQUIDATION PREFERENCE. In the event of a liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary, the holders of Series A Convertible Preferred Stock shall be entitled to receive out of the assets of the Corporation, whether such assets constitute stated capital or surplus of any nature, an amount per share of Series A Convertible Preferred Stock equal to the Liquidation Preference, and no more, before any payment shall be made or any assets distributed to the holders of Junior Liquidation Stock; provided, however, that such rights shall accrue to the holders of Series A Convertible Preferred Stock only in the event that the Corporation's payments with respect to the liquidation preference of the holders of Senior Liquidation Stock are fully met. After the liquidation preferences of the Senior Liquidation Stock are fully met, the entire assets of the Corporation available for distribution shall be distributed ratably among the holders of the Series A Convertible Preferred Stock and any Parity Liquidation Stock in proportion to the respective preferential amounts to which each is entitled (but only to the extent of such preferential amounts). After payment in full of the liquidation price of the shares of the Series A Convertible Preferred Stock and the Parity Liquidation Stock, the holders of such shares shall not be entitled to any further participation in any distribution of assets by the Corporation. Neither a consolidation or merger of the Corporation with another corporation nor a sale or transfer of all or part of the Corporation's assets for cash, securities, or other property in and of itself will be considered a liquidation, dissolution or winding up of the Corporation.

SECTION 7. MAXIMUM SHARE AMOUNT REDEMPTION.

(a) REDEMPTION BASED ON MAXIMUM SHARE AMOUNT. (1)

Notwithstanding any other provision herein, unless the Stockholder Approval shall have been obtained from the stockholders of the Corporation or waived by the Nasdaq, the Nasdaq SmallCap, or other securities market on which the Common Stock is then listed, so long as the Common Stock is listed on the Nasdaq, the Nasdaq SmallCap, the NYSE or the AMEX the Corporation shall not be required to issue upon conversion of shares of Series A Convertible Preferred Stock pursuant to Section 10 more than the Maximum Share Amount. The Maximum Share Amount shall be allocated among the shares of Series A Convertible Preferred Stock at the time of initial issuance thereof pro rata based on the initial issuance of 4,000 shares of Series A Convertible Preferred Stock. Each certificate for shares of Series A Convertible Preferred Stock initially issued shall bear a notation as to the number of shares constituting the portion of the Maximum Share Amount allocated to the shares of Series A Convertible Preferred Stock represented by such certificate for purposes of conversion thereof. Upon surrender of any certificate for shares of Series A Convertible Preferred Stock for transfer or re-registration thereof (or, at the option of the holder, for conversion pursuant to Section 10(a) of less than all of the shares of Series A Convertible Preferred Stock represented thereby), the Corporation shall make a notation on the new certificate issued upon such transfer or re-registration or evidencing such unconverted shares, as the case may be, as to the remaining number of shares of Common Stock from the Maximum Share Amount remaining available for conversion of the shares of Series A Convertible Preferred Stock evidenced by such new certificate. If any certificate for shares of Series A Convertible Preferred Stock is surrendered for split-up into two or more certificates

representing an aggregate number of shares of Series A Convertible Preferred Stock equal to the number of shares of Series A Convertible Preferred Stock represented by the certificate so surrendered (as reduced by any contemporaneous conversion of shares of Series A Convertible Preferred Stock represented by the certificate so surrendered), each certificate issued on such split-up shall bear a notation of the portion of the Maximum Share Amount allocated thereto determined by pro rata allocation from among the remaining portion of the Maximum Share Amount allocated to the certificate so surrendered. If any shares of Series A Convertible Preferred Stock represented by a single certificate are converted in full pursuant to Section 10, all of the portion of the Maximum Share Amount allocated to such shares of Series A Convertible Preferred Stock which remains unissued after such conversion shall be re-allocated pro rata to the outstanding shares of Series A Convertible Preferred Stock held of record by the holder of record at the close of business on the date of such conversion of the shares of Series A Convertible Preferred Stock so converted, and if there shall be no other shares of Series A Convertible Preferred Stock held of record by such holder at the close of business on such date, then such portion of the Maximum Share Amount shall be allocated pro rata among the shares of Series A Convertible Preferred Stock outstanding on such date.

(2) The Corporation shall promptly, but in no event later than five Business Days after the occurrence, give notice to each holder of shares of Series A Convertible Preferred Stock (by telephone line facsimile transmission at such number as such holder has specified in writing to the Corporation for such purposes or, if such holder shall not have specified any such number, by overnight courier or first class mail, postage prepaid, at such holder's address as the same appears on the stock books of the Corporation) and any holder of shares of Series A Convertible Preferred Stock may at any time after the occurrence give notice to the Corporation, in either case, if on any ten Trading Days within any period of 20 consecutive Trading Days the Corporation would not have been required to convert shares of Series A Convertible Preferred Stock of such holder in accordance with Section 10(a) as a consequence of the limitations set forth in Section 7(a)(1) had the shares of Series A Convertible Preferred Stock held by such holder been converted in full into Common Stock on each such day, determined without regard to the limitation, if any, on such holder contained in the proviso to the second sentence of Section 10(a) (any such notice, whether given by the Corporation or a holder, an "Inconvertibility Notice"). If the Corporation shall have given or been required to give any Inconvertibility Notice, or if a holder shall have given any Inconvertibility Notice, then within ten Trading Days after such Inconvertibility Notice is given or was required to be given, the holder receiving or giving, as the case may be, such Inconvertibility Notice shall have the right by written notice to the Corporation (which written notice may be contained in the Inconvertibility Notice given by such holder) to direct the Corporation to redeem the portion of such holder's outstanding shares of Series A Convertible Preferred Stock (which, if applicable, shall be all of such holder's outstanding shares of Series A Convertible Preferred Stock) as shall not, on the Business Day prior to the date of such redemption, be convertible into shares of Common Stock by reason of the limitations set forth in Section 7(a)(1) (determined without regard to the limitation, if any, on beneficial ownership of Common Stock by such holder contained in the proviso to the second sentence of Section 10(a)), within 15 Trading Days after such holder so directs the Corporation, at a price per share equal to the Share Limitation Redemption Price. If a holder of shares of Series A Convertible Preferred Stock directs the Corporation to redeem outstanding shares of Series A Convertible Preferred Stock and, prior to

the date the Corporation is required to redeem such shares of Series A Convertible Preferred Stock, the Corporation would have been able, within the limitations set forth in Section 7(a)(1), to convert all of such holder's shares of Series A Convertible Preferred Stock (determined without regard to the limitation, if any, on beneficial ownership of shares of Common Stock by such holder contained in the proviso to the second sentence of Section 10(a)) on any ten Trading Days within any period of 15 consecutive Trading Days commencing after the period of 20 consecutive Trading Days which gave rise to the applicable Inconvertibility Notice from the Corporation or such holder of shares of Series A Convertible Preferred Stock, as the case may be, had all of such holder's shares of Series A Convertible Preferred Stock been surrendered for conversion into Common Stock on each of such ten Trading Days within such 15 Trading Day period, then the Corporation shall not be required to redeem any shares of Series A Convertible Preferred Stock by reason of such Inconvertibility Notice.

(3) Notwithstanding the giving of any Inconvertibility Notice by the Corporation to the holders of Series A Convertible Preferred Stock pursuant to Section 7(a)(2) or the giving or the absence of any notice by the holders of the Series A Convertible Preferred Stock in response thereto or any redemption of shares of Series A Convertible Preferred Stock pursuant to Section 7(a)(2), thereafter the provisions of Section 7(a)(2) shall continue to be applicable on any occasion unless the Stockholder Approval shall have been obtained from the stockholders of the Corporation or waived by the Nasdaq, the Nasdaq SmallCap, or other securities market on which the Common Stock is then listed.

(4) On each Share Limitation Redemption Date (or such later date as a holder of shares of Series A Convertible Preferred Stock shall surrender to the Corporation the certificate(s) for the shares of Series A Convertible Preferred Stock being redeemed pursuant to this Section 7(a)), the Corporation shall make payment in immediately available funds of the applicable Share Limitation Redemption Price to such holder of shares of Series A Convertible Preferred Stock to be redeemed to or upon the order of such holder as specified by such holder in writing to the Corporation at least one Business Day prior to such Share Limitation Redemption Date. Upon redemption of less than all of the shares of Series A Convertible Preferred Stock evidenced by a particular certificate, promptly, but in no event later than three Business Days after surrender of such certificate to the Corporation, the Corporation shall issue a replacement certificate for the shares of Series A Convertible Preferred Stock evidenced by such certificate which have not been redeemed. Only whole shares of Series A Convertible Preferred Stock may be redeemed.

(5) (A) Notwithstanding any other provision of this Certificate of Designations, if an Inconvertibility Day occurs by reason of events which are not solely within the control of the Corporation, the Corporation shall have the right to give a Control Notice to the holders of Series A Convertible Preferred Stock at any time after such Inconvertibility Day occurs and prior to the earlier of (1) the date on which all holders of shares of Series A Convertible Preferred Stock who had the right (other than as limited by this Section 7(a)(5)) to require redemption of any shares of Series A Convertible Preferred Stock by reason of the occurrence of such Inconvertibility Day no longer have such right and (2) the applicable Share Limitation Redemption Date by reason of the earliest notice given by any holder of shares of Series A Convertible Preferred Stock directing the Corporation to redeem such shares in

accordance with Section 7(a)(2) by reason of such Inconvertibility Day. For purposes of this Section 7(a)(5), an Inconvertibility Day shall be deemed to have occurred by reason of events which are not solely within the control of the Corporation if a requirement of the Corporation to redeem, or a right of any holder of shares of Series A Convertible Preferred Stock to require redemption of, shares of Series A Convertible Preferred Stock by reason thereof would result in the Corporation being required to classify the Series A Convertible Preferred Stock as redeemable preferred stock on a balance sheet of the Corporation prepared in accordance with Generally Accepted Accounting Principles and Regulation S-X of the SEC. If the Corporation timely gives a Control Notice to the holders of shares of Series A Convertible Preferred Stock, then in lieu of payment of the Share Limitation Redemption Price pursuant to a redemption notice given by any holder of shares of Series A Convertible Preferred Stock in accordance with Section 7(a)(2) by reason of such Inconvertibility Day and commencing on such Inconvertibility Day the Conversion Price for all outstanding shares of Series A Convertible Preferred Stock will be 80% of the amount the Conversion Price would otherwise be. Such adjustment of the Conversion Price shall continue in effect until the earliest of (x) the date which is 90 days after the Stockholder Approval shall have been obtained from the stockholders of the Corporation or waived by the Nasdaq SmallCap or other securities market on which the Common Stock is then listed, (y) the date any further adjustments are made following a failure to obtain the Stockholder Approval as provided below, and (z) the date when shares of Series A Convertible Preferred Stock are no longer outstanding. On or after the date the Corporation gives such Control Notice, upon notice from the Majority Holders, the Corporation promptly shall call a special meeting of its stockholders, to be held not later than 90 days after such notice is given, to seek the Stockholder Approval for the issuance of all shares of Common Stock issuable upon conversion of the Series A Convertible Preferred Stock in accordance with Section 10 and shall use its best efforts to obtain the Stockholder Approval. The Corporation shall prepare and file with the SEC within 20 days after such notice is given preliminary proxy materials which set forth a proposal to seek such Stockholder Approval. The Corporation shall provide the Majority Holders an opportunity to consult with the Corporation regarding the content of such proxy materials insofar as it relates to the Stockholder Approval by providing copies of such preliminary proxy materials and any revised preliminary proxy materials to the Majority Holders a reasonable period of time prior to their filing with the SEC. The Corporation shall furnish to each holder of shares of Series A Convertible Preferred Stock a copy of its definitive proxy materials for such special meeting and any amendments or supplements thereto promptly after the same are mailed to stockholders or filed with the SEC. Upon the earlier of (i) the failure to obtain the Stockholder Approval at the special meeting or (ii) the failure to hold the special meeting within such 90-day period, the Corporation shall so notify the holders of shares of Series A Convertible Preferred Stock and such of the following as shall be specified by notice to the Corporation from the Majority Holders shall occur: (1) commencing on the Business Day following the Corporation's receipt of such notice, the Conversion Price of the outstanding shares of Series A Convertible Preferred Stock will be 60% of the amount the Conversion Price would otherwise be without regard to other adjustments pursuant to this Section 7(a)(5) or Section 11(b)(4) and (2) the Corporation shall promptly file applications and take all other actions necessary to (i) list the Common Stock for trading and quotation on the OTC Bulletin Board or such other securities market or exchange which will not restrict the number of shares of Common Stock issuable upon conversion of the Series A Convertible Preferred Stock and (ii) upon filing such applications, request the immediate removal of the Common Stock from listing on the securities market on

which it is then listed which restricts the issuance of shares of Common Stock upon conversion of shares of Series A Convertible Preferred Stock without the Stockholder Approval.

(B) If and for so long as an adjustment of the Conversion Price is simultaneously required by this Section 7(a)(5) and by Section 11(b)(4), the applicable Conversion Price shall be the lower of the two amounts required by each such section.

(C) The rights of holders of shares of Series A Convertible Preferred Stock to require redemption of their shares and exercise other rights pursuant to Sections 7(a)(1) through 7(a)(4) by reason of an Inconvertibility Day as to which the Corporation does not have a right to give a Control Notice, or fails to exercise such right on a timely basis, shall not be limited by the operation of this Section 7(a)(5).

(b) NO OTHER REDEMPTION. The shares of Series A Convertible Preferred Stock shall not be subject to redemption by the Corporation at the option of the Holders except as provided in this Section 7 and in Section 11.

SECTION 8. NO SINKING FUND. The shares of Series A Convertible Preferred Stock shall not be subject to the operation of a purchase, retirement or sinking fund.

SECTION 9. OPTIONAL REDEMPTION.

(a) CORPORATION OPTIONAL REDEMPTION. If (1) the Corporation shall be in compliance in all material respects with its obligations to the holders of shares of Series A Convertible Preferred Stock (including, without limitation, its obligations under the Subscription Agreements, the Registration Rights Agreements, the Warrants and the provisions of this Certificate of Designations), (2) on the date the Corporation Optional Redemption Notice is given and at all times until the Redemption Date, the Registration Statement is effective and available for use by each holder of shares of Series A Convertible Preferred Stock for the resale of shares of Common Stock acquired by such holder upon conversion of all shares of Series A Convertible Preferred Stock held by such holder and (3) no Optional Redemption Event shall have occurred with respect to which, on the date a Corporation Optional Redemption Notice is to be given or on the Redemption Date, any holder of shares of Series A Convertible Preferred Stock (A) shall be entitled to exercise optional redemption rights under Section 11 by reason of such Optional Redemption Event or (B) shall have exercised optional redemption rights under Section 11 by reason of such Optional Redemption Event and the Corporation shall not have paid the Optional Redemption Price to such holder, then the Corporation shall have the right, exercisable by giving a Corporation Optional Redemption Notice not less than 30 days or more than 50 days prior to the Redemption Date to all holders of record of the shares of Series A Convertible Preferred Stock, at any time to redeem all or from time to time to redeem any part of the outstanding shares of Series A Convertible Preferred Stock in accordance with this Section 9(a). If the Corporation shall redeem less than all outstanding shares of Series A Convertible Preferred Stock, such redemption shall be made as nearly as practical pro rata from all holders of shares of Series A Convertible Preferred Stock. Any Corporation Optional Redemption Notice under this Section 9(a) shall be given to the holders of record of the shares of Series A Convertible Preferred Stock at their addresses appearing on the records of the Corporation;

provided, however, that any failure or defect in the giving of such notice to any such holder shall not affect the validity of notice to or the redemption of shares of Series A Convertible Preferred Stock of any other holder. On the Redemption Date (or such later date as a holder of shares of Series A Convertible Preferred Stock surrenders to the Corporation the certificate(s) for shares of Series A Convertible Preferred Stock to be redeemed pursuant to this Section 9(a)), the Corporation shall make payment of the applicable Redemption Price to each holder of shares of Series A Convertible Preferred Stock to be redeemed in immediately available funds to such account as specified by such holder in writing to the Corporation at least one Business Day prior to the Redemption Date. A holder of shares of Series A Convertible Preferred Stock to be redeemed pursuant to this Section 9(a) shall be entitled to convert such shares of Series A Convertible Preferred Stock in accordance with Section 10 (x) through the day prior to the Redemption Date and (y) if the Corporation shall fail to pay the Redemption Price of any share of Series A Convertible Preferred Stock when due, at any time after the due date thereof until such date as the Corporation pays the Redemption Price of such share of Series A Convertible Preferred Stock. No share of Series A Convertible Preferred Stock as to which the holder exercises the right of conversion pursuant to Section 10 or the optional redemption right pursuant to Section 11 may be redeemed by the Corporation pursuant to this Section 9(a) on or after the date of exercise of such conversion right or optional redemption right, as the case may be, regardless of whether the Corporation Optional Redemption Notice shall have been given prior to, or on or after, the date of exercise of such conversion right or optional redemption right, as the case may be.

(b) FINAL REDEMPTION. The Corporation shall have the right to redeem all, but not less than all, outstanding shares of Series A Convertible Preferred Stock at any time on or after the third anniversary of the Issuance Date so long as (1) the Corporation shall be in compliance in all material respects with its obligations to the holders of the Series A Convertible Preferred Stock (including, without limitation, its obligations under the Subscription Agreements, the Registration Rights Agreements, the Warrants and this Certificate of Designations) and (2) no Optional Redemption Event shall have occurred with respect to which on the date a Final Redemption Notice is to be given or on the Final Redemption Date, any holder of shares of Series A Convertible Preferred Stock (a) shall be entitled to exercise optional redemption rights under Section 11 by reason of such Optional Redemption Event or (b) shall have exercised optional redemption rights under Section 11 by reason of such Optional Redemption Event and the Corporation shall not have paid the Optional Redemption Price to such holder. In order to exercise its rights under this Section 9(b), the Corporation shall give a Final Redemption Notice not less than 30 days or more than 50 days prior to the Final Redemption Date to all holders of record of the shares of Series A Convertible Preferred Stock. Any Final Redemption Notice shall be given to the holders of record of the shares of Series A Convertible Preferred Stock by telephone line facsimile transmission to such number as shown on the records of the Corporation for such purpose; provided, however, that any failure or defect in the giving of such notice to any such holder shall not affect the validity of notice to or the redemption of shares of Series A Convertible Preferred Stock of any other holder. On the Final Redemption Date (or such later date as a holder of shares of Series A Convertible Preferred Stock surrenders to the Corporation the certificate(s) for shares of Series A Convertible Preferred Stock to be redeemed pursuant to this Section 9(b)), the Corporation shall make payment of the applicable Final Redemption Price to each holder of shares of Series A Convertible Preferred

Stock to be redeemed in immediately available funds to such account as specified by such holder in writing to the Corporation at least one Business Day prior to the Final Redemption Date. A holder of shares of Series A Convertible Preferred Stock to be redeemed pursuant to this Section 9(b) shall be entitled to convert such shares of Series A Convertible Preferred Stock in accordance with Section 10 (x) through the day prior to the Final Redemption Date and (y) if the Corporation shall fail to pay the Final Redemption Price of any share of Series A Convertible Preferred Stock when due, at any time after the due date thereof until such date as the Corporation pays the Final Redemption Price of such share of Series A Convertible Preferred Stock to such holder. No share of Series A Convertible Preferred Stock as to which a holder exercises the right of conversion pursuant to Section 10 or the optional redemption right pursuant to Section 11 may be redeemed by the Corporation pursuant to this Section 9(b) on or after the date of exercise of such conversion right or optional redemption right, as the case may be, regardless of whether the Final Redemption Notice shall have been given prior to, or on or after, the date of exercise of such conversion right or optional redemption right, as the case may be.

(c) NO OTHER OPTIONAL REDEMPTION. The shares of Series A Convertible Preferred Stock shall not be subject to redemption at the option of the Corporation except as provided in Sections 9(a) and 9(b).

SECTION 10. CONVERSION.

(a) CONVERSION AT OPTION OF HOLDER. The holders of the Series A Convertible Preferred Stock may at any time on or after the Issuance Date convert at any time all or from time to time any part of their shares of Series A Convertible Preferred Stock into fully paid and nonassessable shares of Common Stock and such other securities and property as herein provided. Each share of Series A Convertible Preferred Stock may be converted at the office of the Conversion Agent or at such other additional office or offices, if any, as the Board of Directors may designate, into such number of fully paid and nonassessable shares of Common Stock (calculated as to each conversion to the nearest 1/100th of a share) determined by dividing (x) the sum of (i) the Conversion Amount, (ii) an amount equal to the Accrual Amount on the share of Series A Convertible Preferred Stock being converted to the applicable Conversion Date, and (iii) accrued but unpaid interest on the dividends required to be paid in cash on the share of Series A Convertible Preferred Stock being converted in arrears to the applicable Conversion Date at the rate provided in Section 5 by (y) the Conversion Price for such Conversion Date (the "Conversion Rate"); provided, however, that in no event shall any holder of shares of Series A Convertible Preferred Stock be entitled to convert any shares of Series A Convertible Preferred Stock in excess of that number of shares of Series A Convertible Preferred Stock upon conversion of which the sum of (1) the number of shares of Common Stock beneficially owned by such holder and all Aggregated Persons of such holder (other than shares of Common Stock deemed beneficially owned through the ownership of (x) unconverted shares of Series A Convertible Preferred Stock and (y) the unconverted or unexercised portion of any instrument, including without limitation the Warrants, which contains limitations similar to those set forth in this sentence) and (2) the number of shares of Common Stock issuable upon the conversion of the number of shares of Series A Convertible Preferred Stock with respect to which the determination in this proviso is being made, would result in beneficial ownership by such holder and all Aggregated Persons of such holder of more than 4.9% of the outstanding

shares of Common Stock. For purposes of the proviso to the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Exchange Act and Regulation 13D-G thereunder, except as otherwise provided in clause (1) of the proviso to the immediately preceding sentence.

(b) OTHER PROVISIONS. (1) Notwithstanding anything in this Section 10(b) to the contrary, no change in the Conversion Amount pursuant to this Section 10(b) shall actually be made until the cumulative effect of the adjustments called for by this Section 10(b) since the date of the last change in the Conversion Amount would change the Conversion Amount by more than 1%. However, once the cumulative effect would result in such a change, then the Conversion Amount shall actually be changed to reflect all adjustments called for by this Section 10(b) and not previously made. Notwithstanding anything in this Section 10(b), no change in the Conversion Amount shall be made that would result in the price at which a share of Series A Convertible Preferred Stock is converted being less than the par value of the Common Stock into which shares of Series A Convertible Preferred Stock are at the time convertible.

(2) The holders of shares of Series A Convertible Preferred Stock at the close of business on the record date for any dividend payment to holders of Series A Convertible Preferred Stock shall be entitled to receive the dividend payable on such shares on the corresponding dividend payment date notwithstanding the conversion thereof after such dividend payment record date or the Corporation's default in payment of the dividend due on such dividend payment date; provided, however, that the holder of shares of Series A Convertible Preferred Stock surrendered for conversion during the period between the close of business on any record date for a dividend payment and the opening of business on the corresponding dividend payment date must pay to the Corporation, within five days after receipt by such holder, an amount equal to the dividend payable on such shares on such dividend payment date if such dividend is paid by the Corporation to such holder. A holder of shares of Series A Convertible Preferred Stock on a record date for a dividend payment who (or whose transferee) tenders any of such shares for conversion into shares of Common Stock on or after such dividend payment date will receive the dividend payable by the Corporation on such shares of Series A Convertible Preferred Stock on such date, and the converting holder need not make any payment of the amount of such dividend in connection with such conversion of shares of Series A Convertible Preferred Stock. Except as provided above, no adjustment shall be made in respect of cash dividends on Common Stock or Series A Convertible Preferred Stock that may be accrued and unpaid at the date of surrender of shares of Series A Convertible Preferred Stock.

(3) (A) The right of the holders of Series A Convertible Preferred Stock to convert their shares shall be exercised by giving (which may be done by telephone line facsimile transmission) a Conversion Notice to the Conversion Agent, with a copy to the Corporation. If a holder of Series A Convertible Preferred Stock elects to convert any shares of Series A Convertible Preferred Stock in accordance with Section 10(a), such holder shall not be required to surrender the certificate(s) representing such shares of Series A Convertible Preferred Stock to the Corporation unless all of the shares of Series A Convertible Preferred Stock represented thereby are so converted. Each holder of shares of Series A Convertible Preferred Stock and the Corporation shall maintain records showing the number of shares so converted and the dates of such conversions or shall use such other method, satisfactory to such holder and the Corporation,

so as to not require physical surrender of such certificates upon each such conversion. In the event of any dispute or discrepancy, such records of the Corporation shall be controlling and determinative in the absence of manifest error. Notwithstanding the foregoing, if any shares of Series A Convertible Preferred Stock evidenced by a particular certificate therefor are converted as aforesaid, the holder of Series A Convertible Preferred Stock may not transfer the certificate(s) representing such shares of Series A Convertible Preferred Stock unless such holder first physically surrenders such certificate(s) to the Corporation, whereupon the Corporation will forthwith issue and deliver upon the order of such holder of shares of Series A Convertible Preferred Stock new certificate(s) of like tenor, registered as such holder of shares of Series A Convertible Preferred Stock (upon payment by such holder of shares of Series A Convertible Preferred Stock of any applicable transfer taxes) may request, representing in the aggregate the remaining number of shares of Series A Convertible Preferred Stock represented by such certificate(s). Each holder of shares of Series A Convertible Preferred Stock, by acceptance of a certificate for such shares, acknowledges and agrees that (1) by reason of the provisions of this paragraph, following conversion of any shares of Series A Convertible Preferred Stock represented by such certificate, the number of shares of Series A Convertible Preferred Stock represented by such certificate may be less than the number of shares stated on such certificate, and (2) the Corporation may place a legend on the certificates for shares of Series A Convertible Preferred Stock which refers to or describes the provisions of this paragraph.

(B) The Corporation shall pay any transfer tax arising in connection with any conversion of shares of Series A Convertible Preferred Stock except that the Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery upon conversion of shares of Common Stock or other securities or property in a name other than that of the holder of the shares of the Series A Convertible Preferred Stock being converted, and the Corporation shall not be required to issue or deliver any such shares or other securities or property unless and until the person or persons requesting the issuance thereof shall have paid to the Corporation the amount of any such tax or shall have established to the satisfaction of the Corporation that such tax has been paid. The number of shares of Common Stock to be issued upon each conversion of shares of Series A Convertible Preferred Stock shall be the number set forth in the applicable Conversion Notice which number shall be conclusive absent manifest error. The Corporation shall notify a holder who has given a Conversion Notice of any claim of manifest error within one Trading Day after such holder gives such Conversion Notice and no such claim of error shall limit or delay performance of the Corporation's obligation to issue upon such conversion the number of shares of Common Stock which are not in dispute. A Conversion Notice shall be deemed for all purposes to be in proper form unless the Corporation notifies a holder of shares of Series A Convertible Preferred Stock being converted within one Trading Day after a Conversion Notice has been given (which notice shall specify all defects in the Conversion Notice) and any Conversion Notice containing any such defect shall nonetheless be effective on the date given if the converting holder promptly corrects all such defects.

(4) The Corporation (and any successor corporation) shall take all action necessary so that a number of shares of the authorized but unissued Common Stock (or common stock in the case of any successor corporation) sufficient to provide for the conversion of the Series A Convertible Preferred Stock outstanding upon the basis hereinbefore provided are at all

times reserved by the Corporation (or any successor corporation), free from preemptive rights, for such conversion, subject to the provisions of the next succeeding paragraph. If the Corporation shall issue any securities or make any change in its capital structure which would change the number of shares of Common Stock into which each share of the Series A Convertible Preferred Stock shall be convertible as herein provided, the Corporation shall at the same time also make proper provision so that thereafter there shall be a sufficient number of shares of Common Stock authorized and reserved, free from preemptive rights, for conversion of the outstanding Series A Convertible Preferred Stock on the new basis. If at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all of the outstanding shares of Series A Convertible Preferred Stock, the Corporation promptly shall seek, and use its best efforts to obtain and complete, such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose.

(5) In case any Reorganization Event shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities or assets (including cash) with respect to or in exchange for shares of the Common Stock, then, prior to and as a condition of such Reorganization Event, lawful and adequate provision shall be made whereby the holders of Series A Convertible Preferred Stock shall thereafter have the right to receive upon conversion of the Series A Convertible Preferred Stock and in lieu of the shares of Common Stock immediately theretofore issuable upon conversion of the Series A Convertible Preferred Stock, such shares of stock, securities or assets (including cash) as may be issued or payable with respect to or in exchange for a number of outstanding shares of Common Stock equal to the number of shares of Common Stock immediately theretofore issuable upon conversion of the Series A Convertible Preferred Stock had such Reorganization Event not taken place. In any such case, appropriate provision shall be made with respect to the rights and interests of the holders of Series A Convertible Preferred Stock to the end that the provisions hereof (including, without limitation, provisions for adjustment of the Conversion Price and the number of shares of Common Stock issuable upon conversion of the Series A Convertible Preferred Stock) shall thereafter be applicable, as nearly as may be, in relation to any stock, securities or assets thereafter deliverable upon the conversion of the Series A Convertible Preferred Stock. The Corporation shall not effect any such Reorganization Event (i) unless prior to or simultaneously with the consummation thereof the survivor or successor corporation (if other than the Corporation) resulting from such Reorganization Event or the corporation or other entity purchasing such assets shall assume by written instrument executed and sent to each holder of Series A Convertible Preferred Stock, the obligation to deliver to such holder of Series A Convertible Preferred Stock such shares of stock, securities or assets as, in accordance with the foregoing provisions, such holder of Series A Convertible Preferred Stock may be entitled to receive, and containing the express assumption by such successor corporation or other entity of the due and punctual performance and observance of every provision herein to be performed and observed by the Corporation and of all liabilities and obligations of the Corporation hereunder, and (ii) in which the Corporation, as opposed to another party to the Reorganization Event, shall be required under any circumstances to make a cash payment at any time to the holders of the Series A Convertible Preferred Stock; provided, however, that this clause (5) shall not limit the Corporation's obligation to make cash payments pursuant to Section 7 or Section 11 if the Corporation fails to give a Control Notice in accordance with the terms thereof.

(6) If a holder shall have given a Conversion Notice for shares of Series A Convertible Preferred Stock, the Corporation shall issue and deliver to such person certificates for the Common Stock issuable upon such conversion within three Trading Days after such Conversion Notice is given and the person converting shall be deemed to be the holder of record of the Common Stock issuable upon such conversion, and all rights with respect to the shares surrendered shall forthwith terminate except the right to receive the Common Stock or other securities, cash, or other assets as herein provided. If a holder shall have given a Conversion Notice as provided herein, the Corporation's obligation to issue and deliver the certificates for Common Stock shall be absolute and unconditional, irrespective of any action or inaction by the converting holder to enforce the same, any waiver or consent with respect to any provision thereof, the recovery of any judgment against any person or any action to enforce the same, any failure or delay in the enforcement of any other obligation of the Corporation to such holder, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by such holder or any other person of any obligation to the Corporation or any violation or alleged violation of law by such holder or any other person, and irrespective of any other circumstance which might otherwise limit such obligation of the Corporation to the holder in connection with such conversion. If the Corporation fails to issue and deliver the certificates for the Common Stock to the holder converting shares of Series A Convertible Preferred Stock pursuant to the first sentence of this paragraph within three Trading Days after such Conversion Notice is given, in addition to any other liabilities the Corporation may have hereunder and under applicable law (1) the Corporation shall pay or reimburse such holder on demand for all out-of-pocket expenses including, without limitation, reasonable fees and expenses of legal counsel incurred by such holder as a result of such failure, (2) for each Trading Day thereafter on which the Corporation so fails to deliver such certificates, the Conversion Price applicable to such conversion shall be reduced by an amount equal to one percent of the amount that the Conversion Price would otherwise be, and (3) such holder may by written notice (which may be given by mail, courier, personal service or telephone line facsimile transmission) or oral notice (promptly confirmed in writing) given at any time prior to delivery to such holder of the certificates for the shares of Common Stock issuable upon such conversion of shares of Series A Convertible Preferred Stock, rescind such conversion, whereupon such holder shall have the right to convert such shares of Series A Convertible Preferred Stock thereafter in accordance herewith.

(7) No fractional shares of Common Stock shall be issued upon conversion of Series A Convertible Preferred Stock but, in lieu of any fraction of a share of Common Stock to purchase fractional shares of Common Stock which would otherwise be issuable in respect of the aggregate number of such shares surrendered for conversion at one time by the same holder, the Corporation shall pay in cash an amount equal to the product of (i) the arithmetic average of the Market Price of one share of Common Stock on the three consecutive Trading Days ending on the Trading Day immediately preceding the Conversion Date times (ii) such fraction of a share.

(8) The Conversion Amount shall be adjusted from time to time under certain circumstances, subject to the provisions of Section 10(b)(1), as follows:

(i) In case the Corporation shall issue rights or warrants on a pro rata basis to all holders of the Common Stock entitling such holders to subscribe for or purchase Common Stock on the record date referred to below at a price per share less than the Current Price for such record date, then in each such case the Conversion Amount in effect on such record date shall be adjusted in accordance with the following formula:

$$C(1) = C \times \frac{O + N}{O + N \times P + M}$$

where

C(1) = the adjusted Conversion Amount

C = the current Conversion Amount

O = the number of shares of Common Stock outstanding on the record date.

N = the number of additional shares of Common Stock issuable pursuant to the exercise of such rights or warrants.

P = the offering price per share of the additional shares (which amount shall include amounts received by the Corporation in respect of the issuance and the exercise of such rights or warrants).

M = the Current Price per share of Common Stock on the record date.

Such adjustment shall become effective immediately after the record date for the determination of stockholders entitled to receive such rights or warrants. If any or all such rights or warrants are not so issued or expire or terminate before being exercised, the Conversion Amount then in effect shall be readjusted appropriately.

(ii) In case the Corporation shall, by dividend or otherwise, distribute to all holders of its Junior Stock (as hereinafter defined) evidences of its indebtedness or assets (including securities, but excluding any warrants or subscription rights referred to in subparagraph (i) above and any dividend or distribution paid in cash out of the retained earnings of the Corporation), then in each such case the Conversion Amount then in effect shall be adjusted in accordance with the formula

$$C(1) = C \times \frac{M}{M - F}$$

where

C(1) = the adjusted Conversion Amount

- C = the current Conversion Amount
- M = the Current Price per share of Common Stock on the record date mentioned below.
- F = the aggregate amount of such cash dividend and/or the fair market value on the record date of the assets or securities to be distributed divided by the number of shares of Common Stock outstanding on the record date. The Board of Directors shall determine such fair market value, which determination shall be conclusive.

Such adjustment shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution. For purposes of this subparagraph (ii), "Junior Stock" shall include any class of capital stock ranking junior as to dividends or upon liquidation to the Series A Convertible Preferred Stock.

(iii) All calculations hereunder shall be made to the nearest cent or to the nearest 1/100 of a share, as the case may be.

(iv) If at any time as a result of an adjustment made pursuant to Section 10(b)(5), the holder of any Series A Convertible Preferred Stock thereafter surrendered for conversion shall become entitled to receive securities, cash, or assets other than Common Stock, the number or amount of such securities or property so receivable upon conversion shall be subject to adjustment from time to time in a manner and on terms nearly equivalent as practicable to the provisions with respect to the Common Stock contained in subparagraphs (i) to (iii) above.

(9) Except as otherwise provided above in this Section 10, no adjustment in the Conversion Amount shall be made in respect of any conversion for share distributions or dividends theretofore declared and paid or payable on the Common Stock.

(10) Whenever the Conversion Amount is adjusted as herein provided, the Corporation shall send to each holder and each transfer agent, if any, for the Series A Convertible Preferred Stock and the transfer agent for the Common Stock, a statement signed by the Chairman of the Board, the President, or any Vice President of the Corporation and by its Treasurer or its Secretary or an Assistant Secretary stating the adjusted Conversion Amount determined as provided in this Section 10, and any adjustment so evidenced, given in good faith, shall be binding upon all stockholders and upon the Corporation. Whenever the Conversion Amount is adjusted, the Corporation will give notice by mail to the holders of record of Series A Convertible Preferred Stock, which notice shall be made within 15 days after the effective date of such adjustment and shall state the adjustment and the Conversion Amount. Notwithstanding the foregoing notice provisions, failure by the Corporation to give such notice or a defect in such notice shall not affect the binding nature of such corporate action of the Corporation.

(11) In case on or after the Issuance Date:

(A) the Corporation shall declare a dividend (or any other distribution) on the Common Stock (other than in cash out of retained earnings);
or

(B) the Corporation shall authorize the granting to the holders of the Common Stock of rights or warrants to subscribe for or purchase any share of any class or any other rights or warrants; or

(C) the Board of Directors shall authorize any reclassification of the Common Stock (other than a subdivision or combination of the outstanding Common Stock, or a change in par value, or from par value to no par value, or from no par value to par value), or any consolidation or merger or other business combination transaction to which the Corporation is a party and for which approval of any stockholders of the Corporation is required, or the sale or transfer of all or substantially all of the assets of the Corporation; or

(D) there shall be pending the voluntary or involuntary dissolution, liquidation or winding-up of the Corporation;

the Corporation shall give the holders of record of the Series A Convertible Preferred Stock, as promptly as possible but in any event at least ten Trading Days prior to the applicable date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution or rights or warrants, or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, distribution or rights are to be determined, or (y) the date on which such reclassification, consolidation, merger, other business combination transaction, sale, transfer, dissolution, liquidation or winding-up is expected to become effective or occur, and the date as of which it is expected that holders of Common Stock of record who shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reclassification, consolidation, merger, other business combination transaction, sale, transfer, dissolution, liquidation or winding-up shall be determined. Such notice shall not include any information which would be material non-public information for purposes of the 1934 Act. Failure to give such notice, or any defect therein, shall not affect the legality or validity of such dividend, distribution, reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding-up. In the case of any such action of which the Corporation gives such notice to the holders of record of the Series A Convertible Preferred Stock or is required to give such notice to such holders, such holders shall be entitled to give a Conversion Notice which is contingent on the completion of such action.

SECTION 11. REDEMPTION AT OPTION OF HOLDERS.

(a) REDEMPTION RIGHT. Subject to Section 11(b)(4), if an Optional Redemption Event occurs, then, in addition to any other right or remedy of any holder of shares of Series A Convertible Preferred Stock, each holder of shares of Series A Convertible Preferred Stock shall have the right, at such holder's option, to require the Corporation to redeem all of such holder's shares of Series A Convertible Preferred Stock, or any portion thereof, on the date that is 15 Business Days after the date such holder gives the Corporation an Optional Redemption Notice with respect to such Optional Redemption Event at any time while any of such holder's shares of Series A Convertible Preferred Stock are outstanding, at a price equal to the Optional Redemption Price.

(b) NOTICES; METHOD OF EXERCISING OPTIONAL REDEMPTION RIGHTS, ETC. (1) On or before the fifth Business Day after the occurrence of an Optional Redemption Event, the

Corporation shall give to each holder of outstanding shares of Series A Convertible Preferred Stock a notice of the occurrence of such Optional Redemption Event and of the redemption right set forth herein arising as a result thereof. Such notice from the Corporation shall set forth:

(i) the date by which the optional redemption right must be exercised, and

(ii) a description of the procedure (set forth below) which each such holder must follow to exercise such holder's optional redemption right.

No failure of the Corporation to give such notice or defect therein shall limit the right of any holder of shares of Series A Convertible Preferred Stock to exercise the optional redemption right or affect the validity of the proceedings for the redemption of such holder's shares of Series A Convertible Preferred Stock.

(2) To exercise its optional redemption right, each holder of outstanding shares of Series A Convertible Preferred Stock shall deliver to the Corporation on or before the 30th day after the notice required by Section 11(b)(1) is given to such holder (or if no such notice has been given by the Corporation to such holder, within 40 days after such holder first learns of such Optional Redemption Event) an Optional Redemption Notice to the Corporation. At the Corporation's option, an Optional Redemption Notice may be revoked by such holder giving such Optional Redemption Notice by giving notice of such revocation to the Corporation at any time prior to the time the Corporation pays the Optional Redemption Price to such holder.

(3) If a holder of shares of Series A Convertible Preferred Stock shall have given an Optional Redemption Notice, on the date which is 15 Business Days after the date such Optional Redemption Notice is given (or such later date as such holder surrenders such holder's certificates for the shares of Series A Convertible Preferred Stock to be redeemed) the Corporation shall make payment in immediately available funds of the applicable Optional Redemption Price to such account as specified by such holder in writing to the Corporation at least one Business Day prior to the applicable redemption date.

(4) Notwithstanding any other provision of this Certificate of Designations, if an Optional Redemption Event occurs by reason of events which are not solely within the control of the Corporation, the Corporation shall have the right to give a Control Notice to the holders of shares of Series A Convertible Preferred Stock at any time after such Optional Redemption Event occurs and prior to the earlier of (1) the date on which all holders of shares of Series A Convertible Preferred Stock who had the right (other than as limited by this Section 11(b)(4)) to require redemption of any shares of Series A Convertible Preferred Stock by reason of the occurrence of such Optional Redemption Event no longer have such right and (2) the applicable Optional Redemption Date by reason of the earliest Optional Redemption Notice given by any holder of shares of Series A Convertible Preferred Stock by reason of such Optional Redemption Event. If the Corporation timely gives such Control Notice to the holders of shares of Series A Convertible Preferred Stock, then in lieu of payment of the Optional Redemption Price by reason of any such Optional Redemption Event and commencing on the first date on which such Optional Redemption Event occurs the following adjustments shall take effect (subject to the provisions of Section 7(a)(5)(B)):

(A) In the case of an Optional Redemption Event described in clauses (1), (2), (3), (4) or (6) of the definition of the term Optional Redemption Event, for so long as such Optional Redemption Event continues and for a period of ten Trading Days thereafter the Conversion Price will be 70% of the amount which the Conversion Price would otherwise be; and

(B) In the case of an Optional Redemption Event described in clause (5) of the definition of the term Optional Redemption Event, for so long as any shares of Preferred Stock are outstanding the Conversion Price will be 70% of the amount which the Conversion Price would otherwise be.

For purposes of this Section 11(b)(4), an Optional Redemption Event shall be deemed to have occurred by reason of events which are not solely within the control of the Corporation if a requirement of the Corporation to redeem, or a right of any holder of shares of Series A Convertible Preferred Stock to require redemption of, shares of Series A Convertible Preferred Stock by reason thereof would result in the Corporation being required to classify the Series A Convertible Preferred Stock as redeemable preferred stock on a balance sheet of the Corporation prepared in accordance with Generally Accepted Accounting Principles and Regulation S-X of the SEC, and, in the case of an Optional Redemption Event described in clause (5) of the definition of the term Optional Redemption Event, the Board does not have the right to approve or disapprove the transactions resulting in such event. If as a result of any of the adjustments to the Conversion Price required by this Section 11(b)(4) the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all of the outstanding shares of Series A Convertible Preferred Stock, such insufficiency shall be deemed to be covered by the applicable Control Notice and the Corporation shall have no obligation to redeem any shares of Series A Convertible Preferred Stock by reason thereof. The Corporation thereupon will use its best efforts to increase the authorized number of shares of Common Stock in accordance with Section 10(b)(4).

(c) OTHER. (1) In connection with a redemption pursuant to this Section 11 of less than all of the shares of Series A Convertible Preferred Stock evidenced by a particular certificate, promptly, but in no event later than three Business Days after surrender of such certificate to the Corporation, the Corporation shall issue and deliver to such holder a replacement certificate for the shares of Series A Convertible Preferred Stock evidenced by such certificate which have not been redeemed.

(2) An Optional Redemption Notice given by a holder of shares of Series A Convertible Preferred Stock shall be deemed for all purposes to be in proper form unless the Corporation notifies such holder in writing within three Business Days after such Optional Redemption Notice has been given (which notice shall specify all defects in such Optional Redemption Notice), and any Optional Redemption Notice containing any such defect shall nonetheless be effective on the date given if such holder promptly undertakes to correct all such defects. No such claim of error shall limit or delay performance of the Corporation's obligation to redeem all shares of Series A Convertible Preferred Stock not in dispute whether or not such holder makes such undertaking.

SECTION 12. VOTING RIGHTS; CERTAIN RESTRICTIONS.

(a) VOTING RIGHTS. Except as otherwise required by law or expressly provided herein, shares of Series A Convertible Preferred Stock shall not be entitled to vote on any matter.

(b) ARTICLES OF INCORPORATION; CERTAIN STOCK. The affirmative vote or consent of the Majority Holders, voting separately as a class, will be required for (1) any amendment, alteration, or repeal, whether by merger or consolidation or otherwise, of the Corporation's Articles of Incorporation if the amendment, alteration, or repeal materially and adversely affects the powers, preferences, or special rights of the Series A Convertible Preferred Stock, or (2) the creation and issuance of any Senior Dividend Stock or Senior Liquidation Stock; provided, however, that any increase in the authorized Preferred Stock of the Corporation or the creation and issuance of any stock which is both Junior Dividend Stock and Junior Liquidation Stock shall not be deemed to affect materially and adversely such powers, preferences, or special rights and any such increase or creation and issuance may be made without any such vote by the holders of Series A Convertible Preferred Stock except as otherwise required by law.

(c) REPURCHASES OF SERIES A CONVERTIBLE PREFERRED STOCK. The Corporation shall not repurchase or otherwise acquire any shares of Series A Convertible Preferred Stock (other than pursuant to Sections 7(a), 9(a), 9(b) or 11) unless the Corporation offers to repurchase or otherwise acquire simultaneously a pro rata portion of each holder's shares of Series A Convertible Preferred Stock for cash at the same price per share.

(d) OTHER. So long as any shares of Series A Convertible Preferred Stock are outstanding:

(1) PAYMENT OF OBLIGATIONS. The Corporation will pay and discharge, and will cause each subsidiary of the Corporation to pay and discharge, when due all their respective obligations and liabilities which are material to the Corporation and its subsidiaries taken as a whole, including, without limitation, tax liabilities, except where the same may be contested in good faith by appropriate proceedings.

(2) MAINTENANCE OF PROPERTY; INSURANCE. (A) The Corporation will keep, and will cause each subsidiary of the Corporation to keep, all material property useful and necessary in its business in good working order and condition, ordinary wear and tear excepted.

(B) The Corporation will maintain, and will cause each subsidiary of the Corporation to maintain, with financially sound and responsible insurance companies, insurance against loss or damage by fire or other casualty and such other insurance, including but not limited to, product liability insurance, in such amounts and covering such risks as is reasonably adequate for the conduct of their businesses and the value of their properties.

(3) CONDUCT OF BUSINESS AND MAINTENANCE OF EXISTENCE. The Corporation will continue, and will cause each subsidiary of the Corporation to continue, to engage in business of the same general type as conducted by the Corporation and its operating subsidiaries at the time this Certificate of Designations is filed with the Secretary of State of the State of Nevada, and will preserve, renew and keep in full force and effect, and will cause each subsidiary of the Corporation to preserve, renew and keep in full force and effect, their respective corporate existence and their respective material rights, privileges and franchises necessary or desirable in the normal conduct of business.

(4) COMPLIANCE WITH LAWS. The Corporation will comply, and will cause each subsidiary of the Corporation to comply, in all material respects with all applicable laws, ordinances, rules, regulations, decisions, orders and requirements of governmental authorities and courts (including, without limitation, environmental laws) except (i) where compliance therewith is contested in good faith by appropriate proceedings or (ii) where non-compliance therewith could not reasonably be expected to have a material adverse effect on the business, condition (financial or otherwise), operations, performance, properties or prospects of the Corporation and its subsidiaries taken as a whole.

(5) INVESTMENT COMPANY ACT. The Corporation will not be or become an open-end investment trust, unit investment trust or face-amount certificate company that is or is required to be registered under Section 8 of the Investment Company Act of 1940, as amended, or any successor provision.

SECTION 13. OUTSTANDING SHARES. For purposes of this Certificate of Designations, all authorized and issued shares of Series A Convertible Preferred Stock shall be deemed outstanding except (i) from the applicable Conversion Date, each share of Series A Convertible Preferred Stock converted into Common Stock, unless the Corporation shall default in its obligation to issue and deliver shares of Common Stock upon such conversion as and when required by Section 10; (ii) from the date of registration of transfer, all shares of Series A Convertible Preferred Stock held of record by the Corporation or any subsidiary or Affiliate of the Corporation (other than an Affiliate of the Corporation who is a natural person or any original holder of shares of Series A Convertible Preferred Stock) and (iii) from the applicable Redemption Date, Share Limitation Redemption Date, Final Redemption Date or date of redemption pursuant to Section 11, all shares of Series A Convertible Preferred Stock which are redeemed or repurchased, so long as in each case the Redemption Price, the Share Limitation Redemption Price, the Final Redemption Price, the Optional Redemption Price or other repurchase price, as the case may be, of such shares of Series A Convertible Preferred Stock shall have been paid by the Corporation as and when due hereunder.

SECTION 14. MISCELLANEOUS.

(a) NOTICES. Any notices required or permitted to be given under the terms of this Certificate of Designations shall be in writing and shall be delivered personally (which shall include telephone line facsimile transmission) or by courier and shall be deemed given upon receipt, if delivered personally or by courier (a) in the case of the Corporation, addressed to the Corporation at 2222 West Peoria Avenue, Phoenix, Arizona 85029, Attention: Chief Executive

Officer (telephone line facsimile transmission number (602) 331-0941), or (b) in the case of any holder of shares of Series A Convertible Preferred Stock, at such holder's address or telephone line facsimile transmission number shown on the stock books maintained by the Corporation with respect to the Series A Convertible Preferred Stock or such other address as the Corporation shall have provided by notice to the holders of shares of Series A Convertible Preferred Stock in accordance with this Section or any holder of shares of Series A Convertible Preferred Stock shall have provided to the Corporation in accordance with this Section.

(b) REPLACEMENT OF CERTIFICATES. Upon receipt by the Corporation of evidence reasonably satisfactory to the Corporation of the ownership of and the loss, theft, destruction or mutilation of any certificate for shares of Series A Convertible Preferred Stock and (1) in the case of loss, theft or destruction, of indemnity from the record holder of the certificate for such shares of Series A Convertible Preferred Stock reasonably satisfactory in form to the Corporation (and without the requirement to post any bond or other security if such holder has and agrees to maintain reasonably sufficient assets to support the indemnity) or (2) in the case of mutilation, upon surrender and cancellation of the certificate for such shares of Series A Convertible Preferred Stock, the Corporation will execute and deliver to such holder a new certificate for such shares of Series A Convertible Preferred Stock without charge to such holder.

(c) OVERDUE AMOUNTS. Except as otherwise specifically provided in Section 5 with respect to dividends in arrears on the Series A Convertible Preferred Stock, whenever any amount which is due to any holder of shares of Series A Convertible Preferred Stock is not paid to such holder when due, such amount shall bear interest at the rate of 14% per annum (or such other rate as shall be the maximum rate allowable by applicable law) until paid in full.

IN WITNESS WHEREOF, Titan Motorcycle Co. of America has caused this Second Amended and Restated Certificate of Designations to be signed by , its , and , its , as of the ____ day of August, 2000.

TITAN MOTORCYCLE CO. OF
AMERICA

By: _____
Title: President

By: _____
Title: Secretary

TITAN MOTORCYCLE CO. OF AMERICA

SECOND AMENDED AND RESTATED
CERTIFICATE OF DESIGNATIONS OF SERIES B
CONVERTIBLE PREFERRED STOCK

(Pursuant to Section 78.1955 of the General Corporation
Law of the State of Nevada)

Titan Motorcycle Co. of America, a Nevada corporation (the "Corporation"), in accordance with the provisions of Section 78.1955 of the General Corporation Law of the State of Nevada (the "NGCL"), DOES HEREBY CERTIFY:

That pursuant to authority vested in the Board of Directors of the Corporation by the Restated Articles of Incorporation of the Corporation, the Board of Directors of the Corporation, by unanimous written consent dated March 1, 2000, adopted a resolution providing for the creation of a series of the Corporation's Preferred Stock, \$.001 par value, which series is designated as "Series B Convertible Preferred Stock"; and

That upon the recommendation of the Board of Directors of the Corporation, an amendment to such resolution setting forth the terms of the Series B Convertible Preferred Stock was duly approved by the holders of the Series B Convertible Preferred Stock pursuant to a written consent dated June 1, 2000, which resolution as so amended and restated was set forth in an Amended and Restated Certificate of Designations which was filed with the Secretary of State of the State of Nevada on July 19, 2000; and

That upon the recommendation of the Board of Directors of the Corporation, a second amendment to such resolution setting forth the terms of the Series B Convertible Preferred Stock was duly approved by the holders of the Series B Convertible Preferred Stock pursuant to a written consent dated as of August 9, 2000, which resolution as so amended and restated is as follows:

RESOLVED, that pursuant to authority vested in the Board of Directors by the Restated Articles of Incorporation of the Corporation, the Board of Directors does hereby amend and restate the terms of the following series of Preferred Stock, \$.001 par value (hereinafter called the "Preferred Stock"), of the Corporation, and to the extent that the voting powers and the designations, preferences and relative, participating, optional or other special rights thereof and the qualifications, limitations or restrictions of such rights have not been set forth in the Restated Articles of Incorporation of the Corporation, does hereby fix the same as follows:

SERIES B CONVERTIBLE PREFERRED STOCK

SECTION 1. DEFINITIONS. As used herein, the following terms shall have the following meanings:

"Accrual Amount" means with respect to any share of Series B Convertible Preferred Stock on any date the amount of all accrued but unpaid dividends on such share from the Issuance Date to the date of determination.

"Affiliate" means, with respect to any person, any other person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the subject person; for purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such person, whether through the ownership of voting securities or by contract or otherwise.

"Aggregated Person" means, with respect to any person, any person whose beneficial ownership of shares of Common Stock would be aggregated with the beneficial ownership of shares of Common Stock by such person for purposes of Section 13(d) of the Exchange Act, and Regulation 13D-G thereunder.

"AMEX" means the American Stock Exchange, Inc.

"Average Market Price" for any date means the arithmetic average of the Market Price for each of the Trading Days during the applicable Measurement Period.

"Blackout Period" means the period of up to 30 consecutive days after the date the Corporation notifies holders of shares of Series B Convertible Preferred Stock who are bound by any Registration Rights Agreement that such holders are required, pursuant to Section 4(d) of the Registration Rights Agreements, to suspend offers and sales of Registrable Securities pursuant to the Registration Statement as a result of an event or circumstance described in Section 3(f)(1) of the Registration Rights Agreements, during which period, by reason of Section 3(f)(2) of the Registration Rights Agreements, the Corporation is not required to amend the Registration Statement or to supplement the related prospectus.

"Board of Directors" or "Board" means the Board of Directors of the Corporation.

"Business Day" means any day other than a Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by law to remain closed.

"Common Stock" means the Common Stock, \$.001 par value, of the Corporation.

"Computation Date" means, if a Redemption Limitation Event occurs, any of (1) the date which is 30 days after such Redemption Limitation Event occurs, if any Redemption Limitation Event is continuing on such date, (2) each date which is 30 days after a Computation Date, if any Redemption Limitation Event is continuing on such date, and (3) the date on which all Redemption Limitation Events cease to continue.

"Control Notice" means a notice given by the Corporation to the holders of shares of the Series B Convertible Preferred Stock, in accordance with Section 7(a)(5) or Section 11(b)(4), stating that an Inconvertibility Day or an Optional Redemption Event, as the case may be, has occurred by reason of events which are not solely within the control of the Corporation.

"Conversion Agent" means Signature Stock Transfer, Inc., or its duly appointed successor, as conversion agent for the Series B Convertible Preferred Stock pursuant to the Transfer Agent Agreement.

"Conversion Amount" initially shall be equal to \$1,000.00, subject to adjustment as herein provided.

"Conversion Date" means, with respect to each conversion of shares of Series B Convertible Preferred Stock pursuant to Section 10, the date on which the Conversion Notice relating to such conversion is actually received by the Conversion Agent, whether by mail, courier, personal service, telephone line facsimile transmission or other means.

"Conversion Notice" means a written notice, duly signed by or on behalf of a holder of shares of Series B Convertible Preferred Stock, stating the number of shares of Series B Convertible Preferred Stock to be converted in the form specified in the Subscription Agreements.

"Conversion Price" means:

(1) for any Conversion Date during the period from the Issuance Date through January 8, 2001, the Fixed Conversion Price; and

(2) for any Conversion Date during each Reset Period commencing on the Initial Reset Date and on each successive Quarterly Reset Date thereafter, the lesser of:

(a) the Fixed Conversion Price; and

(b) the Average Market Price during the Measurement Period for the Initial Reset Date or such Quarterly Reset Date, as the case may be;

provided, however, that the Conversion Price applicable to a particular conversion shall be subject to reduction as provided in Section 10(b)(6); and provided further, however, that if a Redemption Limitation Event occurs, then, in addition to any other right or remedy of any holder of shares of Series B Convertible Preferred Stock, thereafter the Conversion Price for the shares

not redeemed shall be reduced on each Computation Date by an amount equal to five percent of the amount that the Conversion Price otherwise would have been without any reduction pursuant to this proviso (pro rated in the case of any Computation Date which is less than 30 days after a Redemption Limitation Event occurs or less than 30 days after another Computation Date), such reduction not to exceed a maximum aggregate reduction for all Computation Dates of 30% of the amount that the Conversion Price otherwise would have been without any reduction pursuant to this proviso, such reduction to remain in effect for 30 days after the end of the Redemption Limitation Event.

"Conversion Rate" shall have the meaning provided in Section 10(a).

"Converted Market Price" means, for any share of Series B Convertible Preferred Stock as of any date of determination, an amount equal to the product obtained by multiplying (x) the number of shares of Common Stock which would, at the time of such determination, be issuable on conversion in accordance with Section 10(a) of one share of Series B Convertible Preferred Stock if a Conversion Notice were given by the holder of such share of Series B Convertible Preferred Stock on the date of such determination (determined without regard to any limitation on conversion based on beneficial ownership contained in Section 10(a)) times (y) the Average Market Price of the Common Stock during the Measurement Period for the date of such determination.

"Corporation Optional Redemption Notice" means a notice given by the Corporation to the holders of shares of Series B Convertible Preferred Stock pursuant to Section 9(a) which notice shall state (1) that the Corporation is exercising its right to redeem all or a portion of the outstanding shares of Series B Convertible Preferred Stock pursuant to Section 9(a), (2) the number of shares of Series B Convertible Preferred Stock held by such holder which are to be redeemed, (3) the Redemption Price per share of Series B Convertible Preferred Stock to be redeemed or the formula for determining the same, determined in accordance herewith, and (4) the applicable Redemption Date.

"Current Price" means with respect to any date the arithmetic average of the Market Price of the Common Stock on the ten consecutive Trading Days commencing 15 Trading Days before such date.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Final Redemption Date" means the date of redemption of shares of Series B Convertible Preferred Stock pursuant to Section 9(b), determined in accordance therewith.

"Final Redemption Notice" means a notice given by the Corporation to each holder of Series B Convertible Preferred Stock pursuant to Section 9(b), which notice shall state (1) that the Corporation is exercising its right to redeem all outstanding shares of Series B Convertible Preferred Stock pursuant to Section 9(b), (2) the number of shares of Series B Convertible Preferred Stock held by such holder which are to be redeemed, (3) the Final

Redemption Price per share of Series B Convertible Preferred Stock held by such holder which are to be redeemed, determined in accordance herewith, and (4) the Final Redemption Date.

"Final Redemption Price" means, for any share of Series B Convertible Preferred Stock on any date, an amount equal to the sum of (i) \$1,000 plus (ii) an amount equal to the Accrual Amount on the share of Series B Convertible Preferred Stock to be redeemed to the Final Redemption Date, plus (iii) an amount equal to the accrued and unpaid interest on cash dividends in arrears on such share of Series B Convertible Preferred Stock to the Final Redemption Date (determined as provided in Section 5).

"Fixed Conversion Price" means \$1.75 (subject to equitable adjustments from time to time on terms reasonably determined by the Board of Directors for stock splits, stock dividends, combinations, recapitalizations, reclassifications and similar events occurring or with respect to which "ex-" trading commences on or after the date of filing of this Certificate of Designations with the Secretary of State of the State of Nevada).

"Generally Accepted Accounting Principles" for any person means the generally accepted accounting principles and practices applied by such person from time to time in the preparation of its audited financial statements.

"Inconvertibility Day" means any Trading Day on which the Corporation would not have been required to convert in accordance with Section 10(a) any shares of Series B Convertible Preferred Stock as a consequence of the limitations set forth in Section 7(a)(1) had all outstanding shares of Series B Convertible Preferred Stock held by such holder on such Trading Day been converted into Common Stock on such Trading Day (without regard to the limitation, if any, on beneficial ownership by such holder contained in Section 10(a)).

"Inconvertibility Notice" shall have the meaning provided in Section 7(a)(2).

"Initial Reset Date" means January 9, 2001.

"Issuance Date" means March 9, 2000.

"Junior Dividend Stock" means, collectively, the Common Stock and any other class or series of capital stock of the Corporation ranking junior as to dividends to the Series B Convertible Preferred Stock.

"Junior Liquidation Stock" means the Common Stock or any other class or series of the Corporation's capital stock ranking junior as to liquidation rights to the Series B Convertible Preferred Stock.

"Junior Stock" shall have the meaning provided in Section 10(b)(8).

"Liquidation Preference" means, for each share of Series B Convertible Preferred Stock, the sum of (i) an amount equal to the Accrual Amount thereon to the date of final distribution to such holders and (ii) \$1,000.00.

"Majority Holders" means at any time the holders of shares of Series B Convertible Preferred Stock which shares constitute a majority of the outstanding shares of Series B Convertible Preferred Stock.

"Market Price" of the Common Stock on any date means the closing bid price for one share of Common Stock on such date on the first applicable among the following: (a) the national securities exchange on which the shares of Common Stock are listed which constitutes the principal securities market for the Common Stock, (b) the Nasdaq, if the Nasdaq constitutes the principal market for the Common Stock on such date, or (c) the Nasdaq SmallCap, if the Nasdaq SmallCap constitutes the principal securities market for the Common Stock on such date, in any such case as reported by Bloomberg, L.P.; provided, however, that if during any Measurement Period or other period during which the Market Price is being determined:

(i) The Corporation shall declare or pay a dividend or make a distribution to all holders of the outstanding Common Stock in shares of Common Stock or fix any record date for any such action, then the Market Price for each day in such Measurement Period or such other period which day is prior to the earlier of (1) the date fixed for the determination of stockholders entitled to receive such dividend or other distribution and (2) the date on which ex-dividend trading in the Common Stock with respect to such dividend or distribution begins shall be reduced by multiplying the Market Price (determined without regard to this proviso) for each such day in such Measurement Period or such other period by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding at the close of business on the earlier of (1) the record date fixed for such determination and (2) the date on which ex-dividend trading in the Common Stock with respect to such dividend or distribution begins and the denominator of which shall be the sum of such number of shares and the total number of shares constituting such dividend or other distribution;

(ii) The Corporation shall issue rights or warrants to all holders of its outstanding shares of Common Stock, or fix a record date for such issuance, which rights or warrants entitle such holders (for a period expiring within forty-five (45) days after the date fixed for the determination of stockholders entitled to receive such rights or warrants) to subscribe for or purchase shares of Common Stock at a price per share less than the Market Price (determined without regard to this proviso) for any day in such Measurement Period or such other period which day is prior to the end of such 45-day period, then the Market Price for each such day shall be reduced so that the same shall equal the price determined by multiplying the Market Price (determined without regard to this proviso) by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding at the close of business on the record date fixed for the determination of stockholders entitled to receive such rights or warrants plus the number of shares which the aggregate offering price of the total number of shares so offered

would purchase at such Market Price, and the denominator of which shall be the number of shares of Common Stock outstanding on the close of business on such record date plus the total number of additional shares of Common Stock so offered for subscription or purchase. In determining whether any rights or warrants entitle the holders to subscribe for or purchase shares of Common Stock at less than the Market Price (determined without regard to this proviso), and in determining the aggregate offering price of such shares of Common Stock, there shall be taken into account any consideration received for such rights or warrants, the value of such consideration, if other than cash, to be determined in good faith by a resolution of the Board of Directors of the Corporation;

(iii) The outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock or a record date for any such subdivision shall be fixed, then the Market Price of the Common Stock for each day in such Measurement Period or such other period which day is prior to the earlier of (1) the day upon which such subdivision becomes effective and (2) the date on which ex-dividend trading in the Common Stock with respect to such subdivision begins shall be proportionately reduced, and conversely, in case the outstanding shares of Common Stock shall be combined into a smaller number of shares of Common Stock, the Market Price for each day in such Measurement Period or such other period which day is prior to the earlier of (1) the date on which such combination becomes effective and (2) the date on which trading in the Common Stock on a basis which gives effect to such combination begins, shall be proportionately increased;

(iv) The Corporation shall, by dividend or otherwise, distribute to all holders of its Common Stock shares of any class of capital stock of the Corporation (other than any dividends or distributions to which clause (i) of this proviso applies) or evidences of its indebtedness, cash or other assets including securities (but excluding any rights or warrants referred to in clause (ii) of this proviso, dividends and distributions paid exclusively in cash and any capital stock, evidences of indebtedness, cash or assets distributed upon a merger or consolidation) (the foregoing hereinafter in this clause (iv) of this proviso called the "Securities"), or fix a record date for any such distribution, then, in each such case, the Market Price for each day in such Measurement Period or such other period which day is prior to the earlier of (1) the record date for such distribution and (2) the date on which ex-dividend trading in the Common Stock with respect to such distribution begins shall be reduced so that the same shall be equal to the price determined by multiplying the Market Price (determined without regard to this proviso) by a fraction, the numerator of which shall be the Market Price (determined without regard to this proviso) for such date less the fair market value (as determined in good faith by resolution of the Board of Directors of the Corporation) on such date of the portion of the Securities so distributed or to be distributed applicable to one share of Common Stock and the denominator of which shall be the Market Price (determined without regard to this proviso) for such date; provided, however, that in the event the then fair market value (as so determined) of the portion of the Securities so distributed applicable to one share of Common Stock is equal to or greater than the Market Price (determined without regard to this clause (iv) of this proviso) for any such Trading Day,

in lieu of the foregoing adjustment, adequate provision shall be made so that the holders of shares of Series B Convertible Preferred Stock shall have the right to receive upon conversion of the shares of Series B Convertible Preferred Stock the amount of Securities the holders of shares of Series B Convertible Preferred Stock would have received had the number of shares of Common Stock to be issued in payment of such dividends on the shares of Series B Convertible Preferred Stock been issued, or had the holders of shares of Series B Convertible Preferred Stock converted the shares of Series B Convertible Preferred Stock, in either such case immediately prior to the record date for such distribution (provided, however, that if such Securities are not then available, the Corporation shall substitute cash or securities or other property of equivalent value on terms reasonably satisfactory to the holders of shares of Series B Convertible Preferred Stock). If the Board of Directors of the Corporation determines the fair market value of any distribution for purposes of this clause (iv) by reference to the actual or when issued trading market for any securities comprising all or part of such distribution, it must in doing so consider the prices in such market on the same day for which an adjustment in the Market Price is being determined.

For purposes of this clause (iv) and clauses (i) and (ii) of this proviso, any dividend or distribution to which this clause (iv) is applicable that also includes shares of Common Stock, or rights or warrants to subscribe for or purchase shares of Common Stock to which clause (i) or (ii) of this proviso applies (or both), shall be deemed instead to be (1) a dividend or distribution of the evidences of indebtedness, assets, shares of capital stock, rights or warrants other than such shares of Common Stock or rights or warrants to which clause (i) or (ii) of this proviso applies (and any Market Price reduction required by this clause (iv) with respect to such dividend or distribution shall then be made) immediately followed by (2) a dividend or distribution of such shares of Common Stock or such rights or warrants (and any further Market Price reduction required by clauses (i) and (ii) of this proviso with respect to such dividend or distribution shall then be made), except that any shares of Common Stock included in such dividend or distribution shall not be deemed "outstanding at the close of business on the date fixed for such determination" within the meaning of clause (i) of this proviso;

(v) The Corporation or any subsidiary of the Corporation shall (x) by dividend or otherwise, distribute to all holders of its Common Stock cash in (or fix any record date for any such distribution), or (y) repurchase or reacquire shares of its Common Stock (other than an Option Share Surrender) for, in either case, an aggregate amount that, combined with (1) the aggregate amount of any other such distributions to all holders of its Common Stock made exclusively in cash after the Issuance Date and within the 12 months preceding the date of payment of such distribution, and in respect of which no adjustment pursuant to this clause (v) has been made, (2) the aggregate amount of any cash plus the fair market value (as determined in good faith by a resolution of the Board of Directors of the Corporation) of consideration paid in respect of any repurchase or other reacquisition by the Corporation or any subsidiary of the Corporation of any shares of Common Stock (other than an Option Share Surrender) made after the Issuance Date and within the 12 months preceding the date of payment of such distribution or making of

such repurchase or reacquisition, as the case may be, and in respect of which no adjustment pursuant to this clause (v) has been made, and (3) the aggregate of any cash plus the fair market value (as determined in good faith by a resolution of the Board of Directors of the Corporation) of consideration payable in respect of any Tender Offer by the Corporation or any of its subsidiaries for all or any portion of the Common Stock concluded within the 12 months preceding the date of payment of such distribution or completion of such repurchase or reacquisition, as the case may be, and in respect of which no adjustment pursuant to clause (vi) of this proviso has been made (such aggregate amount combined with the amounts in clauses (1), (2) and (3) above being the "Combined Amount"), exceeds 10% of the product of the Market Price (determined without regard to this proviso) for any day in such Measurement Period or such other period which day is prior to the earlier of (A) the record date with respect to such distribution and (B) the date on which ex-dividend trading in the Common Stock with respect to such distribution begins or the date of such repurchase or reacquisition, as the case may be, times the number of shares of Common Stock outstanding on such date, then, and in each such case, the Market Price for each such day shall be reduced so that the same shall equal the price determined by multiplying the Market Price (determined without regard to this proviso) for such day by a fraction (i) the numerator of which shall be equal to the Market Price (determined without regard to this proviso) for such day less an amount equal to the quotient of (x) the excess of such Combined Amount over such 10% and (y) the number of shares of Common Stock outstanding on such day and (ii) the denominator of which shall be equal to the Market Price (determined without regard to this proviso) for such day; provided, however, that in the event the portion of the cash so distributed or paid for the repurchase or reacquisition of shares (determined per share based on the number of shares of Common Stock outstanding) applicable to one share of Common Stock is equal to or greater than the Market Price (determined without regard to this clause (v) of this proviso) of the Common Stock for any such day, then in lieu of the foregoing adjustment with respect to such day, adequate provision shall be made so that the holders of shares of Series B Convertible Preferred Stock shall have the right to receive upon conversion of shares of Series B Convertible Preferred Stock the amount of cash the holders of shares of Series B Convertible Preferred Stock would have received had the holders of shares of Series B Convertible Preferred Stock converted shares of Series B Convertible Preferred Stock immediately prior to the record date for such distribution or the payment date of such repurchase, as applicable; or

(vi) A Tender Offer made by the Corporation or any of its subsidiaries for all or any portion of the Common Stock shall expire and such Tender Offer (as amended upon the expiration thereof) shall require the payment to stockholders (based on the acceptance (up to any maximum specified in the terms of the Tender Offer) of Purchased Shares (as defined below)) of an aggregate consideration having a fair market value (as determined in good faith by resolution of the Board of Directors of the Corporation) that combined together with (1) the aggregate of the cash plus the fair market value (as determined in good faith by a resolution of the Board of Directors of the Corporation), as of the expiration of such Tender Offer, of consideration paid or payable in respect of any other Tender Offers by the Corporation or any of its subsidiaries for all or any portion of the

Common Stock expiring within the 12 months preceding the expiration of such Tender Offer and in respect of which no adjustment pursuant to this clause (vi) has been made, (2) the aggregate amount of any cash plus the fair market value (as determined in good faith by a resolution of the Board of Directors of the Corporation) of consideration paid in respect of any repurchase or other reacquisition by the Corporation or any subsidiary of the Corporation of any shares of Common Stock (other than an Option Share Surrender) made after the Issuance Date and within the 12 months preceding the expiration of such Tender Offer and in respect of which no adjustment pursuant to clause (v) of this proviso has been made, and (3) the aggregate amount of any distributions to all holders of Common Stock made exclusively in cash within 12 months preceding the expiration of such Tender Offer and in respect of which no adjustment pursuant to clause (v) of this proviso has been made, exceeds 10% of the product of the Market Price (determined without regard to this proviso) for any day in such period times the number of shares of Common Stock outstanding on such day, then, and in each such case, the Market Price for such day shall be reduced so that the same shall equal the price determined by multiplying the Market Price (determined without regard to this proviso) for such day by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding on such day multiplied by the Market Price (determined without regard to this proviso) for such day and the denominator of which shall be the sum of (x) the fair market value (determined as aforesaid) of the aggregate consideration paid or payable to stockholders based on the acceptance (up to any maximum specified in the terms of the Tender Offer) of all shares validly tendered and not withdrawn as of the last time tenders could have been made pursuant to such Tender Offer (the "Expiration Time") (the shares deemed so accepted, up to any such maximum, being referred to as the "Purchased Shares") and (y) the product of the number of shares of Common Stock outstanding (less any Purchased Shares) on such day times the Market Price (determined without regard to this proviso) of the Common Stock on the Trading Day next succeeding the Expiration Time.

"Maximum Share Amount" means 3,436,000 shares of Common Stock, or such greater number of shares as permitted by the rules of the Nasdaq SmallCap or other securities market on which the Common Stock is then listed (such amount to be subject to equitable adjustment from time to time on terms reasonably determined by the Board of Directors for stock splits, stock dividends, combinations, capital reorganizations and similar events relating to the Common Stock occurring or with respect to which "ex-" trading commences after the date of filing this Certificate of Designations with the Secretary of State of the State of Nevada).

"Measurement Period" means, with respect to any date, the period of ten consecutive Trading Days ending on the Trading Day prior to such date.

"Nasdaq" means the Nasdaq National Market.

"Nasdaq SmallCap" means the Nasdaq SmallCap Market.

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

"NYSE" means the New York Stock Exchange, Inc.

"Option Share Surrender" means the surrender of shares of Common Stock to the Corporation in payment of the exercise price or tax obligations incurred in connection with the exercise of a stock option granted by the Corporation to any of its employees, directors or consultants.

"Optional Redemption Event" means any one of the following events:

(1) For any period of five consecutive Trading Days there shall be no closing bid price of the Common Stock on the Nasdaq, the Nasdaq SmallCap, the NYSE or the AMEX;

(2) The Common Stock ceases to be listed for trading on any of the Nasdaq, the Nasdaq SmallCap, the NYSE or the AMEX and is not simultaneously listed on one of the other such markets or exchanges;

(3) The inability for 30 or more days (whether or not consecutive) of any holder of shares of Series B Convertible Preferred Stock to sell such shares of Common Stock issued or issuable on conversion of shares of Series B Convertible Preferred Stock pursuant to the Registration Statement for any reason other than a Blackout Period on each of such 30 days;

(4) The Corporation shall (A) default in the timely performance of the obligation to issue shares of Common Stock upon conversion of shares of Series B Convertible Preferred Stock as and when required by Section 10 or (B) fail or default in the timely performance of any material obligation (other than as specifically set forth elsewhere in this definition) to a holder of shares of Series B Convertible Preferred Stock under the terms of this Certificate of Designations or under the Subscription Agreements, the Registration Rights Agreements, the Warrants or any other agreement or document entered into in connection with the issuance of shares of Series B Convertible Preferred Stock, as such instruments may be amended from time to time; provided, however, that (i) with respect to the first two occurrences of an event described in clause (A) above, each of such events shall be an Optional Redemption Event only if such default shall have continued for a period of three Trading Days after notice thereof is given to the Corporation by any holder of shares of Series B Convertible Preferred Stock and (ii) an event described in clause (B) above shall be an Optional Redemption Event only if such failure or default shall have continued for a period of 30 days after notice thereof is given to the Corporation by any holder of shares of Series B Convertible Preferred Stock.

(5) (A) Any consolidation or merger of the Corporation with or into another entity (other than a merger or consolidation of a subsidiary of the Corporation with or into the Corporation or a wholly-owned subsidiary of the Corporation) where the shareholders of the Corporation immediately prior to such transaction do not collectively

own at least 51% of the outstanding voting securities of the surviving corporation of such consolidation or merger immediately following such transaction and (i) such transaction materially and adversely affects the rights of any holder of shares of Series B Convertible Preferred Stock or (ii) the common stock of the surviving corporation is not listed for trading on the NYSE, the AMEX, the Nasdaq or the Nasdaq SmallCap; or (B) any sale or other transfer of all or substantially all of the assets of the Corporation unless (i) the shareholders of the Corporation immediately prior to such transaction own at least 51% of the outstanding voting securities of the transferee of such assets, (ii) the common stock of such transferee is listed for trading on the NYSE, the AMEX, the Nasdaq or the Nasdaq SmallCap and (iii) such transferee assumes all of the obligations of the Corporation to the holders of the Series B Convertible Preferred Stock under this Certificate of Designations, the Subscription Agreements and the other instruments contemplated hereby and thereby; or

(6) The adoption of any amendment to the Corporation's Articles of Incorporation, without the consent of the Majority Holders, which materially and adversely affects the rights of any holder of shares of Series B Convertible Preferred Stock.

"Optional Redemption Notice" means a notice from a holder of shares of Series B Convertible Preferred Stock to the Corporation which states (1) that the holder delivering such notice is thereby requiring the Corporation to redeem shares of Series B Convertible Preferred Stock pursuant to Section 11, (2) to such holder's knowledge, a summary of the circumstances constituting the Optional Redemption Event giving rise to such redemption, and (3) the number of shares of Series B Convertible Preferred Stock held by such holder which are to be redeemed.

"Optional Redemption Price" means the greater of (i) the Premium Price on the applicable redemption date and (ii) the Converted Market Price on the applicable redemption date.

"Parity Dividend Stock" means any class or series of the Corporation's capital stock ranking, as to dividends, on a parity with the Series B Convertible Preferred Stock, including, without limitation, the Series A Convertible Preferred Stock.

"Parity Liquidation Stock" means any class or series of the Corporation's capital stock having parity as to liquidation rights with the Series B Convertible Preferred Stock, including, without limitation, the Series A Convertible Preferred Stock.

"Premium Percentage" means 120%.

"Premium Price" means, for any share of Series B Convertible Preferred Stock as of any date of determination, the sum of (a) the product obtained by multiplying (x) the sum of (1) the Conversion Amount plus (2) an amount equal to the Accrual Amount on such share of Series B Convertible Preferred Stock to the date of determination, times (y) the Premium

Percentage plus (b) an amount equal to the accrued and unpaid interest on cash dividends in arrears (as provided in Section 5) to the date of determination.

"Quarterly Reset Date" means the date occurring every three months after the Initial Reset Date on the 9th day of each such month through the third anniversary of the Issuance Date (for example, the first three Quarterly Reset Dates shall occur on April 9, 2001, July 9, 2001 and October 9, 2001).

"Redemption Date" means the date of a redemption of shares of Series B Convertible Preferred Stock pursuant to Section 9(a), determined in accordance therewith.

"Redemption Limitation Event" means the failure of the Corporation to pay the applicable redemption price when due for some or all of the shares of Series B Convertible Preferred Stock required to be redeemed pursuant to Section 7 or Section 11 by reason of a restriction contained in the Company's loan agreements or facilities with Wells Fargo Credit, Inc., or with any other institutional lender, whether such agreements or facilities are now existing or hereafter created; and such Redemption Limitation Event shall be deemed to continue until such redemption price is paid in full in accordance with the terms of this Certificate of Designations.

"Redemption Price" means the Premium Price on the applicable Redemption Date.

"Registration Rights Agreements" means the several Registration Rights Agreements entered into between the Corporation and the original holders of the shares of Series B Convertible Preferred Stock, as amended or modified from time to time in accordance with their respective terms.

"Registration Statement" means the Registration Statement required to be filed by the Corporation with the SEC pursuant to Section 2(a) of the Registration Rights Agreements.

"Reorganization Event" means a capital reorganization, reclassification, or similar transaction involving the capital stock of the Corporation (other than with a wholly-owned subsidiary of the Corporation), a consolidation, merger or business combination of the Corporation with another corporation or entity, or the sale or conveyance of all or substantially all of the assets of the Corporation.

"Reset Period" means the applicable three month period commencing on the Initial Reset Date and on each Quarterly Reset Date thereafter and ending on the day immediately prior to the next Quarterly Reset Date.

"SEC" means the United States Securities and Exchange Commission.

"SEC Effective Date" means the date the Registration Statement is first declared effective by the SEC.

"Senior Dividend Stock" means any class or series of capital stock of the Corporation ranking senior as to dividends to the Series B Convertible Preferred Stock.

"Senior Liquidation Stock" means any class or series of capital stock of the Corporation ranking senior as to liquidation rights to the Series B Convertible Preferred Stock.

"Series A Convertible Preferred Stock" means the Series A Convertible Preferred Stock, \$.001 par value, of the Corporation.

"Series B Convertible Preferred Stock" means the Series B Convertible Preferred Stock, \$.001 par value, of the Corporation.

"Series C Convertible Preferred Stock" means the Series C Convertible Preferred Stock, \$.001 par value, of the Corporation.

"Share Limitation Redemption Date" means each date on which the Corporation is required to redeem shares of Series B Convertible Preferred Stock as provided in Section 7(a).

"Share Limitation Redemption Price" means the greater of (a) the Premium Price on the applicable Share Limitation Redemption Date and (b) the Converted Market Price on the applicable Share Limitation Redemption Date.

"Stockholder Approval" shall mean the approval by a majority of the votes cast by the holders of shares of Common Stock (in person or by proxy) at a meeting of the stockholders of the Corporation (duly convened at which a quorum was present), or a written consent of holders of shares of Common Stock entitled to such number of votes given without a meeting, of the issuance by the Corporation of 20% or more of the Common Stock of the Corporation outstanding on the Issuance Date for less than the greater of the book or market value of such Common Stock on conversion of the Series B Convertible Preferred Stock, as and to the extent required under Rule 4310(c)(25)(H) of the Nasdaq SmallCap as in effect from time to time or any successor, replacement or similar provision thereof or of any other market on which the Common Stock is listed for trading.

"Subordination Period" means the period commencing on the date this Second Amended and Restated Certificate of Designations is filed with and accepted by the Secretary of State of the State of Nevada and ending on the date the SEC first declares effective Registration Statement No. 333-41868 (or any successor registration statement) filed by the Corporation with the SEC which, among other things, registers for resale the shares of Common Stock issuable upon conversion of the Series C Convertible Preferred Stock.

"Subscription Agreements" means the several Subscription Agreements by and between the Corporation and the original holders of shares of Series B Convertible Preferred Stock pursuant to which the shares of Series B Convertible Preferred Stock were issued.

"Tender Offer" means a tender offer or exchange offer.

"Trading Day" means a day on whichever of (x) the national securities exchange, (y) the Nasdaq or (z) the Nasdaq SmallCap, which at the time constitutes the principal securities market for the Common Stock, is open for general trading.

"Transfer Agent Agreement" means the Transfer Agent Agreement entered into by and among the Corporation, the Conversion Agent and the original holders of the Series B Convertible Preferred Stock for the benefit of the holders from time to time of shares of Series B Convertible Preferred Stock.

"Warrants" means the Common Stock Purchase Warrants issued by the Corporation in connection with the issuance of the shares of Series B Convertible Preferred Stock.

SECTION 2. DESIGNATION AND AMOUNT. The shares of such series shall be designated as "Series B Convertible Preferred Stock", and the number of shares constituting the Series B Convertible Preferred Stock shall be 2,000, and shall not be subject to increase. The Corporation shall not issue any shares of Series B Convertible Preferred Stock other than pursuant to the Subscription Agreements, unless such issuance shall have been approved by the Majority Holders. Any shares of Series B Convertible Preferred Stock which are redeemed by the Corporation and retired and any shares of Series B Convertible Preferred Stock which are converted in accordance with Section 10 shall be restored to the status of authorized, unissued and undesignated shares of the Corporation's class of Preferred Stock and shall not be subject to issuance, and may not thereafter be outstanding, as shares of Series B Convertible Preferred Stock.

SECTION 3. [RESERVED.]

SECTION 4. RANK. Subject to Section 12(b), all Series B Convertible Preferred Stock shall rank (i) senior to the Common Stock, now or hereafter issued, as to payment of dividends and distribution of assets upon liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary, (ii) on a parity with the Series A Convertible Preferred Stock as to payment of dividends and distribution of assets upon liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary, (iii) subject to the proviso to this clause (iii), senior to the Series C Convertible Preferred Stock and any additional series of the class of Preferred Stock which series the Board of Directors may from time to time authorize, both as to payment of dividends and distribution of assets upon liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary; provided, however, that during the Subordination Period only and at no other time, the Series C Convertible Preferred Stock shall rank senior to the Series B Convertible Preferred Stock as to such payment of dividends and distribution of assets, and (iv) senior to any additional class of preferred stock (or series of preferred stock of such class) which the Board of Directors or the stockholders may from time to time authorize in accordance herewith.

SECTION 5. DIVIDENDS AND DISTRIBUTIONS. (a) The holders of shares of Series B Convertible Preferred Stock shall be entitled to receive, when, as, and if declared by the Board of Directors out of funds legally available for such purpose, dividends at the rate of \$60.00 per annum per share, and no more, which shall be fully cumulative, shall accrue without interest (except as otherwise provided herein as to dividends in arrears) from the date of original issuance of each share of Series B Convertible Preferred Stock and shall be payable quarterly on March 1, June 1, September 1 and December 1 of each year commencing June 1, 2000 (except that if any such date is a Saturday, Sunday, or legal holiday, then such dividend shall be payable on the next succeeding day that is not a Saturday, Sunday, or legal holiday) to holders of record as they appear on the stock books of the Corporation on such record dates, which record dates must be not more than 20 nor less than 10 days preceding the payment dates for such dividends, as shall be fixed by the Board. Dividends on the Series B Convertible Preferred Stock shall be paid in cash or, in lieu of paying such dividends and subject to the limitations in Section 5(b) hereof, the amount of such dividends shall be included in the Accrual Amount for each share, at the option of the Corporation as hereinafter provided. The amount of the dividends payable per share of Series B Convertible Preferred Stock for each quarterly dividend period shall be computed by dividing the annual dividend amount by four. The amount of dividends payable for the initial dividend period and any period shorter than a full quarterly dividend period shall be computed on the basis of a 360-day year of twelve 30-day months. Dividends required to be paid in cash pursuant to Section 5(b) which are not paid on a payment date, whether or not such dividends have been declared, will bear interest at the rate of 14% per annum until paid (or such lesser rate as shall be the maximum rate allowable by applicable law). No dividends or other distributions, other than the dividends payable solely in shares of any Junior Dividend Stock, shall be paid or set apart for payment on any shares of Junior Dividend Stock, and no purchase, redemption, or other acquisition shall be made by the Corporation of any shares of Junior Dividend Stock (except for Option Share Surrenders), unless and until all accrued and unpaid cash dividends on the Series B Convertible Preferred Stock and interest on dividends in arrears at the rate specified herein shall have been paid or declared and set apart for payment.

If at any time any dividend on any Senior Dividend Stock shall be in arrears, in whole or in part, no dividend shall be paid or declared and set apart for payment on the Series B Convertible Preferred Stock unless and until all accrued and unpaid dividends with respect to the Senior Dividend Stock, including the full dividends for the then current dividend period, shall have been paid or declared and set apart for payment, without interest. No full dividends shall be paid or declared and set apart for payment on any Parity Dividend Stock for any period unless all accrued but unpaid dividends (and interest on dividends in arrears at the rate specified herein) have been, or contemporaneously are, paid or declared and set apart for such payment on the Series B Convertible Preferred Stock. No full dividends shall be paid or declared and set apart for payment on the Series B Convertible Preferred Stock for any period unless all accrued but unpaid dividends have been, or contemporaneously are, paid or declared and set apart for payment on the Parity Dividend Stock for all dividend periods terminating on or prior to the date of payment of such full dividends. When dividends are not paid in full upon the Series B Convertible Preferred Stock and the Parity Dividend Stock, all dividends paid or declared and set apart for payment upon shares of Series B Convertible Preferred Stock (and interest on dividends in arrears at the rate specified herein) and the Parity Dividend Stock shall be paid or declared and

set apart for payment pro rata, so that the amount of dividends paid or declared and set apart for payment per share on the Series B Convertible Preferred Stock and the Parity Dividend Stock shall in all cases bear to each other the same ratio that accrued and unpaid dividends per share on the shares of Series B Convertible Preferred Stock and the Parity Dividend Stock bear to each other.

Any references to "distribution" contained in this Section 5 shall not be deemed to include any stock dividend or distributions made in connection with any liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary.

(b) If (x) prior to any dividend payment date the Corporation notifies the holders of Series B Convertible Preferred Stock that the dividends with respect to such date will be paid in cash or (y) on any dividend payment date the Corporation is not in compliance in all material respects with its obligations to the holders of the Series B Convertible Preferred Stock (including, without limitation, its obligations under the Subscription Agreements, the Registration Rights Agreements, the Warrants and this Certificate of Designations) and such noncompliance continues for a period of ten days after notice thereof is given to the Corporation by any holder of Series B Convertible Preferred Stock, such dividends must be timely paid in cash. If clauses (x) or (y) of the foregoing sentence do not apply on any dividend payment date, the Corporation may, but shall not be required to, pay the applicable dividends in cash. The amount of any dividends not paid in cash shall be included in the Accrual Amount for each share of Series B Convertible Preferred Stock.

(c) Neither the Corporation nor any subsidiary of the Corporation shall redeem, repurchase or otherwise acquire in any one transaction or series of related transactions any shares of Common Stock, Junior Dividend Stock or Junior Liquidation Stock if the number of shares so repurchased, redeemed or otherwise acquired in such transaction or series of related transactions (excluding any Option Share Surrender) is more than 10% of the number of shares of Common Stock, Junior Dividend Stock or Junior Liquidation Stock, as the case may be, outstanding immediately prior to such transaction or series of related transactions unless the Corporation or such subsidiary offers to purchase for cash from each holder of shares of Series B Convertible Preferred Stock at the time of such redemption, repurchase or acquisition the same percentage of such holder's shares of Series B Convertible Preferred Stock as the percentage of the number of outstanding shares of Common Stock, Junior Dividend Stock or Junior Liquidation Stock, as the case may be, to be so redeemed, repurchased or acquired at a purchase price per share of Series B Convertible Preferred Stock equal to the greater of (i) the Premium Price in effect on the date of purchase pursuant to this Section 5(c) and (ii) the Converted Market Price on the date of purchase pursuant to this Section 5(c).

(d) Neither the Corporation nor any subsidiary of the Corporation shall (1) make any Tender Offer for 10% or more of the outstanding shares of Common Stock, unless the Corporation contemporaneously therewith makes an offer, or (2) enter into an agreement regarding such a Tender Offer for outstanding shares of Common Stock by any person other than the Corporation or any subsidiary of the Corporation, unless such person agrees with the Corporation to make an offer, in either such case to each holder of outstanding shares of Series B

Convertible Preferred Stock to purchase for cash at the time of purchase in such Tender Offer the same percentage of shares of Series B Convertible Preferred Stock held by such holder as the percentage of outstanding shares of Common Stock actually purchased in such Tender Offer at a price per share of Series B Convertible Preferred Stock equal to the greater of (i) the Premium Price in effect on the date of purchase pursuant to this Section 5(d) and (ii) the Converted Market Price on the date of purchase pursuant to this Section 5(d).

SECTION 6. LIQUIDATION PREFERENCE. In the event of a liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary, the holders of Series B Convertible Preferred Stock shall be entitled to receive out of the assets of the Corporation, whether such assets constitute stated capital or surplus of any nature, an amount per share of Series B Convertible Preferred Stock equal to the Liquidation Preference, and no more, before any payment shall be made or any assets distributed to the holders of Junior Liquidation Stock; provided, however, that such rights shall accrue to the holders of Series B Convertible Preferred Stock only in the event that the Corporation's payments with respect to the liquidation preference of the holders of Senior Liquidation Stock are fully met. After the liquidation preferences of the Senior Liquidation Stock are fully met, the entire assets of the Corporation available for distribution shall be distributed ratably among the holders of the Series B Convertible Preferred Stock and any Parity Liquidation Stock in proportion to the respective preferential amounts to which each is entitled (but only to the extent of such preferential amounts). After payment in full of the liquidation price of the shares of the Series B Convertible Preferred Stock and the Parity Liquidation Stock, the holders of such shares shall not be entitled to any further participation in any distribution of assets by the Corporation. Neither a consolidation or merger of the Corporation with another corporation nor a sale or transfer of all or part of the Corporation's assets for cash, securities, or other property in and of itself will be considered a liquidation, dissolution or winding up of the Corporation.

SECTION 7. MAXIMUM SHARE AMOUNT REDEMPTION.

(a) REDEMPTION BASED ON MAXIMUM SHARE AMOUNT. (1)

Notwithstanding any other provision herein, unless the Stockholder Approval shall have been obtained from the stockholders of the Corporation or waived by the Nasdaq, the Nasdaq SmallCap, or other securities market on which the Common Stock is then listed, so long as the Common Stock is listed on the Nasdaq, the Nasdaq SmallCap, the NYSE or the AMEX the Corporation shall not be required to issue upon conversion of shares of Series B Convertible Preferred Stock pursuant to Section 10 more than the Maximum Share Amount. The Maximum Share Amount shall be allocated among the shares of Series B Convertible Preferred Stock at the time of initial issuance thereof pro rata based on the initial issuance of 2,000 shares of Series B Convertible Preferred Stock. Each certificate for shares of Series B Convertible Preferred Stock initially issued shall bear a notation as to the number of shares constituting the portion of the Maximum Share Amount allocated to the shares of Series B Convertible Preferred Stock represented by such certificate for purposes of conversion thereof. Upon surrender of any certificate for shares of Series B Convertible Preferred Stock for transfer or re-registration thereof (or, at the option of the holder, for conversion pursuant to Section 10(a) of less than all of the shares of Series B Convertible Preferred Stock represented thereby), the Corporation shall make a notation on the

new certificate issued upon such transfer or re-registration or evidencing such unconverted shares, as the case may be, as to the remaining number of shares of Common Stock from the Maximum Share Amount remaining available for conversion of the shares of Series B Convertible Preferred Stock evidenced by such new certificate. If any certificate for shares of Series B Convertible Preferred Stock is surrendered for split-up into two or more certificates representing an aggregate number of shares of Series B Convertible Preferred Stock equal to the number of shares of Series B Convertible Preferred Stock represented by the certificate so surrendered (as reduced by any contemporaneous conversion of shares of Series B Convertible Preferred Stock represented by the certificate so surrendered), each certificate issued on such split-up shall bear a notation of the portion of the Maximum Share Amount allocated thereto determined by pro rata allocation from among the remaining portion of the Maximum Share Amount allocated to the certificate so surrendered. If any shares of Series B Convertible Preferred Stock represented by a single certificate are converted in full pursuant to Section 10, all of the portion of the Maximum Share Amount allocated to such shares of Series B Convertible Preferred Stock which remains unissued after such conversion shall be re-allocated pro rata to the outstanding shares of Series B Convertible Preferred Stock held of record by the holder of record at the close of business on the date of such conversion of the shares of Series B Convertible Preferred Stock so converted, and if there shall be no other shares of Series B Convertible Preferred Stock held of record by such holder at the close of business on such date, then such portion of the Maximum Share Amount shall be allocated pro rata among the shares of Series B Convertible Preferred Stock outstanding on such date.

(2) The Corporation shall promptly, but in no event later than five Business Days after the occurrence, give notice to each holder of shares of Series B Convertible Preferred Stock (by telephone line facsimile transmission at such number as such holder has specified in writing to the Corporation for such purposes or, if such holder shall not have specified any such number, by overnight courier or first class mail, postage prepaid, at such holder's address as the same appears on the stock books of the Corporation) and any holder of shares of Series B Convertible Preferred Stock may at any time after the occurrence give notice to the Corporation, in either case, if on any ten Trading Days within any period of 20 consecutive Trading Days the Corporation would not have been required to convert shares of Series B Convertible Preferred Stock of such holder in accordance with Section 10(a) as a consequence of the limitations set forth in Section 7(a)(1) had the shares of Series B Convertible Preferred Stock held by such holder been converted in full into Common Stock on each such day, determined without regard to the limitation, if any, on such holder contained in the proviso to the second sentence of Section 10(a) (any such notice, whether given by the Corporation or a holder, an "Inconvertibility Notice"). If the Corporation shall have given or been required to give any Inconvertibility Notice, or if a holder shall have given any Inconvertibility Notice, then within ten Trading Days after such Inconvertibility Notice is given or was required to be given, the holder receiving or giving, as the case may be, such Inconvertibility Notice shall have the right by written notice to the Corporation (which written notice may be contained in the Inconvertibility Notice given by such holder) to direct the Corporation to redeem the portion of such holder's outstanding shares of Series B Convertible Preferred Stock (which, if applicable, shall be all of such holder's outstanding shares of Series B Convertible Preferred Stock) as shall not, on the Business Day prior to the date of such redemption, be convertible into shares of

Common Stock by reason of the limitations set forth in Section 7(a)(1) (determined without regard to the limitation, if any, on beneficial ownership of Common Stock by such holder contained in the proviso to the second sentence of Section 10(a)), within 15 Trading Days after such holder so directs the Corporation, at a price per share equal to the Share Limitation Redemption Price. If a holder of shares of Series B Convertible Preferred Stock directs the Corporation to redeem outstanding shares of Series B Convertible Preferred Stock and, prior to the date the Corporation is required to redeem such shares of Series B Convertible Preferred Stock, the Corporation would have been able, within the limitations set forth in Section 7(a)(1), to convert all of such holder's shares of Series B Convertible Preferred Stock (determined without regard to the limitation, if any, on beneficial ownership of shares of Common Stock by such holder contained in the proviso to the second sentence of Section 10(a)) on any ten Trading Days within any period of 15 consecutive Trading Days commencing after the period of 20 consecutive Trading Days which gave rise to the applicable Inconvertibility Notice from the Corporation or such holder of shares of Series B Convertible Preferred Stock, as the case may be, had all of such holder's shares of Series B Convertible Preferred Stock been surrendered for conversion into Common Stock on each of such ten Trading Days within such 15 Trading Day period, then the Corporation shall not be required to redeem any shares of Series B Convertible Preferred Stock by reason of such Inconvertibility Notice.

(3) Notwithstanding the giving of any Inconvertibility Notice by the Corporation to the holders of Series B Convertible Preferred Stock pursuant to Section 7(a)(2) or the giving or the absence of any notice by the holders of the Series B Convertible Preferred Stock in response thereto or any redemption of shares of Series B Convertible Preferred Stock pursuant to Section 7(a)(2), thereafter the provisions of Section 7(a)(2) shall continue to be applicable on any occasion unless the Stockholder Approval shall have been obtained from the stockholders of the Corporation or waived by the Nasdaq, the Nasdaq SmallCap, or other securities market on which the Common Stock is then listed.

(4) On each Share Limitation Redemption Date (or such later date as a holder of shares of Series B Convertible Preferred Stock shall surrender to the Corporation the certificate(s) for the shares of Series B Convertible Preferred Stock being redeemed pursuant to this Section 7(a)), the Corporation shall make payment in immediately available funds of the applicable Share Limitation Redemption Price to such holder of shares of Series B Convertible Preferred Stock to be redeemed to or upon the order of such holder as specified by such holder in writing to the Corporation at least one Business Day prior to such Share Limitation Redemption Date. Upon redemption of less than all of the shares of Series B Convertible Preferred Stock evidenced by a particular certificate, promptly, but in no event later than three Business Days after surrender of such certificate to the Corporation, the Corporation shall issue a replacement certificate for the shares of Series B Convertible Preferred Stock evidenced by such certificate which have not been redeemed. Only whole shares of Series B Convertible Preferred Stock may be redeemed.

(5) (A) Notwithstanding any other provision of this Certificate of Designations, if an Inconvertibility Day occurs by reason of events which are not solely within the control of the Corporation, the Corporation shall have the right to give a Control Notice to

the holders of Series B Convertible Preferred Stock at any time after such Inconvertibility Day occurs and prior to the earlier of (1) the date on which all holders of shares of Series B Convertible Preferred Stock who had the right (other than as limited by this Section 7(a)(5)) to require redemption of any shares of Series B Convertible Preferred Stock by reason of the occurrence of such Inconvertibility Day no longer have such right and (2) the applicable Share Limitation Redemption Date by reason of the earliest notice given by any holder of shares of Series B Convertible Preferred Stock directing the Corporation to redeem such shares in accordance with Section 7(a)(2) by reason of such Inconvertibility Day. For purposes of this Section 7(a)(5), an Inconvertibility Day shall be deemed to have occurred by reason of events which are not solely within the control of the Corporation if a requirement of the Corporation to redeem, or a right of any holder of shares of Series B Convertible Preferred Stock to require redemption of, shares of Series B Convertible Preferred Stock by reason thereof would result in the Corporation being required to classify the Series B Convertible Preferred Stock as redeemable preferred stock on a balance sheet of the Corporation prepared in accordance with Generally Accepted Accounting Principles and Regulation S-X of the SEC. If the Corporation timely gives a Control Notice to the holders of shares of Series B Convertible Preferred Stock, then in lieu of payment of the Share Limitation Redemption Price pursuant to a redemption notice given by any holder of shares of Series B Convertible Preferred Stock in accordance with Section 7(a)(2) by reason of such Inconvertibility Day and commencing on such Inconvertibility Day the Conversion Price for all outstanding shares of Series B Convertible Preferred Stock will be 80% of the amount the Conversion Price would otherwise be. Such adjustment of the Conversion Price shall continue in effect until the earliest of (x) the date which is 90 days after the Stockholder Approval shall have been obtained from the stockholders of the Corporation or waived by the Nasdaq SmallCap or other securities market on which the Common Stock is then listed, (y) the date any further adjustments are made following a failure to obtain the Stockholder Approval as provided below, and (z) the date when shares of Series B Convertible Preferred Stock are no longer outstanding. On or after the date the Corporation gives such Control Notice, upon notice from the Majority Holders, the Corporation promptly shall call a special meeting of its stockholders, to be held not later than 90 days after such notice is given, to seek the Stockholder Approval for the issuance of all shares of Common Stock issuable upon conversion of the Series B Convertible Preferred Stock in accordance with Section 10 and shall use its best efforts to obtain the Stockholder Approval. The Corporation shall prepare and file with the SEC within 20 days after such notice is given preliminary proxy materials which set forth a proposal to seek such Stockholder Approval. The Corporation shall provide the Majority Holders an opportunity to consult with the Corporation regarding the content of such proxy materials insofar as it relates to the Stockholder Approval by providing copies of such preliminary proxy materials and any revised preliminary proxy materials to the Majority Holders a reasonable period of time prior to their filing with the SEC. The Corporation shall furnish to each holder of shares of Series B Convertible Preferred Stock a copy of its definitive proxy materials for such special meeting and any amendments or supplements thereto promptly after the same are mailed to stockholders or filed with the SEC. Upon the earlier of (i) the failure to obtain the Stockholder Approval at the special meeting or (ii) the failure to hold the special meeting within such 90-day period, the Corporation shall so notify the holders of shares of Series B Convertible Preferred Stock and such of the following as shall be specified by notice to the Corporation from the Majority Holders shall occur: (1) commencing on the Business Day following the Corporation's

receipt of such notice, the Conversion Price of the outstanding shares of Series B Convertible Preferred Stock will be 60% of the amount the Conversion Price would otherwise be without regard to other adjustments pursuant to this Section 7(a)(5) or Section 11(b)(4) and (2) the Corporation shall promptly file applications and take all other actions necessary to (i) list the Common Stock for trading and quotation on the OTC Bulletin Board or such other securities market or exchange which will not restrict the number of shares of Common Stock issuable upon conversion of the Series B Convertible Preferred Stock and (ii) upon filing such applications, request the immediate removal of the Common Stock from listing on the securities market on which it is then listed which restricts the issuance of shares of Common Stock upon conversion of shares of Series B Convertible Preferred Stock without the Stockholder Approval.

(B) If and for so long as an adjustment of the Conversion Price is simultaneously required by this Section 7(a)(5) and by Section 11(b)(4), the applicable Conversion Price shall be the lower of the two amounts required by each such section.

(C) The rights of holders of shares of Series B Convertible Preferred Stock to require redemption of their shares and exercise other rights pursuant to Sections 7(a)(1) through 7(a)(4) by reason of an Inconvertibility Day as to which the Corporation does not have a right to give a Control Notice, or fails to exercise such right on a timely basis, shall not be limited by the operation of this Section 7(a)(5).

(b) NO OTHER REDEMPTION. The shares of Series B Convertible Preferred Stock shall not be subject to redemption by the Corporation at the option of the Holders except as provided in this Section 7 and in Section 11.

SECTION 8. NO SINKING FUND. The shares of Series B Convertible Preferred Stock shall not be subject to the operation of a purchase, retirement or sinking fund.

SECTION 9. OPTIONAL REDEMPTION.

(a) CORPORATION OPTIONAL REDEMPTION. If (1) the Corporation shall be in compliance in all material respects with its obligations to the holders of shares of Series B Convertible Preferred Stock (including, without limitation, its obligations under the Subscription Agreements, the Registration Rights Agreements, the Warrants and the provisions of this Certificate of Designations), (2) on the date the Corporation Optional Redemption Notice is given and at all times until the Redemption Date, the Registration Statement is effective and available for use by each holder of shares of Series B Convertible Preferred Stock for the resale of shares of Common Stock acquired by such holder upon conversion of all shares of Series B Convertible Preferred Stock held by such holder and (3) no Optional Redemption Event shall have occurred with respect to which, on the date a Corporation Optional Redemption Notice is to be given or on the Redemption Date, any holder of shares of Series B Convertible Preferred Stock (A) shall be entitled to exercise optional redemption rights under Section 11 by reason of such Optional Redemption Event or (B) shall have exercised optional redemption rights under Section 11 by reason of such Optional Redemption Event and the Corporation shall not have paid the Optional Redemption Price to such holder, then the Corporation shall have the right,

exercisable by giving a Corporation Optional Redemption Notice not less than 30 days or more than 50 days prior to the Redemption Date to all holders of record of the shares of Series B Convertible Preferred Stock, at any time to redeem all or from time to time to redeem any part of the outstanding shares of Series B Convertible Preferred Stock in accordance with this Section 9(a). If the Corporation shall redeem less than all outstanding shares of Series B Convertible Preferred Stock, such redemption shall be made as nearly as practical pro rata from all holders of shares of Series B Convertible Preferred Stock. Any Corporation Optional Redemption Notice under this Section 9(a) shall be given to the holders of record of the shares of Series B Convertible Preferred Stock at their addresses appearing on the records of the Corporation; provided, however, that any failure or defect in the giving of such notice to any such holder shall not affect the validity of notice to or the redemption of shares of Series B Convertible Preferred Stock of any other holder. On the Redemption Date (or such later date as a holder of shares of Series B Convertible Preferred Stock surrenders to the Corporation the certificate(s) for shares of Series B Convertible Preferred Stock to be redeemed pursuant to this Section 9(a)), the Corporation shall make payment of the applicable Redemption Price to each holder of shares of Series B Convertible Preferred Stock to be redeemed in immediately available funds to such account as specified by such holder in writing to the Corporation at least one Business Day prior to the Redemption Date. A holder of shares of Series B Convertible Preferred Stock to be redeemed pursuant to this Section 9(a) shall be entitled to convert such shares of Series B Convertible Preferred Stock in accordance with Section 10 (x) through the day prior to the Redemption Date and (y) if the Corporation shall fail to pay the Redemption Price of any share of Series B Convertible Preferred Stock when due, at any time after the due date thereof until such date as the Corporation pays the Redemption Price of such share of Series B Convertible Preferred Stock. No share of Series B Convertible Preferred Stock as to which the holder exercises the right of conversion pursuant to Section 10 or the optional redemption right pursuant to Section 11 may be redeemed by the Corporation pursuant to this Section 9(a) on or after the date of exercise of such conversion right or optional redemption right, as the case may be, regardless of whether the Corporation Optional Redemption Notice shall have been given prior to, or on or after, the date of exercise of such conversion right or optional redemption right, as the case may be.

(b) FINAL REDEMPTION. The Corporation shall have the right to redeem all, but not less than all, outstanding shares of Series B Convertible Preferred Stock at any time on or after the third anniversary of the Issuance Date so long as (1) the Corporation shall be in compliance in all material respects with its obligations to the holders of the Series B Convertible Preferred Stock (including, without limitation, its obligations under the Subscription Agreements, the Registration Rights Agreements, the Warrants and this Certificate of Designations) and (2) no Optional Redemption Event shall have occurred with respect to which on the date a Final Redemption Notice is to be given or on the Final Redemption Date, any holder of shares of Series B Convertible Preferred Stock (a) shall be entitled to exercise optional redemption rights under Section 11 by reason of such Optional Redemption Event or (b) shall have exercised optional redemption rights under Section 11 by reason of such Optional Redemption Event and the Corporation shall not have paid the Optional Redemption Price to such holder. In order to exercise its rights under this Section 9(b), the Corporation shall give a Final Redemption Notice not less than 30 days or more than 50 days prior to the Final

Redemption Date to all holders of record of the shares of Series B Convertible Preferred Stock. Any Final Redemption Notice shall be given to the holders of record of the shares of Series B Convertible Preferred Stock by telephone line facsimile transmission to such number as shown on the records of the Corporation for such purpose; provided, however, that any failure or defect in the giving of such notice to any such holder shall not affect the validity of notice to or the redemption of shares of Series B Convertible Preferred Stock of any other holder. On the Final Redemption Date (or such later date as a holder of shares of Series B Convertible Preferred Stock surrenders to the Corporation the certificate(s) for shares of Series B Convertible Preferred Stock to be redeemed pursuant to this Section 9(b)), the Corporation shall make payment of the applicable Final Redemption Price to each holder of shares of Series B Convertible Preferred Stock to be redeemed in immediately available funds to such account as specified by such holder in writing to the Corporation at least one Business Day prior to the Final Redemption Date. A holder of shares of Series B Convertible Preferred Stock to be redeemed pursuant to this Section 9(b) shall be entitled to convert such shares of Series B Convertible Preferred Stock in accordance with Section 10 (x) through the day prior to the Final Redemption Date and (y) if the Corporation shall fail to pay the Final Redemption Price of any share of Series B Convertible Preferred Stock when due, at any time after the due date thereof until such date as the Corporation pays the Final Redemption Price of such share of Series B Convertible Preferred Stock to such holder. No share of Series B Convertible Preferred Stock as to which a holder exercises the right of conversion pursuant to Section 10 or the optional redemption right pursuant to Section 11 may be redeemed by the Corporation pursuant to this Section 9(b) on or after the date of exercise of such conversion right or optional redemption right, as the case may be, regardless of whether the Final Redemption Notice shall have been given prior to, or on or after, the date of exercise of such conversion right or optional redemption right, as the case may be.

(c) NO OTHER OPTIONAL REDEMPTION. The shares of Series B Convertible Preferred Stock shall not be subject to redemption at the option of the Corporation except as provided in Sections 9(a) and 9(b).

SECTION 10. CONVERSION.

(a) CONVERSION AT OPTION OF HOLDER. The holders of the Series B Convertible Preferred Stock may at any time on or after the Issuance Date convert at any time all or from time to time any part of their shares of Series B Convertible Preferred Stock into fully paid and nonassessable shares of Common Stock and such other securities and property as herein provided. Each share of Series B Convertible Preferred Stock may be converted at the office of the Conversion Agent or at such other additional office or offices, if any, as the Board of Directors may designate, into such number of fully paid and nonassessable shares of Common Stock (calculated as to each conversion to the nearest 1/100th of a share) determined by dividing (x) the sum of (i) the Conversion Amount, (ii) an amount equal to the Accrual Amount on the share of Series B Convertible Preferred Stock being converted to the applicable Conversion Date, and (iii) accrued but unpaid interest on the dividends required to be paid in cash on the share of Series B Convertible Preferred Stock being converted in arrears to the applicable Conversion Date at the rate provided in Section 5 by (y) the Conversion Price for such Conversion Date (the "Conversion Rate"); provided, however, that in no event shall any holder

of shares of Series B Convertible Preferred Stock be entitled to convert any shares of Series B Convertible Preferred Stock in excess of that number of shares of Series B Convertible Preferred Stock upon conversion of which the sum of (1) the number of shares of Common Stock beneficially owned by such holder and all Aggregated Persons of such holder (other than shares of Common Stock deemed beneficially owned through the ownership of (x) unconverted shares of Series B Convertible Preferred Stock and (y) the unconverted or unexercised portion of any instrument, including, without limitation, the Warrants and the Series A Convertible Preferred Stock, which contains limitations similar to those set forth in this sentence) and (2) the number of shares of Common Stock issuable upon the conversion of the number of shares of Series B Convertible Preferred Stock with respect to which the determination in this proviso is being made, would result in beneficial ownership by such holder and all Aggregated Persons of such holder of more than 4.9% of the outstanding shares of Common Stock. For purposes of the proviso to the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Exchange Act and Regulation 13D-G thereunder, except as otherwise provided in clause (1) of the proviso to the immediately preceding sentence.

(b) OTHER PROVISIONS. (1) Notwithstanding anything in this Section 10(b) to the contrary, no change in the Conversion Amount pursuant to this Section 10(b) shall actually be made until the cumulative effect of the adjustments called for by this Section 10(b) since the date of the last change in the Conversion Amount would change the Conversion Amount by more than 1%. However, once the cumulative effect would result in such a change, then the Conversion Amount shall actually be changed to reflect all adjustments called for by this Section 10(b) and not previously made. Notwithstanding anything in this Section 10(b), no change in the Conversion Amount shall be made that would result in the price at which a share of Series B Convertible Preferred Stock is converted being less than the par value of the Common Stock into which shares of Series B Convertible Preferred Stock are at the time convertible.

(2) The holders of shares of Series B Convertible Preferred Stock at the close of business on the record date for any dividend payment to holders of Series B Convertible Preferred Stock shall be entitled to receive the dividend payable on such shares on the corresponding dividend payment date notwithstanding the conversion thereof after such dividend payment record date or the Corporation's default in payment of the dividend due on such dividend payment date; provided, however, that the holder of shares of Series B Convertible Preferred Stock surrendered for conversion during the period between the close of business on any record date for a dividend payment and the opening of business on the corresponding dividend payment date must pay to the Corporation, within five days after receipt by such holder, an amount equal to the dividend payable on such shares on such dividend payment date if such dividend is paid by the Corporation to such holder. A holder of shares of Series B Convertible Preferred Stock on a record date for a dividend payment who (or whose transferee) tenders any of such shares for conversion into shares of Common Stock on or after such dividend payment date will receive the dividend payable by the Corporation on such shares of Series B Convertible Preferred Stock on such date, and the converting holder need not make any payment of the amount of such dividend in connection with such conversion of shares of Series B Convertible Preferred Stock. Except as provided above, no adjustment shall be made in respect of cash

dividends on Common Stock or Series B Convertible Preferred Stock that may be accrued and unpaid at the date of surrender of shares of Series B Convertible Preferred Stock.

(3) (A) The right of the holders of Series B Convertible Preferred Stock to convert their shares shall be exercised by giving (which may be done by telephone line facsimile transmission) a Conversion Notice to the Conversion Agent, with a copy to the Corporation. If a holder of Series B Convertible Preferred Stock elects to convert any shares of Series B Convertible Preferred Stock in accordance with Section 10(a), such holder shall not be required to surrender the certificate(s) representing such shares of Series B Convertible Preferred Stock to the Corporation unless all of the shares of Series B Convertible Preferred Stock represented thereby are so converted. Each holder of shares of Series B Convertible Preferred Stock and the Corporation shall maintain records showing the number of shares so converted and the dates of such conversions or shall use such other method, satisfactory to such holder and the Corporation, so as to not require physical surrender of such certificates upon each such conversion. In the event of any dispute or discrepancy, such records of the Corporation shall be controlling and determinative in the absence of manifest error. Notwithstanding the foregoing, if any shares of Series B Convertible Preferred Stock evidenced by a particular certificate therefor are converted as aforesaid, the holder of Series B Convertible Preferred Stock may not transfer the certificate(s) representing such shares of Series B Convertible Preferred Stock unless such holder first physically surrenders such certificate(s) to the Corporation, whereupon the Corporation will forthwith issue and deliver upon the order of such holder of shares of Series B Convertible Preferred Stock new certificate(s) of like tenor, registered as such holder of shares of Series B Convertible Preferred Stock (upon payment by such holder of shares of Series B Convertible Preferred Stock of any applicable transfer taxes) may request, representing in the aggregate the remaining number of shares of Series B Convertible Preferred Stock represented by such certificate(s). Each holder of shares of Series B Convertible Preferred Stock, by acceptance of a certificate for such shares, acknowledges and agrees that (1) by reason of the provisions of this paragraph, following conversion of any shares of Series B Convertible Preferred Stock represented by such certificate, the number of shares of Series B Convertible Preferred Stock represented by such certificate may be less than the number of shares stated on such certificate, and (2) the Corporation may place a legend on the certificates for shares of Series B Convertible Preferred Stock which refers to or describes the provisions of this paragraph.

(B) The Corporation shall pay any transfer tax arising in connection with any conversion of shares of Series B Convertible Preferred Stock except that the Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery upon conversion of shares of Common Stock or other securities or property in a name other than that of the holder of the shares of the Series B Convertible Preferred Stock being converted, and the Corporation shall not be required to issue or deliver any such shares or other securities or property unless and until the person or persons requesting the issuance thereof shall have paid to the Corporation the amount of any such tax or shall have established to the satisfaction of the Corporation that such tax has been paid. The number of shares of Common Stock to be issued upon each conversion of shares of Series B Convertible Preferred Stock shall be the number set forth in the applicable Conversion Notice which number shall be conclusive absent manifest error. The Corporation shall notify a holder

who has given a Conversion Notice of any claim of manifest error within one Trading Day after such holder gives such Conversion Notice and no such claim of error shall limit or delay performance of the Corporation's obligation to issue upon such conversion the number of shares of Common Stock which are not in dispute. A Conversion Notice shall be deemed for all purposes to be in proper form unless the Corporation notifies a holder of shares of Series B Convertible Preferred Stock being converted within one Trading Day after a Conversion Notice has been given (which notice shall specify all defects in the Conversion Notice) and any Conversion Notice containing any such defect shall nonetheless be effective on the date given if the converting holder promptly corrects all such defects.

(4) The Corporation (and any successor corporation) shall take all action necessary so that a number of shares of the authorized but unissued Common Stock (or common stock in the case of any successor corporation) sufficient to provide for the conversion of the Series B Convertible Preferred Stock outstanding upon the basis hereinbefore provided are at all times reserved by the Corporation (or any successor corporation), free from preemptive rights, for such conversion, subject to the provisions of the next succeeding paragraph. If the Corporation shall issue any securities or make any change in its capital structure which would change the number of shares of Common Stock into which each share of the Series B Convertible Preferred Stock shall be convertible as herein provided, the Corporation shall at the same time also make proper provision so that thereafter there shall be a sufficient number of shares of Common Stock authorized and reserved, free from preemptive rights, for conversion of the outstanding Series B Convertible Preferred Stock on the new basis. If at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all of the outstanding shares of Series B Convertible Preferred Stock, the Corporation promptly shall seek, and use its best efforts to obtain and complete, such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose.

(5) In case any Reorganization Event shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities or assets (including cash) with respect to or in exchange for shares of the Common Stock, then, prior to and as a condition of such Reorganization Event, lawful and adequate provision shall be made whereby the holders of Series B Convertible Preferred Stock shall thereafter have the right to receive upon conversion of the Series B Convertible Preferred Stock and in lieu of the shares of Common Stock immediately theretofore issuable upon conversion of the Series B Convertible Preferred Stock, such shares of stock, securities or assets (including cash) as may be issued or payable with respect to or in exchange for a number of outstanding shares of Common Stock equal to the number of shares of Common Stock immediately theretofore issuable upon conversion of the Series B Convertible Preferred Stock had such Reorganization Event not taken place. In any such case, appropriate provision shall be made with respect to the rights and interests of the holders of Series B Convertible Preferred Stock to the end that the provisions hereof (including, without limitation, provisions for adjustment of the Conversion Price and the number of shares of Common Stock issuable upon conversion of the Series B Convertible Preferred Stock) shall thereafter be applicable, as nearly as may be, in relation to any stock, securities or assets thereafter deliverable upon the conversion of the Series B Convertible Preferred Stock. The

Corporation shall not effect any such Reorganization Event (i) unless prior to or simultaneously with the consummation thereof the survivor or successor corporation (if other than the Corporation) resulting from such Reorganization Event or the corporation or other entity purchasing such assets shall assume by written instrument executed and sent to each holder of Series B Convertible Preferred Stock, the obligation to deliver to such holder of Series B Convertible Preferred Stock such shares of stock, securities or assets as, in accordance with the foregoing provisions, such holder of Series B Convertible Preferred Stock may be entitled to receive, and containing the express assumption by such successor corporation or other entity of the due and punctual performance and observance of every provision herein to be performed and observed by the Corporation and of all liabilities and obligations of the Corporation hereunder, and (ii) in which the Corporation, as opposed to another party to the Reorganization Event, shall be required under any circumstances to make a cash payment at any time to the holders of the Series B Convertible Preferred Stock; provided, however, that this clause (5) shall not limit the Corporation's obligation to make cash payments pursuant to Section 7 or Section 11 if the Corporation fails to give a Control Notice in accordance with the terms thereof.

(6) If a holder shall have given a Conversion Notice for shares of Series B Convertible Preferred Stock, the Corporation shall issue and deliver to such person certificates for the Common Stock issuable upon such conversion within three Trading Days after such Conversion Notice is given and the person converting shall be deemed to be the holder of record of the Common Stock issuable upon such conversion, and all rights with respect to the shares surrendered shall forthwith terminate except the right to receive the Common Stock or other securities, cash, or other assets as herein provided. If a holder shall have given a Conversion Notice as provided herein, the Corporation's obligation to issue and deliver the certificates for Common Stock shall be absolute and unconditional, irrespective of any action or inaction by the converting holder to enforce the same, any waiver or consent with respect to any provision thereof, the recovery of any judgment against any person or any action to enforce the same, any failure or delay in the enforcement of any other obligation of the Corporation to such holder, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by such holder or any other person of any obligation to the Corporation or any violation or alleged violation of law by such holder or any other person, and irrespective of any other circumstance which might otherwise limit such obligation of the Corporation to the holder in connection with such conversion. If the Corporation fails to issue and deliver the certificates for the Common Stock to the holder converting shares of Series B Convertible Preferred Stock pursuant to the first sentence of this paragraph within three Trading Days after such Conversion Notice is given, in addition to any other liabilities the Corporation may have hereunder and under applicable law (1) the Corporation shall pay or reimburse such holder on demand for all out-of-pocket expenses including, without limitation, reasonable fees and expenses of legal counsel incurred by such holder as a result of such failure, (2) for each Trading Day thereafter on which the Corporation so fails to deliver such certificates, the Conversion Price applicable to such conversion shall be reduced by an amount equal to one percent of the amount that the Conversion Price would otherwise be, and (3) such holder may by written notice (which may be given by mail, courier, personal service or telephone line facsimile transmission) or oral notice (promptly confirmed in writing) given at any time prior to delivery to such holder of the certificates for the shares of Common Stock issuable upon such conversion of shares of Series B

Convertible Preferred Stock, rescind such conversion, whereupon such holder shall have the right to convert such shares of Series B Convertible Preferred Stock thereafter in accordance herewith.

(7) No fractional shares of Common Stock shall be issued upon conversion of Series B Convertible Preferred Stock but, in lieu of any fraction of a share of Common Stock to purchase fractional shares of Common Stock which would otherwise be issuable in respect of the aggregate number of such shares surrendered for conversion at one time by the same holder, the Corporation shall pay in cash an amount equal to the product of (i) the arithmetic average of the Market Price of one share of Common Stock on the three consecutive Trading Days ending on the Trading Day immediately preceding the Conversion Date times (ii) such fraction of a share.

(8) The Conversion Amount shall be adjusted from time to time under certain circumstances, subject to the provisions of Section 10(b)(1), as follows:

(i) In case the Corporation shall issue rights or warrants on a pro rata basis to all holders of the Common Stock entitling such holders to subscribe for or purchase Common Stock on the record date referred to below at a price per share less than the Current Price for such record date, then in each such case the Conversion Amount in effect on such record date shall be adjusted in accordance with the following formula:

$$C(1) = C \times \frac{O + N}{O + N \times P + M}$$

where

C(1) = the adjusted Conversion Amount

C = the current Conversion Amount

O = the number of shares of Common Stock outstanding on the record date.

N = the number of additional shares of Common Stock issuable pursuant to the exercise of such rights or warrants.

P = the offering price per share of the additional shares (which amount shall include amounts received by the Corporation in respect of the issuance and the exercise of such rights or warrants).

M = the Current Price per share of Common Stock on the record date.

Such adjustment shall become effective immediately after the record date for the determination of stockholders entitled to receive such rights or warrants. If any or all such rights or warrants are not so issued or expire or terminate before being exercised, the Conversion Amount then in effect shall be readjusted appropriately.

(ii) In case the Corporation shall, by dividend or otherwise, distribute to all holders of its Junior Stock (as hereinafter defined) evidences of its indebtedness or assets (including securities, but excluding any warrants or subscription rights referred to in subparagraph (i) above and any dividend or distribution paid in cash out of the retained earnings of the Corporation), then in each such case the Conversion Amount then in effect shall be adjusted in accordance with the formula

$$C(1) = C \times \frac{M}{M - F}$$

where

C(1) = the adjusted Conversion Amount

C = the current Conversion Amount

M = the Current Price per share of Common Stock on the record date mentioned below.

F = the aggregate amount of such cash dividend and/or the fair market value on the record date of the assets or securities to be distributed divided by the number of shares of Common Stock outstanding on the record date. The Board of Directors shall determine such fair market value, which determination shall be conclusive.

Such adjustment shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution. For purposes of this subparagraph (ii), "Junior Stock" shall include any class of capital stock ranking junior as to dividends or upon liquidation to the Series B Convertible Preferred Stock.

(iii) All calculations hereunder shall be made to the nearest cent or to the nearest 1/100 of a share, as the case may be.

(iv) If at any time as a result of an adjustment made pursuant to Section 10(b)(5), the holder of any Series B Convertible Preferred Stock thereafter surrendered for conversion shall become entitled to receive securities, cash, or assets other than Common Stock, the number or amount of such securities or property so receivable upon conversion shall be subject to adjustment from time to time in a manner and on terms nearly equivalent as practicable to the provisions with respect to the Common Stock contained in subparagraphs (i) to (iii) above.

(9) Except as otherwise provided above in this Section 10, no adjustment in the Conversion Amount shall be made in respect of any conversion for share distributions or dividends theretofore declared and paid or payable on the Common Stock.

(10) Whenever the Conversion Amount is adjusted as herein provided, the Corporation shall send to each holder and each transfer agent, if any, for the Series B Convertible Preferred Stock and the transfer agent for the Common Stock, a statement signed by the Chairman of the Board, the President, or any Vice President of the Corporation and by its Treasurer or its Secretary or an Assistant Secretary stating the adjusted Conversion Amount determined as provided in this Section 10, and any adjustment so evidenced, given in good faith, shall be binding upon all stockholders and upon the Corporation. Whenever the Conversion Amount is adjusted, the Corporation will give notice by mail to the holders of record of Series B Convertible Preferred Stock, which notice shall be made within 15 days after the effective date of such adjustment and shall state the adjustment and the Conversion Amount. Notwithstanding the foregoing notice provisions, failure by the Corporation to give such notice or a defect in such notice shall not affect the binding nature of such corporate action of the Corporation.

(11) In case on or after the Issuance Date:

(A) the Corporation shall declare a dividend (or any other distribution) on the Common Stock (other than in cash out of retained earnings); or

(B) the Corporation shall authorize the granting to the holders of the Common Stock of rights or warrants to subscribe for or purchase any share of any class or any other rights or warrants; or

(C) the Board of Directors shall authorize any reclassification of the Common Stock (other than a subdivision or combination of the outstanding Common Stock, or a change in par value, or from par value to no par value, or from no par value to par value), or any consolidation or merger or other business combination transaction to which the Corporation is a party and for which approval of any stockholders of the Corporation is required, or the sale or transfer of all or substantially all of the assets of the Corporation; or

(D) there shall be pending the voluntary or involuntary dissolution, liquidation or winding-up of the Corporation;

the Corporation shall give the holders of record of the Series B Convertible Preferred Stock, as promptly as possible but in any event at least ten Trading Days prior to the applicable date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution or rights or warrants, or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, distribution or rights are to be determined, or (y) the date on which such reclassification, consolidation, merger, other business

combination transaction, sale, transfer, dissolution, liquidation or winding-up is expected to become effective or occur, and the date as of which it is expected that holders of Common Stock of record who shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reclassification, consolidation, merger, other business combination transaction, sale, transfer, dissolution, liquidation or winding-up shall be determined. Such notice shall not include any information which would be material non-public information for purposes of the 1934 Act. Failure to give such notice, or any defect therein, shall not affect the legality or validity of such dividend, distribution, reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding-up. In the case of any such action of which the Corporation gives such notice to the holders of record of the Series B Convertible Preferred Stock or is required to give such notice to such holders, such holders shall be entitled to give a Conversion Notice which is contingent on the completion of such action.

SECTION 11. REDEMPTION AT OPTION OF HOLDERS.

(a) REDEMPTION RIGHT. Subject to Section 11(b)(4), if an Optional Redemption Event occurs, then, in addition to any other right or remedy of any holder of shares of Series B Convertible Preferred Stock, each holder of shares of Series B Convertible Preferred Stock shall have the right, at such holder's option, to require the Corporation to redeem all of such holder's shares of Series B Convertible Preferred Stock, or any portion thereof, on the date that is 15 Business Days after the date such holder gives the Corporation an Optional Redemption Notice with respect to such Optional Redemption Event at any time while any of such holder's shares of Series B Convertible Preferred Stock are outstanding, at a price equal to the Optional Redemption Price.

(b) NOTICES; METHOD OF EXERCISING OPTIONAL REDEMPTION RIGHTS, ETC. (1) On or before the fifth Business Day after the occurrence of an Optional Redemption Event, the Corporation shall give to each holder of outstanding shares of Series B Convertible Preferred Stock a notice of the occurrence of such Optional Redemption Event and of the redemption right set forth herein arising as a result thereof. Such notice from the Corporation shall set forth:

(i) the date by which the optional redemption right must be exercised, and

(ii) a description of the procedure (set forth below) which each such holder must follow to exercise such holder's optional redemption right.

No failure of the Corporation to give such notice or defect therein shall limit the right of any holder of shares of Series B Convertible Preferred Stock to exercise the optional redemption right or affect the validity of the proceedings for the redemption of such holder's shares of Series B Convertible Preferred Stock.

(2) To exercise its optional redemption right, each holder of outstanding shares of Series B Convertible Preferred Stock shall deliver to the Corporation on or before the 30th day after the notice required by Section 11(b)(1) is given to such holder (or if no such notice has been given by the Corporation to such holder, within 40 days after such holder first learns of such Optional Redemption Event) an Optional Redemption Notice to the Corporation. At the Corporation's option, an Optional Redemption Notice may be revoked by such holder giving such Optional Redemption Notice by giving notice of such revocation to the Corporation at any time prior to the time the Corporation pays the Optional Redemption Price to such holder.

(3) If a holder of shares of Series B Convertible Preferred Stock shall have given an Optional Redemption Notice, on the date which is 15 Business Days after the date such Optional Redemption Notice is given (or such later date as such holder surrenders such holder's certificates for the shares of Series B Convertible Preferred Stock to be redeemed) the Corporation shall make payment in immediately available funds of the applicable Optional Redemption Price to such account as specified by such holder in writing to the Corporation at least one Business Day prior to the applicable redemption date.

(4) Notwithstanding any other provision of this Certificate of Designations, if an Optional Redemption Event occurs by reason of events which are not solely within the control of the Corporation, the Corporation shall have the right to give a Control Notice to the holders of shares of Series B Convertible Preferred Stock at any time after such Optional Redemption Event occurs and prior to the earlier of (1) the date on which all holders of shares of Series B Convertible Preferred Stock who had the right (other than as limited by this Section 11(b)(4)) to require redemption of any shares of Series B Convertible Preferred Stock by reason of the occurrence of such Optional Redemption Event no longer have such right and (2) the applicable Optional Redemption Date by reason of the earliest Optional Redemption Notice given by any holder of shares of Series B Convertible Preferred Stock by reason of such Optional Redemption Event. If the Corporation timely gives such Control Notice to the holders of shares of Series B Convertible Preferred Stock, then in lieu of payment of the Optional Redemption Price by reason of any such Optional Redemption Event and commencing on the first date on which such Optional Redemption Event occurs the following adjustments shall take effect (subject to the provisions of Section 7(a)(5)(B)):

(A) In the case of an Optional Redemption Event described in clauses (1), (2), (3), (4) or (6) of the definition of the term Optional Redemption Event, for so long as such Optional Redemption Event continues and for a period of ten Trading Days thereafter the Conversion Price will be 70% of the amount which the Conversion Price would otherwise be; and

(B) In the case of an Optional Redemption Event described in clause (5) of the definition of the term Optional Redemption Event, for so long as any shares of Preferred Stock are outstanding the Conversion Price will be 70% of the amount which the Conversion Price would otherwise be.

For purposes of this Section 11(b)(4), an Optional Redemption Event shall be deemed to have occurred by reason of events which are not solely within the control of the Corporation if a requirement of the Corporation to redeem, or a right of any holder of shares of Series B Convertible Preferred Stock to require redemption of, shares of Series B Convertible Preferred Stock by reason thereof would result in the Corporation being required to classify the Series B Convertible Preferred Stock as redeemable preferred stock on a balance sheet of the Corporation prepared in accordance with Generally Accepted Accounting Principles and Regulation S-X of the SEC, and, in the case of an Optional Redemption Event described in clause (5) of the definition of the term Optional Redemption Event, the Board does not have the right to approve

or disapprove the transactions resulting in such event. If as a result of any of the adjustments to the Conversion Price required by this Section 11(b)(4) the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all of the outstanding shares of Series B Convertible Preferred Stock, such insufficiency shall be deemed to be covered by the applicable Control Notice and the Corporation shall have no obligation to redeem any shares of Series B Convertible Preferred Stock by reason thereof. The Corporation thereupon will use its best efforts to increase the authorized number of shares of Common Stock in accordance with Section 10(b)(4).

(c) OTHER. (1) In connection with a redemption pursuant to this Section 11 of less than all of the shares of Series B Convertible Preferred Stock evidenced by a particular certificate, promptly, but in no event later than three Business Days after surrender of such certificate to the Corporation, the Corporation shall issue and deliver to such holder a replacement certificate for the shares of Series B Convertible Preferred Stock evidenced by such certificate which have not been redeemed.

(2) An Optional Redemption Notice given by a holder of shares of Series B Convertible Preferred Stock shall be deemed for all purposes to be in proper form unless the Corporation notifies such holder in writing within three Business Days after such Optional Redemption Notice has been given (which notice shall specify all defects in such Optional Redemption Notice), and any Optional Redemption Notice containing any such defect shall nonetheless be effective on the date given if such holder promptly undertakes to correct all such defects. No such claim of error shall limit or delay performance of the Corporation's obligation to redeem all shares of Series B Convertible Preferred Stock not in dispute whether or not such holder makes such undertaking.

SECTION 12. VOTING RIGHTS; CERTAIN RESTRICTIONS.

(a) VOTING RIGHTS. Except as otherwise required by law or expressly provided herein, shares of Series B Convertible Preferred Stock shall not be entitled to vote on any matter.

(b) ARTICLES OF INCORPORATION; CERTAIN STOCK. The affirmative vote or consent of the Majority Holders, voting separately as a class, will be required for (1) any amendment, alteration, or repeal, whether by merger or consolidation or otherwise, of the Corporation's Articles of Incorporation if the amendment, alteration, or repeal materially and adversely affects the powers, preferences, or special rights of the Series B Convertible Preferred Stock, or (2) the creation and issuance of any Senior Dividend Stock or Senior Liquidation Stock; provided, however, that any increase in the authorized Preferred Stock of the Corporation or the creation and issuance of any stock which is both Junior Dividend Stock and Junior Liquidation Stock shall not be deemed to affect materially and adversely such powers, preferences, or special rights and any such increase or creation and issuance may be made without any such vote by the holders of Series B Convertible Preferred Stock except as otherwise required by law.

(c) REPURCHASES OF SERIES B CONVERTIBLE PREFERRED STOCK. The Corporation shall not repurchase or otherwise acquire any shares of Series B Convertible Preferred Stock (other than pursuant to Sections 7(a), 9(a), 9(b) or 11) unless the Corporation offers to repurchase or otherwise acquire simultaneously a pro rata portion of each holder's shares of Series B Convertible Preferred Stock for cash at the same price per share.

(d) OTHER. So long as any shares of Series B Convertible Preferred Stock are outstanding:

(1) PAYMENT OF OBLIGATIONS. The Corporation will pay and discharge, and will cause each subsidiary of the Corporation to pay and discharge, when due all their respective obligations and liabilities which are material to the Corporation and its subsidiaries taken as a whole, including, without limitation, tax liabilities, except where the same may be contested in good faith by appropriate proceedings.

(2) MAINTENANCE OF PROPERTY; INSURANCE. (A) The Corporation will keep, and will cause each subsidiary of the Corporation to keep, all material property useful and necessary in its business in good working order and condition, ordinary wear and tear excepted.

(B) The Corporation will maintain, and will cause each subsidiary of the Corporation to maintain, with financially sound and responsible insurance companies, insurance against loss or damage by fire or other casualty and such other insurance, including but not limited to, product liability insurance, in such amounts and covering such risks as is reasonably adequate for the conduct of their businesses and the value of their properties.

(3) CONDUCT OF BUSINESS AND MAINTENANCE OF EXISTENCE. The Corporation will continue, and will cause each subsidiary of the Corporation to continue, to engage in business of the same general type as conducted by the Corporation and its operating subsidiaries at the time this Certificate of Designations is filed with the Secretary of State of the State of Nevada, and will preserve, renew and keep in full force and effect, and will cause each subsidiary of the Corporation to preserve, renew and keep in full force and effect, their respective corporate existence and their respective material rights, privileges and franchises necessary or desirable in the normal conduct of business.

(4) COMPLIANCE WITH LAWS. The Corporation will comply, and will cause each subsidiary of the Corporation to comply, in all material respects with all applicable laws, ordinances, rules, regulations, decisions, orders and requirements of governmental authorities and courts (including, without limitation, environmental laws) except (i) where compliance therewith is contested in good faith by appropriate proceedings or (ii) where non-compliance therewith could not reasonably be expected to have a material adverse effect on the business, condition (financial or otherwise), operations, performance, properties or prospects of the Corporation and its subsidiaries taken as a whole.

(5) INVESTMENT COMPANY ACT. The Corporation will not be or become an open-end investment trust, unit investment trust or face-amount certificate company that is or is

required to be registered under Section 8 of the Investment Company Act of 1940, as amended, or any successor provision.

SECTION 13. OUTSTANDING SHARES. For purposes of this Certificate of Designations, all authorized and issued shares of Series B Convertible Preferred Stock shall be deemed outstanding except (i) from the applicable Conversion Date, each share of Series B Convertible Preferred Stock converted into Common Stock, unless the Corporation shall default in its obligation to issue and deliver shares of Common Stock upon such conversion as and when required by Section 10; (ii) from the date of registration of transfer, all shares of Series B Convertible Preferred Stock held of record by the Corporation or any subsidiary or Affiliate of the Corporation (other than an Affiliate of the Corporation who is a natural person or any original holder of shares of Series B Convertible Preferred Stock) and (iii) from the applicable Redemption Date, Share Limitation Redemption Date, Final Redemption Date or date of redemption pursuant to Section 11, all shares of Series B Convertible Preferred Stock which are redeemed or repurchased, so long as in each case the Redemption Price, the Share Limitation Redemption Price, the Final Redemption Price, the Optional Redemption Price or other repurchase price, as the case may be, of such shares of Series B Convertible Preferred Stock shall have been paid by the Corporation as and when due hereunder.

SECTION 14. MISCELLANEOUS.

(a) NOTICES. Any notices required or permitted to be given under the terms of this Certificate of Designations shall be in writing and shall be delivered personally (which shall include telephone line facsimile transmission) or by courier and shall be deemed given upon receipt, if delivered personally or by courier (a) in the case of the Corporation, addressed to the Corporation at 2222 West Peoria Avenue, Phoenix, Arizona 85029, Attention: Chief Executive Officer (telephone line facsimile transmission number (602) 331-0941), or (b) in the case of any holder of shares of Series B Convertible Preferred Stock, at such holder's address or telephone line facsimile transmission number shown on the stock books maintained by the Corporation with respect to the Series B Convertible Preferred Stock or such other address as the Corporation shall have provided by notice to the holders of shares of Series B Convertible Preferred Stock in accordance with this Section or any holder of shares of Series B Convertible Preferred Stock shall have provided to the Corporation in accordance with this Section.

(b) REPLACEMENT OF CERTIFICATES. Upon receipt by the Corporation of evidence reasonably satisfactory to the Corporation of the ownership of and the loss, theft, destruction or mutilation of any certificate for shares of Series B Convertible Preferred Stock and (1) in the case of loss, theft or destruction, of indemnity from the record holder of the certificate for such shares of Series B Convertible Preferred Stock reasonably satisfactory in form to the Corporation (and without the requirement to post any bond or other security if such holder has and agrees to maintain reasonably sufficient assets to support the indemnity) or (2) in the case of mutilation, upon surrender and cancellation of the certificate for such shares of Series B Convertible Preferred Stock, the Corporation will execute and deliver to such holder a new certificate for such shares of Series B Convertible Preferred Stock without charge to such holder.

(c) OVERDUE AMOUNTS. Except as otherwise specifically provided in Section 5 with respect to dividends in arrears on the Series B Convertible Preferred Stock, whenever any amount which is due to any holder of shares of Series B Convertible Preferred Stock is not paid to such holder when due, such amount shall bear interest at the rate of 14% per annum (or such other rate as shall be the maximum rate allowable by applicable law) until paid in full.

IN WITNESS WHEREOF, Titan Motorcycle Co. of America has caused this Second Amended and Restated Certificate of Designations to be signed by _____, its _____, and _____, its _____, as of the ____ day of August, 2000.

TITAN MOTORCYCLE CO. OF
AMERICA

By: _____
Title: President

By: _____
Title: Secretary

FIRST AMENDED AND RESTATED
CERTIFICATE OF DESIGNATIONS
OF RIGHTS AND PREFERENCES OF THE
SERIES C CONVERTIBLE PREFERRED STOCK
OF
TITAN MOTORCYCLE CO. OF AMERICA

Pursuant to the authority expressly granted and vested in the Board of Directors (the "BOARD OF DIRECTORS" or the "BOARD") of TITAN MOTORCYCLE CO. OF AMERICA (the "COMPANY") by Section 78.1955 of the General Corporation Law of the State of Nevada (the "CORPORATION LAW") and the provisions of the Company's Restated Articles of Incorporation, as amended, the Board of Directors adopted the following resolution amending and restating the designations, powers, preferences and rights of its Series C Convertible Preferred Stock (the "CERTIFICATE OF DESIGNATIONS") on August 4, 2000:

RESOLVED: That the designations, powers, preferences and rights of the Series C Convertible Preferred Stock be, and they hereby are, amended and restated as set forth below:

I. DESIGNATION AND AMOUNT

The designation of this series, which consists of 1,300 shares of Preferred Stock, par value \$.001 per share, is the Series C Convertible Preferred Stock (the "SERIES C CONVERTIBLE PREFERRED STOCK").

II. CERTAIN DEFINITIONS

For purposes of this Certificate of Designation, the following terms shall have the following meanings:

A. "AFFILIATE" means, with respect to a specific Person referred to in the relevant provision, another Person who or which controls or is controlled by or is under common control with such specified Person.

B. "BUY-IN ADJUSTMENT AMOUNT" means the amount equal to the excess, if any, of (i) the Converting Holder's total purchase price (including brokerage commissions, if any) for the Covering Shares (as defined in Article IV Paragraph B(6)) over (ii) the net proceeds (after brokerage commissions, if any) received by the Converting Holder from the sale of the Sold Shares. By way of illustration and not in limitation of the foregoing, if the Converting Holder (as defined in Article IV Paragraph B(6)) purchases shares of Common Stock having a total purchase price

(including brokerage commissions) of \$11,000 to cover a Buy-In (as defined in Article IV Paragraph B(6)) with respect to shares of Common Stock it sold for net proceeds of \$10,000, the Buy-In Adjustment Amount which the Company will be required to pay to the Converting Holder will be \$1,000.

C. "CAP REGULATIONS" has the meaning ascribed to it in Paragraph E(1) of Article IV hereof.

D. "CLOSING BID PRICE" means the closing bid price of the Common Stock (in U.S. Dollars) on the Principal Trading Market as reported by the Reporting Service. If the Closing Bid Price cannot be calculated for such security on the relevant date on the foregoing basis, the Closing Bid Price of such security on such date shall be the fair market value as reasonably determined by an investment banking firm selected by the Holders of a majority of the then outstanding shares of Series C Convertible Preferred Stock and reasonably acceptable to the Company, with the costs of such appraisal to be borne by the Company. The manner of determining the Closing Bid Price of the Common Stock set forth in the foregoing definition shall apply with respect to any other security in respect of which a determination as to closing bid price must be made hereunder.

E. "CLOSING DATE" and "INITIAL CLOSING DATE" have the meanings ascribed to them in the Securities Purchase Agreement.

F. "COMMON STOCK" means the Company's common stock, par value \$.001 per share.

G. "CONVERSION DATE" has the meaning ascribed to it in the Securities Purchase Agreement.

H. "CONVERSION PRICE" means, with respect to any relevant date, the lower of (i) the Initial Conversion Price or (ii) the Variable Conversion Price, each of which amounts shall be subject to adjustment as provided herein.

I. "EFFECTIVE DATE" means the date the relevant Registration Statement for the shares of Common Stock issuable on conversion of the Series C Convertible Preferred Stock and the exercise of the Warrants is declared effective by the Securities and Exchange Commission.

J. "HOLDER" means a person or entity holding shares of the Series C Convertible Preferred Stock or Warrants, as the case may, unless the context otherwise requires.

K. "INITIAL CONVERSION PRICE" means the amount equal to seventy percent (70%) of the average of the Closing Bid Price for the five (5) trading days ending on August 4, 2000.

L. "JUNIOR SECURITIES" means (i) any class or series of capital stock of the Company authorized prior to the filing of this Certificate of Designations that, by its terms, ranks junior to the Series C Convertible Preferred Stock as to distribution of assets upon liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, (ii) until the Effective Date, each of the Series A Convertible Preferred Stock and the Series B Convertible Preferred Stock, which by virtue of the written consent of their respective shareholders, ranks junior to the Series C Convertible Preferred Stock as to distribution of assets upon liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, until such Effective Date, and (iii) all classes or series of capital stock of the Company authorized after the filing of this Certificate of Designations, unless consented to as provided herein in each instance, each of which shall rank junior to the Series C Convertible Preferred Stock as to distribution of assets upon liquidation, dissolution or winding up of the Company, whether voluntary or involuntary.

M. "LIQUIDATION PREFERENCE" means, with respect to a share of Series C Convertible Preferred Stock, an amount equal to the Stated Value thereof, plus the accrued and unpaid dividends thereon through the date of final distribution.

N. "MARKET PRICE," as of any date, means the average of the Closing Bid Price (in U.S. Dollars) for the lowest five (5) trading days (which need not be consecutive) during the twenty-two (22) consecutive trading days ending on the trading day immediately preceding the relevant date (subject to equitable adjustment for any stock splits, stock dividends, reclassifications or similar events during such 22 trading day period). If market value cannot be calculated as of such date on the foregoing basis, the Market Price shall be the fair market value as reasonably determined by an investment banking firm selected by the Holders of a majority of the then outstanding shares of Series C Convertible Preferred Stock and reasonably acceptable to the Company, with the costs of the appraisal to be borne by the Company. The manner of determining the Market Price of the Common Stock set forth in the foregoing definition shall apply with respect to any other security in respect of which a determination as to market value must be made hereunder.

O. "MEETING DATE" means November 13, 2000.

P. "PARI PASSU SECURITIES" means any class or series of capital stock of the Company hereafter created specifically ranking, by its terms, on parity with the Series C Convertible Preferred Stock as to distribution of assets upon liquidation, dissolution or winding up of the Company, whether voluntary or involuntary.

Q. "PERSON" means any living person or any entity, such as, but not necessarily limited to, a corporation, partnership or trust.

R. "PRINCIPAL TRADING MARKET" means The Nasdaq SmallCap Market, or if the Common Stock is no longer listed on that market, the principal securities exchange or trading market on which the Common Stock is listed or traded, including the OTCBB or the pink sheets.

S. "REGISTRATION RIGHTS AGREEMENT" has the meaning ascribed to it in the Securities Purchase Agreement.

T. "REGISTRATION STATEMENT" means the Registration Statement(s) to be filed by the Company pursuant to the Registration Rights Agreement for the resale of, among other shares, the Common Stock issuable upon conversion of the Series C Convertible Preferred Stock and exercise of the Warrants and any amendments thereto.

U. "REPORTING SERVICE" means Bloomberg LP or if that service is not then reporting the relevant information regarding the Common Stock, a comparable reporting service of national reputation selected by the Holders of the Series C Convertible Preferred Stock and reasonably acceptable to the Company.

V. "SECURITIES" means the shares of Series C Convertible Preferred Stock or the Common Stock of the Company into which such shares are converted or convertible, as contemplated hereby.

W. "SECURITIES PURCHASE AGREEMENT" means that certain Securities Purchase Agreement, dated June 20, 2000, as amended on or about the date of the filing of the First Amended and Restated Certificate of Designations, to which the Company and the party or parties to whom shares of Series C Convertible Preferred Stock are issued are parties.

X. "SENIOR SECURITIES" means each class or series of capital stock of the Company (including, but not necessarily limited to, the Series A Convertible Preferred Stock and the Series B Convertible Preferred Stock) authorized prior to the original filing of this Certificate of Designations (but only after the Effective Date) that, by its terms, except as otherwise agreed to by the holders of such class or series, is senior to the Series C Convertible Preferred Stock as to distribution of assets upon liquidation, dissolution or winding up of the Company, whether voluntary or involuntary; provided, however, that the holders of the Series A Convertible Preferred Stock and the Series B Convertible Preferred Stock have agreed in writing that, as to the Series C Convertible Preferred Stock, until the Effective Date, each such series constitutes Junior Securities and not Senior Securities.

Y. "STATED VALUE" for the Series C Convertible Preferred Stock shall be \$1,000.00 per share.

Z. "TRANSACTION AGREEMENTS" has the meaning ascribed to it in the Securities Purchase Agreement and includes all ancillary documents entered into between the parties to those agreements.

AA. "VARIABLE CONVERSION PRICE" means the amount equal to seventy percent (70%) of the Market Price as of the relevant Conversion Date.

BB. "WARRANTS" means the Warrants to Purchase Common Stock issued to the initial Holders of the Series C Convertible Preferred Stock on a Closing Date or any replacements thereof.

III. DIVIDENDS

A. GENERALLY. The Holders of the Series C Convertible Preferred Stock shall be entitled to receive a 12% per annum dividend payable on the date (the "DIVIDEND PAYMENT DATE") which is the earlier of (i) the first business day after the last calendar day of March, June, September and December of each calendar year or (ii) a Conversion Date. The dividend shall accrue on a daily basis and shall be payable in cash or in Common Stock at the Company's option. Such dividends shall be payable in preference to dividends on any Common Stock or stock of any class ranking, as to dividend rights, junior to the Series C Convertible Preferred Stock, and shall be junior as to payment of dividends to the Senior Securities. Dividends shall be fully cumulative and shall accrue (whether or not declared and whether or not there shall be funds legally available for the payment of dividends) daily (based on a 365-day year) , without interest, and shall be payable on the Dividend Payment Date unless such payment would be in violation of the Corporation Law.

B. DIVIDENDS PAID IN COMMON STOCK. If paid in Common Stock, the number of shares of Common Stock to be received shall be determined by dividing the dollar amount of the dividend by the Conversion Price on the Dividend Payment Date. If the dividend is to be paid in Common Stock, the Common Stock shall be delivered to the Holder, or per Holder's instructions, (i) if being issued in connection with a conversion, at the same time the Conversion Certificates pursuant to Paragraph B(1) of Article IV of this Certificate of Designations are to be delivered, and (ii) with respect to all other instances, within five (5) business days after the Dividend Payment Date (such fifth business date, a "DELIVERY DATE"). The certificates representing the dividends so paid are referred to as "CONVERSION CERTIFICATES."

C. DIVIDENDS PAID IN CASH. If the dividend is to be paid in cash, the Company shall make such payment on the Dividend Payment Date. If the dividend is not paid on the Dividend Payment Date, the dividend must be paid in Common Stock in accordance with the provisions of this Certificate of Designations, unless the Holder consents otherwise in each specific instance.

IV. CONVERSION

A. CONVERSION AT THE OPTION OF THE HOLDER. Subject to the limitations on conversions contained in Paragraph E of this Article IV, each Holder of shares of Series C Convertible Preferred Stock may, at any time and from time to time convert (an "OPTIONAL CONVERSION") each of its shares of Series C Convertible Preferred Stock into a number of fully paid and nonassessable shares of Common Stock determined in accordance with the following formula:

$$\frac{\text{STATED VALUE OF SHARES TO BE CONVERTED}}{\text{CONVERSION PRICE}}$$

B. MECHANICS OF CONVERSION. To effect a conversion of shares of the Series C Convertible Preferred Stock, the Holder must deliver or fax a Notice of Conversion in the form attached hereto as Exhibit A ("NOTICE OF CONVERSION") to the Company (to the attention of the President, with copies to the Chief Financial Officer of the Company, the Company's transfer agent and the Company's counsel, all as identified by notice given by the Company to the Holder from time to time) as provided in this Paragraph. The Notice of Conversion shall be executed by the Holder of one or more shares of Series C Convertible Preferred Stock and shall evidence such Holder's intention to convert all or a portion of such shares. The date of conversion (the "CONVERSION DATE") shall be deemed to be the date on which the Holder faxes or otherwise delivers a Notice of Conversion to the Company, provided that the Holder must deliver to the Company the certificate or certificates representing the shares being converted (the "CONVERTED SHARES") no later than five (5) business days thereafter.

1. DELIVERY OF COMMON STOCK UPON CONVERSION. Certificates representing the Common Stock issuable on conversion of the Series C Convertible Preferred Stock (the "CONVERSION CERTIFICATES") will be delivered to the Converting Holder at the address specified in the Notice of Conversion (which may be the Converting Holder's address for notices as contemplated by the Securities Purchase Agreement or a different address), via express courier, by electronic transfer or otherwise, within five (5) business days (such fifth business day, a "DELIVERY DATE") after the later of (i) the date on which the Notice of Conversion is delivered to the Company as contemplated in this Paragraph, or (ii) the date on which the Converted Shares are delivered to the Company.

2. TAXES. The Company shall pay any and all taxes which may be imposed upon the Company with respect to the issuance and delivery of the shares of Common Stock upon the conversion of the Series C Convertible Preferred Stock other than transfer taxes due upon conversion, if such Holder has transferred to another party the Series C Convertible Preferred Stock or the right to receive Common Stock upon the Holder's conversion thereof or any or income taxes due on the part of the Holder. The Company shall have the right to withhold any taxes as required by the United States federal or state tax laws.

3. NO FRACTIONAL SHARES. If any conversion of Series C Convertible Preferred Stock would result in the issuance of a fractional share of Common Stock, such fractional share shall be disregarded and the number of shares of Common Stock issuable upon conversion of the Series C Convertible Preferred Stock shall be rounded up or down to the nearest whole share, it being understood that .5 of one share shall be rounded up to the next highest share.

4. CONVERSION DISPUTES. In the case of any dispute with respect to a conversion, the Company shall promptly issue such number of shares of Common Stock as are not disputed in accordance with Paragraph A of Article IV above. If such dispute involves the calculation of the Conversion Price, the Company shall first discuss such discrepancy with

the Converting Holder. If the Company and the Converting Holder are unable to agree upon the Conversion Price calculation, the Company shall promptly submit the disputed calculations to independent auditors, which shall be one of the top six nationally recognized accounting firms selected by the Holder (unless the Holders and the Company mutually agree to a different firm). The auditors, at the expense of the party or parties in error (as determined by the auditors), shall audit the calculations and notify the Company and the Holder of the results within five (5) business days following the date it receives the disputed calculations. The auditor's calculation shall be deemed conclusive, absent manifest error. The Company shall then issue the appropriate number of shares of Common Stock in accordance with Paragraph A of Article IV above.

5. CERTAIN DEFAULTS. In the event the Company breaches the provisions of Section 4(g) of the Securities Purchase Agreement, either (i) the Conversion Price shall be amended to be equal to (x) 90% of (y) the amount determined in accordance with the provisions of this Certificate of Designations and the Transaction Agreements without regard to this provision or (ii) the Company shall be required to pay the Redemption Amount (as defined in Article VI Paragraph B) as contemplated by Article VI hereof.

6. DELAY IN DELIVERING CONVERSION CERTIFICATES. The Company understands that a delay in the delivery of the Conversion Certificates beyond the Delivery Date could result in economic loss to a Holder. As compensation to a Holder for such loss, the Company agrees that the Conversion Price will be adjusted to equal seventy-nine percent (79%) of the Conversion Price applicable immediately before the application of this provision, and the Company will then be obligated to issue Conversion Certificates based on the Conversion Price as so adjusted. In addition, and not in lieu of the foregoing, the Company agrees, if there is a further delay in the delivery of the Conversion Certificates (as adjusted in accordance with this provision) so that such Conversion Certificates are not received within five (5) business days after the Delivery Date, either (i) to pay the Redemption Amount as provided in Article VI hereof or (ii) to pay late payments to such Holder for late delivery of Conversion Certificates in accordance with the following schedule (where "No. Business Days Late" is defined as the number of business days beyond five (5) business days after the Delivery Date):

No. Business Days Late

Late Payment For Each \$10,000 of
Liquidation Preference or Dividend Amount
Being Converted

1	\$100
2	\$200
3	\$300
4	\$400
5	\$500
6	\$600
7	\$700
8	\$800

9	\$900
10	\$1,000
>10	\$1,000 +\$200 for each Business Day Late beyond 10 days

The Company shall pay any payments incurred under this Paragraph in immediately available funds upon demand. For purposes of this Paragraph B(5) of Article IV, in connection with a Mandatory Conversion (as defined below), the term "Delivery Date" shall refer to the earlier of (i) the Delivery Date determined in relation to a Notice of Conversion actually submitted by the Holder to the Company or (ii) the fifth business date after written notice from the Holder that the delivery of shares to the Holder in connection with a Mandatory Conversion has not been accomplished. The Company shall pay any payments incurred under this Paragraph in immediately available funds upon demand. Nothing herein shall limit the Holder's right to pursue actual damages for the Company's failure to issue and deliver the Conversion Certificates to the Holder. Furthermore, in addition to any other remedies which may be available to a Holder, in the event that the Company fails for any reason to effect delivery of such Conversion Certificates within five (5) business days after the Delivery Date, the Converting Holder will be entitled to revoke the relevant Notice of Conversion by delivering a notice to such effect to the Company whereupon the Company and the Converting Holder shall each be restored to their respective positions immediately prior to delivery of such Notice of Conversion; provided, however, that any payments contemplated by this Paragraph B(6) which have accrued through the date of such revocation notice shall remain due and owing to the Converting Holder notwithstanding such revocation.

7. BUY-IN. If, by the relevant Delivery Date, the Company fails for any reason to deliver the Conversion Certificates and after such Delivery Date, the Holder of the Series C Convertible Preferred Stock being converted (a "CONVERTING HOLDER") purchases, in an arm's-length open market transaction or otherwise, shares of Common Stock (the "COVERING SHARES") in order to make delivery in satisfaction of a sale of Common Stock by the Converting Holder (the "SOLD SHARES"), which delivery such Converting Holder anticipated to make using the shares to be issued upon such conversion (a "BUY-IN"), the Converting Holder shall have the right to require the Company to pay to the Converting Holder, in addition to and not in lieu of the amounts due under Paragraph B(5) of Article IV hereof (and in addition to all other amounts contemplated in other provisions of the Transaction Agreements, and not in lieu of any such other amounts), the Buy-In Adjustment Amount. The Company shall pay the Buy-In Adjustment Amount to the Converting Holder in immediately available funds immediately upon demand by the Converting Holder.

8. DWAC CERTIFICATE DELIVERY. In lieu of delivering physical certificates representing the Common Stock issuable upon conversion, provided the Company's transfer agent is participating in the Depository Trust Company ("DTC") Fast Automated Securities Transfer program, upon request of a Converting Holder and his/her compliance with the

provisions contained in this paragraph, so long as the certificates therefor do not bear a legend and the Converting Holder thereof is not obligated to return such certificate for the placement of a legend thereon, the Company shall use its best efforts to cause its transfer agent to electronically transmit the Common Stock issuable upon conversion to the Converting Holder by crediting the account of Converting Holder's prime broker with DTC through its Deposit Withdrawal Agent Commission system.

9. CONVERSION OBLIGATIONS AND DEFAULT.

a. Until such time as a court of competent jurisdiction shall have issued a binding injunction (which injunction was not sought by the Company or any of its Affiliates) prohibiting the Company from issuing shares of Common Stock to the Holder on the conversion by such Holder of shares of the Series C Convertible Preferred Stock or to the Holder of a Warrant on the exercise by such Holder of the rights thereunder, the Company will timely honor all such conversions and exercises effected by the Holder in accordance with the terms of this Certificate of Designations or the Warrant, as the case may be, and the Securities Purchase Agreement, subject only, with respect to conversions of the Series C Convertible Preferred Stock, to the limitations as to manner of exercise provided herein and to the provisions of Paragraphs E(1) and (2) of this Article IV and with respect to exercises of the Warrant, to the provisions of Section 2.2 thereof. In furtherance of the foregoing, and not in limitation thereof, if at any time, a Holder shall elect to convert a share of the Series C Convertible Preferred Stock or to exercise any portion of the Warrants, the Company may not refuse to effect such conversion or exercise based on any claim that the Holder (or anyone associated with the Holder) has been engaged in any violation of law or otherwise, unless a binding injunction for a court of competent jurisdiction, issued on notice to the Holder of the hearing with respect to the issuance of such injunction, restraining or enjoining conversion of all of the shares of Series C Convertible Preferred Stock or to exercise any portion of the Warrants, the Company may not refuse to effect such conversion or exercise based on any claim that the Holder (or anyone associated with the Holder) has been engaged in any violation of law or otherwise, unless a binding injunction for a court of competent jurisdiction, issued on notice to the Holder of the hearing with respect to the issuance of such injunction, restraining or enjoining conversion of all of the shares of Series C Convertible Preferred Stock or the exercise of all Warrants shall have been sought and obtained and the Company shall have posted a bond in favor of the Holder in the amount of one hundred thirty percent (130%) of the Stated Value of the shares of Series C Convertible Preferred Stock held by such Holder or the market value of the Common Stock subject to exercise of the Warrants held by such Holder which are subject to such injunction. The bond referred to in the immediately preceding sentence shall remain in effect at least until thirty (30) days after the completion of the proceedings relating to the dispute between the Holder and the Company with respect to such conversion or right to effectuate conversions. The proceeds of such bond shall be payable to the Holder to offset any amounts owed to the Holder as reflected in any judgment obtained by the Holder in its favor in connection with such dispute.

b. If, at any time:

(I) the Company challenges, disputes or denies the right of a Holder of Series C Convertible Preferred Stock to effect a conversion of the Series C Convertible Preferred Stock into Common Stock or otherwise dishonors or rejects any Notice of Conversion delivered in accordance with the terms of the Securities Purchase Agreement or this Certificate of Designations (subject to the provisions of Paragraph B(4) of this Article IV with respect to certain disputes relating to calculations of the number of shares to be issued and subject to the provisions of Paragraph E of this Article VI with respect to certain Limitations on Conversions) or any exercise of any Warrant in accordance with its terms ("WARRANT EXERCISE"), or

(II) any third party who is not and has never been an Affiliate of such Holder commences any lawsuit or proceeding or otherwise asserts any claim before any court or public or governmental authority, which lawsuit, proceeding or claim seeks to challenge, deny, enjoin, limit, modify, delay or dispute the right of such Holder to effect the conversion of the Series C Convertible Preferred Stock into Common Stock, and the Company refuses to honor any such Notice of Conversion or Warrant Exercise,

then such Holder shall have the right, by written notice to the Company, to require the Company to redeem each share of Series C Convertible Preferred Stock for which a Notice of Conversion has been refused pursuant to Paragraphs B(8)(a) or (b) above for cash, at an amount per share equal to the Redemption Amount, pursuant to the provisions of Article VI hereof.

10. CONVERSION IN BANKRUPTCY. The Holder of any Series C Convertible Preferred Stock shall be entitled to exercise its conversion privilege with respect to the Series C Convertible Preferred Stock notwithstanding the commencement of any case under 11 U.S.C. Section 101 et seq. (the "BANKRUPTCY CODE"). In the event the Company is a debtor under the Bankruptcy Code, the Company hereby waives, to the fullest extent permitted, any rights to relief it may have under 11 U.S.C. Section 362 in respect of such Holder's conversion privilege. The Company agrees, without cost or expense to such Holder, to take or to consent to any and all action necessary to effectuate relief under 11 U.S.C. Section 362.

C. INTENTIONALLY OMITTED.

D. MANDATORY CONVERSION. Subject to the terms of this Section D, the Company, at its option, may force the conversion of any or all of the then outstanding shares of Series C Convertible Preferred Stock by written notice of such conversion (a "MANDATORY CONVERSION NOTICE") sent to each of the Holders of the Series C Convertible Preferred Stock (a "MANDATORY CONVERSION"). The

Company may issue a Mandatory Conversion Notice if, and only if, all of the following requirements are met:

1. REGISTRATION STATEMENT AVAILABLE. The Registration Statement must be effective and available for the resale of all of the shares of Common Stock issuable upon the proposed Mandatory Conversion.
2. BREACH OF REPRESENTATIONS AND WARRANTIES. The Company shall not have materially breached any of its agreements or representations contained in the Transaction Agreements.
3. REQUIRED COMMON STOCK MARKET PRICE. The closing bid price of the Common Stock for each of the twenty (20) consecutive trading days ending on the trading day immediately before the Company issues a Mandatory Conversion Notice (such twenty trading days, the "MANDATORY PERIOD") shall be at least \$1.90 (adjusted to take into account any stock split effected after the Initial Closing Date).
4. REQUIRED COMMON STOCK VOLUME. The average trading volume of the Common Stock during the Mandatory Period shall be at least 50,000 shares per trading day (adjusted to take into account any stock split effected after the Closing Date, except that with respect to a reverse stock split, the adjustment shall not be greater than a ratio of 1:4).
5. CONVERSION LIMITATION. Such Mandatory Conversion (including any accrued dividends being paid by the issuance of Common Stock as contemplated by this Certificate of Designations) shall not be inconsistent with the provisions of the immediately following Section E, which shall apply to Mandatory Conversions.

If a Mandatory Conversion Notice is timely and properly given, the shares of Series C Convertible Preferred Stock indicated in such notice shall be deemed converted, without further action of the Holder, as of the date the Mandatory Conversion Notice is so given. In such event, the fifth business day after the date the Mandatory Conversion Notice is so given shall be deemed to be the relevant "DELIVERY DATE" with respect to the Mandatory Conversion.

E. LIMITATIONS ON CONVERSIONS. The conversion of shares of Series C Convertible Preferred Stock shall be subject to the following limitations (each of which limitations shall be applied independently):

1. CAP REGULATIONS. Without shareholder approval, the Company may not issue shares of Common Stock in excess of (i) the number of authorized shares, or (ii) the number of shares that may be issued in compliance with the applicable rules and regulations of its Principal Trading Market, including, but not necessarily limited to, Nasdaq Rule 4310(c)(25)(H)(i) or Rule 4460(i)(1), as may be applicable, which would limit the issuance of Common Stock on conversion of the Series C Convertible Preferred Stock and certain

other interests held by the Holders to 19.99% of the number of outstanding shares of Common Stock on the Initial Closing Date (the limitations referred to in clauses (i) and (ii) of this Paragraph E(1), collectively, the "CAP REGULATIONS"). Without limiting the other provisions of the Securities Purchase Agreement or this Certificate of Designations, (i) the Company will take all steps reasonably necessary to be in a position to issue shares of Common Stock on conversion of the Series C Convertible Preferred Stock without violating the Cap Regulations. If at any time after the Meeting Date, the then authorized shares or the maximum number of shares of Common Stock that may be issued upon conversion of all of the then outstanding Series C Convertible Preferred Stock pursuant to the Cap Regulations (the "CAP AMOUNT") is less than the number of shares of Common Stock which would then be otherwise potentially issuable upon conversion of all of the then outstanding shares of Series C Convertible Preferred Stock without regard to such Cap Regulations (a "TRADING MARKET TRIGGER EVENT"), the Company shall immediately notify the Holders of Series C Convertible Preferred Stock of such occurrence and shall take immediate action (including, if necessary, seeking the approval of its shareholders to authorize the authorization or issuance of the full number of shares of Common Stock which would be issuable upon the conversion of the then outstanding shares of Series C Convertible Preferred Stock but for the Cap Amount) to effectuate either or both of an increase in the authorized shares of the Company or the elimination of any prohibitions under applicable law or the rules or regulations of any stock exchange, interdealer quotation system or other self-regulatory organization with jurisdiction over the Company or any of its securities on the Company's ability to authorize or issue shares of Common Stock in excess of the Cap Amount ("TRADING MARKET PROHIBITIONS"). In this event, the Holder of a share of Series C Convertible Preferred Stock which can not be converted as a result of the Cap Regulations, after all such shares of Series C Convertible Preferred Stock that can be converted under the Cap Amount have been converted (each such share which can not be converted for such reason, an "UNCONVERTED SHARE"), shall have the option, exercisable in such Holder's sole and absolute discretion, to elect either of the following remedies:

- a. If permitted by the Cap Regulations, require the Company to issue shares of Common Stock in accordance with such holder's Notice of Conversion at a conversion purchase price equal to the average of the five (5) lowest Closing Bid Prices (which need not be from consecutive trading days, but subject to certain equitable adjustments to account for certain events, such as stock splits or reverse splits, occurring during such period) during the sixty (60) trading days ending on the trading day immediately preceding the date of the Notice of Conversion; or
- b. Require the Company to redeem each Unconverted Share for cash, at an amount per share equal to the Redemption Amount, pursuant to the provisions of Article VI hereof.

A Holder of more than one Unconverted Share may elect one of the above remedies with respect to some of such Unconverted Shares and the other remedy with respect to other

Unconverted Shares. Anything herein to the contrary notwithstanding, the remedy contained in clauses (a) and (b) of this Paragraph E(1) of this Article IV shall not be available to the Holder of such shares until after the Meeting Date. If the Cap Regulations no longer apply to limit the Company's issuance of shares of Common Stock in connection with the Series C Convertible Preferred Stock or the transactions contemplated by the Transaction Agreements or other transactions between the Company and the Holder, the remedies contained in clauses (x) and (y) of this Paragraph E(1) of this Article IV shall not be exercisable by such Holder.

2. NO TEN PERCENT HOLDERS. Notwithstanding any other provision hereof, or any of the Transaction Agreements, in no event (except (i) as specifically provided in this Certificate of Designations as an exception to this provision, (ii) while there is outstanding a tender offer for any or all of the shares of the Company's Common Stock, or (iii) at the Holder's option, on at least sixty-five (65) days' advance written notice from the Holder) shall the Holder be entitled to convert any share of Series C Convertible Preferred Stock, or shall the Company have the obligation to convert such share (and the Company shall not have the right to pay dividends on shares of Series C Convertible Preferred Stock in shares of Common Stock or require a Mandatory Conversion), to the extent that, after such conversion or issuance of stock in payment of dividends, the sum of (a) the number of shares of Common Stock beneficially owned by the Holder and its Affiliates (other than shares of Common Stock which may be deemed beneficially owned through the ownership of the unconverted portion of the Series C Convertible Preferred Stock or any unexercised portion of the Warrants or any other unexercised right held by the Holder subject to a similar limitation), and (b) the number of shares of Common Stock issuable upon the conversion of the shares of Series C Convertible Preferred Stock with respect to which the determination of this proviso is being made, would result in beneficial ownership by the Holder and its Affiliates of more than 9.99% of the outstanding shares of Common Stock (after taking into account the shares to be issued to the Holder upon such conversion). For purposes of the proviso to the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended (the "1934 ACT"). If the Holder transfers or assigns any shares of the Series C Convertible Preferred Stock to a party who or which would not be considered such an Affiliate, such assignment shall be made subject to the transferee's or assignee's specific agreement to be bound by the provisions of this Paragraph D(2) of Article IV as if such transferee or assignee were the original Holder hereof. Nothing herein shall preclude the Holder from disposing of a sufficient number of other shares of Common Stock beneficially owned by the Holder so as to thereafter permit the continued conversion of the shares of Series C Convertible Preferred Stock.

V. RESERVATION OF SHARES OF COMMON STOCK

A. RESERVED AMOUNT. Upon the initial issuance of the shares of Series C Convertible Preferred Stock, the Company shall reserve out of the authorized but unissued shares of Common Stock for issuance upon conversion of the Series C Convertible Preferred Stock such number of shares equal to 200% of the number of shares which would be issuable if all of the authorized shares of Series C Convertible Preferred Stock were converted in their entirety on the Initial Closing Date based on the Conversion Price in effect on that date and thereafter the number of authorized but unissued shares of Common Stock so reserved (the "RESERVED AMOUNT") shall not be decreased, but may be increased pursuant to Paragraph B of this Article V, and shall at all times be sufficient to provide for the conversion of the Series C Convertible Preferred Stock outstanding at the then current Conversion Price thereof. The Reserved Amount shall be allocated to the holders of Series C Convertible Preferred Stock as provided in Article X Paragraph E.

B. INCREASES TO RESERVED AMOUNT. If the Reserved Amount for any 10 consecutive trading days (the last of such 10 trading days being the "AUTHORIZATION TRIGGER Date") shall be less than 150% of the number of shares of Common Stock issuable upon potential conversion of the then outstanding shares of Series C Convertible Preferred Stock, the Company shall immediately notify the holders of Series C Convertible Preferred Stock of such occurrence and shall take immediate action (including, if necessary, seeking shareholder approval to authorize the issuance of additional shares of Common Stock) to increase the Reserved Amount to 200% of the number of shares of Common Stock then issuable upon conversion of the outstanding Series C Convertible Preferred Stock. In the event the Company fails to so increase the Reserved Amount within 90 days after an Authorization Trigger Date (such event being the "RESERVED AMOUNT TRIGGER EVENT"), each Holder of Series C Convertible Preferred Stock shall thereafter have the option, exercisable in whole or in part at any time and from time to time after the Reserved Amount Trigger Date, by delivery of a Redemption Notice (as defined in Article VI Paragraph C) to the Company, to require the Company to purchase for cash, at an amount per share equal to the Redemption Amount, a portion of the holder's Series C Convertible Preferred Stock such that, after giving effect to such purchase, the holder's allocated portion of the Reserved Amount equals or exceeds 200% of the total number of shares of Common Stock issuable to such Holder upon conversion of its Series C Convertible Preferred Stock. If the Company fails to redeem any of such shares within five (5) business days after its receipt of such Redemption Notice, then such Holder shall be entitled to the remedies provided in Article VI Paragraph C.

C. LIMITATIONS ON REDEMPTION RIGHT. Notwithstanding the provisions of Paragraph B of this Article V, the holders of Series C Convertible Preferred Stock shall have no right to require the Company to effect a redemption of their outstanding shares of Series C Convertible Preferred Stock as provided in Paragraph B of this Article V so long as the Company shall have taken immediate action following the applicable Authorization Trigger Date (including, if necessary, seeking stockholder approval to authorize the issuance of additional shares of Common Stock) to increase the Reserved Amount to 200% of the number of shares of Common Stock then issuable upon conversion of the outstanding Series C Convertible Preferred Stock. The Company will be

deemed to be using "its commercially reasonable good faith best efforts" to increase the Reserved Amount so long as it solicits stockholder approval to authorize the issuance of additional shares of Common Stock not less than two (2) times during each twelve month period following the applicable Authorization Trigger Date during which any shares of Series C Convertible Preferred Stock remain outstanding; provided that no such limitation on the redemption rights set out in Paragraph B of this Article V shall be effective if the Company fails to obtain stockholder approval after two (2) attempts.

VI. REDEMPTION

A. REDEMPTION BY HOLDER. In the event that any of the following occur (individually, a "REDEMPTION EVENT"):

1. CAP REGULATIONS. The Company's inability or refusal to issue sufficient shares of Common Stock upon conversion of Unconverted Shares in accordance with Paragraph E(1) of Article IV hereof.

2. CONVERSION DEFAULT. The Company's failure to deliver Conversion Certificates under Paragraph B of Article IV hereof.

then, upon the occurrence of any such Redemption Event, each Holder of shares of Series C Convertible Preferred Stock shall thereafter have the option, exercisable in whole or in part at any time and from time to time by delivery of a notice requesting the redemption of all or part of such Holder's shares of Series C Convertible Preferred Stock (a "REDEMPTION NOTICE") to the Company while such Redemption Event continues, to require the Company to purchase for cash any or all of the then outstanding shares of Series C Convertible Preferred Stock held by such Holder for an amount per share equal to the Redemption Amount in effect at the time of the redemption hereunder.

B. DEFINITION OF REDEMPTION AMOUNT. The "REDEMPTION AMOUNT" with respect to a share of Series C Convertible Preferred Stock being redeemed (a "REDEEMED SHARE") means an amount payable in cash, equal to the one hundred thirty (130%) of the Stated Value of the Redeemed Share plus accrued but unpaid dividends thereon.

C. REDEMPTION DEFAULTS. If the Company fails to pay any Holder the Redemption Amount with respect to any share of Series C Convertible Preferred Stock within twenty-five (25) business days after its receipt of a Redemption Notice, then the Holder of Series C Convertible Preferred Stock delivering such Redemption Notice shall be entitled to interest on the Redemption Amount at a per annum rate equal to the lower of 15% and the highest interest rate permitted by applicable law from the date on which the Company receives the Redemption Notice until the date of payment of the Redemption Amount hereunder. In the event the Company is not able to redeem all of the shares of Series C Convertible Preferred Stock subject to Redemption Notices delivered prior to the date upon which such redemption is to be effected, the Company shall redeem shares of Series C Convertible Preferred Stock from each Holder pro rata, based on the relative total number

of shares of Series C Convertible Preferred Stock outstanding (determine at the time of redemption) included by each such Holder in all Redemption Notices delivered prior to the date upon which such redemption is to be effected.

VII. LIQUIDATION PREFERENCE

A. LIQUIDATION EVENT. If the Company shall commence a voluntary case under the U.S. Federal bankruptcy laws or any other applicable bankruptcy, insolvency or similar law, or consent to the entry of an order for relief in an involuntary case under any law or to the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of the Company or of any substantial part of its property, or make an assignment for the benefit of its creditors, or admit in writing its inability to pay its debts generally as they become due, or if a decree or order for relief in respect of the Company shall be entered by a court having jurisdiction in the premises in an involuntary case under the U.S. Federal bankruptcy laws or any other applicable bankruptcy, insolvency or similar law resulting in the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of the Company or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and any such decree or order shall be unstayed and in effect for a period of 60 consecutive days and, on account of any such event, the Company shall liquidate, dissolve or wind up, or if the Company shall otherwise liquidate, dissolve or wind up, including, but not limited to, the sale or transfer of all or substantially all of the Company's assets in one transaction or in a series of related transactions (a "LIQUIDATION EVENT"), no distribution shall be made to the holders of any shares of capital stock of the Company (other than Senior Securities and Pari Passu Securities) upon liquidation, dissolution or winding up unless prior thereto the holders of shares of Series C Convertible Preferred Stock shall have received the Liquidation Preference with respect to each share. If, upon the occurrence of a Liquidation Event, the assets and funds available for distribution among the holders of the Series C Convertible Preferred Stock and holders of Pari Passu Securities shall be insufficient to permit the payment to such holders of the preferential amounts payable thereon, then the entire assets and funds of the Company legally available for distribution to the Series C Convertible Preferred Stock and the Pari Passu Securities shall be distributed ratably among such shares in proportion to the ratio that the Liquidation Preference payable on each such share bears to the aggregate Liquidation Preference payable on all such shares.

B. EXCLUSIONS. The purchase or redemption by the Company of stock of any class of Senior Securities, in any manner permitted by law, shall not, for the purposes hereof, be regarded as a liquidation, dissolution or winding up of the Company. Neither the consolidation or merger of the Company with or into any other entity nor the sale or transfer by the Company of less than substantially all of its assets shall, for the purposes hereof, be deemed to be a liquidation, dissolution or winding up of the Company.

VIII. ADJUSTMENTS TO THE CONVERSION PRICE

A. SALE. The Conversion Price shall be subject to adjustment from time to time as follows: If, for as long as any shares of Series C Convertible Preferred Stock remain outstanding, the Company enters into a merger (other than where the Company is the surviving entity) or consolidation with another corporation or other entity or a sale or transfer of all or substantially all of the assets of the Company to another person (collectively, a "SALE"), the Company will require, in the agreements reflecting such transaction, that the surviving entity expressly assume the obligations of the Company hereunder. Notwithstanding the foregoing, if the Company enters into a Sale and the holders of the Common Stock are entitled to receive stock, securities or property in respect of or in exchange for Common Stock, then as a condition of such Sale, the Company and any such successor, purchaser or transferee will agree that the Series C Convertible Preferred Stock may thereafter be converted on the terms and subject to the conditions set forth above into the kind and amount of stock, securities or property receivable upon such merger, consolidation, sale or transfer by a Holder of the number of shares of Common Stock into which then outstanding shares of Series C Convertible Preferred Stock might have been converted immediately before such merger, consolidation, sale or transfer, subject to adjustments which shall be as nearly equivalent as may be practicable. In the event of any such proposed Sale, the Holder hereof shall have the right to either (i) convert all of any of the outstanding Series C Convertible Preferred Stock (without regard to the limits contemplated by Paragraph E(2) of Article IV hereof) by delivering a Notice of Conversion to the Company within 15 days of receipt of notice of such Sale from the Company or (ii) by delivering a notice to such effect to the Company within fifteen (15) days of receipt of notice of such Sale from the Company, (x) if the surviving entity in the transaction is not a publicly traded entity listed on a Principal Trading Market, demand a redemption of all or any of the outstanding Series C Convertible Preferred Stock for the Redemption Amount by delivering a notice to such effect to the Company within fifteen (15) days of receipt of notice of such Sale from the Company and/or (y) if the surviving entity in the transaction is a publicly traded entity listed on a Principal Trading Market, elect to retain all or any of the outstanding Series C Convertible Preferred Stock, as to which all of the terms hereof, including but not limited to the conversion terms, shall remain in full force and effect. Anything in this Paragraph to the contrary notwithstanding, if the Sale is for cash consideration of at least \$5.00 per share (adjusted for capital transactions occurring after the Initial Closing Date) with or without other consideration (a "Cash Sale"), the Holder shall be deemed to have converted all outstanding shares of Series C Convertible Preferred Stock (and the Company shall be deemed to have elected to pay all accrued but unpaid dividends thereon in Common Stock) immediately before the consummation of such Cash Sale, without regard to any of the limitations contemplated by Paragraph E of Article IV.

B. SPIN OFF. The Company agrees that for as long as shares of Series C Convertible Preferred Stock remain outstanding, the Company will not, without the consent of the Holder, spin off or otherwise divest itself of a part of its business or operations or dispose all or of a part of its assets in a transaction (the "SPIN OFF") in which the Company does not receive just compensation for such business, operations or assets, but causes securities of another entity (the "SPIN OFF SECURITIES") to be issued to security holders of the Company. If, for any reason, prior to the

Conversion Date or the date of payment of the Redemption Amount hereunder, the Company, with the consent of the Holder, consummates a Spin Off, then the Company shall cause (i) to be reserved Spin Off Securities equal to the number thereof which would have been issued to the Holder had all of the holder's shares of Series C Convertible Preferred Stock outstanding on the record date (the "RECORD DATE") for determining the amount and number of Spin Off Securities to be issued to security holders of the Company (the "OUTSTANDING SERIES C CONVERTIBLE PREFERRED STOCK") been converted as of the close of business on the trading day immediately before the Record Date (the "RESERVED SPIN OFF SHARES"), and (ii) to be issued to the Holder on the conversion of all or any of the Outstanding Series C Convertible Preferred Stock, such amount of the Reserved Spin Off Shares equal to (x) the Reserved Spin Off Shares multiplied by (y) a fraction, of which (a) the numerator is the principal amount of the Outstanding Series C Convertible Preferred Stock then being converted, and (b) the denominator is the principal amount of the Outstanding Series C Convertible Preferred Stock.

C. STOCK SPLITS, ETC. If, at any time while any shares of Series C Convertible Preferred Stock remain outstanding, the Company effectuates a stock split or reverse stock split of its Common Stock or issues a dividend on its Common Stock consisting of shares of Common Stock, the Conversion Price and any other amounts calculated as contemplated by this Certificate of Designations shall be equitably adjusted to reflect such action. By way of illustration, and not in limitation, of the foregoing (i) if the Company effectuates a 2:1 split of its Common Stock, thereafter, with respect to any conversion for which the Company issues the shares after the record date of such split, any market price from a date prior to such split which was used in any of the calculation of the Conversion Price shall be deemed to be one-half of what it had been calculated to be immediately prior to such split; (ii) if the Company effectuates a 1:10 reverse split of its Common Stock, thereafter, with respect to any conversion for which the Company issues the shares after the record date of such reverse split, any market price from a date prior to such split which was used in any of the calculation of the Conversion Price shall be deemed to be ten times what it had been calculated to be immediately prior to such split; and (iii) if the Company declares a stock dividend of one share of Common Stock for every 10 shares outstanding, thereafter, with respect to any conversion for which the Company issues the shares after the record date of such dividend, any market price from a date prior to such record date which was used in any of the calculation of the Conversion Price shall be deemed to be such amount multiplied by a fraction, of which the numerator is the number of shares (10 in the example) for which a dividend share will be issued and the denominator is such number of shares plus the dividend share(s) issuable or issued thereon (11 in the example).

D. NOTICE OF ADJUSTMENTS. Upon the occurrence of each adjustment or readjustment of the Initial Conversion Price pursuant to this Article VIII, the Company, at its expense, shall promptly compute such adjustment or readjustment and prepare and furnish to each Holder of Series C Convertible Preferred Stock a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, upon the written request at any time of any Holder of Series C Convertible Preferred Stock, furnish to such Holder a like certificate setting forth (i) such adjustment or readjustment, (ii) the

Initial Conversion Price at the time in effect and (iii) the number of shares of Common Stock and the amount, if any, of other securities or property which at the time would be received upon conversion of a share of Series C Convertible Preferred Stock.

IX. VOTING RIGHTS

A. GENERALLY. The holders of the Series C Convertible Preferred Stock have no voting power whatsoever, except as otherwise provided by the Corporation Law.

B. CLASS VOTING. To the extent that under the Corporation Law the vote of the holders of the Series C Convertible Preferred Stock, voting separately as a class or series, as applicable, is required to authorize a given action of the Company, the affirmative vote or consent of the holders of at least a majority of the then outstanding shares of the Series C Convertible Preferred Stock represented at a duly held meeting at which a quorum is present or by written consent of the holders of at least a majority of the then outstanding shares of Preferred Stock (except as otherwise may be required under the Corporation Law, a "REQUIRED INTEREST") shall constitute the approval of such action by the class. To the extent that under the Corporation Law holders of the Series C Convertible Preferred Stock are entitled to vote on a matter with holders of Common Stock, voting together as one class, each share of Series C Convertible Preferred Stock shall be entitled to a number of votes equal to the number of shares of Common Stock into which it is then convertible (subject to the limitations contained in Article IV Paragraph E) using the record date for the taking of such vote of shareholders as the date as of which the Conversion Price is calculated.

X. MISCELLANEOUS

A. RANK. The Series C Convertible Preferred Stock shall rank (i) prior to the Company's Common Stock; (ii) prior to any Junior Securities, including, but not necessarily limited to, the Series A Convertible Preferred Stock and the Series B Convertible Preferred Stock until the Effective Date; (iii) junior to any Senior Securities, including, but not necessarily limited to, the Series A Convertible Preferred Stock and the Series B Convertible Preferred Stock after the Effective Date; and (iv) pari passu with any Pari Passu Securities; provided, however, that no additional Senior or Pari Passu Securities shall be created without the written consent of a Required Interest.

B. CANCELLATION OF SERIES C CONVERTIBLE PREFERRED STOCK. If any shares of Series C Convertible Preferred Stock are converted or redeemed pursuant to this Certificate of Designations, the shares so converted shall be canceled, shall return to the status of authorized, but unissued preferred stock of no designated series, and shall not be issuable by the Company as Series C Convertible Preferred Stock.

C. LOST OR STOLEN CERTIFICATES. Upon receipt by the Company of (i) evidence of the loss, theft, destruction or mutilation of any Series C Convertible Preferred Stock certificate(s) and (ii) (y) in the case of loss, theft or destruction, of indemnity (without any bond or other security) reasonably satisfactory to the Company, or (z) in the case of mutilation, upon surrender and cancellation of the Series C Convertible Preferred Stock certificate(s), the Company shall execute and deliver new Series C Convertible Preferred Stock certificate(s) of like tenor and date. However, the Company shall not be obligated to reissue such lost or stolen Series C Convertible Preferred Stock certificate(s) if the Holder contemporaneously requests the Company to convert such Series C Convertible Preferred Stock.

D. ALLOCATION OF CAP AMOUNT AND RESERVED AMOUNT. The initial Cap Amount and Reserved Amount shall be allocated pro rata among the holders of Series C Convertible Preferred Stock based on the number of shares of Series C Convertible Preferred Stock issued to each Holder. Each increase to the Cap Amount and the Reserved Amount shall be allocated pro rata among the holders of Series C Convertible Preferred Stock based on the number of shares of Series C Convertible Preferred Stock held by each Holder at the time of the increase in the Cap Amount or Reserved Amount. In the event a Holder shall sell or otherwise transfer any of such holder's shares of Series C Convertible Preferred Stock, each transferee shall be allocated a pro rata portion of such transferor's Cap Amount and Reserved Amount. Any portion of the Cap Amount or Reserved Amount which remains allocated to any person or entity which does not hold any Series C Convertible Preferred Stock shall be allocated to the remaining holders of shares of Series C Convertible Preferred Stock, pro rata based on the number of shares of Series C Convertible Preferred Stock then held by such holders.

E. PAYMENT OF CASH; DEFAULTS. Whenever the Company is required to make any cash payment to a Holder under this Certificate of Designations (upon redemption or otherwise), such cash payment shall be made to the Holder on the date specified herein or, if not so specified, within five (5) business days after delivery by such Holder of a notice specifying that the Holder elects to receive such payment in cash and the method (e.g., by check, wire transfer) in which such payment should be made. If such payment is not delivered within the relevant time period, such Holder shall thereafter be entitled to interest on the unpaid amount at a per annum rate equal to the lower of 15% and the highest interest rate permitted by applicable law until such amount is paid in full to the Holder.

F. STATUS AS STOCKHOLDER. Upon submission of a Notice of Conversion by a Holder of Series C Convertible Preferred Stock, (i) the shares covered thereby (other than the shares, if any, which cannot be issued because their listing or issuance would exceed such holder's allocated portion of the Reserved Amount or Cap Amount) shall be deemed converted into shares of Common Stock and the Holder shall thereupon have all rights of a shareholder of such shares of Common Stock, including, but not necessarily limited to, voting rights, and (ii) the holder's rights as a Holder of such converted shares of Series C Convertible Preferred Stock shall cease and terminate, excepting only the right to receive certificates for such shares of Common Stock and to any remedies provided herein or otherwise available at law or in equity to such Holder because of a failure by the

Company to comply with the terms of this Certificate of Designations.

G. AMENDMENTS. This Certificate of Designations may only be amended with the written consent of the holders of eighty-five (85%) percent of the outstanding Series C Convertible Preferred Stock and the vote or action of any other party or class entitled to vote or act thereon.

TITAN MOTORCYCLE CO. OF AMERICA EXHIBIT A

NOTICE OF CONVERSION

(To be Executed by the Registered Holder
in order to Convert the Series C Convertible Preferred Stock)

TO:	TITAN MOTORCYCLE CO. OF AMERICA 2222 West Peoria Avenue Phoenix, AZ 85029 Attn: Frank Keery, President	VIA TELECOPIER TO: (602) 331-0941
CC:	Titan Motorcycle Co. of America Attn: Chief Financial Officer	(602) 331-0941
	_____ (Company's Transfer Agent)	() -
	Snell & Wilmer LLP Attn: Richard B. Stagg, Esq. (Company's Counsel)	(602) 382-6070

FROM: _____
("Holder")

DATE: _____ (the
"Conversion Date")

RE: Conversion of _____ shares (the "Converted Shares")
of the Series C Convertible Preferred Stock ("Series C Convertible Preferred
Stock") of TITAN MOTORCYCLE CO. OF AMERICA (the "Company") into
_____ shares (the "Conversion Shares") of Common Stock (defined
below)

CONVERSION DATE:

The captioned Holder hereby gives notice to the Company,
pursuant to the Certificate of Designations of Series C Convertible
Preferred Stock of TITAN MOTORCYCLE CO. OF AMERICA (as heretofore
amended, the "Certificate of Designations"), that the Holder elects to
convert the Converted Shares into fully paid and non-assessable shares
of Common Stock, \$.001 par value (the "Common Stock"), of the Company
as of the Conversion Date specified above.

Said conversion shall be based on the following Conversion Price (the lower of the two alternatives is checked):

\$ _____, representing the Initial Conversion Price
(as defined in the Certificate of Designations)

\$ _____, representing the Variable Conversion Price
(as defined in the Certificate of Designations).

If the Variable Conversion Price is marked, a schedule of the Closing Bid Prices of the Common Stock for the 22 trading days prior to the Conversion Date on the Principal Trading Market as reported by the Reporting Service (as those terms are defined in the Certificate of Designations), is attached for your reference in determining the Conversion Price.

Based on this Conversion Price, the number of Conversion Shares indicated above should be issued in the following name(s):

Name and Record Address	Conversion Shares

As contemplated by the Certificate of Designations and the Securities Purchase Agreement, dated June 20, 2000, as amended (the "Securities Purchase Agreement"), to which the Company and the Holder are parties, this Notice of Conversion is being sent by facsimile to the telecopier number and officer indicated above, with a copy to the Company's counsel.

The Holder has previously surrendered or will surrender (or cause to be surrendered) the certificate(s) for the Converted Shares, duly endorsed, to the Company at the address indicated above by express courier within five (5) business days after delivery or facsimile transmission of this Notice of Conversion.

The certificates representing the Conversion Shares (together with certificate(s) representing the shares of Series C Convertible Preferred Stock not converted hereby) should be transmitted by the Company to the Holder via express courier or by electronic transfer within the time contemplated by the Certificate of Designations after receipt of this Notice of Conversion (by facsimile transmission or otherwise) and the certificate(s) representing the Converted Shares to:

As contemplated by Article III of the Certificate of Designations, the Company should also pay all accrued but unpaid dividends on the Converted

Shares to the Holder. If being paid in cash, such payment should be made by wire transfer as follows:

If being paid in Common Stock as contemplated by said Article, such shares should be issued in the name of the Holder and delivered in the same manner as, and together with, the Conversion Shares.

With the conversion effected hereby, the Holder represents to the Company that the Holder is in compliance with the provisions of Paragraph E(2) of Article IV of the Certificate of Designations.

(Print name of Holder)

By: _____
(Signature of Authorized Person)

(Printed Name and Title)

FORM OF DEBENTURE

NEITHER THESE SECURITIES NOR THE SECURITIES ISSUABLE UPON CONVERSION HEREOF HAVE BEEN REGISTERED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE OR UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THE SECURITIES ARE RESTRICTED AND MAY NOT BE OFFERED, RESOLD, PLEDGED OR TRANSFERRED EXCEPT AS PERMITTED UNDER THE ACT PURSUANT TO REGISTRATION OR EXEMPTION OR SAFE HARBOR THEREFROM.

NNo. 00A-

US \$

TITAN MOTORCYCLE CO. OF AMERICA

12% SECURED CONVERTIBLE DEBENTURE DUE AUGUST 31, 2002

THIS DEBENTURE is one of a duly authorized issue of up to \$750,000 in Debentures of TITAN MOTORCYCLE CO. OF AMERICA, a corporation organized and existing under the laws of the State of Nevada (the "Company") designated as its 12% Secured Convertible Debentures.

FOR VALUE RECEIVED, the Company promises to pay to _____, the registered holder hereof (the "Holder"), the principal sum of _____ and 00/100 Dollars (US \$ _____) on August 31, 2002 (the "Maturity Date") and to pay interest on the principal sum outstanding from time to time in arrears (i) upon conversion as provided herein or (ii) on the Maturity Date, at the rate of 12% per annum accruing from the date of initial issuance of this Debenture. Accrual of interest shall commence on the first such business day to occur after the date hereof and shall continue to accrue on a daily basis until payment in full of the principal sum has been made or duly provided for. Subject to the provisions of Section 4 below (the terms of which shall govern as if this sentence were not included in this Debenture), interest on this Debenture is payable, at the option of the Company, in shares of Common Stock of the Company, \$.001 par value ("Common Stock") at the Conversion Price (as defined below) in effect on the date of payment, or in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts, at the address last appearing on the Debenture Register of the Company as designated in writing by the Holder from time to time. This Debenture is being issued pursuant to the terms of the Securities Purchase Agreement, dated August _____, 2000

(the "Securities Purchase Agreement"), to which the Company and the Holder (or the Holder's predecessor in interest) are parties. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Securities Purchase Agreement.

This Debenture is subject to the following additional provisions:

1. The Debentures are issuable in denominations of Ten Thousand Dollars (US\$10,000) and integral multiples thereof. The Debentures are exchangeable for an equal aggregate principal amount of Debentures of different authorized denominations, as requested by the Holder surrendering the same. No service charge will be made for such registration or transfer or exchange.

2. The Company shall be entitled to withhold from all payments of principal of, and interest on, this Debenture any amounts required to be withheld under the applicable provisions of the United States income tax laws or other applicable laws at the time of such payments, and Holder shall execute and deliver all required documentation in connection therewith.

3. This Debenture has been issued subject to investment representations of the original purchaser hereof and may be transferred or exchanged only in compliance with the Securities Act of 1933, as amended (the "Act"), and other applicable state and foreign securities laws and the terms of the Securities Purchase Agreement. In the event of any proposed transfer of this Debenture, the Company may require, prior to issuance of a new Debenture in the name of such other person, that it receive reasonable transfer documentation including legal opinions that the issuance of the Debenture in such other name does not and will not cause a violation of the Act or any applicable state or foreign securities laws. Prior to due presentment for transfer of this Debenture, the Company and any agent of the Company may treat the person in whose name this Debenture is duly registered on the Company's Debenture Register as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Debenture be overdue, and neither the Company nor any such agent shall be affected by notice to the contrary.

4. A. The Holder of this Debenture is entitled, at its option, subject to the following provisions of this Section 4, to convert this Debenture at any time into shares of Common Stock of the Company at a conversion price for each share of Common Stock ("Conversion Price") equal to the lower of the Fixed Conversion Price or the Variable Conversion Price (as those terms are defined below). The term "Fixed Conversion Price" means the amount equal to seventy percent (70%) of the average of the Closing Bid Price for the five (5) trading days ending on the trading day immediately preceding the Closing Date; which amount is subject to adjustment as provided herein. The term "Variable Conversion Price" means the amount equal to seventy percent (70%) of the average of the five (5) lowest Closing Bid Prices (which need not be from consecutive trading days) during the twenty-two (22) trading days ending on the trading day immediately preceding the Conversion Date (as defined below). Interest accrued or accruing from the date of issuance to the Conversion Date or the Maturity Date, as the case may be, shall, at the option of the Holder, be paid

in cash or Common Stock at the Conversion Price then applicable as of the Conversion Date or the Maturity Date, as the case may be.

B. (i) To effect a conversion of this Debenture, the Holder must deliver or fax a Notice of Conversion in the form attached hereto as Exhibit A ("Notice of Conversion") to the Company (to the attention of the President, with copies to the Chief Financial Officer of the Company, the Company's transfer agent and the Company's counsel, all as identified by notice given by the Company to the Holder from time to time) as provided in this Section 4(B). The Notice of Conversion shall be executed by the Holder and shall evidence such Holder's intention to convert all or a portion of this Debenture. The date of conversion (the "Conversion Date") shall be deemed to be the date on which the Holder faxes or otherwise delivers a Notice of Conversion to the Company, provided that the Holder must deliver to the Company this Debenture (the "Converted Debenture") no later than five (5) business days thereafter.

(ii) Certificates representing the Common Stock issuable on conversion of this Debenture (the "Conversion Certificates") will be delivered to the Holder at the address specified in the Notice of Conversion (which may be the Holder's address for notices as contemplated by the Securities Purchase Agreement or a different address), via express courier, by electronic transfer or otherwise, within five (5) business days (such fifth business day, a "Delivery Date") after the later of (i) the date on which the Notice of Conversion is delivered to the Company as contemplated in this Section 4(B) or (ii) the date on which the Converted Debenture is delivered to the Company.

(iii) The Company shall pay any and all taxes which may be imposed upon the Company with respect to the issuance and delivery of the shares of Common Stock upon the conversion of this Debenture other than transfer taxes due upon conversion, if such Holder has transferred to another party this Debenture or the right to receive Common Stock upon the Holder's conversion hereof or any or income taxes due on the part of the Holder. The Company shall have the right to withhold any taxes as required by the United States federal or state tax laws.

(iv) If any conversion of this Debenture would result in the issuance of a fractional share of Common Stock, such fractional share shall be disregarded and the number of shares of Common Stock issuable upon conversion of the Debenture shall be rounded up or down to the nearest whole share, it being understood that .5 of one share shall be rounded up to the next highest share.

(v) In the case of any dispute with respect to a conversion, the Company shall promptly issue such number of shares of Common Stock as are not disputed in accordance with Section 4(A) hereof. If such dispute involves the calculation of the Conversion Price, the Company shall first discuss such discrepancy with the Holder. If the Company and the Holder are unable to agree upon the Conversion Price calculation, the Company shall promptly submit the disputed calculations to independent auditors, which shall be one of the top six nationally recognized

accounting firms selected by the Holder (unless the Holder and the Company mutually agree to a different firm). The auditors, at the expense of the party or parties in error (as determined by the auditors), shall audit the calculations and notify the Company and the Holder of the results within five (5) business days following the date it receives the disputed calculations. The auditor's calculation shall be deemed conclusive, absent manifest error. The Company shall then issue the appropriate number of shares of Common Stock in accordance with Section 4(A) hereof.

C. Without shareholder approval, the Company may not issue shares of Common Stock in excess of (a) (i) the number of authorized shares, or (ii) if the Cap Regulations are applicable, the Cap Amount (or the allocation of the Cap Amount to the Holder in accordance with the provisions of Section 4(j)(i) of the Securities Purchase Agreement) (collectively, the "Issuance Limitations"). Without limiting the other provisions of the Securities Purchase Agreement or this Debenture, (i) the Company will take all steps reasonably necessary to be in a position to issue shares of Common Stock on conversion of all the debentures issued in this series of Debentures without violating the Issuance Limitations. If at any time after the Meeting Date, the then authorized and unissued shares of Common Stock of the Company or the Cap Amount (or the allocation thereof to the Holder) is less than the number of shares of Common Stock which would then be otherwise potentially issuable upon conversion of all of the then outstanding debentures of this series of Debentures without regard to such Issuance Limitations, the Company shall immediately notify the Holders of all outstanding debentures of this series of Debentures of such occurrence and shall take immediate action (including, if necessary, seeking the approval of its shareholders to authorize the authorization or issuance of the full number of shares of Common Stock which would be issuable upon the conversion of the then outstanding debentures of this series of Debentures but for the Issuance Limitations) to effectuate either or both of an increase in the authorized shares of the Company or the elimination of the application of the Cap Regulations to so as to permit the Company to issue shares of Common Stock in excess of the Cap Amount. In this event, the Holder of a Debenture which can not be converted as a result of the Issuance Limitations after all such Debentures that can be converted under the Issuance Limitations have been converted (each such unconverted Debenture, an "Issuance Limitation Unconverted Debenture"), shall have the option, exercisable in such Holder's sole and absolute discretion, to elect either of the following remedies:

(1) If permitted by the Cap Regulations, require the Company to issue shares of Common Stock in accordance with such holder's Notice of Conversion at a conversion purchase price equal to the average of the five (5) lowest Closing Bid Prices (which need not be from consecutive trading days, but subject to certain equitable adjustments to account for certain events, such as stock splits or reverse splits, occurring during such period) during the sixty (60) trading days ending on the trading day immediately preceding the date of the Notice of Conversion; or

(2) Require the Company to redeem each Issuance Limitation Unconverted Debenture for cash, at an amount per share equal to the Redemption Amount, pursuant to the provisions of Section 5 hereof.

A Holder of an Issuance Limitation Unconverted Debenture may elect one of the above remedies with respect to a portion of such Issuance Limitation Unconverted Debentures and the other remedy with respect to other portions of the Issuance Limitation Unconverted Debentures. Anything herein to the contrary notwithstanding, the remedy contained in clauses (1) and (2) of this Section 4(C) shall not be available to the Holder of such Debentures until after the Meeting Date. If the Issuance Limitations no longer apply to limit the Company's issuance of shares of Common Stock upon conversion of the Debentures or the transactions contemplated by the Transaction Agreements, the remedies contained in clauses (1) and (2) of this Section 4(C) shall not be exercisable by a Holder.

D. Notwithstanding any other provision hereof, or any of the Transaction Agreements, in no event (except (i) as specifically provided herein as an exception to this provision, (ii) while there is outstanding a tender offer for any or all of the shares of the Company's Common Stock, or (iii) at the Holder's option, on at least sixty-five (65) days' advance written notice from the Holder) shall the Holder be entitled to convert any portion of this Debenture, or shall the Company have the obligation to convert such Debenture (and the Company shall not have the right to pay interest hereon in shares of Common Stock), to the extent that, after such conversion or issuance of stock in payment of interest, the sum of (a) the number of shares of Common Stock beneficially owned by the Holder and its affiliates (other than shares of Common Stock which may be deemed beneficially owned through the ownership of any unconverted Debentures or any unexercised portion of the Warrants or any other unexercised right held by the Holder subject to a similar limitation), and (b) the number of shares of Common Stock issuable upon the conversion of the Debentures with respect to which the determination of this proviso is being made, would result in beneficial ownership by the Holder and its affiliates of more than 9.99% of the outstanding shares of Common Stock (after taking into account the shares to be issued to the Holder upon such conversion). For purposes of the proviso to the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act"). If the Holder transfers or assigns any Debentures to a party who or which would not be considered such an affiliate, such assignment shall be made subject to the transferee's or assignee's specific agreement to be bound by the provisions of this Section 4(D) as if such transferee or assignee were the original Holder hereof. Nothing herein shall preclude the Holder from disposing of a sufficient number of other shares of Common Stock beneficially owned by the Holder so as to thereafter permit the continued conversion of the Debentures.

5. A. In the event that any of the following occur (individually, a "Redemption Event"):

(i) The Company's inability or refusal to issue sufficient shares of Common Stock upon conversion of Issuance Limitation Unconverted Debentures in accordance with Section 4(C) hereof; or

(ii) The Company's inability to deliver Conversion Certificates under Section 4(B) hereof.

then, upon the occurrence of any such Redemption Event, the Holder of this Debenture shall thereafter have the option, exercisable in whole or in part at any time and from time to time by delivery of a notice requesting the redemption of all or part of such Holder's Debentures (a "Redemption Notice") to the Company while such Redemption Event continues, to require the Company to purchase for cash any or all of the then outstanding Debentures held by such Holder for an amount equal to the Redemption Amount in effect at the time of the redemption hereunder.

B. The "Redemption Amount" with respect to a Debenture being redeemed (a "Redeemed Debenture") means an amount payable in cash, equal to (x) one hundred thirty percent (130%) of the outstanding principal amount of the Redeemed Debenture plus (y) accrued but unpaid interest thereon.

C. If the Company fails to pay any Holder the Redemption Amount with respect to any Redeemed Debenture within twenty-five (25) business days after its receipt of a Redemption Notice, then the Holder delivering such Redemption Notice shall be entitled to interest on the Redemption Amount at a per annum rate equal to the lower of 15% and the highest interest rate permitted by applicable law from the date on which the Company receives the Redemption Notice until the date of payment of the Redemption Amount hereunder. In the event the Company is not able to redeem all of the Redeemed Debentures subject to Redemption Notices delivered prior to the date upon which such redemption is to be effected, the Company shall redeem Debentures from each Holder of this series of Debentures pro rata, based on the relative outstanding principal amounts of such Debentures (determined at the time of redemption) included by each such Holder in all Redemption Notices delivered prior to the date upon which such redemption is to be effected.

6. The Conversion Price shall be subject to adjustment from time to time as follows:

A. If, for as long as any portion of this Debenture remains outstanding, the Company enters into a merger (other than where the Company is the surviving entity) or consolidation with another corporation or other entity or a sale or transfer of all or substantially all of the assets of the Company to another person (collectively, a "Sale"), the Company will require, in the agreements reflecting such transaction, that the surviving entity expressly assume the obligations of the Company hereunder. Notwithstanding the foregoing, if the Company enters into a Sale and the holders of the Common Stock are entitled to receive stock, securities or property in respect of or in exchange for Common Stock, then as a condition of such Sale, the Company and any such successor, purchaser or transferee will agree that this Debenture may thereafter be converted on the terms and subject to the conditions set forth above into the kind and amount of stock, securities or property receivable upon such merger, consolidation, sale or transfer by a Holder of this Debenture into which this Debenture might have been converted immediately before such merger, consolidation, sale or transfer, subject to adjustments which

shall be as nearly equivalent as may be practicable. In the event of any such proposed Sale, the Holder hereof shall have the right to either (i) convert all of any of the outstanding portion of this Debenture (without regard to the limits contemplated by Paragraph 4(D) hereof) by delivering a Notice of Conversion to the Company within 15 days of receipt of notice of such Sale from the Company or (ii) by delivering a notice to such effect to the Company within fifteen (15) days of receipt of notice of such Sale from the Company, (x) if the surviving entity in the transaction is not a publicly traded entity listed on a Principal Trading Market, demand a redemption of all or any of the outstanding portion of this Debenture for the Redemption Amount, and/or (y) if the surviving entity in the transaction is a publicly traded entity listed on a Principal Trading Market, elect to retain all or any of the outstanding portion of this Debenture, as to which all of the terms hereof, including but not limited to the conversion terms, shall remain in full force and effect. Anything in this Section 6(A) to the contrary notwithstanding, if the Sale is for cash consideration of at least \$5.00 per share (adjusted for capital transactions occurring after the Closing Date) with or without other consideration (a "Cash Sale"), the Holder shall be deemed to have converted all outstanding principal of this Debenture (and the Company shall be deemed to have elected to pay all accrued but unpaid interest thereon in Common Stock) immediately before the consummation of such Cash Sale, without regard to any of the limitations contemplated by Section 4(D) hereof.

B. The Company agrees that for as long as Debentures having an outstanding principal balance equal to ten percent (10 %) of the original principal amount of the Debentures issued to the Holder (or the Holder's predecessor in interest) on the Closing Date remain outstanding, the Company will not, without the consent of the Holder, spin off or otherwise divest itself of a part of its business or operations or dispose all or of a part of its assets in a transaction (the "Spin Off") in which the Company does not receive just compensation for such business, operations or assets, but causes securities of another entity (the "Spin Off Securities") to be issued to security holders of the Company. If, for any reason, prior to the Conversion Date or the date of payment of the Redemption Amount hereunder, the Company, with the consent of the Holder, consummates a Spin Off, then the Company shall cause (i) to be reserved Spin Off Securities equal to the number thereof which would have been issued to the Holder had all of the this Debenture outstanding on the record date (the "Record Date") for determining the amount and number of Spin Off Securities to be issued to security holders of the Company (the "Outstanding Debentures") been converted as of the close of business on the trading day immediately before the Record Date (the "Reserved Spin Off Shares"), and (ii) to be issued to the Holder on the conversion of all or any of the Outstanding Debentures, such amount of the Reserved Spin Off Shares equal to (x) the Reserved Spin Off Shares multiplied by (y) a fraction, of which (a) the numerator is the principal amount of the Outstanding Debentures then being converted, and (b) the denominator is the principal amount of the Outstanding Debentures.

C. If, at any time while this Debenture remains outstanding, the Company effectuates a stock split or reverse stock split of its Common Stock or issues a dividend on its Common Stock consisting of shares of Common Stock, the Conversion Price and any other amounts calculated as contemplated hereby or by any of the other Transaction Agreements shall be equitably adjusted to reflect such action. By way of illustration, and not in limitation, of the foregoing (i) if the Company effectuates a 2:1 split of its Common Stock, thereafter, with respect

to any conversion for which the Company issues shares after the record date of such split, any market price from a date prior to such split which was used in any of the calculation of the Conversion Price shall be deemed to be one-half of what it had been calculated to be immediately prior to such split; (ii) if the Company effectuates a 1:10 reverse split of its Common Stock, thereafter, with respect to any conversion for which the Company issues shares after the record date of such reverse split, any market price from a date prior to such split which was used in any of the calculation of the Conversion Price shall be deemed to be ten times what it had been calculated to be immediately prior to such split; and (iii) if the Company declares a stock dividend of one share of Common Stock for every 10 shares outstanding, thereafter, with respect to any conversion for which the Company issues shares after the record date of such dividend, any market price from a date prior to such record date which was used in any of the calculation of the Conversion Price shall be deemed to be such amount multiplied by a fraction, of which the numerator is the number of shares (10 in the example) for which a dividend share will be issued and the denominator is such number of shares plus the dividend share(s) issuable or issued thereon (11 in the example).

D. Upon the occurrence of each adjustment or readjustment of the Conversion Price pursuant to this Section 6, the Company, at its expense, shall promptly compute such adjustment or readjustment and prepare and furnish to each Holder of Debentures in this series of Debentures a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, upon the written request at any time of the Holder, furnish to such Holder a like certificate setting forth (i) such adjustment or readjustment, (ii) the Initial Conversion Price at the time in effect and (iii) the number of shares of Common Stock and the amount, if any, of other securities or property which at the time would be received upon conversion of this Debenture.

7. Subject to the terms of the Securities Purchase Agreement, no provision of this Debenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of, and interest on, this Debenture at the time, place, and rate, and in the coin or currency, herein prescribed. This Debenture and all other Debentures now or hereafter issued of similar terms are direct obligations of the Company.

8. A. The obligations of the Company under this Debenture are secured under the terms of the Securities Purchase Agreement.

B. No recourse shall be had for the payment of the principal of, or the interest on, this Debenture, or for any claim based hereon, or otherwise in respect hereof, against any incorporator, shareholder, officer or director, as such, past, present or future, of the Company or any successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance hereof and as part of the consideration for the issue hereof, expressly waived and released.

9. Whenever the Company is required to make any cash payment to a Holder under this Debenture (upon redemption or otherwise), such cash payment shall be made to the Holder on the date specified herein or, if not so specified, within five (5) business days after delivery by

such Holder of a notice specifying that the Holder elects to receive such payment in cash and the method (e.g., by check, wire transfer) in which such payment should be made. If such payment is not delivered within the relevant time period, such Holder shall thereafter be entitled to interest on the unpaid amount at a per annum rate equal to the lower of 15% and the highest interest rate permitted by applicable law until such amount is paid in full to the Holder.

10. The Holder of this Debenture, by acceptance hereof, agrees that this Debenture is being acquired for investment and that such Holder will not offer, sell or otherwise dispose of this Debenture or the shares of Common Stock issuable upon conversion thereof except under circumstances which will not result in a violation of the Act or any applicable state Blue Sky or foreign laws or similar laws relating to the sale of securities.

11. This Debenture shall be governed by and construed in accordance with the laws of the State of New York. Each of the parties consents to the jurisdiction of the federal courts whose districts encompass any part of the City of New York or the state courts of the State of New York sitting in the City of New York in connection with any dispute arising under this Agreement and hereby waives, to the maximum extent permitted by law, any objection, including any objection based on forum non conveniens, to the bringing of any such proceeding in such jurisdictions. To the extent determined by such court, the Company shall reimburse the Holder for any reasonable legal fees and disbursements incurred by the Holder in enforcement of or protection of any of its rights under any provision of this Debenture.

12. The following shall constitute an "Event of Default":

- a. The Company shall default in the payment of principal or interest on this Debenture and same shall continue for a period of five (5) business days; or
- b. Any of the representations or warranties made by the Company herein, in the Securities Purchase Agreement, the Registration Rights Agreement or in any certificate or financial or other written statements heretofore or hereafter furnished by the Company in connection with the execution and delivery of this Debenture or the Securities Purchase Agreement shall be false or misleading in any material respect at the time made; or
- c. Subject to the terms of the Securities Purchase Agreement, the Company fails to authorize or to cause its transfer agent to issue shares of Common Stock upon exercise by the Holder of the conversion rights of the Holder in accordance with the terms of this Debenture, fails to transfer or to cause its Transfer Agent to transfer any certificate for shares of Common Stock issued to the Holder upon conversion of this Debenture and when required by this Debenture or the Registration Rights Agreement, and such transfer is otherwise lawful, or fails to remove any restrictive legend on any certificate or fails to cause its Transfer Agent to remove such restricted legend, in each case where such removal is lawful, as and when required

by this Debenture, the Agreement or the Registration Rights Agreement, and any such failure shall continue uncured for five (5) business days; or

- d. The Company shall fail to perform or observe, in any material respect, any other covenant, term, provision, condition, agreement or obligation of this Debenture and such failure shall continue uncured for a period of thirty (30) days after written notice from the Holder of such failure; or
- e. The Company shall fail to perform or observe, in any material respect, any covenant, term, provision, condition, agreement or obligation of the Company under the Securities Purchase Agreement or the Registration Rights Agreement and such failure shall continue uncured for a period of thirty (30) days after written notice from the Holder of such failure (other than a failure to cause the Registration Statement to become effective no later than the Required Effective Date, as defined and provided in the Registration Rights Agreement, as to which no such cure period shall apply); or
- f. The Company shall (1) admit in writing its inability to pay its debts generally as they mature; (2) make an assignment for the benefit of creditors or commence proceedings for its dissolution; or (3) apply for or consent to the appointment of a trustee, liquidator or receiver for its or for a substantial part of its property or business; or
- g. A trustee, liquidator or receiver shall be appointed for the Company or for a substantial part of its property or business without its consent and shall not be discharged within sixty (60) days after such appointment; or
- h. Any governmental agency or any court of competent jurisdiction at the instance of any governmental agency shall assume custody or control of the whole or any substantial portion of the properties or assets of the Company and shall not be dismissed within sixty (60) days thereafter; or

- i. Any money judgment, writ or warrant of attachment, or similar process in excess of Two Hundred Thousand (\$200,000) Dollars in the aggregate shall be entered or filed against the Company or any of its properties or other assets and shall remain unpaid, unvacated, unbonded or unstayed for a period of sixty (60) days or in any event later than five (5) days prior to the date of any proposed sale thereunder; or
- j. Bankruptcy, reorganization, insolvency or liquidation proceedings or other proceedings for relief under any bankruptcy law or any law for the relief of debtors shall be instituted by or against the Company and, if instituted against the Company, shall not be dismissed within sixty (60) days after such institution or the Company shall by any action or answer approve of, consent to, or acquiesce in any such proceedings or admit the material allegations of, or default in answering a petition filed in any such proceeding;
- k. The Company shall be in default to the Senior Lender under the terms of the then applicable agreements between the Company and the Senior Lender and any such failure shall continue uncured for thirty (30) days; or
- l. The Company shall have its Common Stock suspended or delisted from the Nasdaq/SmallCap from trading for in excess of twenty (20) trading days.

Then, or at any time thereafter, and in each and every such case, unless such Event of Default shall have been waived in writing by the Holder (which waiver shall not be deemed to be a waiver of any subsequent default) at the option of the Holder and in the Holder's sole discretion, the Holder may consider this Debenture immediately due and payable, without presentment, demand, protest or notice of any kinds, all of which are hereby expressly waived, anything herein or in any note or other instruments contained to the contrary notwithstanding, and the Holder may immediately enforce any and all of the Holder's rights and remedies provided herein or any other rights or remedies afforded by law.

13. Nothing contained in this Debenture shall be construed as conferring upon the Holder the right to vote or to receive dividends or to consent or receive notice as a shareholder in respect of any meeting of shareholders or any rights whatsoever as a shareholder of the Company, unless and to the extent converted in accordance with the terms hereof.

14. In the event for any reason, any payment by or act of the Company or the Holder shall result in payment of interest which would exceed the limit authorized by or be in violation of the law of the jurisdiction applicable to this Debenture, then ipso facto the obligation of the Company to pay interest or perform such act or requirement shall be reduced to the limit authorized under such law, so that in no event shall the Company be obligated to pay any such interest, perform any such act or be bound by any requirement which would result in the payment of interest in excess of the limit so authorized. In the event any payment by or act of the Company shall result in the extraction of a rate of interest in excess of a sum which is lawfully collectible as interest, then such amount (to the extent of such excess not returned to the Company) shall, without further agreement or notice between or

by the Company or the Holder, be deemed applied to the payment of principal, if any, hereunder immediately upon receipt of such excess funds by the Holder, with the same force and effect as though the Company had specifically designated such sums to be so applied to principal and the Holder had agreed to accept such sums as an interest-free prepayment of this Debenture. If any part of such excess remains after the principal has been paid in full, whether by the provisions of the preceding sentences of this Section 14 or otherwise, such excess shall be deemed to be an interest-free loan from the Company to the Holder, which loan shall be payable immediately upon demand by the Company. The provisions of this Section 14 shall control every other provision of this Debenture.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed by an officer thereunto duly authorized.

Dated: _____, 2000

TITAN MOTORCYCLE CO. OF AMERICA

By: _____

(Print Name)

NOTICE OF CONVERSION

(To be executed by the Registered Holder in order to convert the 12% Secured Convertible Debenture due August 31, 2002)

TO: TITAN MOTORCYCLE CO. OF AMERICA VIA TELECOPIER TO:
2222 West Peoria Avenue
Phoenix, AZ 85029
Attn: Frank Keery, President (602) 331-0941

CC: Titan Motorcycle Co. of America
Attn: Chief Financial Officer (602) 331-0941

----- () -
(Company's Transfer Agent)

Snell & Wilmer LLP
Attn: Richard B. Stagg, Esq. (602) 382-6070
(Company's Counsel)

FROM: _____
("Holder")

DATE: _____
(the "Conversion Date")

RE: Conversion of \$_____ principal amount (the "Converted Debenture") of the 12% Secured Convertible Debenture Due August 31, 2002 (the "Debenture") of TITAN MOTORCYCLE CO. OF AMERICA (the "Company") into _____ shares (the "Converted Shares") of Common Stock (defined below)

CONVERSION DATE:

The captioned Holder hereby gives notice to the Company, pursuant to the Debenture of TITAN MOTORCYCLE CO. OF AMERICA that the Holder elects to convert the Converted Debenture into fully paid and non-assessable shares of Common Stock, \$.001 par value (the "Common Stock"), of the Company as of the Conversion Date specified above. Said conversion shall be based on the following Conversion Price (the lower of the two alternatives is checked):

- \$_____, representing the Fixed Conversion Price (as defined in the Debenture)

- \$_____, representing the Variable Conversion Price (as defined in the Debenture).

If the Variable Conversion Price is selected above, a schedule of the Closing Bid Prices of the Common Stock for the twenty-two trading days prior to the Conversion Date, as reported on the Principal Trading Market as reported by the Reporting Service (as those terms are defined in the Securities Purchase Agreement defined in the Debenture), is attached for your reference in determining the Conversion Price.

Based on this Conversion Price, the number of Converted Shares indicated above should be issued in the following name(s):

Name and Record Address	Converted Shares

As contemplated by the Debenture and the Securities Purchase Agreement, this Notice of Conversion is being sent by facsimile to the telecopier number and officer indicated above, with a copy to the Company's counsel.

The Holder has previously surrendered or will surrender (or cause to be surrendered) the Debenture for the Converted Debenture, duly endorsed, to the Company at the address indicated above by express courier within five (5) business days after delivery or facsimile transmission of this Notice of Conversion.

The certificates representing the Converted Shares (together with the original Converted Debenture or a replacement thereof representing the principal of the Debenture not converted hereby) should be transmitted by the Company to the Holder via express courier or by electronic transfer within the time contemplated by the Debenture and Securities Purchase Agreement after receipt of this Notice of Conversion (by facsimile transmission or otherwise) and the Debenture(s) representing the Converted Debentures to:

As contemplated by the Debenture, the Company should also pay all accrued but unpaid interest on the Converted Debenture to the Holder. If being paid in cash, such payment should be made by wire transfer as follows:

If being paid in Common Stock as contemplated by the Debenture, such shares should be issued in the name of the Holder and delivered in the same manner as, and together with, the Converted Shares.

With the conversion effected hereby, the Holder represents to the Company that the Holder is in compliance with the provisions of Section 4(D) of the Debenture.

The Holder hereby affirms to the Company that the Holder is in compliance with the provisions of Section 2(i) of the Securities Purchase Agreement.

(Print name of Holder)

By: _____
(Signature of Authorized Person)

(Printed Name and Title)

THESE SECURITIES (THE "SECURITIES") HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE SOLD OR OFFERED FOR SALE IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES OR AN OPINION OF COUNSEL OR OTHER EVIDENCE ACCEPTABLE TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

TITAN MOTORCYCLE CO. OF AMERICA

COMMON STOCK PURCHASE WARRANT

1. Issuance; Certain Definitions. In consideration of good and valuable consideration, the receipt of which is hereby acknowledged by TITAN MOTORCYCLE CO. OF AMERICA, a Nevada corporation (the "Company"), CELESTE TRUST REG or registered assigns (the "Holder") is hereby granted the right to purchase at any time until 5:00 P.M., New York City time, on August 31, 2005 (the "Expiration Date"), Five Hundred Twelve Thousand Five Hundred Eighty (512,580) fully paid and nonassessable shares of the Company's Common Stock, par value \$.001 per share (the "Common Stock") at an exercise price per share of \$.61 (the "Exercise Price"), subject to further adjustment as set forth herein. This Warrant is being issued pursuant to the terms of that certain Securities Purchase Agreement, dated as of August 11, 2000 (the "Securities Purchase Agreement"), to which the Company and Holder (or Holder's predecessor in interest) are parties. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Securities Purchase Agreement.

2. Exercise of Warrants.

2.1 General. This Warrant is exercisable in whole or in part at any time and from time to time. Such exercise shall be effectuated by submitting to the Company (either by delivery to the Company or by facsimile transmission as provided in Section 8 hereof) a completed and duly executed Notice of Exercise (substantially in the form attached to this Warrant Certificate) as provided in this paragraph. The date such Notice of Exercise is faxed to the Company shall be the "Exercise Date," provided that the Holder of this Warrant tenders this Warrant Certificate to the Company within five (5) business days thereafter. The Notice of Exercise shall be executed by the Holder of this Warrant and shall indicate the number of shares then being purchased pursuant to such exercise. Upon surrender of this Warrant Certificate, together with appropriate payment of the Exercise Price for the shares of Common Stock purchased, the Holder shall be entitled to receive a certificate or certificates for the shares of Common Stock so purchased. If the Notice of Exercise elects a "cash" exercise, the Exercise Price per share of Common Stock for the shares then being exercised shall be payable in cash or by certified or official bank check. If the Notice of Exercise elects a "cashless" exercise, the Holder shall thereby be entitled to receive a number of shares of Common Stock equal to (x) the excess of the Current Market Value (as defined below) over the total cash exercise price of the

portion of the Warrant then being exercised, divided by (y) the Market Price of the Common Stock as of the trading day immediately prior to the Exercise Date. For the purposes of this Warrant, the terms (Q) "Current Market Value" shall mean an amount equal to the Market Price of the Common Stock as of the trading day immediately prior to the Exercise Date, multiplied by the number of shares of Common Stock specified in such Notice of Exercise, and (R) "Market Price of the Common Stock" shall mean an amount equal to the closing price of the Common Stock as reported by Bloomberg, LP or, if not so reported, as reported by the securities exchange or automated quotation system on which the Common Stock is listed or on the over-the-counter market for the relevant date. The Holder shall be deemed to be the holder of the shares issuable to it in accordance with the provisions of this Section 2.1 on the Exercise Date.

2.2 Limitation on Exercise. Notwithstanding the provisions of this Warrant, the Securities Purchase Agreement or of the other Transaction Agreements, in no event (except (i) as specifically provided in this Warrant as an exception to this provision, (ii) while there is outstanding a tender offer for any or all of the shares of the Company's Common Stock, or (iii) on at least sixty-five (65) days' advance written notice from the Holder) shall the Holder be entitled to exercise this Warrant, or shall the Company have the obligation to issue shares upon such exercise of all or any portion of this Warrant, to the extent that, after such exercise the sum of (1) the number of shares of Common Stock beneficially owned by the Holder and its affiliates (other than shares of Common Stock which may be deemed beneficially owned through the ownership of any unconverted portion of the Debentures or unexercised portion of the Warrants), and (2) the number of shares of Common Stock issuable upon the exercise of the Warrants with respect to which the determination of this proviso is being made, would result in beneficial ownership by the Holder and its affiliates of more than 9.99% of the outstanding shares of Common Stock (after taking into account the shares to be issued to the Holder upon such exercise). For purposes of the proviso to the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, except as otherwise provided in clause (1) of such sentence. The Holder, by its acceptance of this Warrant, further agrees that if the Holder transfers or assigns any of the Warrants to a party who or which would not be considered such an affiliate, such assignment shall be made subject to the transferee's or assignee's specific agreement to be bound by the provisions of this Section 2.2 as if such transferee or assignee were the original Holder hereof.

3. Reservation of Shares. The Company hereby agrees that at all times during the term of this Warrant there shall be reserved for issuance upon exercise of this Warrant such number of shares of its Common Stock as shall be required for issuance upon exercise of this Warrant (the "Warrant Shares").

4. Mutilation or Loss of Warrant. Upon receipt by the Company of evidence satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and (in the case of loss, theft or destruction) receipt of reasonably satisfactory indemnification and affidavit, and (in the case of mutilation) upon surrender and cancellation of this Warrant, the Company will execute and deliver a new Warrant of like tenor and date and any such lost, stolen, destroyed or mutilated Warrant shall thereupon become void.

5. Rights of the Holder. The Holder shall not, by virtue hereof, be entitled to any rights of a stockholder in the Company, either at law or equity, and the rights of the Holder

are limited to those expressed in this Warrant and are not enforceable against the Company except to the extent set forth herein.

6. Protection Against Dilution.

6.1 Adjustment Mechanism. If an adjustment of the Exercise Price is required pursuant to this Section 6, the Holder shall be entitled to purchase such number of additional shares of Common Stock as will cause (i) the total number of shares of Common Stock Holder is entitled to purchase pursuant to this Warrant, multiplied by (ii) the adjusted Exercise Price per share, to equal (iii) the dollar amount of the total number of shares of Common Stock which the Holder is entitled to purchase before adjustment, multiplied by the total Exercise Price before adjustment.

6.2 Capital Adjustments. In case of any stock split or reverse stock split, stock dividend, reclassification of the Common Stock, recapitalization, merger or consolidation, or like capital adjustment affecting the Common Stock of the Company, the provisions of this Section 6 shall be applied as if such capital adjustment event had occurred immediately prior to the date of this Warrant and the original Exercise Price had been fairly allocated to the stock resulting from such capital adjustment; and in other respects the provisions of this Section shall be applied in a fair, equitable and reasonable manner so as to give effect, as nearly as may be, to the purposes hereof. A rights offering to stockholders shall be deemed a stock dividend to the extent of the bargain purchase element of the rights.

6.3 Adjustment for Spin Off. If, for any reason, prior to the exercise of this Warrant in full, the Company spins off or otherwise divests itself of a part of its business or operations or disposes all or a part of its assets in a transaction (the "Spin Off") in which the Company does not receive compensation for such business, operations or assets, but causes securities of another entity (the "Spin Off Securities") to be issued to security holders of the Company, then

(a) the Company shall cause (i) to be reserved Spin Off Securities equal to the number thereof which would have been issued to the Holder had all of the Holder's unexercised Warrants outstanding on the record date (the "Record Date") for determining the amount and number of Spin Off Securities to be issued to security holders of the Company (the "Outstanding Warrants") been exercised as of the close of business on the trading day immediately before the Record Date (the "Reserved Spin Off Shares"), and (ii) to be issued to the Holder on the exercise of all or any of the Outstanding Warrants, such amount of the Reserved Spin Off Shares equal to (x) the Reserved Spin Off Shares multiplied by (y) a fraction, of which (I) the numerator is the amount of the Outstanding Warrants then being exercised, and (II) the denominator is the amount of the Outstanding Warrants; and

(b) the Exercise Price on the Outstanding Warrants shall be adjusted immediately after consummation of the Spin Off by multiplying the Exercise Price by a fraction (if, but only if, such fraction is less than 1.0), the numerator of which is the average Market Price of the Common Stock for the five (5) trading days immediately following the fifth trading day after the Record Date, and the denominator of which is the average Market Price of the Common Stock on the five (5) trading days immediately preceding the Record Date; and such adjusted Exercise Price shall be deemed to be the Exercise Price with respect to the Outstanding Warrants after the Record Date.

7. Transfer to Comply with the Securities Act; Registration

Rights.

7.1 Transfer. This Warrant has not been registered under the Securities Act of 1933, as amended, (the "Act") and has been issued to the Holder for investment and not with a view to the distribution of either the Warrant or the Warrant Shares. Neither this Warrant nor any of the Warrant Shares or any other security issued or issuable upon exercise of this Warrant may be sold, transferred, pledged or hypothecated in the absence of an effective registration statement under the Act relating to such security or an opinion of counsel satisfactory to the Company that registration is not required under the Act. Each certificate for the Warrant, the Warrant Shares and any other security issued or issuable upon exercise of this Warrant shall contain a legend on the face thereof, in form and substance satisfactory to counsel for the Company, setting forth the restrictions on transfer contained in this Section.

7.2 Registration Rights. (a) Reference is made to the Registration Rights Agreement. The Company's obligations under the Registration Rights Agreement and the other terms and conditions thereof with respect to the Warrant Shares, including, but not necessarily limited to, the Company's commitment to file a registration statement including the Warrant Shares, to have the registration of the Warrant Shares completed and effective, and to maintain such registration, are incorporated herein by reference.

(b) In addition to the registration rights referred to in the preceding provisions of Section 7.2(a), effective after the expiration of the effectiveness of the Registration Statement as contemplated by the Registration Rights Agreement, the Holder shall have piggy-back registration rights with respect to the Warrant Shares then held by the Holder or then subject to issuance upon exercise of this Warrant (collectively, the "Remaining Warrant Shares"), subject to the conditions set forth below. If, at any time after the Registration Statement

has ceased to be effective, the Company participates (whether voluntarily or by reason of an obligation to a third party) in the registration of any shares of the Company's stock (other than a registration on Form S-4 or Form S-8), the Company shall give written notice thereof to the Holder and the Holder shall have the right, exercisable within ten (10) business days after receipt of such notice, to demand inclusion of all or a portion of the Holder's Remaining Warrant Shares in such registration statement. If the Holder exercises such election, the Remaining Warrant Shares so designated shall be included in the registration statement at no cost or expense to the Holder (other than any costs or commissions which would be borne by the Holder under the terms of the Registration Rights Agreement), subject to the following condition: if there is a managing underwriter of the offering of shares referred to in the registration statement and such managing underwriter advises the Company in writing that the number of shares proposed to be included in the offering will have an adverse effect on its ability to successfully conclude the offering and, as a result, the number of shares to be included in the offering is to be reduced, the number of Remaining Warrant Shares of the Holder which were to be included in the registration (before such reduction) will be reduced pro rata with the number of shares included for all other parties whose shares are being registered. The Holder's rights under this Section 7 shall expire at such time as the Holder can sell all of the Remaining Warrant Shares under Rule 144 without volume or other restrictions or limit.

8. Notices. Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered personally, telegraphed, telexed, sent by facsimile transmission or sent by certified, registered or express mail, postage pre-paid. Any such notice shall be deemed given when so delivered personally, telegraphed, telexed or sent by facsimile transmission, or, if mailed, two days after the date of deposit in the United States mails, as follows:

- (i) if to the Company, to:

TITAN MOTORCYCLE CO. OF AMERICA
2222 West Peoria Avenue
Phoenix, AZ 85029
Attn: Frank Keery
Telephone No.: (602) 861-6977
Telecopier No.: (602) 331-0941

with a copy to:

Snell & Wilmer LLP
One Arizona Center
Phoenix, AZ 85048
Attn: Richard Stagg, Esq.
Telephone No.: (602) 382-6000
Telecopier No.: (602) 382-6070

- (ii) if to the Holder, to:

Celeste Trust Reg

c/o Trevisa-Trevland-Anstalt
Landstrasse 8
Furstentume 9496
Balzers, Liechtenstein

ATTN:
Telephone No.: () -
Telecopier No.: () -

with a copy to: Krieger & Prager LLP, Esqs.
39 Broadway
Suite 1440
New York, NY 10006
Attn: Samuel Krieger, Esq.
Telephone No.: (212) 363-2900
Telecopier No. (212) 363-2999

Any party may be notice given in accordance with this Section to the other parties designate another address or person for receipt of notices hereunder.

9. Supplements and Amendments; Whole Agreement. This Warrant may be amended or supplemented only by an instrument in writing signed by the parties hereto. This Warrant contains the full understanding of the parties hereto with respect to the subject matter hereof and thereof and there are no representations, warranties, agreements or understandings other than expressly contained herein and therein.

10. Governing Law. This Warrant shall be deemed to be a contract made under the laws of the State of New York for contracts to be wholly performed in such state and without giving effect to the principles thereof regarding the conflict of laws. Each of the parties consents to the jurisdiction of the federal courts whose districts encompass any part of the City of New York or the state courts of the State of New York sitting in the City of New York in connection with any dispute arising under this Warrant and hereby waives, to the maximum extent permitted by law, any objection, including any objection based on forum non conveniens, to the bringing of any such proceeding in such jurisdictions. To the extent determined by such court, the Company shall reimburse the Holder for any reasonable legal fees and disbursements incurred by the Holder in enforcement of or protection of any of its rights under any of the Transaction Agreements.

11. Counterparts. This Warrant may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

12. Descriptive Headings. Descriptive headings of the several Sections of this Warrant are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

IN WITNESS WHEREOF, the parties hereto have executed this Warrant as of the 11th day of August, 2000.

TITAN MOTORCYCLE CO. OF AMERICA

By:

Name:

Its:

Attest:

Name:

Title:

NOTICE OF EXERCISE OF WARRANT

The undersigned hereby irrevocably elects to exercise the right, represented by the Warrant Certificate dated as of , , to purchase shares of the Common Stock, par value \$.001 per share, of TITAN MOTORCYCLE CO. OF AMERICA and tenders herewith payment in accordance with Section 1 of said Common Stock Purchase Warrant.

Please deliver the stock certificate to:

With the exercise effected hereby, the Holder represents to the Company that the Holder is in compliance with the provisions of Section 2.2 of this Warrant.

Dated:

[Name of Holder]

By:

— CASH: \$

— CASHLESS EXERCISE

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT, dated as of August 11, 2000 (this "Agreement"), is made by and between TITAN MOTORCYCLE CO. OF AMERICA, a Nevada corporation, with headquarters located at 2222 West Peoria Avenue, Phoenix, AZ 85029 (the "Company"), and each entity named on a signature page hereto (each, an "Initial Investor") (each agreement with an Initial Investor being deemed a separate and independent agreement between the Company and such Initial Investor, except that each Initial Investor acknowledges and consents to the rights granted to each other Initial Investor under such agreement).

W I T N E S S E T H:

WHEREAS, upon the terms and subject to the conditions of the Securities Purchase Agreement, dated as of August 11, 2000, between the Initial Investor and the Company (the "Securities Purchase Agreement"), the Company has agreed to issue and sell to the Initial Investor one or more 12% Secured Convertible Debentures of the Company, in an aggregate principal amount of \$750,000 (the "Debentures"); and

WHEREAS, the Company has agreed to issue the Warrants to the Initial Investor in connection with the issuance of the Debentures; and

WHEREAS, the Debentures are convertible into shares of Common Stock (the "Converted Shares"; which term, for purposes of this Agreement, shall include (x) shares of Common Stock of the Company issuable in lieu of accrued interest on the Debentures through the Maturity Date of the Debentures and (y) Periodic Amount Shares, as defined below) upon the terms and subject to the conditions contained in the Debentures and the other Transaction Agreements, and the Warrants may be exercised for the purchase of shares of Common Stock (the "Warrant Shares") upon the terms and conditions of the Warrants; and

WHEREAS, to induce the Initial Investor to execute and deliver the Securities Purchase Agreement, the Company has agreed to provide certain registration rights under the Securities Act of 1933, as amended, and the rules and regulations thereunder, or any similar successor statute (collectively, the "Securities Act"), with respect to the Converted Shares and the Warrant Shares;

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Initial Investor hereby agree as follows:

- DEFINITIONS. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Securities Purchase Agreement. As used in this Agreement, the following terms shall have the following meanings:

(i) "Effective Date" means the date the SEC declares a Registration Statement covering Registrable Securities and otherwise meeting the conditions contemplated hereby to be effective.

(ii) "Investor" means the Initial Investor and any permitted transferee or assignee who agrees to become bound by the provisions of this Agreement in accordance with Section 9 hereof and who holds Debentures, Warrants or Registrable Securities.

(iii) "Potential Material Event" means any of the following: (i) the possession by the Company of material information not ripe for disclosure in a registration statement, which shall be evidenced by determinations in good faith by the Board of Directors of the Company that disclosure of such information in the registration statement would be detrimental to the business and affairs of the Company; or (ii) any material engagement or activity by the Company which would, in the good faith determination of the Board of Directors of the Company, be adversely affected by disclosure in a registration statement at such time, which determination shall be accompanied by a good faith determination by the Board of Directors of the Company that the registration statement would be materially misleading absent the inclusion of such information.

(iv) "Register," "Registered," and "Registration" refer to a registration effected by preparing and filing a Registration Statement or Statements in compliance with the Securities Act and pursuant to Rule 415 under the Securities Act or any successor rule providing for offering securities on a continuous basis ("Rule 415"), and the declaration or ordering of effectiveness of such Registration Statement by the United States Securities and Exchange Commission (the "SEC").

(v) "Registrable Securities" means the Converted Shares and the Warrant Shares.

(vi) "Registration Statement" means a registration statement of the Company under the Securities Act covering Registrable Securities on Form S-3, if the Company is then eligible to file using such form, and if not so eligible, on Form SB-2 or other appropriate form.

(vii) "Required Effective Date" means the relevant Initial Required Effective Date or Increased Required Effective Date (as those terms are defined below).

- REGISTRATION.

() MANDATORY REGISTRATION.

(i) The Company shall prepare and file with the SEC, as soon as possible after the Closing Date but no later than a date (the "Required Filing Date") which is thirty (30) days after the Closing Date, either a Registration Statement or an amendment to an existing Registration Statement, registering for resale by the Investor a sufficient number of shares of Common Stock for the Initial Investors to sell the Registrable Securities, but in no event less than the number of shares equal to the sum of (A) two hundred percent (200%) of the aggregate number of shares into which the Debentures and all interest thereon through the Maturity Date would be convertible at the time of filing of such Registration Statement (assuming for such purposes that all Debentures had been eligible to be converted, and had been converted, into Converted Shares in accordance with their terms, whether or not such accrual of interest, eligibility or conversion had in fact occurred as of such date) and (B) the number of shares which would be issued upon exercise of all of the Warrants (assuming for such purposes that all Warrants were eligible to be exercised and had been exercised in accordance with their terms, whether or not such eligibility or exercise had in fact occurred as of such date) (or such lesser number as may be required by the SEC). The Registration Statement (w) shall include only the Registrable Securities and the shares specifically listed on EXHIBIT 1 annexed hereto, and (X) shall state that, in accordance with Rule 416 and 457 under the Securities Act, it also covers such indeterminate number of additional shares of Common Stock as may become issuable upon conversion of the Debentures and the exercise of the Warrants to prevent dilution resulting from stock splits or stock dividends. The Company will use its reasonable best efforts to cause such Registration Statement to be declared effective on a date (the "Initial Required Effective Date") which is no later than the earlier of (Y) five (5) days after oral or written notice by the SEC that it may be declared effective or (Z) one hundred twenty (120) days after the Closing Date.

(ii) If at any time (an "Increased Registered Shares Date"), the number of shares of Common Stock represented by the Registrable Shares, issued or to be issued as contemplated by the Transaction Agreements, exceeds the aggregate number of shares of Common Stock then registered, the Company shall either (X) amend the relevant Registration Statement filed by the Company pursuant to the preceding provisions of this Section 2, if such Registration Statement has not been declared effective by the SEC at that time, to register, in the aggregate, at least the number of shares (the "Increased Shares Amount") equal to (A) (I) the number of shares previously issued on conversion of the Debentures (including any Converted Shares issued in lieu of cash interest) plus (II) two hundred percent (200%) of the number of shares into which the unconverted Debentures and all interest thereon through the Maturity Date would be convertible at the Increased Registered Shares Date (assuming for such purposes that all such Debentures had been eligible to be converted, and had been converted, into Converted Shares in accordance with their terms, whether or not such accrual of interest, eligibility or conversion had in fact occurred as of such date) and (B) the number of shares which would be issued upon exercise of all of the Warrants (assuming for such purposes that all Warrants had been eligible to be exercised and had been exercised in accordance with their terms, whether or not such issuance, eligibility or exercise had in fact occurred as of such date), or (Y) if such Registration Statement has been declared effective by the SEC at that time, file with the SEC an additional Registration Statement (an "Additional Registration Statement") to register the number of shares equal to two hundred percent (200%) of the excess of the Increased Shares Amount over the aggregate number of shares of Common Stock already registered. The

Company will use its reasonable best efforts to cause such Registration Statement to be declared effective on a date (each, an "Increased Required Effective Date") which is no later than (Q) with respect to a Registration Statement under clause (X) of this subparagraph (ii), the Initial Required Effective Date and (R) with respect to an Additional Registration Statement, the earlier of (I) five (5) days after notice by the SEC that it may be declared effective or (II) thirty (30) days after the Increased Registered Shares Date.

() PAYMENTS BY THE COMPANY.

(i) If the Registration Statement covering the Registrable Securities is not filed in proper form with the SEC by the Required Filing Date, the Company will make payment to the Initial Investor in such amounts and at such times as shall be determined pursuant to this Section 2(b).

(ii) If the Registration Statement covering the Registrable Securities is not effective by the relevant Required Effective Date or if the Investor is restricted from making sales of Registrable Securities covered by any previously effective Registration Statement at any time (the date such restriction commences, a "Restricted Sale Date") after the Effective Date other than during a Permitted Suspension Period (as defined below), then the Company will make payments to the Initial Investor in such amounts and at such times as shall be determined pursuant to this Section 2(b).

(iii) The amount (the "Periodic Amount") to be paid by the Company to the Initial Investor shall be determined as of each Computation Date (as defined below) and such amount shall be equal to the Periodic Amount Percentage (as defined below) of the Purchase Price for all Debentures for the period from the date following the relevant Required Effective Date or Restricted Sale Date, as the case may be, to the first relevant Computation Date, and thereafter to each subsequent Computation Date. The "Periodic Amount Percentage" means (A) for the period beginning on the date following the relevant Required Filing Date, Required Effective Date or Restricted Sale Date, as the case may be, and continuing to the first relevant Computation Date, one percent (1%) of the Purchase Price of all Debentures, and (B) thereafter, for each period beginning on the first day after the immediately preceding Computation Date and continuing to the immediately following Computation Date, two percent (2%) of the Purchase Price of all Debentures. By way of illustration and not in limitation of the foregoing, if the Registration Statement is not declared effective until one hundred sixty-five (165) days after the Closing Date, the Periodic Amount will aggregate five percent (5%) of the Purchase Price of the Debentures (1% for days 91-120, plus 2% for days 121-150, plus 2% for days 151-165).

(iv) Each Periodic Amount will be payable by the Company, except as provided in the other provisions of this subparagraph (iv), in cash or other immediately available funds to the Investor (1) on the day after the Required Filing Date or the Required Effective Date, as the case may be, and (2) on the earlier of (A) each thirtieth day thereafter, (B) the third business day after the date the Registration Statement is filed or is declared effective, or (C) the third business day after the Registration Statement has its restrictions removed after the Effective Date, as the case may be, in each case without requiring demand therefor by the Investor.

Notwithstanding the provisions of the first sentence of this subparagraph (iv), at the option of the Investor, exercisable in its sole and absolute discretion by written notice to the Company at any time before the Periodic Amount is paid (a "Periodic Amount Shares Notice"), all or a portion of the Periodic Amount shall be paid by the issuance to the Investor of additional shares of Common Stock ("Periodic Amount Shares"). The number of Periodic Amount Shares shall be equal to the relevant Periodic Amount divided by the Conversion Price which would have been applicable to the first day after the relevant Computation Date, but only to the extent that the Investor would have been entitled to effect a conversion into such number of shares in accordance with the terms of the Debentures and the Securities Purchase Agreement (without regard to any notices or other administrative steps to be taken by the Investor). The Company must deliver the Periodic Amount Shares to the Investor within three (3) business days after the Investor issues the Periodic Amount Shares Notice, unless otherwise agreed to in writing by the Investor in each instance (such third date or later date agreed to by the Investor, a "Delivery Date" as contemplated by the Debentures and the Securities Purchase Agreement). If the Periodic Amount Shares are not delivered by such date, the Investor shall have the right to demand that the provisions of Section 5(c) of the Securities Purchase Agreement shall apply to such issuance, based on one hundred forty-five percent (145%) of the Periodic Amount or having the Periodic Amount be paid in cash as contemplated herein. On issuance, Periodic Amount Shares are deemed to be Registrable Securities.

(v) The parties acknowledge that the damages which may be incurred by the Investor if the Registration Statement is not filed by the Required Filing Date or if the Registration Statement has not been declared effective by a Required Effective Date, including if the right to sell Registrable Securities under a previously effective Registration Statement is suspended, may be difficult to ascertain. The parties agree that the Periodic Amounts represent a reasonable estimate on the part of the parties, as of the date of this Agreement, of the amount of such damages.

(vi) Notwithstanding the foregoing, the amounts payable by the Company pursuant to this provision shall not be payable (i) to the extent any delay in the effectiveness of the Registration Statement occurs because of an act of, or a failure to act or to act timely by the Initial Investor or its counsel, (ii) in the event all of the Registrable Securities may be sold pursuant to Rule 144 or another available exemption under the Act without volume or other restrictions or limits or (iii) with respect to a Permitted Suspension Period.

(vii) "Computation Date" means (A) the date which is the earlier of (1) thirty (30) days after the Required Filing Date, any relevant Required Effective Date or a Restricted Sale Date, as the case may be, or (2) the date after the Required Filing Date, such Required Effective Date or Restricted Sale Date on which the Registration Statement is filed (with respect to payments due as contemplated by Section 2(b)(i) hereof) or is declared effective or has its restrictions removed (with respect to payments due as contemplated by Section 2(b)(ii) hereof), as the case may be, and (B) each date which is the earlier of (1) thirty (30) days after the previous Computation Date or (2) the date after the previous Computation Date on which the Registration Statement is filed (with respect to payments due as contemplated by Section 2(b)(i) hereof) or is declared effective or has its restrictions removed (with respect to payments due as contemplated by Section 2(b)(ii) hereof), as the case may be.

- OBLIGATIONS OF THE COMPANY. In connection with the registration of the Registrable Securities, the Company shall do each of the following:

() Prepare promptly, and file with the SEC by the Required Filing Date a Registration Statement with respect to not less than the number of Registrable Securities provided in Section 2(a) above, and thereafter use its reasonable best efforts to cause such Registration Statement relating to Registrable Securities to become effective by the Required Effective Date and keep the Registration Statement effective at all times during the period (the "Registration Period") continuing until the earliest of (i) the date that is the third anniversary of the Effective Date, (ii) the date when the Investors may sell all Registrable Securities under Rule 144 without volume or other restrictions or limits or (iii) the date the Investors no longer own any of the Registrable Securities, which Registration Statement (including any amendments or supplements thereto and prospectuses contained therein) shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading;

(b) Prepare and file with the SEC such amendments (including post-effective amendments) and supplements to the Registration Statement and the prospectus used in connection with the Registration Statement as may be necessary to keep the Registration Statement effective at all times during the Registration Period, and, during the Registration Period, comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities of the Company covered by the Registration Statement until such time as all of such Registrable Securities have been disposed of in accordance with the intended methods of disposition by the seller or sellers thereof as set forth in the Registration Statement;

(c) Permit a single firm of counsel designated by the Initial Investors to review the Registration Statement and all amendments and supplements thereto a reasonable period of time (but not less than three (3) business days) prior to their filing with the SEC, and not file any document in a form to which such counsel reasonably objects;

(d) Notify each Investor and such Investor's legal counsel identified to the Company and which has requested by written notice to the Company that it receive such notification (which, until further notice, shall be deemed to be Krieger & Prager LLP, Attn: Samuel Krieger, Esq., which firm has requested to receive such notification) (each, an "Investor's Counsel"), and any managing underwriters immediately (and, in the case of (i)(A) below, not less than three (3) business days prior to such filing) and (if requested by any such person) confirm such notice in writing no later than one (1) business day following the day (i)(A) when a Prospectus or any Prospectus supplement or post-effective amendment to the Registration Statement including changes in the provisions relating to the Investor, the Registrable Securities, or the transactions reflected in the Transaction Agreements (collectively, "Investor Matters") is submitted to the SEC for its consideration or review; (B) whenever the SEC notifies the Company whether there will be a "review" of such Registration Statement; (C) whenever the Company receives (or a representative of the Company receives on its behalf) any oral or written comments from the SEC in respect of a Registration Statement (copies or, in the

case of oral comments, summaries of such comments shall be promptly furnished by the Company to the Investors); and (D) with respect to the Registration Statement or any post-effective amendment, when the same has become effective; (ii) of any request by the SEC or any other Federal or state governmental authority for amendments or supplements to the Registration Statement or Prospectus or for additional information; (iii) of the issuance by the SEC of any stop order suspending the effectiveness of the Registration Statement covering any or all of the Registrable Securities or the initiation of any proceedings for that purpose; (iv) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any proceeding for such purpose; and (v) of the occurrence of any event that to the best knowledge of the Company makes any statement made in the Registration Statement or Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires any revisions to the Registration Statement, Prospectus or other documents so that, in the case of the Registration Statement or the Prospectus, as the case may be, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. In addition, the Company shall furnish the Investor's Counsel with copies of all intended written responses to the comments contemplated in clause (C) of this Section 3(d) to the extent such responses relate to Investor Matters not later than one (1) business day in advance of the filing of such responses with the SEC so that the Investors shall have the opportunity to comment thereon;

(e) Furnish to each Investor and such Investor's Counsel (i) promptly after the same is prepared and publicly distributed, filed with the SEC, or received by the Company, one (1) copy of the Registration Statement, each preliminary prospectus and prospectus, and each amendment or supplement thereto, and (ii) such number of copies of a prospectus, and all amendments and supplements thereto and such other documents, as such Investor may reasonably request in order to facilitate the disposition of the Registrable Securities owned by such Investor;

(f) As promptly as practicable after becoming aware thereof, notify each Investor of the happening of any event of which the Company has knowledge, as a result of which the prospectus included in the Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and use its best efforts promptly to prepare a supplement or amendment to the Registration Statement or other appropriate filing with the SEC to correct such untrue statement or omission, and deliver a number of copies of such supplement or amendment to each Investor as such Investor may reasonably request;

(g) As promptly as practicable after becoming aware thereof, notify each Investor who holds Registrable Securities being sold (or, in the event of an underwritten offering, the managing underwriters) of the issuance by the SEC of a Notice of Effectiveness or any notice of effectiveness or any stop order or other suspension of the effectiveness of the Registration Statement at the earliest possible time;

(h) Notwithstanding the foregoing, if at any time or from time to time after the date of effectiveness of the Registration Statement, the Company notifies the Investors in writing of the existence of a Potential Material Event, the Investors shall not offer or sell any Registrable Securities, or engage in any other transaction involving or relating to the Registrable Securities, from the time of the giving of notice with respect to a Potential Material Event until such Investor receives written notice from the Company that such Potential Material Event either has been disclosed to the public or no longer constitutes a Potential Material Event; provided, however, that the Company may not so suspend the right to such holders of Registrable Securities during the periods the Registration Statement is required to be in effect other than during a Permitted Suspension Period (and the applicable provisions of Section 2(b) shall apply with respect to any such suspension other than during a Permitted Suspension Period) . The term "Permitted Suspension Period" means one or more such suspension periods during any consecutive 12-month period, which suspension periods, in the aggregate, do not exceed twenty (20) days, provided, however, that no one such suspension period shall begin less than ten (10) business days after the last day of the preceding suspension (whether or not such last day was during or after a Permitted Suspension Period). ;

(i) Use its reasonable efforts to secure and maintain the designation of all the Registrable Securities covered by the Registration Statement on the "Nasdaq/SmallCap Market" of the National Association of Securities Dealers Automated Quotations System ("NASDAQ") within the meaning of Rule 11Aa2-1 of the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the quotation of the Registrable Securities on The Nasdaq/SmallCap Market; and, without limiting the generality of the foregoing, to arrange for at least two market makers to register with the National Association of Securities Dealers, Inc. as such with respect to such Registrable Securities;

(j) Provide a transfer agent and registrar, which may be a single entity, for the Registrable Securities not later than the Effective Date of the Registration Statement;

(k) Cooperate with the Investors who hold Registrable Securities being offered to facilitate the timely preparation and delivery of certificates for the Registrable Securities to be offered pursuant to the Registration Statement and enable such certificates for the Registrable Securities to be in such denominations or amounts as the case may be, as the Investors may reasonably request, and, within three (3) business days after a Registration Statement which includes Registrable Securities is ordered effective by the SEC, the Company shall deliver, and shall cause legal counsel selected by the Company to deliver, to the transfer agent for the Registrable Securities (with copies to the Investors whose Registrable Securities are included in such Registration Statement) an appropriate instruction and opinion of such counsel; and

(l) Take all other reasonable actions necessary to expedite and facilitate disposition by the Investor of the Registrable Securities pursuant to the Registration Statement.

- OBLIGATIONS OF THE INVESTORS. In connection with the registration of the Registrable Securities, the Investors shall have the following obligations:

() It shall be a condition precedent to the obligations of the Company to complete the registration pursuant to this Agreement with respect to the Registrable Securities of a particular Investor that such Investor shall furnish to the Company such information regarding itself, the Registrable Securities held by it, and the intended method of disposition of the Registrable Securities held by it, as shall be reasonably required to effect the registration of such Registrable Securities and shall execute such documents in connection with such registration as the Company may reasonably request. At least ten (10) days prior to the first anticipated filing date of the Registration Statement, the Company shall notify each Investor of the information the Company requires from each such Investor (the "Requested Information") if such Investor elects to have any of such Investor's Registrable Securities included in the Registration Statement. If at least two (2) business days prior to the filing date the Company has not received the Requested Information from an Investor (a "Non-Responsive Investor"), then the Company may file the Registration Statement without including Registrable Securities of such Non-Responsive Investor;

() Each Investor, by such Investor's acceptance of the Registrable Securities, agrees to cooperate with the Company as reasonably requested by the Company in connection with the preparation and filing of the Registration Statement hereunder, unless such Investor has notified the Company in writing of such Investor's election to exclude all of such Investor's Registrable Securities from the Registration Statement; and

() Each Investor agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in Section 3(f), 3(g) or 3(h), above, such Investor will immediately discontinue disposition of Registrable Securities pursuant to the Registration Statement covering such Registrable Securities until such Investor's receipt of the copies of the supplemented or amended prospectus contemplated by Section 3(f), 3(g) or 3(h), and, if so directed by the Company, such Investor shall deliver to the Company (at the expense of the Company) or destroy (and deliver to the Company a certificate of destruction) all copies in such Investor's possession, of the prospectus covering such Registrable Securities current at the time of receipt of such notice.

- EXPENSES OF REGISTRATION.

(a) All reasonable expenses (other than underwriting discounts and commissions of the Investor) incurred in connection with registrations, filings or qualifications pursuant to Section 3, but including, without limitation, all registration, listing, and qualifications fees, printers and accounting fees, the fees and disbursements of counsel for the Company shall be borne by the Company. In addition, a fee for a single counsel for the Investors (as a group and not individually) equal to \$3,500 for the initial Registration Statement and \$2,000 for each post-effective amendment to an effective Registration Statement, shall be borne by the Company.

(b) Except as disclosed in the Company's SEC Documents, (i) neither the Company nor any of its subsidiaries has entered into, as of the date hereof, nor shall the Company nor any of its subsidiaries, on or after the date of this Agreement, enter into, any agreement with respect to its securities that is inconsistent with the rights granted to the Investors in this Agreement or otherwise conflicts with the provisions hereof and (ii) neither the Company nor any of its subsidiaries has previously entered into any agreement granting any registration rights with respect to any of its securities to any person. Without limiting the generality of the foregoing, without the written consent of the Investors holding a sixty-seven (67%) percent interest of the Registrable Securities (as calculated by the then outstanding principal amount of the Debentures without any reference to the Warrant Shares), the Company shall not grant to any person the right to request the Company to register any securities of the Company under the Securities Act.

- INDEMNIFICATION. In the event any Registrable Securities are included in a Registration Statement under this Agreement:

() To the extent permitted by law, the Company will indemnify and hold harmless each Investor who holds such Registrable Securities, the directors, if any, of such Investor, the officers, if any, of such Investor, each person, if any, who controls any Investor within the meaning of the Securities Act or the Exchange Act (each, an "Indemnified Person" or "Indemnified Party"), against any losses, claims, damages, liabilities or expenses (joint or several) incurred (collectively, "Claims") to which any of them may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such Claims (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon any of the following statements, omissions or violations in the Registration Statement, or any post-effective amendment thereof, or any prospectus included therein: (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or any post-effective amendment thereof or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) any untrue statement or alleged untrue statement of a material fact contained in the final prospectus (as amended or supplemented, if the Company files any amendment thereof or supplement thereto with the SEC) or the omission or alleged omission to state therein any material fact necessary to make the statements made therein, in light of the circumstances under which the statements therein were made, not misleading or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any state securities law or any rule or regulation under the Securities Act, the Exchange Act or any state securities law (the matters in the foregoing clauses (i) through (iii) being, collectively, "Violations"). Subject to clause (b) of this Section 6, the Company shall reimburse the Investors, promptly as such expenses are incurred and are due and payable, for any legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 6(a) shall not (I) apply to a Claim arising out of or based upon a Violation which occurs in reliance upon and in conformity with information furnished in writing to the Company by or on behalf of any Indemnified Person expressly for use in connection with the preparation of the Registration Statement or any such amendment thereof or supplement thereto, after such prospectus was made available by the Company pursuant to Section 3(c) hereof; (II) be available to the extent such Claim is based on

a failure of the Investor to deliver or cause to be delivered the prospectus made available by the Company or the amendment or supplement thereto made available by the Company; (III) be available to the extent such Claim is based on the delivery of a prospectus by the Investor after receiving notice from the Company under Section 3(f), (g) or (h) hereof (other than a notice regarding the effectiveness of the Registration Statement or any amendment or supplement thereto), or (IV) apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Company, which consent shall not be unreasonably withheld or delayed. Each Investor will indemnify the Company and its officers, directors and agents (each, an "Indemnified Person" or "Indemnified Party") against any claims arising out of or based upon a Violation which occurs in reliance upon and in conformity with information furnished in writing to the Company, by or on behalf of such Investor, expressly for use in connection with the preparation of the Registration Statement or the amendment or supplement thereto, or resulting from a failure of the Investor to deliver or cause to be delivered the prospectus made available by the Company or the amendment or supplement thereto made available by the Company, subject to such limitations and conditions as are applicable to the indemnification provided by the Company to this Section 6. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Indemnified Person and shall survive the transfer of the Registrable Securities by the Investors pursuant to Section 9.

() Promptly after receipt by an Indemnified Person or Indemnified Party under this Section 6 of notice of the commencement of any action (including any governmental action), such Indemnified Person or Indemnified Party shall, if a Claim in respect thereof is to be made against any indemnifying party under this Section 6, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume control of the defense thereof with counsel mutually satisfactory to the indemnifying party and the Indemnified Person or the Indemnified Party, as the case may be. In case any such action is brought against any Indemnified Person or Indemnified Party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate in, and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, assume the defense thereof, subject to the provisions herein stated and after notice from the indemnifying party to such Indemnified Person or Indemnified Party of its election so to assume the defense thereof, the indemnifying party will not be liable to such Indemnified Person or Indemnified Party under this Section 6 for any legal or other reasonable out-of-pocket expenses subsequently incurred by such Indemnified Person or Indemnified Party in connection with the defense thereof other than reasonable costs of investigation, unless the indemnifying party shall not pursue the action to its final conclusion. The Indemnified Person or Indemnified Party shall have the right to employ separate counsel in any such action and to participate in the defense thereof, but the fees and reasonable out-of-pocket expenses of such counsel shall not be at the expense of the indemnifying party if the indemnifying party has assumed the defense of the action with counsel reasonably satisfactory to the Indemnified Person or Indemnified Party provided such counsel is of the opinion that all defenses available to the Indemnified Party can be maintained without prejudicing the rights of the indemnifying party. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability to the Indemnified Person or Indemnified Party under this Section 6, except

to the extent that the indemnifying party is prejudiced in its ability to defend such action. The indemnification required by this Section 6 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as such expense, loss, damage or liability is incurred and is due and payable.

- CONTRIBUTION. To the extent any indemnification by an indemnifying party is prohibited or limited by law, the indemnifying party agrees to make the maximum contribution with respect to any amounts for which it would otherwise be liable under Section 6 to the fullest extent permitted by law; provided, however, that (a) no contribution shall be made under circumstances where the maker would not have been liable for indemnification under the fault standards set forth in Section 6; (b) no seller of Registrable Securities guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any seller of Registrable Securities who was not guilty of such fraudulent misrepresentation; and (c) except where the seller has committed fraud (other than a fraud by reason of the information included or omitted from the Registration Statement as to which the Company has not given notice as contemplated under Section 3 hereof) or intentional misconduct, contribution by any seller of Registrable Securities shall be limited in amount to the net amount of proceeds received by such seller from the sale of such Registrable Securities.

- REPORTS UNDER EXCHANGE ACT. With a view to making available to the Investors the benefits of Rule 144 promulgated under the Securities Act or any other similar rule or regulation of the SEC that may at any time permit the Investors to sell securities of the Company to the public without registration ("Rule 144"), the Company agrees to:

() make and keep public information available, as those terms are understood and defined in Rule 144;

() file with the SEC in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act; and

() furnish to each Investor so long as such Investor owns Registrable Securities, promptly upon request, (i) a written statement by the Company that it has complied with the reporting requirements of Rule 144, the Securities Act and the Exchange Act, (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company and (iii) such other information as may be reasonably requested to permit the Investors to sell such securities pursuant to Rule 144 without registration.

- ASSIGNMENT OF THE REGISTRATION RIGHTS. The rights to have the Company register Registrable Securities pursuant to this Agreement shall be automatically assigned by the Investors to any transferee of the Registrable Securities (or all or any portion of any unconverted Debenture or unexercised Warrant) only if: (a) the Investor agrees in writing with the transferee or assignee to assign such rights, and a copy of such agreement is furnished to the Company within a reasonable time after such assignment, (b) the Company is, within a reasonable time after such transfer or assignment, furnished with written notice of (i) the name and address of such transferee or assignee and (ii) the securities with respect to which such registration rights are being transferred or assigned, (c) immediately following such transfer or assignment the

further disposition of such securities by the transferee or assignee is restricted under the Securities Act and applicable state securities laws, (d) at or before the time the Company received the written notice contemplated by clause (b) of this sentence the transferee or assignee agrees in writing with the Company to be bound by all of the provisions contained herein, and (e) such transfer of Registrable Securities is completed and disclosed to the Company prior to the Effective Date or involves the transfer of Registrable Securities resulting from the conversion of Debentures having a principal amount of at least \$200,000. In the event of any delay in filing or effectiveness of the Registration Statement as a result of such assignment, the Company shall not be liable for any damages arising from such delay, or the payments set forth in Section 2(b) hereof arising from such delay.

- AMENDMENT OF REGISTRATION RIGHTS. Any provision of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and Investors who hold a sixty-seven (67%) percent interest of the Registrable Securities (as calculated by the then outstanding principal amount of the Debentures without any reference to the Warrant Shares). Any amendment or waiver effected in accordance with this Section 10 shall be binding upon each Investor and the Company.

11. MISCELLANEOUS.

(a) A person or entity is deemed to be a holder of Registrable Securities whenever such person or entity owns of record such Registrable Securities. If the Company receives conflicting instructions, notices or elections from two or more persons or entities with respect to the same Registrable Securities, the Company shall act upon the basis of instructions, notice or election received from the registered owner of such Registrable Securities.

(b) Notices required or permitted to be given hereunder shall be given in the manner contemplated by the Securities Purchase Agreement, (i) if to the Company or to the Initial Investor, to their respective address contemplated by the Securities Purchase Agreement, and (ii) if to any other Investor, at such address as such Investor shall have provided in writing to the Company, or at such other address as each such party furnishes by notice given in accordance with this Section 11(b).

(c) Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, shall not operate as a waiver thereof.

(d) This Agreement shall be governed by and interpreted in accordance with the laws of the State of New York for contracts to be wholly performed in such state and without giving effect to the principles thereof regarding the conflict of laws. Each of the parties consents to the jurisdiction of the federal courts whose districts encompass any part of the City of New York or the state courts of the State of New York sitting in the City of New York in connection with any dispute arising under this Agreement and hereby waives, to the maximum extent permitted by law, any objection, including any objection based on forum non conveniens, to the bringing of any such proceeding in such jurisdictions. To the extent determined by such court,

the Company shall reimburse the Investor for any reasonable legal fees and disbursements incurred by the Investor in enforcement of or protection of any of its rights under this Agreement.

(e) If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement or the validity or enforceability of this Agreement in any other jurisdiction.

(f) Subject to the requirements of Section 9 hereof, this Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties hereto.

(g) All pronouns and any variations thereof refer to the masculine, feminine or neuter, singular or plural, as the context may require.

(h) The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning thereof.

(i) This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement. This Agreement, once executed by a party, may be delivered to the other party hereto by telephone line facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

(j) The Company acknowledges that any failure by the Company to perform its obligations under Section 3(a) hereof, or any delay in such performance could result in loss to the Investors, and the Company agrees that, in addition to any other liability the Company may have by reason of such failure or delay, the Company shall be liable for all direct damages caused by any such failure or delay, unless the same is the result of force majeure. Neither party shall be liable for consequential damages.

(k) This Agreement constitutes the entire agreement among the parties hereto with respect to the subject matter hereof. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein. This Agreement supersedes all prior agreements and understandings among the parties hereto with respect to the subject matter hereof. This Agreement may be amended only by an instrument in writing signed by the party to be charged with enforcement thereof.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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

COMPANY:
TITAN MOTORCYCLE CO. OF AMERICA

By:

Name:
Title:

INITIAL INVESTOR:

[Print Name of Initial Investor]

By:

Name:
Title:

EXHIBIT 1

Shares Permitted to Be Included in Registration Statement

Shareholder Name -----	Shares of Common Stock -----	Owned/Description of Right to Acquire -----
Libra Finance S.A.	to be determined	Shares held
Libra Finance S.A.	51,250	Warrants, issued August 8, 2000, with piggy back registration rights

SECURITY INTEREST AND PLEDGE PROVISIONS

For purposes of this ANNEX VII, the terms "Debtor" and "Secured Party" have the meanings ascribed to them in the Securities Purchase Agreement (as defined below), to which this Annex VII is attached.

Unless otherwise specified, all capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Securities Purchase Agreement of even date herewith (the "Securities Purchase Agreement") to which the undersigned Debtor and the Lenders named therein are parties.

These Security Interest and Pledge Provisions are sometimes referred to as the "Security Interest Agreement."

Section 1. The Security Interests.

(a) In order to secure the due and punctual fulfillment of the Obligations (as defined below), the Debtor hereby grants, conveys, transfers and assigns to the Secured Party a continuing security interest in the following described fixtures and personal property, whether now owned or hereafter acquired, together with all additions, substitutions, replacements and proceeds and all income, interest, dividends and other distributions thereon (hereinafter collectively called the "Collateral"):

all assets and properties of whatever kind and description, excluding intellectual property, now or hereafter owned by the Debtor, and all accessions, additions or improvements to, all replacements, substitutions and parts for, and all proceeds and products of the foregoing; all bank and securities accounts of any kind or nature; all books, records and documents relating to the foregoing located at the principal place of business or any other place of business of the Debtor, or at such other location as the business may hereafter be located, or held by any agent, representative or bailee of the Debtor wherever located.

(b) The security interests granted pursuant to this Section 1 (the "Security Interests") are granted as security only and shall not subject the Secured Party to, or transfer or in any way affect or modify, any obligation or liability of the Debtor under any of the Collateral or any transaction which gave rise thereto.

(c) If the Collateral includes certificated securities, documents or instruments, such certificates are herewith delivered to the Secured Party or to the Agent (as defined below) or the

Agent's designee, accompanied by duly executed blank stock or bond powers or assignments, as applicable. The Debtor hereby authorizes the transfer of possession of all certificates, instruments, documents and other evidence of the Collateral to the Secured Party or the Agent or the Agent's designee. Notwithstanding anything to the contrary contained herein, this Security Interest Agreement evidences a present and absolute pledge of the Collateral to the Secured Party, which shall be effective upon the execution of this Security Interest Agreement.

(d) The term "Obligations" means the due and punctual fulfillment and performance of all of the Debtor's obligations to the Secured Party whether now existing or hereafter arising (i) under each of the Securities Purchase Agreement, the Registration Rights Agreement, the Debentures, or any other Transaction Agreements and all other documentation and instruments reflecting the obligations of the Debtor to the Secured Party (collectively, the "Debtor Agreements") and (ii) any and all other obligations as may be incurred or assumed by the Debtor to the Secured Party from time to time; all of the foregoing whether arising under any agreement, instrument or document, whether or not for the payment of money, whether arising by reason of an extension of credit, opening a letter of credit, loan or guarantee or in any other manner, whether direct or indirect (including those acquired by assignment or participation), absolute or contingent, joint or several, due or to become due, whether now existing or hereafter arising, and any amendments, extensions, renewals or increases, and all costs and expenses of the Secured Party incurred in the documentation, negotiation, modification, enforcement, collection or otherwise in connection with any of the foregoing, including reasonable attorneys' fees and expenses.

Section 2. Filing; Further Assurances.

(a) The Debtor will, at its expense, execute, deliver, file and record (in such manner and form as the Secured Party may require), or permit the Secured Party to file and record, any financing statements, any carbon, photographic or other reproduction of a financing statement or this Security Interest Agreement (which shall be sufficient as a financing statement hereunder), any specific assignments or other paper that may be reasonably necessary or desirable, or that the Secured Party may request, in order to create, preserve, perfect or validate any Security Interest or to enable the Secured Party to exercise and enforce its rights hereunder with respect to any of the Collateral. Effective upon the existence of an Debtor Event of Default (as defined below), the Debtor hereby appoints Secured Party as Debtor's attorney-in-fact to execute in the name and behalf of Debtor such additional financing statements as Secured Party may request.

(b) Solely for administrative convenience and not for any other purpose, each Secured Party has designated Krieger & Prager LP to act as agent for and on behalf of the Secured Party (the "Agent") for purposes of taking possession of the Collateral and for execution of and identification on any financing statement or similar instrument referring to or describing the Collateral. Such agency designation shall remain in effect until canceled by such Secured Party; provided, however, that such cancellation shall not affect the validity of any action theretofore taken by such agent pursuant to this provision. The Debtor acknowledges and agrees to honor such designation and acknowledges that the Agent is acting as the agent of the Secured Party and not as a principal.

Section 3. Representations and Warranties of Debtor. Except for the interests of

(i) the Senior Lender, which has and retains an interest in the Collateral which is senior to and has priority over the interest of the Secured Party therein (the "Senior Lender Interests");

(ii) Ed Tucker Distributor, Inc. ("Tucker"), which has and retains an interest in "all Ed Tucker Distributor, Inc. inventory known and now in possession and to be acquired" by the Debtor, to secure an aggregate obligation not exceeding \$13,050 (the "Tucker Interests"); and

(iii) any other party (a "Subordinating Party") having a security interest in or to any of the Collateral, each of which has acknowledged and consented in writing to the priority of the security interest of the Secured Party in and to the Collateral granted hereby,

the Debtor hereby represents and warrants to the Secured Party as follows:

(a) There are no restrictions on the pledge or transfer of any of the Collateral, other than restrictions referenced on the face of any certificates evidencing the Collateral.

(b) The Debtor is the legal, beneficial and record owner of the Collateral, which is registered in the name of the Debtor as of the date hereof.

(c) Except for the Senior Lender Interests, the Tucker Interests and the interests of any Subordinating Party and except for the security interests of Coast (as defined below), to the extent provided in the immediately following sentence, the Collateral is free and clear of any security interests, pledges, liens, encumbrances, charges, agreements, claims or other arrangements or restrictions of any kind; and the Debtor will not incur, create, assume or permit to exist any pledge, security interest, lien, charge or other encumbrance of any nature whatsoever on any of the Collateral, or assign, pledge or otherwise encumber any right to receive income from the Collateral, except in connection with any secured financing with a New Senior Lender. Except for such financing statements representing the Senior Lender Interests or in favor of Subordinating Parties, a schedule of which is attached hereto as part of Exhibit A and made a part hereof, no financing statement covering the Collateral is on file in any public office, other than (i) financing statements naming Coast Business Credit ("Coast"), as secured party, which financing statements are being terminated by Coast, as reflected in an August 1, 2000 letter from Coast, a copy of which has been provided to the Secured Party, (ii) financing statements representing the Tucker Interests, which security interest will be released and which financing statements will be terminated upon Tucker's receipt of payments aggregating no more than \$13,050, as reflected in an August 3, 2000 letter from Tom Mathews, Jr., Esq., counsel to Tucker, a copy of which has been provided to the Secured Party, and (iii) financing statements filed pursuant to this Security Interest Agreement.

(d) Subject to the Senior Lender Interests and the Tucker Interests, the Debtor has the right to transfer the Collateral free of any encumbrances and the Debtor will defend the Debtor's title to the Collateral against the claims of all persons, and any registration with, or consent or approval to or action by, any federal, state or other governmental authority or regulatory body which was or is necessary for the validity of the pledge and grant of the security interest in the Collateral has been obtained.

(e) Upon the occurrence of a Debtor Event of Default, no third party other than the Senior Lender or the Subordinating Parties, has any rights to receive notice of such default or the

sale of the Collateral or any portion thereof, and no third party other than the Senior Lender or the Subordinating Parties has rights to purchase all or any portion of the Collateral.

(f) All additional information, representations and warranties contained in Exhibit B attached hereto and made a part hereof are true, accurate and complete on the date hereof.

Section 4. Covenants of Debtor. The Debtor hereby covenants and agrees with the Secured Party that the Debtor, except with the prior written consent of the Secured Party in each instance, (a) will, at the Debtor's sole cost and expense, defend the Collateral against all claims and demands of all persons (including Subordinating Parties) at any time claiming any interest therein senior to the Secured Party's interest; (b) will provide the Secured Party with prompt written notice of (i) any change in the chief executive officer of the Debtor or the office where the Debtor maintains its books and records pertaining to the Collateral; (ii) the movement or location of all or a material part of the Collateral to or at any address other than as set forth in said Exhibit B; and (iii) any facts which constitute an Debtor Event of Default, or which, with the giving of notice and/or the passage of time, could or would constitute an Debtor Event of Default, pursuant to Section 7 below; (c) will promptly pay any and all taxes, assessments and governmental charges upon the Collateral prior to the date penalties are attached thereto, except to the extent that such taxes, assessments and charges shall be contested in good faith by the Debtor; (d) will immediately notify the Secured Party of any event causing a substantial loss or diminution in the value of all or any material part of the Collateral and the amount or an estimate of the amount of such loss or diminution; (e) will have and maintain adequate insurance at all times with respect to the Collateral against risks of fire (including so-called extended coverage) and theft, and such other risks as are customary in the Debtor's industry for the respective items included in the Collateral, such insurance to be payable to the Secured Party and the Debtor as their respective interests may appear, subject in all events to the Senior Lender Interests, and shall provide for a minimum of ten (10) days prior written notice of cancellation to the Secured Party, and Debtor shall furnish the Secured Party with certificates or other evidence satisfactory to the Secured Party of compliance with the foregoing insurance provisions; (f) will not sell or offer to sell or otherwise assign, transfer or dispose of the Collateral or any interest therein, without the prior written consent of the Secured Party, except in the ordinary course of business; (g) other than the Senior Lender Interests, will keep the Collateral free from any adverse lien, security interest or encumbrance (except for encumbrances specified in Exhibit A attached hereto) and in good order and repair, reasonable wear and tear excepted, and will not waste or destroy the Collateral or any part thereof; and (h) will not use the Collateral in material violation of any statute or ordinance the violation of which could materially and adversely affect the Debtor's business.

Section 5. Records Relating To Collateral. The Debtor will keep its records concerning the Collateral at its offices designated in Exhibit B or at such other place or places of business of which the Secured Party shall have been notified in writing no less than ten (10) days prior thereto. The Debtor will hold and preserve such records and chattel paper and will permit representatives of the Secured Party at any time during normal business hours upon reasonable notice to examine and inspect the Collateral and to make abstracts from such records and chattel paper, and will furnish to the Secured Party such information and reports regarding the Collateral as the Secured Party may from time to time reasonably request.

Section 6. General Authority. The Debtor hereby appoints the Secured Party the Debtor's lawful attorney, with full power of substitution, in the name of the Debtor, for the sole use and benefit of the Secured Party, but at the Debtor's expense, to exercise, all or any of the

following powers with respect to all or any of the Collateral during the existence of any Debtor Event of Default:

(a) to demand, sue for, collect, receive and give acquittance for any and all monies due or to become due;

(b) to receive, take, endorse, assign and deliver all checks, notes, drafts, documents and other negotiable and non- negotiable instruments and chattel paper taken or received by the Secured Party;

(c) to settle, compromise, prosecute or defend any action or proceeding with respect thereto;

(d) to sell, transfer, assign or otherwise deal in or with the same or the proceeds thereof or the related goods securing the Collateral, as fully and effectually as if the Secured Party were the sole and absolute owner thereof;

(e) to extend the time of payment of any or all thereof and to make any allowance and other adjustments with reference thereto; and

(f) to discharge any taxes, liens, security interests or other encumbrances at any time placed thereon;

provided that the Secured Party shall give the Debtor not less than ten (10) days prior written notice of the time and place of any sale or other intended disposition of any of the Collateral.

Section 7. Debtor Events of Default. The Debtor shall be in default under this Security Interest Agreement upon the occurrence of any of the following events (a "Debtor Event of Default"):

(a) if any representation or warranty made by the Debtor in this ANNEX VII or in any of the Transaction Agreements shall be false or misleading in any material respect; or

(b) the occurrence of an Event of Default (as defined in the Debenture).

Section 8. Remedies Upon Debtor Event of Default.

(a) If any Debtor Event of Default shall have occurred, the Secured Party may exercise all the rights and remedies of a Secured Party under the Uniform Commercial Code. The Secured Party may require the Debtor to assemble all or any part of the Collateral and make it available to the Secured Party at a place to be designated by the Secured Party which is reasonably convenient. The Secured Party shall give the Debtor ten (10) days prior written notice of the Secured Party's intention to make any public or private sale or sale at a broker's board or on a securities exchange of the Collateral. At any such sale the Collateral may be sold in one lot as an entirety or in separate parcels, as the Secured Party, in its sole discretion, may determine. The Secured Party shall not be obligated to make any such sale pursuant to any such notice. The Secured Party may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for the sale, and such sale may be made at any time or place to which the same may be adjourned. The Secured Party, instead of exercising the power of sale herein conferred upon it,

may proceed by a suit or suits at law or in equity to foreclose the Security Interests and sell the Collateral, or any portion thereof, under a judgment or decree of a court or courts of competent jurisdiction.

(b) At any bona fide public sale the Secured Party shall be free to purchase all or any part of the Collateral. Any such sale may be on cash or credit. The Secured Party will not be obligated to make any sale and may sell at the time and place to which the sale is adjourned. If the Collateral is customarily sold on a recognized market or threatens to decline speedily in value, the Secured Party may sell such Collateral at any time without giving prior notice to the Debtor. Whenever notice is otherwise required by law to be sent by the Secured Party to the Debtor of any sale or other disposition of the Collateral, three (3) days' written notice sent to the Debtor at the notice address specified below will be reasonable.

Section 9. Application of Collateral and Proceeds.

(a) The proceeds of any sale of, or other realization upon, all or any part of the Collateral shall be applied in the following order of priorities: (i) first, to the payment of all of the reasonable expenses of such sale or other realization, including, without limitation, reasonable attorneys' fees, and all expenses, liabilities and advances reasonably incurred or made by the Secured Party in connection therewith, and of any other unreimbursed expenses for which the Secured Party is to be reimbursed pursuant to the terms of any of the Transaction Agreements; (ii) second, to any obligations owed to the Senior Lender secured by the Senior Lender Interests; (iii) third, to the payment of the Obligations in such order of priority as the Secured Party, in its sole discretion, shall determine; and (iv) finally, to the payment to the Debtor, or its successors or assigns, or as a court of competent jurisdiction may direct, of any surplus then remaining from such proceeds after payments of the character referred to in subsections (i) through (iii) of this Section 9(a) shall have been made.

(b) If any demand is made at any time upon the Secured Party for the repayment or recovery of any amount received by it in payment or on account of any of the Obligations from the disposition of the Collateral and if the Secured Party repays all or any part of such amount, the Debtor will be and remain liable for the amounts so repaid or recovered to the same extent as if never originally received by the Secured Party.

(c) In furtherance of the foregoing, and not in limitation thereof:

(i) The Secured Party, as attorney-in-fact pursuant to the terms of this Security Interest Agreement, may, in the name and stead of the Debtor, make and execute all conveyances, assignments and transfers of the Collateral sold pursuant to the terms of this Security Interest Agreement. The Debtor shall, if so requested by the Secured Party or representatives or agents of the Secured Party, ratify and confirm any sale or sales by executing and delivering to the Secured Party or its designees, or to such purchaser or purchasers, all such instruments as may, in the judgment of the Secured Party, be advisable for such purpose.

(ii) The receipt of the Secured Party for the purchase money paid at any such sale made by it shall be a sufficient discharge therefor to any purchaser of the Collateral, or any portion thereof, sold as aforesaid; and no such purchaser (or his or its representatives or assigns), after paying such purchase money and receiving such receipt, shall be bound to see to the application of such purchase

money or any part thereof or in any manner whatsoever be answerable for any loss, misapplication, necessity, expediency or regularity of any such sale.

Section 10. Further Assurances. At any time and from time to time, upon demand of the Secured Party, the Debtor will give, execute, file and record any notice, financing statement, continuation statement, instrument, document or agreement that the Secured Party may consider necessary or desirable to create, preserve, continue, perfect or validate any security interest granted hereunder or to enable the Secured Party to confirm its rights hereunder with respect to such security interest. Without limiting the generality of the foregoing, the Debtor hereby irrevocably appoints the Secured Party as the Debtor's attorney-in-fact to do all acts and things in the Debtor's name that the Secured Party may deem necessary or desirable to carry out the purposes of this Security Interest Agreement, which appointment is deemed to be coupled with an interest. The Secured Party is authorized to file financing statements, continuation statements and other documents under the Uniform Commercial Code relating to the Collateral without the Debtor's signature, naming the Debtor as debtor and the Secured Party (or the Agent as agent of the Secured Party) as secured party.

Section 11. Expenses; Secured Party's Lien. The Debtor will forthwith upon demand pay to the Secured Party: (a) the amount of any taxes which the Secured Party may have been required to pay by reason of the Security Interests (including, without limitation, any applicable transfer taxes) or, except with respect with the Senior Lender Interests, to free any of the Collateral from any lien thereon; and (b) the amount of any and all reasonable out-of-pocket expenses, including, without limitation, the reasonable fees and disbursements of its counsel, and of any agents not regularly in its employ, which the Secured Party may incur in connection with (i) the preparation of any amendments or modifications of this Security Interest Agreement, (ii) the collection, sale or other disposition of any of the Collateral; (iii) the exercise by the Secured Party of any of the powers conferred upon it hereunder, or (iv) any default by the Debtor hereunder.

Section 12. Termination of Security Interests; Release of Collateral. Upon the repayment and performance in full of all the Obligations, the Security Interests shall terminate and all rights to the Collateral shall revert to the Debtor. Upon any such termination of the Security Interests or release of Collateral, the Secured Party will, at the Debtor's expense, to the extent permitted by law, execute and deliver to the Debtor such documents as the Debtor shall reasonably request to evidence the termination of the Security Interests or the release of such Collateral, as the case may be.

Section 13. Notices. Any notice required or permitted hereunder shall be given in the manner contemplated by the Securities Purchase Agreement.

Section 14. Miscellaneous.

(a) No failure on the part of the Secured Party to exercise, and no delay in exercising, and no course of dealing with respect to, any right, power or remedy under this Security Interest Agreement shall operate as a waiver thereof; nor shall any single or partial exercise by the Secured Party of any right, power or remedy under this Security Interest Agreement preclude the exercise, in whole or in part, of any other right, power or remedy. The remedies in this Security Interest Agreement are cumulative and are not exclusive of any other remedies provided by law. Neither this Security Interest Agreement nor any provision hereof may be changed, waived,

discharged or terminated orally but only by a statement in writing signed by the party against which enforcement of the change, waiver, discharge or termination is sought.

(b) Unless otherwise defined herein, or unless the context otherwise requires, all terms used herein which are defined in the Delaware Uniform Commercial Code have the meanings therein stated.

Section 15. Separability. If any provision hereof shall prove invalid or unenforceable in any jurisdiction whose laws shall be deemed applicable, the other provisions hereof shall remain in full force and effect in such jurisdiction and shall be liberally construed in favor of the Secured Party.

Acknowledged:

TITAN MOTORCYCLE CO. OF AMERICA, Debtor

By: _____
Its

STATE OF _____
COUNTY OF _____

On the ____ day of _____, 2000, before me personally came _____, to me known, who being by me duly sworn, did depose and say that he resides at _____; that he is the _____ of TITAN MOTORCYCLE CO. OF AMERICA, the corporation described in and which executed the foregoing instrument as Debtor; that he was authorized to execute the foregoing instrument on behalf of said corporation by the Board of Directors of said corporation; and that he executed the foregoing instrument voluntarily and of his own free will on behalf of said corporation.

Notary Public
My commission expires:

EXHIBIT A

FINANCING STATEMENTS ON FILE ON DATE HEREOF

1. Financing Statement on Form UCC-1, naming Debtor, as debtor, and _____, as secured party, as filed in the office of the Secretary of State of the State of _____ on _____, and in the office of _____ on _____, . Covered collateral:

[IN LIEU OF FOREGOING, SEE ATTACHED COPIES OF UCC FINANCING STATEMENTS ON FILE]

Debtor represents that, except for the security interest referred to in paragraph 1 above, there are no security interests in the Collateral in favor of any other party.

EXHIBIT B

ADDITIONAL REPRESENTATIONS AND WARRANTIES

1. The exact title of the Debtor is TITAN MOTORCYCLE CO. OF AMERICA
2. The Debtor does business under the names:

3. The Debtor was incorporated on _____ under the laws of the State of Nevada and is in good standing under those laws.
4. The President of the Debtor is Frank Keery.
5. The Debtor is qualified to transact business in:
Arizona

6. The Debtor's only place(s) of business is/are at:
2222 West Peoria Avenue, Phoenix, AZ 85029.

7. The Debtor owns or has an interest in personal property or fixtures at the following locations:

Address	Record Owner of Real Estate
---------	-----------------------------

SECURITIES PURCHASE AGREEMENT

THIS SECURITIES PURCHASE AGREEMENT, dated as of the date of acceptance set forth below, is entered into by and between TITAN MOTORCYCLE CO. OF AMERICA, a Nevada corporation, with headquarters located at 2222 West Peoria Avenue, Phoenix, AZ 85029 (the "Company"), and each entity named on a signature page hereto (each, a "Lender") (each agreement with a Lender being deemed a separate and independent agreement between the Company and such Lender, except that each Lender acknowledges and consents to the rights granted to each other Lender under such agreement and the Transaction Agreements, as defined below, referred to therein).

W I T N E S S E T H:

WHEREAS, the Company and the Lender are executing and delivering this Agreement in accordance with and in reliance upon the exemption from securities registration afforded, inter alia, by Rule 506 under Regulation D ("Regulation D") as promulgated by the United States Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended (the "1933 Act"), and/or Section 4(2) of the 1933 Act; and

WHEREAS, the Lender wishes to lend funds to the Company, subject to and upon the terms and conditions of this Agreement, the repayment of which will be represented by 12% Secured Convertible Debentures of the Company (the "Debentures"), which Debentures will be convertible into shares of Common Stock, \$.001 par value per share of the Company (the "Common Stock"), upon the terms and subject to the conditions of such Debentures, together with the Warrants (as defined below) exercisable for the purchase of shares of Common Stock (the "Warrant Shares"), and subject to acceptance of this Agreement by the Company;

NOW THEREFORE, in consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. AGREEMENT TO PURCHASE; PURCHASE PRICE.

a. PURCHASE. The undersigned hereby agrees to loan to the Company the principal amount set forth on the Lender's signature page of this Agreement (the "Purchase Price"), out of the aggregate amount being loaned by all Lenders of \$750,000. The obligation to repay the loan shall be evidenced by the Company's issuance of one or more Debentures to the Lender in such principal amount. Each Debenture shall have the terms and conditions of, and be substantially in the form attached hereto as, ANNEX I. The loan to be made by the Lender and the issuance of the Debentures to the Lender are sometimes referred to herein and in the other Transaction Agreements as the purchase and sale of the Debentures.

b. CERTAIN DEFINITIONS. As used herein, each of the following terms has the meaning set forth below, unless the context otherwise requires:

(i) "Affiliate" means, with respect to a specific Person referred to in the relevant provision, another Person who or which controls or is controlled by or is under common control with such specified Person.

(ii) "Lender's Allocable Share" means the fraction of which the numerator is the principal amount of the Lender's Debentures specified on the Lender's signature page of this Agreement and the denominator is \$750,000.

(iii) "Cap Amount" means the number of shares equal to 19.99% of the number of outstanding shares of Common Stock on the date hereof (the number of such outstanding shares is specified in Section 3(c) hereof).

(iv) "Cap Regulations" means the maximum number of shares that may be issued in compliance with the applicable rules and regulations of its Principal Trading Market, including, but not necessarily limited to, Nasdaq Rule 4310(c)(25)(H)(i) or Rule 4460(i)(1), as may be applicable, which would limit the issuance of Common Stock on conversion of the all the Debentures in this series to the Cap Amount.

(v) "Certificates" means (x) the Debentures, duly executed by the Company and issued on the Closing Date in the name of the Lender, representing the Company's obligation to repay the Purchase Price to the Lender, and (y) the Warrants, duly executed on behalf of the Company and issued in the name of the Lender on the Closing Date.

(vi) "Closing Bid Price" means the closing bid price of the Common Stock (in U.S. Dollars) on the Principal Trading Market as reported by the Reporting Service. If the Closing Bid Price cannot be calculated for such security on the relevant date on the foregoing basis, the Closing Bid Price of such security on such date shall be the fair market value as reasonably determined by an investment banking firm selected by the Holders of a majority of the then outstanding Debentures and reasonably acceptable to the Company, with the costs of such appraisal to be borne by the Company. The manner of determining the Closing Bid Price of the Common Stock set forth in the foregoing definition shall apply with respect to any other security in respect of which a determination as to closing bid price must be made under any of the Transaction Agreements.

(vii) "Closing Date" means the date of the closing of the purchase and sale of the Debentures, as provided herein.

(viii) "Conversion Price" and "Fixed Conversion Price" have the meanings ascribed to them in the Debentures.

(ix) "Converted Shares" means the shares of Common Stock issuable upon conversion of the Debentures (including, if relevant, accrued interest on the Debentures so converted).

(x) "Effective Date" means the effective date of the Registration Statement covering the Registrable Securities (as those terms are defined in the Registration Rights Agreement defined below).

(xi) "Escrow Agent" means the escrow agent identified in the Joint Escrow Instructions attached hereto as ANNEX II (the "Joint Escrow Instructions").

(xii) "Escrow Funds" means the Purchase Price delivered to the Escrow Agent as contemplated by Sections 1(c) and (d) hereof.

(xiii) "Escrow Property" means the Escrow Funds and the Certificates delivered to the Escrow Agent as contemplated by Section 1(c) hereof.

(xiv) "Holder" means the Person holding the relevant Debenture or Debentures or Warrants, as the case may be.

(xv) "Initial Senior Lender" means Wells Fargo Credit, Inc.

(xvi) "Keery Principal" means each of Frank Keery, Patrick Keery and Barbara Keery, or any entity, including, without limitation, for profit or non-profit corporations, partnerships and trusts, whose voting rights regarding Common Stock of the Company is subject to the direction, control or other influence of any of them, and "Keery Principals" means any two or more of them.

(xvii) "Last Audited Date" means January 1, 2000.

(xviii) "Market Price of the Common Stock" means the average Closing Bid Price of the Common Stock for the five (5) trading days ending on the trading day immediately before the date indicated in the relevant provision hereof, as reported by Bloomberg, LP or, if not so reported, as reported on the over-the-counter market.

(xix) "New Senior Lender" means a bank or other financing institution which enters into a long term loan agreement (with the loan subject to such agreement having a term of at least one year) or a revolving credit agreement with the Company; provided that, in connection with the consummation of the agreement with such bank or other financing institution, (x) the Initial Senior Lender releases in writing all of its claims, whether accrued, matured or unmatured, against the Company and all of its security interests in any assets of the Company, and (y) the Lender has consented to the terms of such agreement (and the Lender agrees that it will not request any consideration for the issuance of such consent).

(xx) "Person" means any living person or any entity, such as, but not necessarily limited to, a corporation, partnership or trust.

(xxi) " Preferred Holders" means the Series A Preferred Holders, the Series B Preferred Holders and the Series C Preferred Holders (as those terms are defined below).

(xix) "Principal Trading Market" means The Nasdaq/SmallCap Market, or if the Common Stock is no longer listed on that market, the principal securities exchange or trading market on which the Common Stock is listed or traded, including the OTCBB or the pink sheets.

(xxii) "Reporting Service" means Bloomberg LP or if that service is not then reporting the relevant information regarding the Common Stock, a comparable reporting service of national reputation selected by the Holders of the Debentures and reasonably acceptable to the Company.

(xxiii) "Securities" means the Debentures, the Warrants , the Converted Shares and the Warrant Shares.

(xxiv) "Senior Lender" means the Initial Senior Lender or a New Senior Lender.

(xxiii) "Shares" means the shares of Common Stock representing any or all of the Converted Shares and the Warrant Shares.

(xxv) "Specified Period" means the period from the date hereof through and including the earlier of (x) the date which is the first annual anniversary of the Closing Date or (y) the date as of which the Lender owns no Debentures.

(xvi) "Transaction Agreements" means the Securities Purchase Agreement, the Debentures, the Registration Rights Agreement, the Warrants, the Joint Escrow Instructions, the Security Interest Agreement (as defined below) and includes all ancillary documents referred to in those agreements.

c. FORM OF PAYMENT; DELIVERY OF CERTIFICATES.

(i) On or before the date prior to the Closing Date, the Lender shall pay the Purchase Price for the Debentures by delivering immediately available good funds in United States Dollars to the Escrow Agent.

(ii) No later than the Closing Date, but in any event promptly following payment by the Lender to the Escrow Agent of the Purchase Price, the Company shall deliver the Certificates to the Escrow Agent.

(iii) By signing this Agreement, each of the Lender and the Company, subject to acceptance by the Escrow Agent, agrees to all of the terms and conditions of, and becomes a party to, the Joint Escrow Instructions, all of the provisions of which are incorporated herein by this reference as if set forth in full.

d. METHOD OF PAYMENT. Payment into escrow of the Purchase Price shall be made by wire transfer of funds to:

Bank of New York
350 Fifth Avenue
New York, New York 10001

ABA# 021000018
For credit to the account of Krieger & Prager LLP
Account No.: [To be provided to the Lender by
Krieger & Prager LLP]
Re: Titan Motorcycle Debenture Transaction

Not later than 5:00 p.m., New York time, on the date that is one (1) Nasdaq/SmallCap Market trading day after the Company shall have accepted this Agreement and returned a signed counterpart of this Agreement to the Escrow Agent by facsimile, the Lender shall deposit with the Escrow Agent the Purchase Price for the Debentures in immediately available funds. Time is of the essence with respect to such payment, and failure by the Lender to make such payment shall allow the Company to cancel this Agreement.

2. BUYER REPRESENTATIONS, WARRANTIES, ETC.; ACCESS TO INFORMATION; INDEPENDENT INVESTIGATION.

The Lender represents and warrants to, and covenants and agrees with, the Company as follows:

a. Without limiting Lender's right to sell the Common Stock pursuant to the Registration Statement, the Lender is purchasing the Debentures and the Warrants and will be acquiring the Shares for its own account for investment only and not with a view towards the public sale or distribution thereof and not with a view to or for sale in connection with any distribution thereof.

b. The Lender is (i) an "accredited investor" as that term is defined in Rule 501 of the General Rules and Regulations under the 1933 Act by reason of Rule 501(a)(3), (ii) experienced in making investments of the kind described in this Agreement and the related documents, (iii) able, by reason of the business and financial experience of its officers (if an entity) and professional advisors (who are not affiliated with or compensated in any way by the Company or any of its Affiliates or selling agents), to protect its own interests in connection with the transactions described in this Agreement, and the related documents, and (iv) able to afford the entire loss of its investment in the Securities.

c. All subsequent offers and sales of the Debentures and the Shares by the Lender shall be made pursuant to registration of the Shares under the 1933 Act or pursuant to an exemption from registration.

d. The Lender understands that the Securities are being offered and sold to it in reliance on specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying upon the truth and accuracy of, and the Lender's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Lender set forth herein in order to determine the availability of such exemptions and the eligibility of the Lender to acquire the Securities.

e. The Lender and its advisors, if any, have been furnished with all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Debentures and the offer of the Shares which have been requested by the Lender, including those set forth on ANNEX V hereto. The Lender and its advisors, if any, have been afforded the opportunity to ask questions of the Company and have received complete and satisfactory answers to any such inquiries. Without limiting the generality of the foregoing, the Lender has also had the opportunity to obtain and to review the Company's (1) Annual Report on Form 10-K, as amended, for the fiscal year ended January 1, 2000, (2) Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2000, (3) Current Reports on Form 8-K filed on May 24, 2000, June 22, 2000 and July 20, 2000, (4) Definitive Proxy Statement filed on June 23, 2000 and (5) Registration Statement on Form S-3 filed on July 20, 2000 (collectively, the "Company's SEC Documents").

f. The Lender understands that its investment in the Securities involves a high degree of risk.

g. The Lender understands that no United States federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the Securities.

h. This Agreement and the other Transaction Agreements to which the Lender is a party have been duly and validly authorized, executed and delivered on behalf of the Lender and are valid and binding agreements of the Lender enforceable in accordance with their respective terms, subject as to enforceability to general principles of equity and to bankruptcy, insolvency, moratorium and other similar laws affecting the enforcement of creditors' rights generally.

3. COMPANY REPRESENTATIONS, ETC.

The Company represents and warrants to the Lender as of the date hereof and as of the Closing Date that, except as provided in ANNEX V hereto:

a. CONCERNING THE DEBENTURES AND THE SHARES. There are no preemptive rights of any stockholder of the Company, as such, to acquire the Debentures, the Warrants or the Shares. No party other than a Lender has a currently exercisable right of first refusal which would be applicable to any or all of the transactions contemplated by the Transaction Agreements.

b. REPORTING COMPANY STATUS. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Nevada and has

the requisite corporate power to own its properties and to carry on its business as now being conducted. The Company is duly qualified as a foreign corporation to do business and is in good standing in each jurisdiction where the nature of the business conducted or property owned by it makes such qualification necessary, other than those jurisdictions in which the failure to so qualify would not have a material adverse effect on the business, operations, financial condition or results of operations of the Company and its subsidiaries taken as a whole. The Company has registered its Common Stock and is obligated to file reports pursuant to Section 12 of the 1934 Act. The Common Stock is listed and traded on The Nasdaq/SmallCap Market. The Company has received no notice, either oral or written, with respect to the continued eligibility of the Common Stock for such listing, and the Company has maintained all requirements for the continuation of such listing.

c. AUTHORIZED SHARES. The authorized capital stock of the Company consists of (i) 90,000,000 shares of Common Stock, \$.001 par value per share, of which 17,501,187 are outstanding as of the date hereof. All issued and outstanding shares of Common Stock have been duly authorized and validly issued and are fully paid and nonassessable. The Company has sufficient authorized and unissued shares of Common Stock as may be reasonably necessary to effect the issuance of the Shares. The Converted Shares and the Warrant Shares have been duly authorized and, when issued upon conversion of, or as interest on, the Debentures or upon exercise of the Warrants, each in accordance with its respective terms, will be duly and validly issued, fully paid and non-assessable and will not subject the Holder thereof to personal liability by reason of being such holder.

d. SECURITIES PURCHASE AGREEMENT AND REGISTRATION RIGHTS AGREEMENT. This Agreement, the Registration Rights Agreement, the form of which is attached hereto as ANNEX IV (the "Registration Rights Agreement") and the other Transaction Agreements, and the transactions contemplated thereby, have been duly and validly authorized by the Company. This Agreement has been duly executed and delivered by the Company and this Agreement is, and each of the other Transaction Agreements, when executed and delivered by the Company, will be, a valid and binding agreement of the Company enforceable in accordance with their respective terms, subject as to enforceability to general principles of equity and to bankruptcy, insolvency, moratorium, and other similar laws affecting the enforcement of creditors' rights generally.

e. NON-CONTRAVENTION. The execution and delivery of this Agreement and the other Transaction Agreements by the Company, the issuance of the Securities, and the consummation by the Company of the other transactions contemplated by the Transaction Agreements do not and will not conflict with or result in a breach by the Company of any of the terms or provisions of, or constitute a default under (i) the articles of incorporation or by-laws of the Company, each as currently in effect, (ii) any indenture, mortgage, deed of trust, or other material agreement or instrument to which the Company is a party or by which it or any of its properties or assets are bound, including any listing agreement for the Common Stock except as herein set forth, (iii) to its knowledge, any existing applicable law, rule, or regulation or any applicable decree, judgment, or order of any court, United States federal or state regulatory body, administrative agency, or other governmental body having jurisdiction over the Company or any of its properties or assets, or (iv) the Company's listing agreement for its Common Stock, except

such conflict, breach or default which would not have a material adverse effect on the business, operations, financial condition or results of operations of the Company and its subsidiaries taken as a whole, or on the transactions contemplated herein.

f. APPROVALS. No authorization, approval or consent of any court, governmental body, regulatory agency, self-regulatory organization, or stock exchange or market or the stockholders of the Company is required to be obtained by the Company for the issuance and sale of the Securities to the Lender as contemplated by this Agreement, except such authorizations, approvals and consents that have been obtained.

g. SEC FILINGS. None of the Company's SEC Documents contained, at the time they were filed, any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements made therein in light of the circumstances under which they were made, not misleading. The Company has since June 1, 1999 timely filed all requisite forms, reports and exhibits thereto with the SEC.

h. ABSENCE OF CERTAIN CHANGES. Since the Last Audited Date, there has been no material adverse change and no material adverse development in the business, operations, financial condition or results of operations of the Company and its subsidiaries taken as a whole, except as disclosed in the Company's SEC Documents. Since the Last Audited Date, except as provided in the Company's SEC Documents, the Company has not (i) incurred or become subject to any material liabilities (absolute or contingent) except liabilities incurred in the ordinary course of business consistent with past practices; (ii) discharged or satisfied any material lien or encumbrance or paid any material obligation or liability (absolute or contingent), other than current liabilities paid in the ordinary course of business consistent with past practices; (iii) declared or made any payment or distribution of cash or other property to stockholders with respect to its capital stock, or purchased or redeemed, or made any agreements to purchase or redeem, any shares of its capital stock; (iv) sold, assigned or transferred any other tangible assets, or canceled any debts or claims, except in the ordinary course of business consistent with past practices; (v) suffered any substantial losses or waived any rights of material value, whether or not in the ordinary course of business, or suffered the loss of any material amount of existing business; (vi) made any changes in employee compensation, except in the ordinary course of business consistent with past practices; or (vii) experienced any material problems with labor or management in connection with the terms and conditions of their employment.

i. FULL DISCLOSURE. There is no fact known to the Company (other than general economic conditions known to the public generally or as disclosed in the Company's SEC Documents) that has not been disclosed in writing to the Lender that (i) would reasonably be expected to have a material adverse effect on the business, operations, financial condition or results of operations of the Company and its subsidiaries taken as a whole, (ii) would reasonably be expected to materially and adversely affect the ability of the Company to perform its obligations pursuant to this Agreement or any of the Transaction Agreements, or (iii) would reasonably be expected to materially and adversely affect the value of the rights granted to the Lender in the Transaction Agreements.

j. ABSENCE OF LITIGATION. Except as set forth in the Company's SEC Documents, there is no action, suit, proceeding, inquiry or investigation before or by any court, public board or body pending or, to the knowledge of the Company, threatened against or affecting the Company, wherein an unfavorable decision, ruling or finding would have a material adverse effect on the business, operations, financial condition or results of operations of the Company and its subsidiaries taken as a whole, or the transactions contemplated by any of the Transaction Agreements or which would adversely affect the validity or enforceability of, or the authority or ability of the Company to perform its obligations under, any of the Transaction Agreements.

k. ABSENCE OF EVENTS OF DEFAULT. Except as set forth in the Company's SEC Documents, no Event of Default (or its equivalent term), as defined in the respective agreement to which the Company is a party, and no event which, with the giving of notice or the passage of time or both, would become an Event of Default (or its equivalent term) (as so defined in such agreement), has occurred and is continuing, which would have a material adverse effect on the business, operations, financial condition or results of operations of the Company and its subsidiaries taken as a whole.

l. PRIOR ISSUES. Except as set forth in the Company's SEC Documents, during the twelve (12) months preceding the date hereof, the Company has not issued any convertible securities. As of the date hereof, the outstanding unconverted principal amount of each convertible security issued by the Company is as set forth in ANNEX V hereto.

m. NO UNDISCLOSED LIABILITIES OR EVENTS. The Company has no liabilities or obligations other than those disclosed in the Company's SEC Documents or those incurred in the ordinary course of the Company's business since the Last Audited Date, or which individually or in the aggregate, do not or would not have a material adverse effect on the business, operations, financial condition or results of operations of the Company and its subsidiaries taken as a whole. No event or circumstance has occurred or exists with respect to the Company or its properties, business, operations, financial condition or results of operations of the Company and its subsidiaries taken as a whole, which, under applicable law, rule or regulation, requires public disclosure or announcement prior to the date hereof by the Company but which has not been so publicly announced or disclosed. There are no proposals currently under consideration or currently anticipated to be under consideration by the Board of Directors or the executive officers of the Company (other than the transactions contemplated by the Transaction Agreements) which proposal would (x) change the certificate of incorporation or other charter document or by-laws of the Company, each as currently in effect, with or without stockholder approval, which change would reduce or otherwise adversely affect the rights and powers of the stockholders of the Common Stock or (y) materially or substantially change the business, assets or capital of the Company, including its interests in subsidiaries.

n. NO DEFAULT. Except as provided in the Company's SEC Documents, the Company is not in default in the performance or observance of any material obligation, agreement, covenant or condition contained in any indenture, mortgage, deed of trust or other material instrument or agreement to which it is a party or by which it or its property is bound.

o. NO INTEGRATED OFFERING. Neither the Company nor any of its Affiliates nor any person acting on its or their behalf has, directly or indirectly, at any time since January 1, 2000, made any offer or sales of any security or solicited any offers to buy any security under circumstances that would eliminate the availability of the exemption from registration under Rule 506 of Regulation D in connection with the offer and sale of the Securities as contemplated hereby.

p. DILUTION. The number of Shares issuable upon conversion of the Debentures and the exercise of the Warrants may increase substantially in certain circumstances, including, but not necessarily limited to, the circumstance wherein the trading price of the Common Stock declines prior to the conversion of the Debentures. The Company's executive officers and directors have studied and fully understand the nature of the Securities being sold hereby and recognize that they have a potential dilutive effect. The Board of Directors of the Company has concluded, in its good faith business judgment, that such issuance is in the best interests of the Company. The Company specifically acknowledges that its obligation to issue the Shares upon conversion of the Debentures and upon exercise of the Warrants is binding upon the Company and enforceable regardless of the dilution such issuance may have on the ownership interests of other stockholders of the Company.

q. BROKERS, FINDERS. The Company has taken no action which would give rise to any claim by any person for brokerage commission, finder's fees or similar payments by Lender relating to this Agreement or the transactions contemplated hereby. Lender shall have no obligation with respect to such fees or with respect to any claims made by or on behalf of other persons for fees of a type contemplated in this Section 3(q) that may be due in connection with the transactions contemplated hereby. The Company shall indemnify and hold harmless each of Lender, its employees, officers, directors, agents, and partners, and their respective Affiliates, from and against all claims, losses, damages, costs (including the costs of preparation and attorney's fees) and expenses suffered in respect of any such claimed or existing fees, as and when incurred.

4. CERTAIN COVENANTS AND ACKNOWLEDGMENTS.

a. TRANSFER RESTRICTIONS. The Lender acknowledges that (1) the Securities have not been and are not being registered under the provisions of the 1933 Act and, except as provided in the Registration Rights Agreement, the Shares have not been and are not being registered under the 1933 Act, and may not be transferred unless (A) subsequently registered thereunder or (B) the Lender shall have delivered to the Company an opinion of counsel, reasonably satisfactory in form, scope and substance to the Company, to the effect that the Securities to be sold or transferred may be sold or transferred pursuant to an exemption from such registration; (2) any sale of the Securities made in reliance on Rule 144 promulgated under the 1933 Act may be made only in accordance with the terms of said Rule and further, if said Rule is not applicable, any resale of such Securities under circumstances in which the seller, or the person through whom the sale is made, may be deemed to be an underwriter, as that term is used in the 1933 Act, may require compliance with some other exemption under the 1933 Act or the rules and regulations of the SEC thereunder; and (3) neither the Company nor any other person is under any obligation to register the Securities (other than pursuant to the Registration

Rights Agreement) under the 1933 Act or to comply with the terms and conditions of any exemption thereunder.

b. RESTRICTIVE LEGEND. The Lender acknowledges and agrees that the Debentures and the Warrants, and, until such time as the Common Stock has been registered under the 1933 Act as contemplated by the Registration Rights Agreement and sold in accordance with an effective Registration Statement, certificates and other instruments representing any of the Securities shall bear a restrictive legend in substantially the following form (and a stop-transfer order may be placed against transfer of any such Securities):

THESE SECURITIES (THE "SECURITIES") HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE SOLD OR OFFERED FOR SALE IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES OR AN OPINION OF COUNSEL OR OTHER EVIDENCE ACCEPTABLE TO THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED.

c. REGISTRATION RIGHTS AGREEMENT. The parties hereto agree to enter into the Registration Rights Agreement on or before the Closing Date.

d. FILINGS.

(i) The Company undertakes and agrees to make all necessary filings in connection with the sale of the Securities to the Lender under any United States laws and regulations applicable to the Company, or by any domestic securities exchange or trading market, and to provide a copy thereof to the Lender promptly after such filing.

(ii) Subject to the conditions of the immediately following sentence, the Company undertakes and agrees to take all steps necessary to have a meeting and vote of the stockholders of the Company no later than the Meeting Date (as defined below) regarding authorization of the Company's issuance to the Holders of the Debentures of shares of Common Stock in excess of twenty percent (20%) of the outstanding shares of Common Stock on the date of this Agreement in accordance with Nasdaq Rule 4310(c)(25)(H)(i) or Rule 4460(i)(1), as may be applicable, or to increase the authorized shares of Common Stock of the Company if and as may be necessary to enable the Company to meet its obligations regarding the reservation of shares and the conversion of the Debentures and exercise of the Warrants as contemplated by the Transaction Agreements. The term "Meeting Date" means the earlier of (i) ninety (90) days after the Closing Date or (ii) the date on which the Company holds its next regular or special stockholders meeting after the stockholders meeting held on or about July 26, 2000. The Company will recommend to the stockholders that such authorization be granted and will seek proxies from stockholders not attending the meeting naming a director or officer of the Company as such stockholder's proxy and directing the proxy to vote, or giving the proxy the authority to vote, in favor of such authorization. Upon determination that the stockholders have voted in favor of such authorization, the Company shall cause its counsel to issue to the Lender an

unqualified opinion (the "Authorization Opinion") that such authorization has been duly adopted by all necessary corporate action of the Company and that the Company will be able to issue, without restriction as to the number of such shares, all shares of Common Stock as may be issuable upon conversion of the Debentures and exercise of the Warrants and without any limits imposed by the Cap Regulations. The Authorization Opinion shall state that the Lender may rely thereon in connection with the transactions contemplated by this Agreement and the other Transaction Agreements. If, for any reason, (x) the Authorization Opinion is not issued within five (5) business days after such meeting, (y) the meeting is not held within thirty (30) days after the Meeting Date or (z) the requisite stockholder approval is not obtained at the meeting, then in lieu of issuing any shares in violation of the Cap Regulations or any of the Issuance Limitations (as defined in the Debenture), the Company shall redeem all outstanding Unconverted Debentures (as defined in the Debenture) as provided in the Debentures within sixty (60) days after the Meeting Date; provided, however, that at any time prior to the payment of the Redemption Amount (as defined in the Debentures), the Lender may request the Company to, and the Company will, voluntarily delist the Common Stock from The Nasdaq/SmallCap Market and cause its shares to be listed on The Nasdaq/Bulletin Board Market and upon such listing on the Nasdaq/Bulletin Board Market the obligation to redeem all Unconverted Debentures will terminate.

e. REPORTING STATUS. So long as the Lender beneficially owns any of the Securities, the Company shall file all reports required to be filed with the SEC pursuant to Section 13 or 15(d) of the 1934 Act, and the Company shall not terminate its status as an issuer required to file reports under the 1934 Act even if the 1934 Act or the rules and regulations thereunder would permit such termination. The Company will take all reasonable action under its control to obtain, if necessary, and to continue the listing and trading of its Common Stock (including, without limitation, all Registrable Securities) on The Nasdaq/SmallCap Market and will comply in all material respects with the Company's reporting, filing and other obligations under the by-laws or rules of the National Association of Securities Dealers, Inc. ("NASD") or The Nasdaq/SmallCap Market.

f. USE OF PROCEEDS. The Company will use the proceeds from the Purchase Price (excluding amounts paid by the Company for legal fees, finder's fees and escrow fees in connection with the sale of the Debentures) for internal working capital purposes, and, except as expressly provided herein or with the express written consent of the Lender in each instance, shall not, directly or indirectly, use such proceeds for research and development expenses or for any loan to or investment in any other corporation, partnership, enterprise or other person, including any of its Affiliates, or to repay any debt to any of its Affiliates.

g. CERTAIN AGREEMENTS. On or before the Closing Date, the Company shall obtain the agreement (each, a "Principal's Agreement") of each of the Keery Principals that, without the prior written consent of the Lender in each instance, such Keery Principal, individually and jointly with the other Keery Principals, will not sell or otherwise transfer or offer to sell or otherwise transfer (except in a private transaction in which the transferee agrees in writing for the benefit of Lender and enforceable by Lender, a copy of which written agreement is provided to Lender, to be bound by the provisions of the Principal's Agreement as if such transferee were a Keery Principal; a "Permitted Keery Transfer")

(A) prior to the Effective Date, any shares of Common Stock directly or indirectly held by such Keery Principal, and

(B) thereafter, not more than three and one-half percent (3.5%) of any shares of Common Stock directly or indirectly held by such Keery Principal during any calendar quarter prior to the expiration of the Specified Period; provided, further, that any such sale or other transfer of any shares of Common Stock shall be made only after the Keery Principal shall have given the Lender at least thirty (30) days' advance written notice thereof .

Each such Principal's Agreement shall (w) specify that it is entered into as an inducement to the Lender's execution, delivery and performance of this Agreement, (x) name the Lender as a third party beneficiary thereof, (y) acknowledge that the Company's transfer agent will be provided with instructions that, except for Permitted Keery Transfers (where the transferee is then deemed to be a Keery Principal), transfers by a Keery Principal require the consent of the Company and the Lender, and (z) contemplate that, in addition to any other damages or remedies that may be appropriate, the Principal's Agreement shall be enforceable by injunction sought by the Company and the Lender or any one or more of them.

h. AVAILABLE SHARES. (i) Upon the initial issuance of the Debentures, the Company shall reserve out of the authorized but unissued shares of Common Stock for issuance upon conversion of the Debentures such number of shares equal to 200% of the number of shares which would be issuable if all of the Debentures issued to all Lenders were converted in their entirety on the Closing Date based on the Conversion Price in effect on that date and thereafter the number of authorized but unissued shares of Common Stock so reserved (the "Reserved Amount") shall not be decreased, but may be increased pursuant to subparagraph (ii) of this Section 4(h), and shall at all times be sufficient to provide for the conversion of all of the Debentures then outstanding at the then current Conversion Price thereof. The Reserved Amount shall be allocated to the Holders of Debentures as provided in Section 4(k) hereof.

(ii) If the Reserved Amount for any ten (10) consecutive trading days (the last of such 10 trading days being the "Authorization Trigger Date") shall be less than 150% of the number of shares of Common Stock issuable upon potential conversion of the then outstanding Debentures of all Holders, the Company shall immediately notify the Holders of the Debentures of such occurrence and shall take immediate action (including, if necessary, seeking stockholder approval to authorize the issuance of additional shares of Common Stock) to increase the Reserved Amount to 200% of the number of shares of Common Stock then issuable upon conversion of the outstanding Debentures of all Holders. In the event the Company fails to so increase the Reserved Amount within ninety (90) days after an Authorization Trigger Date (such event being the "Reserved Amount Trigger Date"), each Holder of Debentures shall thereafter have the option, exercisable in whole or in part at any time and from time to time after the Reserved Amount Trigger Date, by delivery of a Redemption Notice (as defined in the Debentures) to the Company, to require the Company to purchase for cash, at an amount equal to the Redemption Amount, a portion of the Holder's Debentures such that, after giving effect to such purchase, the Holder's allocated portion of the Reserved Amount equals or exceeds 200% of the total number of shares of Common Stock issuable to such Holder upon conversion of its Debentures. If the Company fails to redeem such portion of the Holder's Debentures within five (5) business days after its receipt of such Redemption Notice, then such Holder shall be entitled to the remedies provided in the Debentures.

(iii) Notwithstanding the provisions of Section 4(h)(ii) hereof, a Holder of Debentures shall have no right to require the Company to effect a redemption of such Holder's outstanding Debentures as provided in the immediately preceding subparagraph (ii) so long as (i) the Company has not, at any time, decreased the Reserved Amount below that number of shares of Common Stock computed as set forth in subparagraphs (i) and (ii) of this Section 4(h); (ii) the Company shall have taken immediate action following the applicable Authorization Trigger Date (including, if necessary, seeking stockholder approval to authorize the issuance of additional shares of Common Stock) to increase the Reserved Amount to 200% of the number of shares of Common Stock then issuable upon conversion of the outstanding Debentures of all Holders; and (iii) the Company continues to use its commercially reasonable good faith best efforts (including the resolicitation of stockholder approval, if necessary, to authorize the issuance of additional shares of Common Stock) to increase the Reserved Amount to 200% of the number of shares of Common Stock then issuable upon conversion of the outstanding Debentures of all Holders. The Company will be deemed to be using "its commercially reasonable good faith best efforts" to increase the Reserved Amount so long as it solicits stockholder approval to authorize the issuance of additional shares of Common Stock not less than two (2) times during each twelve month period following the applicable Authorization Trigger Date during which any Debentures remain outstanding; provided that no such limitation on the redemption rights set out in subparagraph (ii) of this Section 4(h) shall be effective if the Company fails to obtain stockholder approval after two (2) attempts.

i. WARRANTS. The Company agrees to issue to the Lender on the Closing Date a transferable, divisible warrant (collectively, the "Warrants") for the purchase of 1,025,000 shares

of Common Stock. The Warrants shall bear an exercise price equal to one hundred five percent (105%) of the Market Price of the Common Stock as of the Closing Date. The Warrant will expire on the last calendar day of the month in which the fifth anniversary of the Closing Date occurs. The Warrants shall be in the form annexed hereto as ANNEX VI together with registration rights as provided in the Registration Rights Agreement.

j. LIMITATION ON CONVERSIONS. Anything in the other provisions of this Agreement or any of the other Transaction Agreements to the contrary notwithstanding, the following provisions are applicable to conversion effected under the Debentures:

(i) If and for so long as the Cap Regulations are applicable to limit the issuance of shares on conversion of the Debentures (but not thereafter), the number of shares that the Company will issue to all Holders of the Debentures on conversion of the Debentures shall not, in the aggregate, exceed the Cap Amount. The Cap Amount shall be allocated among Holders of Debentures as provided in Section 4(k) hereof.

(ii) Nothing in this Section 4(j) shall be deemed to (A) permit a transfer or assignment of the Debenture unless otherwise permitted by other provisions of this Agreement or the Debenture or (B) limit or otherwise modify the obligations of the Company to take certain actions or to make certain payments to the Lender or other parties (such as but not necessarily limited to, actions with respect to the meeting contemplated by Section 4(d)(ii) hereof or payments on redemption of the Debentures), or adversely affect the rights of the Lender or such other parties with respect thereto, as provided elsewhere in this Agreement, the Debentures or any of the other Transaction Agreements.

k. ALLOCATION OF CAP AMOUNT AND RESERVED AMOUNT. The initial Cap Amount and Reserved Amount shall be allocated pro rata among the Holders of all Debentures based on the initial principal amount of the Debentures issued to each such Holder. Each increase to the Cap Amount and the Reserved Amount shall be allocated pro rata among the Holders of Debentures based on the principal amount of the Debentures held by each Holder at the time of the increase in the Cap Amount or Reserved Amount. In the event a Holder shall sell or otherwise transfer any of such Holder's Debentures, each transferee shall be allocated a pro rata portion of such transferor's Cap Amount and Reserved Amount. Any portion of the Cap Amount or Reserved Amount which remains allocated to any person or entity which does not hold any Debentures shall be allocated to the remaining Holders of Debentures, pro rata based on the outstanding principal balance of the Debentures then held by such Holders.

l. INTENTIONALLY OMITTED.

m. RIGHT OF FIRST REFUSAL, SPECIAL DILUTION PROTECTION.

(i) The Company covenants and agrees that, if during the period commencing on the date of this Agreement and continuing through the date which is one hundred eighty (180) days after the Effective Date, the Company offers to enter into any transaction (a "New Transaction") for the sale of Common Stock or securities convertible into Common Stock (collectively, "New Common Stock"), the Company shall notify the Lender in writing of all of

the terms of such offer (a "New Transaction Offer"). The Lender shall have the right (the "Right of First Refusal"), exercisable by written notice given to the Company by the close of business on the third business day after the Lender's receipt of the New Transaction Offer (the "Right of First Refusal Expiration Date"), to participate, pro rata with the holders of the shares of the Series A Convertible Preferred Stock (the "Series A Preferred Holders"), the Series B Convertible Preferred Stock (the "Series B Preferred Holders") and the Series C Convertible Preferred Stock (the "Series C Preferred Holders"), in all or any part of the New Transaction Offer on the terms so specified. To the extent that any Preferred Holders do not elect to participate in the New Transaction, the Right of First Refusal offered to them shall be offered pro rata to the Lenders and the Preferred Holders who have elected to exercise their own Right of First Refusal in full.

(ii) If, and only if, the Lender does not exercise the Right of First Refusal in full, the Company may consummate the remaining portion of the New Transaction with any third party (a "New Investor") on the terms specified in the New Transaction Offer within thirty (30) days of the Right of First Refusal Expiration Date. If the New Transaction is not so consummated by such thirtieth day, the provisions of Section 4(m)(i) shall apply again before the Company can consummate a New Transaction with any New Investor.

(iii) If the terms of the New Transaction to be consummated with such other party differ in a material respect from the terms specified in the New Transaction Offer so that the terms are more beneficial in any respect to the New Investor, the Company shall give the Lender a New Transaction Offer relating to the terms of the New Transaction, as so changed, and the Lender's Right of First Refusal and the preceding terms of this Section 4(m) shall apply with respect to such changed terms.

(iv) If there is more than one Lender signatory to this Agreement, the preceding provisions of this Section 4(m) shall apply pro rata among them (based on their relative Lender's Allocable Shares), except that, to the extent any such Lender does not exercise its Right of First Refusal in full (a "Declining Lender"), the remaining Lender or Lenders who or which have exercised their own Right of First Refusal in full, shall have the right (pro rata among them based on their relative Lender's Allocable Shares, if more than one) to exercise all or a portion of such Declining Lender's unexercised Right of Refusal.

(v) In the event the New Transaction is offered for the sale of New Common Stock or the issuance of warrants or other rights to purchase New Common Stock with such third party at any time prior to the expiration of the Specified Period on terms providing for (x) either a sale price equal to or computed based on, or a determination of a conversion price based on, a lower percentage of the then current market price (howsoever defined or computed) than provided in the Debentures for determining the Conversion Price or a lower Fixed Conversion Price (howsoever defined or computed in the New Transaction documents) and/or (y) the issuance of warrants at an exercise price lower than that provided in the Warrants and/or for a greater number of shares per dollar paid or invested by such third party to or in the Company, the terms of the Debentures (or

other documentation affecting the terms of the Debentures) and the Warrants (whether previously issued and/or converted or not) shall be modified to (i) reduce the relevant Conversion Price, Fixed Conversion Price or Warrant exercise price and/or (ii) increase the number of shares covered by the Warrants, in each instance to be equal to that provided in the New Transaction as so consummated (provided, however, that such increased Warrants shall have the same exercise price formula as the New Transaction warrants).

(vi) Except and subject to the extent provided in this subparagraph (vi), the Right of First Refusal provided herein does not apply to warrants issued to a New Senior Lender. Notwithstanding the foregoing, the provisions of subparagraph (v) of this Section 4(m) shall apply as if such issuance were a New Transaction for which the Right of First Refusal had not been exercised. This subparagraph (vi) does not apply if any of the Series A Preferred Holders and the Series B Preferred Holders (each such holder, an "Other Preferred Holder") has a right of first refusal, which right has not been waived by such Other Preferred Holder, with respect to the warrants issued to a New Senior Lender.

n. GRANT OF SECURITY INTEREST TO LENDERS.

(i) To secure its obligations to the Lenders and to all direct and indirect permitted transferees and assignees of their interests in this Agreement and the other Transaction Agreements, including, but not necessarily limited to, the Debentures (any one or more of the Lenders and such transferees and assignees individually and collectively sometimes referred to as the "Secured Party"), the Company (sometimes referred to as the "Debtor") hereby grants, conveys, transfers and assigns to the Secured Party a security interest in and to the Collateral (as defined in ANNEX VII hereto) to the fullest extent permissible under the Uniform Commercial Code or other governing security interests granted by debtors or obligors to creditors or obligees as in effect in each jurisdiction in which the Debtor's property may be found or deemed situate. The Debtor intends such security interest to be senior to the security interest, if any, of all parties other than the Senior Lender. In furtherance of the foregoing, and not in limitation thereof, on or before the Closing Date the Company shall obtain the written consent and acknowledgment of all parties (other than (x) the Senior Lender, and (y) Tucker and Coast, as defined in the Security Interest Agreement, defined below) currently having a security interest in any of the Collateral to the priority interest of the Secured Party (the "Other Secured Parties' Consents").

(ii) Solely for administrative convenience and not for any other purpose, each Secured Party has designated Krieger & Prager LLP as agent for the Secured Party for purposes of execution of and identification on any financing statement or similar instrument referring to or describing the Collateral. Such designation shall remain in effect until canceled by such Secured Party; provided, however, that such cancellation shall not affect the validity of any action theretofore taken by such agent pursuant to this provision. The Debtor acknowledges and agrees to honor such designation.

(iii) Additional terms relating to the grant of this security interest are specified in the Security Interest and Pledge Provisions annexed hereto as ANNEX VII , the terms of which are

incorporated herein by reference as if set forth herein in full. The terms of this Section 4(n) and the Security Interest and Pledge Provisions are collectively referred to as the "Security Interest Agreement."

5. TRANSFER AGENT INSTRUCTIONS.

a. The Company warrants that, with respect to the Securities, other than the stop transfer instructions to give effect to Section 4(a) hereof, it will give its transfer agent no instructions inconsistent with instructions to issue Common Stock from time to time upon conversion of the Debentures in such amounts as specified from time to time by the Company to the transfer agent, bearing the restrictive legend specified in Section 4(b) of this Agreement prior to registration of the Shares under the 1933 Act, registered in the name of the Lender or its nominee and in such denominations to be specified by the Lender in connection with each conversion of the Debentures. Except as so provided, the Shares shall otherwise be freely transferable on the books and records of the Company as and to the extent provided in this Agreement, the Debentures, the Registration Rights Agreement, and applicable law. Nothing in this Section shall affect in any way the Lender's obligations and agreement to comply with all applicable securities laws upon resale of the Securities.

If the Lender provides the Company with an opinion of counsel reasonably satisfactory to the Company that registration of a resale by the Lender of any of the Securities in accordance with clause (1)(B) of Section 4(a) of this Agreement is not required under the 1933 Act, the Company shall (except as provided in clause (2) of Section 4(a) of this Agreement) permit the transfer of the Securities and, in the case of the Converted Shares or the Warrant Shares, as the case may be, promptly instruct the Company's transfer agent to issue one or more certificates for Common Stock without legend in such name and in such denominations as specified by the Lender.

b. Subject to the provisions of this Agreement and the Debentures, the Company will permit the Lender to exercise its right to convert the Debentures in the manner contemplated by the Debentures.

c. The Company understands that a delay in the issuance of the certificates represented the Converted Shares (the "Conversion Certificates") beyond the Delivery Date (as defined in the Debentures) could result in economic loss to the Lender. As compensation to a Holder for such loss, the Company agrees that the Conversion Price will be adjusted to equal seventy-nine percent (79%) of the Conversion Price applicable immediately before the application of this provision, and the Company will then be obligated to issue Converted Shares based on the Conversion Price as so adjusted. In addition, and not in lieu of the foregoing, the Company agrees, if there is a further delay in the delivery of the Conversion Certificates (as adjusted in accordance with this provision) so that such Conversion Certificates are not received within five (5) business days after the Delivery Date, at the option of such Holder either (i) to pay the Redemption Amount as provided in Section 5 of the Debentures or (ii) to pay late payments to such Holder for late delivery of Conversion Certificates in accordance with the following schedule (where "No. Business Days Late" is defined as the number of business days beyond five (5) business days after the Delivery Date):

No. Business Days Late	Late Payment For Each \$10,000 of Debenture Principal or Interest Amount Being Converted
1	\$100
2	\$200
3	\$300
4	\$400
5	\$500
6	\$600
7	\$700
8	\$800
9	\$900
10	\$1,000
>10	\$1,000 +\$200 for each Business Day Late beyond 10 days

The Company shall pay any payments incurred under this Section in immediately available funds upon demand. Nothing herein shall limit the right of a Holder of the Debentures being converted (a "Converting Holder") to pursue actual damages for the Company's failure to issue and deliver the Common Stock to the Converting Holder. Furthermore, in addition to any other remedies which may be available to a Converting Holder, in the event that the Company fails for any reason to effect delivery of such Conversion Certificates within five (5) business days after the Delivery Date, the Converting Holder will be entitled to revoke the relevant Notice of Conversion by delivering a notice to such effect to the Company whereupon the Company and the Converting Holder shall each be restored to their respective positions immediately prior to delivery of such Notice of Conversion; provided, however, that any payments contemplated by this Section 5(c) which have accrued through the date of such revocation notice shall remain due and owing to the Converting Holder notwithstanding such revocation.

d. If, by the relevant Delivery Date, the Company fails for any reason to deliver the Conversion Certificates to be issued upon conversion of a Debenture and after such Delivery Date, the Converting Holder purchases, in an open market transaction or otherwise, shares of Common Stock (the "Covering Shares") in order to make delivery in satisfaction of a sale of Common Stock by the Converting Holder (the "Sold Shares"), which delivery such Converting Holder anticipated to make using the Conversion Certificates to be issued upon such conversion (a "Buy-In"), the Company shall pay to the Converting Holder, in addition to and not in lieu of the amounts due under Section 5(c) hereof (and in addition to all other amounts contemplated in other provisions of the Transaction Agreements, and not in lieu of any such other amounts), the Buy-In Adjustment Amount (as defined below). The "Buy-In Adjustment Amount" is the amount equal to the excess, if any, of (x) the Converting Holder's total purchase price (including brokerage commissions, if any) for the Covering Shares over (y) the net proceeds (after brokerage commissions, if any) received by the Converting Holder from the sale of the Sold Shares. The Company shall pay the Buy-In Adjustment Amount to the Company in immediately available funds immediately upon demand by the Converting Holder. By way of illustration and not in limitation of the foregoing, if the Converting Holder purchases shares of Common Stock having a total purchase price (including brokerage commissions) of \$11,000 to cover a Buy-In with respect to shares of Common Stock it sold for net proceeds of \$10,000, the Buy-In Adjustment Amount which Company will be required to pay to the Converting Holder will be \$1,000.

e. In lieu of delivering physical certificates representing the Common Stock issuable upon conversion, provided the Company's transfer agent is participating in the Depository Trust Company ("DTC") Fast Automated Securities Transfer program, upon request of a Converting Holder and such Converting Holder's compliance with the provisions contained in this paragraph, so long as the certificates therefor do not bear a legend and the Converting Holder thereof is not obligated to return such certificate for the placement of a legend thereon, the Company shall use its best efforts to cause its transfer agent to electronically transmit the Common Stock issuable upon

conversion to the Converting Holder by crediting the account of Converting Holder's prime broker with DTC through its Deposit Withdrawal Agent Commission system.

f. (i) Until such time as a court of competent jurisdiction shall have issued a binding injunction (which injunction was not sought by the Company or any of its Affiliates) prohibiting the Company from issuing shares of Common Stock to the Converting Holder on the Converting Holder's conversion of the Debentures or to the holder of a Warrant exercising such holder's rights thereunder (an "Exercising Holder"), the Company will timely honor all such conversions and exercises effected by the Converting Holder or Exercising Holder in accordance with the terms of the Debentures and the Warrants, as the case may be, this Agreement and the other Transaction Agreements, subject only to the limitations as to manner of exercise provided therein and to the provisions of Section 4(j) hereof and Sections 4(C) and (D) of the Debentures and Section 2.2 of the Warrant. In furtherance of the foregoing, and not in limitation thereof, if at any time, a Holder of the Debentures shall elect to convert any portion of the Debentures or to exercise any portion of the Warrants, the Company may not refuse to effect such conversion or exercise based on any claim that such Holder (or anyone associated with such Holder) has been engaged in any violation of law or otherwise, unless a binding injunction from a court of competent jurisdiction, issued on notice to that Holder of the hearing, with respect to the issuance of such injunction, restraining or enjoining conversion of all of the Debentures or exercise of all Warrants shall have been sought and obtained and the Company shall have posted a bond in favor of such Holder in the amount of one hundred thirty percent (130%) of the outstanding principal amount of the Debentures held by such Holder or the market value of the Common Stock subject to exercise of the Warrants held by such Holder which are subject to such injunction. The bond referred to in the immediately preceding sentence shall remain in effect at least until thirty (30) days after the completion of the proceedings relating to the dispute between such Holder and the Company with respect to such conversion or right to effectuate conversions. The proceeds of such bond shall be payable to such Holder to offset any amounts owed to the Holder as reflected in any judgment obtained by the Holder in its favor in connection with such dispute.

(ii) If, at any time:

(x) the Company challenges, disputes or denies the right of a Holder of the Debentures to effect a conversion of the Debentures into Common Stock or otherwise dishonors or rejects any Notice of Conversion delivered in accordance with the terms of any of the Transaction Agreements (subject to the provisions of Section 4(B)(v) of the Debentures with respect to certain disputes relating to calculations of the number of shares to be issued and subject to the provisions of Sections 4(C) and (D) of the Debentures with respect to certain limitations on conversions) or any exercise of any Warrant in accordance with its terms ("Warrant Exercise"), or

(y) any third party who is not and has never been an Affiliate of such Holder commences any lawsuit or proceeding or otherwise asserts any claim before any court or public or governmental authority, which lawsuit, proceeding or claim seeks to challenge, deny, enjoin, limit, modify, delay or dispute the right of such

Holder to effect the conversion of the Debentures into Common Stock, and the Company refuses to honor any such Notice of Conversion or Warrant Exercise,

then such Holder shall have the right, by written notice to the Company, to require the Company to redeem all or any part of the outstanding Debentures for which a Notice of Conversion has been refused pursuant to Sections 5(f)(i) or (ii) hereof for cash, at an amount equal to the Redemption Amount, pursuant to the provisions of Section 5 of the Debentures.

g. The Company will authorize its transfer agent to give information relating to the Company directly to the Lender or the Lender's representatives upon the request of the Lender or any such representative, to the extent such information relates to (i) the status of shares of Common Stock issued or claimed to be issued to the Lender in connection with a Notice of Conversion, or (ii) the number of outstanding shares of Common Stock of all stockholders as of a current or other specified date. The Company will provide the Lender with a copy of the authorization so given to the transfer agent.

6. CLOSING DATE.

a. The Closing Date shall occur no later than the date which is the first Nasdaq/SmallCap Market trading day after each of the conditions contemplated by Sections 7 and 8 hereof shall have either been satisfied or been waived by the party in whose favor such conditions run.

b. The closing of the purchase and issuance of Debentures shall occur on the Closing Date at the offices of the Escrow Agent and shall take place no later than 3:00 P.M., New York time, on such day or such other time as is mutually agreed upon by the Company and the Lender.

c. Notwithstanding anything to the contrary contained herein, the Escrow Agent will be authorized to release the Escrow Funds to the Company and to others and to release the other Escrow Property on the Closing Date upon satisfaction of the conditions set forth in Sections 7 and 8 hereof and as provided in the Joint Escrow Instructions.

7. CONDITIONS TO THE COMPANY'S OBLIGATION TO SELL.

The Lender understands that the Company's obligation to sell the Debentures to the Lender pursuant to this Agreement on the Closing Date is conditioned upon:

a. The execution and delivery of this Agreement and the other Transaction Agreements contemplated to be signed by the Lender and, if necessary, other Lenders reflecting the purchase of Debentures in the aggregate principal amount of \$750,000;

b. Delivery by the Lender to the Escrow Agent of good funds as payment in full of an amount equal to the Purchase Price for the Debentures in accordance with this Agreement;

c. The accuracy on the Closing Date of the representations and warranties of the Lender contained in this Agreement, each as if made on such date, and the performance by the Lender on or before such date of all covenants and agreements of the Lender required to be performed on or before such date;

d. Except to the extent contemplated by specific provisions of the Transaction Agreements, there shall not be in effect any law, rule or regulation prohibiting or restricting the transactions contemplated hereby to an extent materially greater than contemplated herein, or requiring any consent or approval which shall not have been obtained; and

e. From and after the date hereof to and including the Closing Date, the trading of the Common Stock shall not have been suspended by the SEC or the NASD and trading in securities generally on The Nasdaq/SmallCap Market shall not have been suspended or limited, nor shall minimum prices been established for securities traded on The Nasdaq/SmallCap Market, nor shall there be any outbreak or escalation of hostilities involving the United States or any material adverse change in any financial market that in either case in the reasonable judgment of the Company makes it impracticable or inadvisable to sell the Debentures.

8. CONDITIONS TO THE BUYER'S OBLIGATION TO PURCHASE.

The Company understands that the Lender's obligation to purchase the Debentures on the Closing Date is conditioned upon:

a. The execution and delivery of this Agreement and the other Transaction Agreements by the Company;

b. The delivery by the Company to the Escrow Agent of the Certificates in accordance with this Agreement;

c. The delivery to the Lender of (i) a signed consent from the Senior Lender to the transactions contemplated by this Agreement and the other Transaction Agreements, including but not limited to the issuance of the Debentures and the grant of a security interest to the Lender, (ii) a signed consent from the Series A Preferred Holders and the Series B Preferred Holders to the transactions contemplated by this Agreement and the other Transaction Agreements, including but not limited to the issuance of the Debentures and the grant of a security interest to the Lender and the priority of the interests of the Lenders to any interest of such Preferred Holders, and (iii) the

Other Secured Parties' Consents, if any (all such consents referred to in this paragraph (c) from all such parties, collectively, the "Consents");

d. The delivery of the Principal's Agreements of each of the Keery Principals;

e. The accuracy in all material respects on such Closing Date of the representations and warranties of the Company contained in this Agreement, each as if made on such date, and the performance by the Company on or before such date of all covenants and agreements of the Company required to be performed on or before such date;

f. On the Closing Date, the Registration Rights Agreement shall be in full force and effect and the Company shall not be in default thereunder;

g. On the Closing Date, the Lender shall have received an opinion of counsel for the Company, dated such Closing Date, in form, scope and substance reasonably satisfactory to the Lender, substantially to the effect set forth in ANNEX III attached hereto;

h. Except to the extent contemplated by specific provisions of the Transaction Agreements, there shall not be in effect any law, rule or regulation prohibiting or restricting the transactions contemplated hereby to an extent materially greater than contemplated herein, or requiring any consent or approval which shall not have been obtained (and in particular the Consents shall have been obtained and copies thereof provided to the Lender); and

i. From and after the date hereof to and including the Closing Date, the trading of the Common Stock shall not have been suspended by the SEC or the NASD and trading in securities generally on The Nasdaq/SmallCap Market shall not have been suspended or limited, nor shall minimum prices be established for securities traded on The Nasdaq/SmallCap Market, nor shall there be any outbreak or escalation of hostilities involving the United States or any material adverse change in any financial market that in either case in the reasonable judgment of the Lender makes it impracticable or inadvisable to purchase the Debentures.

9. GOVERNING LAW: MISCELLANEOUS.

a. This Agreement shall be governed by and interpreted in accordance with the laws of the State of New York for contracts to be wholly performed in such state and without giving effect to the principles thereof regarding the conflict of laws. Each of the parties consents to the exclusive jurisdiction of the federal courts whose districts encompass any part of the City of New York or the state courts of the State of New York sitting in the City of New York in connection with any dispute arising under this Agreement and hereby waives, to the maximum extent permitted by law, any objection, including any objection based on forum non conveniens, to the bringing of any such proceeding in such jurisdictions. To the extent determined by such court, the Company shall reimburse the Lender for any reasonable legal fees and disbursements incurred by the Lender in enforcement of or protection of any of its rights under any of the Transaction Agreements.

b. Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, shall not operate as a waiver thereof.

c. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties hereto.

d. All pronouns and any variations thereof refer to the masculine, feminine or neuter, singular or plural, as the context may require.

e. A facsimile transmission of this signed Agreement shall be legal and binding on all parties hereto.

f. This Agreement may be signed in one or more counterparts, each of which shall be deemed an original.

g. The headings of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement.

h. If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement or the validity or enforceability of this Agreement in any other jurisdiction.

i. This Agreement may be amended only by an instrument in writing signed by the party to be charged with enforcement thereof.

j. This Agreement supersedes all prior agreements and understandings among the parties hereto with respect to the subject matter hereof.

10. NOTICES. Any notice required or permitted hereunder shall be given in writing (unless otherwise specified herein) and shall be deemed effectively given on the earliest of

(a) the date delivered, if delivered by personal delivery as against written receipt therefor or by confirmed facsimile transmission,

(b) the seventh business day after deposit, postage prepaid, in the United States Postal Service by registered or certified mail, or

(c) the third business day after mailing by domestic or international express courier, with delivery costs and fees prepaid,

in each case, addressed to each of the other parties thereunto entitled at the following addresses (or at such other addresses as such party may designate by ten (10) days' advance written notice similarly given to each of the other parties hereto):

COMPANY: Titan Motorcycle Co. Of America
At its address at the head of this Agreement
Attn: Frank Keery
Telephone No.: (602) 861-6977
Telecopier No.: (602) 331-0941

with a copy to:

Snell & Wilmer LLP
One Arizona Center
Phoenix, AZ 85048
Attn: Richard Stagg, Esq.
Telephone No.: (602) 382-6000
Telecopier No.: (602) 382-6070

BUYER: At the address set forth on the signature page of this Agreement.

with a copy to:

Krieger & Prager LLP
39 Broadway
Suite 1440
New York, NY 10006
Attn: Samuel Krieger, Esq.
Telephone No.: (212) 363-2900
Telecopier No. (212) 363-2999

ESCROW AGENT: Krieger & Prager LLP
39 Broadway
Suite 1440
New York, NY 10006
Attn: Samuel Krieger, Esq.
New York, New York 10016
Telephone No.: (212) 363-2900
Telecopier No. (212) 363-2999

11. SURVIVAL OF REPRESENTATIONS AND WARRANTIES. The Company's and the Lender's representations and warranties herein shall survive the execution and delivery of this Agreement and the delivery of the Certificates and the Warrants and the payment of the Purchase Price, and shall inure to the benefit of the Lender and the Company and their respective successors and assigns.

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK.]

IN WITNESS WHEREOF, this Agreement has been duly executed by the Lender by one of its officers thereunto duly authorized as of the date set forth below.

AMOUNT AND PURCHASE PRICE OF DEBENTURES: \$

SIGNATURES FOR ENTITIES

IN WITNESS WHEREOF, the undersigned represents that the foregoing statements are true and correct and that it has caused this Securities Purchase Agreement to be duly executed on its behalf this day, 2000.

Address

Printed Name of Subscriber

By:

Telecopier No. _____

(Signature of Authorized Person)

Printed Name and Title

Jurisdiction of Incorporation
or Organization

As of the date set forth below, the undersigned hereby accepts this Agreement and represents that the foregoing statements are true and correct and that it has caused this Securities Purchase Agreement to be duly executed on its behalf.

TITAN MOTORCYCLE CO. OF AMERICA

By:

Title:

Date: _____, 2000

ANNEX I	DEBENTURE
ANNEX II	JOINT ESCROW INSTRUCTIONS
ANNEX III	OPINION OF COUNSEL
ANNEX IV	REGISTRATION RIGHTS AGREEMENT
ANNEX V	COMPANY DISCLOSURE MATERIALS
ANNEX VI	FORM OF WARRANT
ANNEX VII	SECURITY INTEREST AND PLEDGE PROVISIONS

COMPANY DISCLOSURE MATERIALS

[TO BE PREPARED BY COMPANY]

INTERCREDITOR AGREEMENT

THIS INTERCREDITOR AGREEMENT (the "Agreement") is made as of this 14th day of August, 2000 by and among TITAN MOTORCYCLE CO. OF AMERICA, a Nevada corporation ("Borrower"), ESQUIRE TRADE & FINANCE INC., a British Virgin Islands corporation, and CELESTE TRUST REG., a Liechtenstein trust (individually, an "Investor" and collectively, the "Investors"), and WELLS FARGO CREDIT, INC., a Minnesota corporation ("Lender").

RECITALS:

WHEREAS, Borrower and Lender are parties to that certain Amended and Restated Credit and Security Agreement dated as of April 10, 2000, as amended by First Amendment to Amended and Restated Credit and Security Agreement dated as of July 10, 2000 and Second Amendment to Amended and Restated Credit and Security Agreement dated as of August 14, 2000 (as hereafter amended, modified, supplemented, restated or replaced from time to time, the "Credit Agreement") and Borrower is now or hereafter may be indebted to the Lender on account of loans or the other extensions of credit or financial accommodations from Lender to Borrower, or to any other person under the guarantee or endorsement of Borrower;

WHEREAS, Investors desire to purchase from Borrower \$750,000 of 12% Convertible Debentures of the Borrower (the "Convertible Debentures") which are convertible into shares of Common Stock, \$.001 par value per share of the Company (the "Conversion Shares") pursuant to that certain Securities Purchase Agreement of even date herewith between Borrower and Investors (the "Purchase Agreement"), which Convertible Debentures will be in the form annexed to the Purchase Agreement;

WHEREAS, in connection with the Purchase Agreement, Investors will also receive the right to purchase 1,025,160 shares of Common Stock, \$.001 par value per share of the Company ("Warrant Shares") pursuant to the Titan Motorcycle Co. of America Common Stock Purchase Warrants to be issued on the Closing Date in the form annexed to the Purchase Agreement (a "Warrant");

WHEREAS, Borrower has agreed to provide certain registration rights under the Securities Act of 1933, as amended, with respect to the Conversion Shares and Warrant Shares pursuant to the Registration Rights Agreement of even date herewith between Borrower and Investors (the "Registration Rights Agreement");

WHEREAS, in order to secure Borrower's obligations under the Purchase Agreement, Convertible Debentures, Registration Rights Agreement and other documents and instruments reflecting obligations of Borrower to Investors, Borrower intends to grant to Investors pursuant to the Security Interest and Pledge Provisions annexed to the Purchase Agreement (the "Pledge Agreement") a security interest in all assets and properties of Borrower;

WHEREAS, the Lender's Loan Documents require the consent of Lender to the issuance of the Convertible Debentures and the further encumbrance of Borrower's assets; and

WHEREAS, the Investors' Loan Documents and the Lender's Loan Documents are both secured by all or substantially all of the assets of the Borrower;

WHEREAS, it is a condition precedent to Lender's approval of the transactions contemplated by the Investors' Loan Documents that Investors subordinate the payment of any principal, interest, dividends, distributions, return of capital, optional or mandatory redemption rights, and indemnity payments and any security interests and liens created by the Investors' Loan Documents to the indebtedness under the Credit Agreement and the security interests and liens in favor of Lender on the terms set forth herein;

AGREEMENTS:

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Investors and Lender, intending to be legally bound, agree as follows:

1. Definitions. As used in this Agreement, the following words and terms shall have the meaning set forth below:

(a) "Borrower Default" means (a) any Default or Event of Default, as each is defined in any Lender Loan Document; and/or (b) any breach of, or default under, this Agreement by Borrower.

(b) "Collateral" means all of Borrower's Equipment, General Intangibles, Inventory, Receivables, Investment Property, all sums on deposit in any Collection Account; together with (i) all substitutions and replacements for and products of any of the foregoing; (ii) proceeds of any and all of the foregoing; (iii) in the case of all tangible goods, all accessions; (iv) all accessories, attachments, parts, equipment and repairs now or hereafter attached or affixed to or used in connection with any tangible goods; (v) all warehouse receipts, bills of lading and other documents of title now or hereafter covering such goods; and (vi) the Life Insurance Policy.

(c) "Investor Indebtedness" means each and every debt, liability and obligation of every type and description which Borrower may now or at any time hereafter owe to Investors, or either of them, whether such debt, liability or obligation now exists or is hereafter created or incurred, and whether it is or may be direct or indirect, due or to become due, absolute or contingent, primary or secondary, liquidated or unliquidated, or joint, several or joint and several, including, without limitation, any principal or interest with respect to the Convertible Debentures, return of capital, dividend, distribution, optional or mandatory redemption payment, indemnification or contribution obligations, Buy-In Adjustment Amount, cash Exercise Price, late payments, Redemption Amount, and costs, fees and expenses payable by Borrower to Investors, or either of them, under the Investors' Loan Documents.

(d) "Investors' Loan Documents" means the Purchase Agreement, the Convertible Debentures, the Warrant, the Registration Rights Agreement, the Pledge and any

other documents and instruments which have been or may hereafter be executed by Borrower or any other person or entity in connection with the Purchase Agreement, including all amendments, modifications, supplements, extensions, restatements, refinancings and replacements thereof.

(e) "Lender Indebtedness" means each and every debt, liability and obligation of every type and description which Borrower may now or at any time hereafter owe to Lender, whether such debt, liability or obligation now exists or is hereafter created or incurred, and whether it is or may be direct or indirect, due or to become due, absolute or contingent, primary or secondary, liquidated or unliquidated, or joint, several or joint and several, all interest thereon, all renewals, extensions, increases and modifications thereof, and any notes or other evidenced of indebtedness issued in whole or partial substitution therefor, and including all principal, interest, attorneys' fees, costs and expenses provided for in any document between Lender and Borrower.

(f) "Lender's Loan Documents" means all documents and instruments which have been or may hereafter be executed by Borrower or any other person or entity in connection with the Credit Agreement, including all amendments, modifications, supplements, extensions, restatements, refinancings and replacements thereof.

Except as otherwise defined herein, all capitalized terms used herein shall have the meanings ascribed thereto in the Credit Agreement or Investors' Loan Documents. In the event of any conflict between the definition of a term in the Credit Agreement and in the Investors' Loan Documents, the definition in the Credit Agreement shall be applicable, unless the context clearly and unequivocally indicates otherwise.

2. Consent to Investors' Loan Documents. Subject to the terms and conditions contained in this Agreement, Lender hereby consents to the Investors' Loan Documents and the other transactions contemplated therein, provided that the net cash proceeds from the contemporaneous issuance of all of the Convertible Debentures is not less than \$750,000 (net of a five percent (5%) fee to the investment banker and any normal and customary transaction fees paid to non-Affiliates and verified to Lender's satisfaction). This consent is effective only in this specific instance and only for the specific purpose for which given and is expressly conditioned upon strict compliance with the terms of this Agreement. This consent does not constitute a waiver of any of the covenants and agreements of Borrower contained in the Credit Agreement or Loan Documents with respect to any other transaction.

3. Subordination. The Investor Indebtedness under the Investors' Loan Documents, the payment of any of the Investor Indebtedness, the exercise of all conversion and redemption rights (whether mandatory or optional) and the security interests and liens created by the Investors' Loan Documents are hereby made and shall be and remain subject, inferior, subsequent and subordinate in all respects to the Lender Indebtedness and the security interests and liens created by the Lender's Loan Documents to secure all Advances made thereunder, whether such Advances be deemed obligatory or permissive, and all other costs and expenses incurred by Lender in connection with the Credit Agreement, including, without limitation, attorneys' fees and court costs and other professional fees. Investors shall not demand, receive or accept any payment (whether of principal, interest, return of capital, dividend, distribution, optional or mandatory redemption payment, indemnification or contribution obligations, Buy-In

Adjustment Amount, cash Exercise Price, late payments, Redemption Amount, costs, fees, expenses or otherwise) from Borrower in respect of the Investor Indebtedness, or exercise any optional or mandatory redemption rights granted in the Investors' Loan Documents, or accept any optional or mandatory redemption payment from Borrower, and Borrower may not voluntarily take any action to redeem for cash all or any part of the Convertible Debentures, Conversion Shares or Warrant Shares, except with the prior written consent of Lender which may be given or withheld in Lender's sole, absolute and unfettered discretion. Notwithstanding the foregoing, Borrower may pay principal, interest, dividends, distributions or other payments to Investors in the form of Common Stock of Borrower and, without waiving Lender's right to declare a Borrower Default if applicable, at any time after December 31, 2000 (a) Investors may collect from Borrower, and Borrower may pay to Investors, late payments, Periodic Amounts and Buy-In Adjustment Amounts, if required under the Investors' Loan Documents, provided all of the following conditions are satisfied: (I) Borrower has not received a currently effective notice of a Borrower Default; (II) Investors have provided no less than ten (10) business days' prior written notice to Lender prior to collection of any such late payments, Periodic Amounts or Buy-In Adjustment Amounts; and (III) the aggregate amount of all such late payments, Periodic Amounts and Buy-In Adjustment Amounts shall not exceed \$25,000 per Investor (\$50,000 in the aggregate) in any one calendar quarter (any amounts in excess thereof may be accrued and paid in the following calendar quarter provided that all of the other conditions to payment are satisfied); and (b) Investors may demand redemption of, and Borrower may send a Redemption Notice and exercise its rights upon the occurrence of a Redemption Event (except that Investors may not enforce any of their rights against the Collateral), provided all of the following conditions are satisfied: (i) Borrower has funds legally available to pay such redemption payments; (ii) no Borrower Default shall exist immediately prior to, and immediately after giving effect to, such redemption payment; (iii) after giving effect to such redemption payment, Borrower is in compliance with the financial covenants in Section 6 of the Loan Agreement, whether or not intended to be measured on such date; and (iv) immediately after giving effect to such redemption payment, there is remaining availability under the Borrowing Base of not less than \$250,000. Investors shall deliver a copy of any Redemption Notice to Lender simultaneously with Investors' delivery to Borrower. Within forty-five (45) days after receipt of Investors' written demand for redemption, Lender shall notify Investors in writing with respect to Borrower's compliance with clauses (ii), (iii) and (iv) above. Lender's failure to timely notify Investors in writing shall be deemed Lender's acknowledgment that Borrower is, and after the redemption will be, in compliance with the conditions in clauses (ii), (iii) and (iv) above. Lender's determination of Borrower's compliance with the conditions in clauses (ii), (iii) and (iv) will be based upon the information then available to Lender and shall be conclusive, absent manifest error.

4. Priority. Subject to the terms and conditions of this Agreement, the parties hereby agree that:

(a) Notwithstanding the order of recordation of any mortgages, deeds of trust, deeds to secure debt, financing statements or any other security instruments, or the order of the granting of any security interests in the Collateral, or the physical possession of any Collateral, or any other matter, the liens and security interests granted by Borrower to Lender in the Collateral shall be prior and superior to any lien or security interest granted by Borrower to Investors in the Collateral and Investors' liens and security interests in the Collateral are and shall remain fully

subordinated, junior and inferior for all purposes to the liens and security interests of Lender in the Collateral (including any proceeds thereof) until all Lender Indebtedness shall have been fully paid and satisfied and all revolving credit financing arrangements between Borrower and Lender with respect to the Lender Indebtedness have been terminated.

(b) Lender and Investors, at any time and from time to time, may enter into such agreement or agreements with Borrower as Lender or Investors may deem proper, including, without limitation, extending the time of payment or renewing or otherwise altering the terms of repayment of any Indebtedness, amending, modifying or supplementing any of the other terms or provisions of the Lender's Loan Documents or the Investors' Loan Documents, or affecting the Collateral, or exchanging, selling, releasing, surrendering or otherwise dealing with any such security without in any way impairing or affecting this Agreement thereby.

(c) In furtherance of the foregoing, each party to this Agreement shall execute and deliver any instrument or document reasonably requested and prepared from time to time by the other party to confirm the foregoing subordination.

5. Forbearance by Investors. Until all Lender Indebtedness shall have been fully paid and satisfied and all financing arrangements between Borrower and Lender with respect to the Lender Indebtedness have been terminated, Investors will not commence any action or proceeding against Borrower to recover all or any part of the Investor Indebtedness, or to enforce its security interest in the Collateral, including, but not limited to, notifying account debtors of Borrower, or attempting to collect or realize upon the Collateral, or foreclosing its security interest in the Collateral, or take possession of, sell, or dispose of any other assets of Borrower, or exercise or enforce any right or remedy available to Investors with respect to any such assets of Borrower, or join with any creditor (unless Lender shall so join) in bringing any proceeding against Borrower under any bankruptcy, reorganization, readjustment of debt, arrangement of debt receivership, liquidation or insolvency law or statute of the federal or any state government.

6. Receipt of Prohibited Payments. If Investors receive any payment on the Investor Indebtedness that Investors are not entitled to receive under the provisions of this Agreement or obtains possession of any proceeds of the Collateral, Investors will hold the amount so received in trust for Lender and will forthwith turn over such payment or proceeds to Lender in the form received (except for the endorsement of Investors where necessary) for application to then-existing Lender Indebtedness (whether or not due), in such manner of application as Lender may deem appropriate. In the event that Investors shall exercise any right of setoff which Investors are not permitted to exercise under the provisions of this Agreement, Investors will promptly pay over to Lender, in immediately available funds, an amount equal to the amount of the claims or obligations offset. If Investors fail to make any endorsement required under this Agreement, Lender, or any of its officers or employees or agents on behalf of Lender, is hereby irrevocably appointed as the attorney-in-fact (which appointment is coupled with an interest) for Investors to make such endorsement in Investors' name.

7. Enforcement of Lender's Security Interest. Lender may at any time, and from time to time, exercise all rights and remedies available at law, in equity and/or in Lender's Loan Documents with respect to the Collateral, without the consent of or prior notice to Investors.

Lender shall have no duty to preserve, protect, care for, insure, take possession of, collect, dispose of, or otherwise realize upon any of the Collateral, and in no event shall Lender be deemed Investors' agent with respect to the Collateral. All proceeds received by Lender with respect to the Collateral may be applied, first, to pay or reimburse Lender for all costs and expenses (including reasonable attorneys' fees) incurred by Lender in connection with the collection of such proceeds, and, second, to any Lender Indebtedness secured by Lender's security interest in the Collateral in any order that it may choose. In liquidating or disposing of the Collateral, Lender shall not be liable to Investors for any act or omission with respect to the liquidation of the Collateral or the fact that the proceeds realized from a liquidation of the Collateral could, under any circumstances, have been greater.

8. Investor Indebtedness Owed Only to Investors. Investors warrant and represent that Investors have not previously assigned any interest in the Investor Indebtedness, the Investors' Loan Documents or the Collateral to any other party, that no other party owns a collateral interest in the Collateral through Investors (whether as joint holder of the Investors' Loan Documents, participant or otherwise) and that the entire Investor Indebtedness of Borrower to Investors is owing only to Investors.

9. Lender Indebtedness Owed Only to Lender. Lender warrants and represents that Lender has not previously assigned any interest in the Lender Indebtedness, the Lender's Loan Documents or the Collateral to any other party, that no other party owns a collateral interest in the Collateral through Lender (whether as joint holder of the Lender's Loan Documents, participant or otherwise) and that the entire Lender Indebtedness is owing only to Lender.

10. Bankruptcy and Insolvency. In the event of any receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization or arrangement with creditors by Borrower, whether or not pursuant to bankruptcy law, the sale of all or substantially all of the assets of Borrower, dissolution, liquidation or any other marshalling of the assets or liabilities of Borrower, Investors will file all claims, proofs of claim or other instruments of similar character necessary to enforce the obligations of Borrower in respect of the Investor Indebtedness and will hold in trust for Lender and promptly pay over to Lender in the form received (except for the endorsement of Investors where necessary) for application to the then-existing Lender Indebtedness, any and all moneys, dividends or other assets received in any such proceedings on account of the Investor Indebtedness, unless and until Lender Indebtedness has been paid in full. If Investors shall fail to take any such action, Lender, as attorney-in-fact for Investors, may take such action on Investors' behalf. Investors hereby irrevocably appoint Lender, or any of its officers or employees on behalf of Lender, as the attorney-in-fact for Investors (which appointment is coupled with an interest) with the power but not the duty to demand, sue for, collect and receive any and all such moneys, dividends or other assets and give acquittance therefor and to file any claim, proof of claim or other instrument of similar character, to vote claims comprising Investor Indebtedness to accept or reject any plan of partial or complete liquidation, reorganization, arrangement, composition or extension and to take such other action in Lender's own name or in the name of Investors as Lender may deem necessary or advisable for the enforcement of the agreements contained herein; and Investors will execute and deliver to Lender such other and further powers-of-attorney or instruments as Lender may request in order to accomplish the foregoing.

11. Restrictive Legend; Transfer of Investor Indebtedness. Investors will cause all notes, bonds, debentures or other instruments evidencing the Investor Indebtedness or any part thereof, including, without limitation, the certificates evidencing the Warrant Shares and Conversion Shares, to contain a specific statement thereon to the effect that any dividends, distributions, redemption and other payments and any redemption rights (whether optional or mandatory) in favor of the holder are subject to the provisions of this Agreement, including, without limitation, any return of capital, dividend, distribution, optional or mandatory redemption payment, principal, interest, indemnification or contribution obligations, Buy-In Adjustment Amount, late payments, Redemption Amount, and costs, fees and expenses payable by Borrower to the holder, and Investors will mark their books conspicuously to evidence the subordination effected hereby. Any assignment transfer or pledge of all or any portion of the Investor Indebtedness shall be expressly made subject to the terms and conditions of this Agreement.

12. Continuing Effect. This Agreement shall constitute a continuing agreement of subordination, and Lender may, without notice to or consent by Investors, modify any term of Lender Indebtedness in reliance upon this Agreement. Without limiting the generality of the foregoing, Lender may, at any time and from time to time, either before or after receipt of any such notice of revocation, without the consent of or notice to Investors and without incurring responsibility to Investors or impairing or releasing any of Lender's rights or any of Investors' obligations hereunder:

(a) change the interest rate or change the amount of payment or extend the time for payment or renew or otherwise alter the terms of any Lender Indebtedness or any instrument evidencing the same in any manner;

(b) sell, exchange, release or otherwise deal with any property at any time securing payment of Lender Indebtedness or any part thereof;

(c) release anyone liable in any manner for the payment or collection of Lender Indebtedness or any part thereof;

(d) exercise or refrain from exercising any right against Borrower or any other person (including Investors); and

(e) apply any sums received by Lender, by whomsoever paid and however realized, to Lender Indebtedness in such manner as Lender shall deem appropriate.

13. Waivers. Lender and Investors expressly waive all notice of the acceptance by the other party of the subordination and other provisions of this Agreement and, except as expressly provided herein, all other notices, and expressly waive reliance upon the subordination and other agreements as herein provided. Lender and Investors each agree that the other has not made any warranties or representations with respect to the due execution, legality, validity, completeness or enforceability of the Lender's Loan Documents or the Investors' Loan Documents, or the collectability thereof, that Lender and Investors shall be entitled to, without notice to or consent of the other party which are hereby waived, extend credit from time to time to Borrower regardless of Borrower's present or future financial condition, manage and supervise their

respective loans to Borrower in accordance with their usual practices, modified from time to time as each deems appropriate under the circumstances, without regard to the existence of any rights that the other party may now or hereafter have in or to any of the assets of the Borrower, and neither Lender nor Investors shall have any liability to the other for, and each party waives any claim which it may now or hereafter have against the other arising out of, any and all actions which Lender or Investors, in good faith, take or omit to take with respect to the creation, perfection or continuation of liens or security interests in their respective collateral, actions with respect to the occurrence of an event of default, the foreclosure upon, sale of, release of, depreciation of or failure to realize upon, any of their respective collateral, the collection of any claim for all or any part of the Lender Indebtedness from any account debtor, guarantor or any other party, the collection of the Lender Indebtedness, or the valuation, use, protection or release of such party's interest in its respective collateral. Investors hereby waive any equitable right in respect of marshalling it might have in connection with any release of all or any portion of the Collateral by Lender, or to require Lender to exhaust its remedies against any collateral (other than the Investors' Collateral) before proceeding against the Collateral.

14. No Commitment. None of the provisions of this Agreement shall be deemed or construed to constitute or imply any commitment or obligation on the part of Lender to make any future loans or other extensions of credit or financial accommodations to Borrower.

15. Transfer of Claims. Neither Lender nor Investors shall assign or transfer the Lender Indebtedness or Investor Indebtedness, as the case may be, to any party or any other claim Lender or Investors have or may have against Borrower so long as this Agreement is in effect, unless such assignment or transfer is made expressly subject to the terms and conditions of this Agreement.

16. Information Concerning Financial Condition of Borrower. Lender and Investors each hereby assume responsibility for keeping itself informed of the financial condition of Borrower, and of all other circumstances bearing upon the risk of nonpayment of its debt that diligent inquiry would reveal, and each party hereby agrees that no other party shall have any duty to advise the other party of information known to such party regarding such condition or any such circumstances. In the event any party, in its discretion, undertakes, at any time or from time to time, to provide any such information to the other party, such party shall be under no obligation to undertake any investigation not a part of its regular business routine, shall be under no obligation to continue to provide any further information and shall be under no obligation to disclose any information which, pursuant to accepted or reasonable commercial finance practice, such party wishes to maintain confidentially.

17. Term. This Agreement shall constitute a continuing agreement of subordination, and Lender may continue, without notice to Investors, to lend monies, extend credit and make other financial accommodations, directly or indirectly, to or for the account of Borrower on the faith thereof, and this Agreement shall be irrevocable by Investors until all Lender Indebtedness shall have been fully paid and satisfied and all financing arrangements between Borrower and Lender with respect to the Lender Indebtedness have been terminated, except that this Agreement shall continue to be effective or be reinstated, as the case may be, if any payment or property or

part thereof must be returned by Lender upon the insolvency, bankruptcy or reorganization of Borrower or any other guarantor, or otherwise.

18. Notice. All notices and other communications hereunder shall be in writing and shall be (i) personally delivered, (ii) transmitted by registered mail, postage prepaid, or (iii) transmitted by telecopy, in each case addressed to the party to whom notice is being given at its address as set forth below:

If to Lender:

Wells Fargo Credit, Inc.
100 W. Washington
7th Floor
MAC # S4101-076
Phoenix, AZ 85003
Attn: Ms. Jill Fedoruk, Commercial Banking Officer
Telecopier: (602) 378-6215

With a copy to:

Jay S. Kramer
Fennemore Craig
3003 North Central Avenue
Suite 2600
Phoenix, AZ 85012-2913
Telecopier: (602) 916-5541

If to Investors:

c/o Krieger & Prager LLP
39 Broadway
Suite 1440
New York, NY 10006
Attn: Samuel Krieger, Esq.
Telecopier: (212) 363-2999

or at such other address as may hereafter be designated in writing by that party. All such notices or other communications shall be deemed to have been given on (i) the date received if delivered personally, (ii) the date of posting if delivered by mail, or (iii) the date of transmission if delivered by telecopy. Investors shall, contemporaneously with delivery to Borrower, deliver to Lender copies of any Notice of Conversion, Notice of Exercise (as contemplated by the Warrants), Redemption Notice, Notice of Redemption, notice electing to receive payment in cash, notice of breach, non-performance or default by Borrower. Borrower shall, contemporaneously with delivery to Investors, deliver to Lender copies of any election to redeem.

19. Conflict in Agreements. If the subordination provisions of any instrument evidencing Investor Indebtedness conflict with the terms of this Agreement, the terms of this Agreement shall govern the relationship between Lender and Investors.

20. No Waiver. No waiver shall be deemed to be made by Lender of any of its rights hereunder unless the same shall be in writing signed on behalf of Lender, and each such waiver, if any, shall be a waiver only with respect to the specific matter or matters to which the waiver relates and shall in no way impair the rights of Lender or the obligations of Investors to Lender in any other respect at any time.

21. Governing Law; Consent to Jurisdiction and Venue; Waiver of Jury Trial. This Agreement shall be governed by and construed in accordance with the substantive laws (other than conflict laws) of the State of Arizona. Investors consent to the personal jurisdiction of the state and federal courts located in the State of Arizona in connection with any controversy related to this Agreement, waives any argument that venue in any such forum is not convenient, and agrees that any litigation initiated by Investors, or either of them, in connection with this Agreement shall be venued in either the Maricopa County, Arizona Superior Court, or the United States District Court, District of Arizona. Investors waive any right to trial by jury in any action or proceeding based on or pertaining to this Agreement.

22. Binding Effect; Acceptance. This Agreement shall be binding upon Investors and Investors' heirs, legal representatives, successors and assigns and shall inure to the benefit of Lender and its participants, successors and assigns irrespective of whether this or any similar agreement is executed by any other creditor of Borrower. This Agreement shall be deemed effective against Investors upon Lender's receipt of a signed facsimile copy of this Agreement. Notice of acceptance by Lender of this Agreement or of reliance by Lender upon this Agreement is hereby waived by Investors.

23. Attorneys' Fees. In the event of any litigation between the parties arising out of, or related to, this Agreement, the prevailing party shall be entitled to recover its costs and expenses, including, without limitation, reasonable attorneys' fees, court costs and professional fees, which costs and expenses shall be set by the court sitting without a jury.

24. Miscellaneous. The paragraph headings herein are included for convenience of reference only and shall not constitute a part of this Agreement for any other purpose. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

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

BORROWER:

TITAN MOTORCYCLE CO. OF AMERICA, a Nevada corporation

By:

Name: Francis Keery
Title: Chairman

INVESTORS:

ESQUIRE TRADE & FINANCE INC., a British Virgin Islands corporation

By:

Name:
Title:

CELESTE TRUST REG., a Liechtenstein trust

By:

Name:
Title:

LENDER:

WELLS FARGO CREDIT, INC., a Minnesota corporation

By:

Name: Jill Fedoruk
Title: Commercial Banking Officer

STATE OF ARIZONA)
) ss.
County of Maricopa)

The foregoing instrument was acknowledged before me, the undersigned Notary Public, this _____ day of August, 2000 by Francis Keery, the President of Titan Motorcycle Co. of America, a Nevada corporation, on behalf of the corporation.

Notary Public

My Commission Expires:

STATE OF _____)
) ss.
County of _____)

On August ____, 2000, before me, _____ a Notary Public, personally appeared _____, []1 personally known to me -OR- []2 proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument, the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Notary Public

My Commission Expires:

STATE OF _____)
) ss.
County of _____)

On August __, 2000, before me, _____ a Notary Public, personally appeared _____, []3 personally known to me -OR- []4 proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument, the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Notary Public

My Commission Expires:
- -----

STATE OF ARIZONA)
) ss.
County of Maricopa)

The foregoing instrument was acknowledged before me, the undersigned Notary Public, this _____ day of _____ of August, 2000 by Jill Fedoruk, the Commercial Banking Officer of Wells Fargo Credit, Inc., a Minnesota corporation, on behalf of the corporation.

Notary Public

My Commission Expires:
- -----

SECOND AMENDMENT TO AMENDED AND
RESTATED LOAN AND SECURITY AGREEMENT

THIS SECOND AMENDMENT TO AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (the "Amendment") is made as of this 14th day of August, 2000 by and between TITAN MOTORCYCLE CO. OF AMERICA, a Nevada corporation ("Borrower"), and WELLS FARGO CREDIT, INC., a Minnesota corporation ("Lender").

WHEREAS, Borrower is currently indebted to Lender pursuant to the terms and conditions of that certain Amended and Restated Loan and Security Agreement dated as of April 10, 2000 between Borrower and Lender, as amended by First Amendment to Amended and Restated Loan and Security Agreement dated as of July 10, 2000 (the "Loan Agreement"); and

WHEREAS, Borrower has failed to timely deliver the June 2000 fiscal month-end financial statements to Lender and has advised Lender that it expects to have incurred a \$200,000 Net Loss for the June 2000 fiscal month and a \$750,000 Net Loss for the July 2000 fiscal month;

WHEREAS, Borrower has requested an extension of time to deliver its June 2000 fiscal month-end financial statements to Lender and an amendment to the financial covenants in the Loan Agreement consistent with its expected Net Losses and Lender is willing to grant such extension of time and amendment on the terms and conditions contained herein;

NOW, THEREFORE, in consideration of the premises, the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Borrower and Lender, intending to be legally bound, agree as follows:

1. Definitions. Except as otherwise defined herein, all capitalized terms used herein shall have the meanings ascribed thereto in the Loan Agreement.

2. Recitals. The recitals set forth above are true and accurate in every respect.

3. No Offsets. Borrower acknowledges with respect to the amounts owing to Lender that, as of the date of execution of this Amendment, Borrower has no offset, defense or counterclaim with respect thereto, no claim or defense in the abatement or reduction thereof, or any other claim against Lender or with respect to any document forming part of the transaction in respect of which the Prior Loan Agreement was made or forming part of any other transaction under which Borrower is indebted to Lender. Borrower acknowledges that all interest imposed under the Prior Loan Agreement and Loan Documents through the date of execution hereof, and all fees and other charges that have been collected from or known by Borrower to have been imposed upon Borrower with respect to the Prior Loan Agreement were and are agreed to, and were properly computed and collected, and that Lender has fully performed all obligations that it may have had or now has to Borrower, and Lender has no obligation to make any additional loan or extension of credit to or for the benefit of Borrower, except as provided in the Loan Agreement.

4. Release of Claims. In consideration of Lender's agreements contained herein, Borrower and its successors and assigns each hereby fully release, remise and forever discharge Lender and Bank and all of their past and present officers, directors, agents, employees, servants, partners, shareholders, attorneys and managers, and all of their respective heirs, personal representatives, predecessors, successors and assigns, for, from and against any and all claims, demands, causes of action, controversies, offsets, obligations, losses, damages, and liabilities of every kind and character whatsoever, including without limitation any action, omission, misrepresentation or other basis of liability founded either in tort or contract and the duties arising thereunder that Borrower, or any of its successors or assigns has had in the past, or now has, or which may hereafter accrue, whether known or unknown, whether currently existing or hereafter asserted, relating in any manner to, or arising from or in connection with, the indebtedness evidenced by the Prior Loan Agreement, this Agreement or the Loan Documents, any negotiations, loan administration, exercise of rights and remedies, payment, offset with respect to, or other matter relating to such indebtedness, any collateral securing payment and performance of such indebtedness, or any matter preliminary to the execution and delivery by Borrower and Lender of this Agreement, or any statement, action, omission or conduct of Lender or Bank or any of their officers, directors, agents, employees, servants, partners, shareholders, attorneys and managers relating in any manner to such indebtedness, collateral or this Agreement; provided, however, that the foregoing release and discharge shall not apply to the obligations of Lender expressly set forth in this Amendment or first arising after the date of this Amendment. Borrower acknowledges and agrees that Lender is not and shall not be obligated in any way to continue or undertake any loan, financing or other credit arrangement with Borrower, including without limitation any renewal of the indebtedness evidenced by the Loan Agreement, beyond the Maturity Date.

5. Representations and Warranties of Borrower. To induce Lender to enter into this Amendment and the arrangement contemplated by this Amendment, Borrower represents and warrants to Lender as follows:

(a) Borrower has all requisite corporate power and corporate authority to execute this Amendment and to perform all of its obligations hereunder, and this Amendment has been duly executed and delivered by Borrower and constitutes the legal, valid and binding obligations of Borrower, enforceable against Borrower in accordance with its terms.

(b) The execution, delivery and performance by Borrower of this Amendment have been duly authorized by all necessary corporate action and do not (i) require any authorization, consent or approval by any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, or any other Person, including, without limitation, the Subordinated Creditors, that, if not obtained would have a material adverse effect on the Borrower's financial condition, properties or operations; (ii) violate any provision of any law, rule or regulation or of any order, writ, injunction or decree presently in effect, having applicability to Borrower, or the articles of incorporation or by-laws of Borrower; or (iii) result in a breach of or constitute a default under any indenture or loan or credit agreement or any other material agreement, lease or instrument to which Borrower is a party or by which it or its properties may be bound or affected.

(c) Except as disclosed in the Borrower's May 31, 2000 financial statements delivered to Lender or otherwise disclosed in writing to Lender, all of the respective representations and warranties made by Borrower in the Loan Agreement and Loan Documents remain true, complete and correct in all material respects as of the date hereof, including, without limitation, the representations and warranties in Article 5 of the Loan Agreement, except to the extent of any changes to such representations and warranties previously disclosed in writing to Lender.

(d) After the execution of this Amendment, Borrower will be in compliance in all material respects with all of the covenants of Borrower under the Loan Agreement and other Loan Documents as of the date of execution of this Amendment.

(e) There are no oral agreements, understandings or course of conduct that would modify, amend, rearrange, vary, diminish or impair the Loan Agreement or other Loan Documents or the Obligation of Borrower evidenced thereby or to perform fully the Obligations of Borrower in strict accordance with the Loan Agreement and other Loan Documents, or which would permit Borrower to void or avoid its obligations in whole or in part.

No representation or warranty made by Borrower and contained herein or in the Loan Agreement or other Loan Documents, and no certificate, information or report furnished or to be furnished by Borrower in connection with the Loan Agreement or any of the other Loan Documents or any of the transactions contemplated hereby or thereby, contains or will contain a misstatement of material fact, or omits or will omit to state a material fact required to be stated in order to make the statements contained herein or therein not misleading in the light of the circumstances under which such statements were made.

6. Amendment Fee. In consideration of Lender's agreements contained herein, Borrower hereby agrees to pay Lender an amendment fee of \$2,500 that is deemed fully earned and non-refundable upon execution of this Amendment. Borrower hereby agrees that the Lender may, but shall not be obligated to, without further authorization by the Borrower, pay the amendment fee directly as an advance under the Loan Agreement on the effective date of this Amendment.

7. Consent to Issuance of Convertible Debentures. Subject to the terms and conditions of the Intercreditor Agreement dated August 14, 2000 among Borrower, Esquire Trade & Finance Inc., Celeste Trust Reg. and Lender (the "Intercreditor Agreement"), Lender hereby consents to the issuance of the Convertible Debentures and the grant of a security interest in and to all of Borrower's assets in favor of the holders of the Convertible Debentures. This consent is effective only in this specific instance and only for the specific purpose for which given and is expressly conditioned upon strict compliance with the terms of the Intercreditor Agreement. This consent does not constitute a waiver of any of the covenants and agreements of Borrower contained in the Credit Agreement or Loan Documents with respect to any other transaction.

8. Consent to Transamerica Forbearance Agreement. Lender hereby consents to the Transamerica Forbearance Agreement, including, without limitation, the grant to Transamerica Commercial Finance Corporation of a first lien Security Interest in the items of finished goods

Inventory specifically listed on Exhibit A to the Transamerica Forbearance Agreement (without any subsequent modifications) and the proceeds therefrom. This consent is effective only in this specific instance and only for the specific purpose and does not constitute Lender's consent to any amendments, modifications or supplements to, or replacements of, the Transamerica Forbearance Agreement. This consent does not constitute a waiver of any of the covenants and agreements of Borrower contained in the Credit Agreement or Loan Documents with respect to any other transaction.

9. Loan Agreement Definitions. Section 1.1 of the Loan Agreement is hereby amended to add the following definitions in their proper alphabetical order:

"Convertible Debentures" means \$750,000 of 12% Convertible Debentures of the Borrower issued pursuant to that certain Securities Purchase Agreement dated as of August 14, 2000 between Borrower and Esquire Trade & Finance Inc. and Celeste Trust Reg., including the grant of a Security Interest in all assets and properties of Borrower in favor of the holders of the Convertible Debentures, subordinate to the Security Interest of Lender.

"Transamerica Forbearance Agreement" means that certain Forbearance Agreement and Release dated August 1, 2000 between Borrower and Transamerica Commercial Finance Corporation and specifically excludes any amendments, modifications or supplements thereto, or replacements thereof without the prior written consent of Lender.

10. Reporting Requirements. Section 6.1(b) of the Loan Agreement is hereby deleted in its entirety and the following inserted therefor:

(a) as soon as available and in any event on or before April 21, 2000 with respect to January 2000, February 2000 and March 2000 fiscal month-end reporting information, August 22, 2000 with respect to June 2000 fiscal month-end reporting information, and on or before thirty (30) days after the end of each month thereafter, a balance sheet and statements of income and retained earnings of the Borrower as of the end of and for such month and for the year to date period then ended, in reasonable detail and stating in comparative form the figures for the corresponding date and periods in the previous year, all prepared in accordance with GAAP, and an aging of the Borrower's accounts payable; and accompanied by a certificate of the Borrower's chief financial officer, substantially in the form of Exhibit C hereto stating (i) that such financial statements have been prepared in accordance with GAAP, (ii) whether or not such officer has knowledge of the occurrence of any Default or Event of Default hereunder not theretofore reported and remedied and, if so, stating

in reasonable detail the facts with respect thereto, and (iii) all relevant facts in reasonable detail to evidence, and the computations as to, whether or not the Borrower is in compliance with the requirements set forth in Sections 6.13, 6.14 and 7.10;

11. Minimum Net Income From Ordinary Operations. Section 6.13 of the Loan Agreement is hereby deleted in its entirety and the following inserted therefor:

Section 6.13 MINIMUM NET INCOME FROM ORDINARY OPERATIONS. Borrower's monthly Net Loss for the May 2000 fiscal month shall not be more than \$31,000; Borrower's monthly Net Loss for the June 2000 fiscal month shall not be more than \$200,000; Borrower's monthly Net Loss for the July 2000 fiscal month shall not be more than \$750,000; and Borrower's monthly Net Loss for the August 2000 fiscal month shall not be more than \$500,000; provided, however, for Borrower's June, July and August 2000 fiscal months only, Net Income will be determined prior to reserving from, or making adjustments to, Borrower's finished goods Inventory and raw materials Inventory and Borrower's affiliate accounts receivable, which reserves and adjustments shall not exceed \$750,000 in the aggregate.

12. Minimum Book Net Worth. Section 6.14 of the Loan Agreement is hereby deleted in its entirety and the following inserted therefor:

Section 6.14 MINIMUM BOOK NET WORTH. Borrower's cumulative Book Net Worth as of the end of Borrower's 2000 second fiscal quarter, i.e., July 1, 2000, shall not be less than \$3,800,000 before reserving from, or making adjustments to, Borrower's finished goods Inventory and raw materials Inventory in the June 2000 fiscal month (but not to exceed \$750,000 in the aggregate); Borrower's cumulative Book Net Worth as of the end of Borrower's July 2000 fiscal month shall not be less than \$3,050,000; and Borrower's cumulative Book Net Worth as of the end of Borrower's August 2000 fiscal month shall not be less than \$2,550,000; provided, however, for Borrower's June, July and August 2000 fiscal months only, Book Net Worth will be determined prior to reserving from, or making adjustments to, Borrower's finished goods Inventory and raw materials Inventory and Borrower's affiliate accounts receivable, which reserves and adjustments shall not exceed \$750,000 in the aggregate.

13. Indebtedness. Section 7.2 of the Loan Agreement is hereby deleted in its entirety and the following inserted therefor:

Section 7.2 INDEBTEDNESS. The Borrower will not incur, create, assume or permit to exist any indebtedness or liability on account of deposits or advances or any indebtedness for borrowed money or letters of credit issued on the Borrower's behalf, or any other indebtedness or liability evidenced by notes, bonds, debentures or similar obligations, except:

(a) indebtedness arising hereunder;

(b) indebtedness of the Borrower in existence on the date hereof and listed in Schedule 7.2 hereto;

(c) indebtedness relating to liens permitted in accordance with Section 7.1;

(d) subordinated indebtedness related to the Convertible Debentures, but in no event more than \$750,000 in principal amount; and

(e) indebtedness related to the Transamerica Forbearance Agreement, but in no event more than \$1,262,091.75 in principal amount.

14. Events of Default. (a) Section 8.1(u) of the Loan Agreement is hereby deleted and the following inserted therefor:

(u) the Capital Infusion has not occurred on or before August 14, 2000; or

and (b) Section 8.1 of the Loan Agreement is hereby amended to add the following:

(w) Lender has not received signed copies of the Consent of Subordinated Creditors attached to the Second Amendment from Advantage Fund II Ltd., Koch Investment Group Limited, RCP Inc., Esquire Trade & Finance Inc. or Celeste Trust Reg. on or before August 21, 2000, or Lender has not received a signed copy of the Consent of Subordinated Creditors attached to the Second Amendment from Oxford International, Inc. on or before August 28, 2000.

15. Counterparts. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original and all of which counterparts, taken together, shall constitute one and the same instrument.

16. Voluntary Agreement. Borrower represents and warrants to Lender that (i) it has been represented by legal counsel of its choice in regard to the transaction provided for by this Amendment; (ii) it is fully aware and clearly understands all of the terms and provisions

contained in this Amendment, including, without limitation, the release of claims in Section 4 above; (iii) it has voluntarily, with full knowledge and without coercion or duress of any kind, entered into this Amendment and the documents executed in connection with this Amendment; (iv) it is not relying on any representations, either written or oral, express or implied, made to it by Lender other than as set forth in the Loan Agreement and other Loan Documents and this Amendment; and (v) the consideration received by Borrower to enter into this Amendment and the arrangement contemplated by this Amendment has been actual and adequate.

17. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of Arizona, without regard to its conflict of laws rules.

18. Counterparts. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original and all of which combined shall constitute one and the same instrument.

19. Successors and Assigns. This Amendment shall inure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns.

20. Transaction Expenses. Borrower agrees to pay any and all reasonable costs and expenses incurred by Lender in connection with this Amendment, including, without limitation, reasonable attorneys' fees and disbursements of counsel to the Lender for the services performed by such counsel in connection with the preparation of this Amendment and the documents and instruments incidental hereto. Borrower hereby agrees that the Lender may, at any time or from time to time in its sole discretion and without further authorization by the Borrower, pay such costs and expenses directly as an advance under the Loan Agreement.

21. Amendment. Except as otherwise amended hereby, all of the terms and provisions of the Loan Agreement shall remain in full force and effect and shall apply to each Advance thereunder.

[THE REMAINDER OF THIS PAGE
IS LEFT INTENTIONALLY BLANK]

IN WITNESS WHEREOF, this Amendment is executed as of the date first above written.

BORROWER:

TITAN MOTORCYCLE CO. OF AMERICA, a Nevada corporation

By: _____
Name: _____
Title: _____

LENDER:

WELLS FARGO CREDIT, INC., a Minnesota corporation

By: _____
Name: _____
Title: _____

CONSENT OF GUARANTORS

The undersigned, the Guarantors under the Guaranties, hereby (a) acknowledge receipt of a copy of the attached Second Amendment to Amended and Restated Loan and Security Agreement, (b) consent to the terms and conditions contained therein, and (c) agree that the covenants, agreements, duties and obligations of the undersigned, as Guarantors under your respective Guaranties, shall remain in full force and effect with respect to the Obligations evidenced by the Loan Agreement, as amended by the attached Second Amendment to Amended and Restated Loan and Security Agreement.

Dated as of this ____ day of August, 2000.

FRANCIS KEERY

BARBARA KEERY

PATRICK KEERY

CONSENT OF SUBORDINATED CREDITORS

The undersigned, the Subordinated Creditors under the Subordination Agreements, hereby (a) acknowledge receipt of a copy of the attached Second Amendment to Amended and Restated Loan and Security Agreement, (b) consent to the terms and conditions contained therein, and (c) agree that the covenants, agreements, duties and obligations of the undersigned, as Subordinated Creditor under the respective Subordination Agreements, shall remain in full force and effect with respect to the Obligations evidenced by the Loan Agreement, as amended by the attached Second Amendment to Amended and Restated Loan and Security Agreement.

Dated as of this ____ day of August, 2000.

ADVANTAGE FUND II LTD., a British Virgin Islands corporation

By: _____
Name: _____
Title: _____

KOCH INVESTMENT GROUP LIMITED, a Delaware corporation

By: _____
Name: _____
Title: _____

OXFORD INTERNATIONAL, INC.

By: _____
Name: _____
Title: _____

FRANCIS KEERY

CELESTE TRUST REG., a Liechtenstein trust

By: _____
Name: _____
Title: _____

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

ESQUIRE TRADE & FINANCE INC., a British Virgin
Islands corporation

By: -----

Name: -----

Title: -----

RCP INC., a California corporation

By: -----

Name: -----

Title: -----

CONSENT AND WAIVER AGREEMENT

THIS CONSENT AND WAIVER AGREEMENT, dated as of August 11, 2000 (this "Agreement"), is by and among TITAN MOTORCYCLE CO. OF AMERICA, a Nevada corporation, with headquarters located at 2222 West Peoria Avenue, Phoenix, Arizona 85029 (the "Company"), and ADVANTAGE FUND II LTD., a British Virgin Islands corporation ("Advantage"), and KOCH INVESTMENT GROUP LIMITED, a Delaware corporation ("Koch" and, collectively with Advantage, the "A and B Investors").

W I T N E S S E T H:

WHEREAS, the A and B Investors purchased shares of Series A Convertible Preferred Stock, \$.001 par value (the "Series A Stock"), of the Company and acquired warrants (the "Series A Warrants") to purchase shares of Common Stock, \$.001 par value ("Common Stock"), of the Company pursuant to separate Subscription Agreements, each dated as of September 15, 1999 (the "Series A Subscription Agreements"), between the Company and each A and B Investor;

WHEREAS, the A and B Investors purchased shares of Series B Convertible Preferred Stock, \$.001 par value (the "Series B Stock"), of the Company and acquired warrants (the "Series B Warrants") to purchase shares of Common Stock pursuant to separate Subscription Agreements, each dated as of March 7, 2000 (the "Series B Subscription Agreements", and together with the Series A Subscription Agreements, the "Subscription Agreements"), between the Company and each A and B Investor (capitalized terms used herein without definition shall have the meanings given them in the Subscription Agreements);

WHEREAS, the A and B Investors and the Company are parties to (i) the Warrant Amendment Agreement, dated as of May 24, 2000 (the "Warrant Amendment Agreement"), (ii) the Consent to Amendments to Series A Convertible Preferred Stock and Series B Convertible Preferred Stock, dated June 1, 2000 (the "First Consent") and (iii) the Consent and Waiver, dated June 20, 2000 (the "Second Consent");

WHEREAS, pursuant to the Second Consent, the A and B Investors received Additional Warrants (as such term is defined in the Second Consent) (the Series A Warrants, the Series B Warrants and the Additional Warrants are hereinafter collectively referred to as the "Investor Warrants");

WHEREAS, the Company proposes to sell to Esquire Trade and Finance Inc. and Celeste Trust Reg. (collectively, the "Debenture Holders") an aggregate of \$750,000 principal amount of convertible debentures issued by the Company (the "Debentures") together with certain warrants (the "Debenture Holder Warrants") to purchase Common Stock and, in connection therewith, to amend certain terms and provisions of the Company's Series C Convertible Preferred Stock, \$.001 par value (the "Series C Stock"), held by the Debenture Holders (such transaction is referred to herein as the "Offering");

WHEREAS, pursuant to the Subscription Agreements, the Company is restricted from issuing new securities in certain instances without the consent of the A and B Investors, and the A and B Investors are entitled to be notified of the Offering and to exercise their preemptive rights to purchase the securities offered thereby;

WHEREAS, pursuant to the Investor Warrants, the A and B Investors have certain anti-dilution adjustment rights in the event of certain issuances of securities by the Company; and

WHEREAS, in consideration for obtaining the consents and waivers of the A and B Investors provided herein in order to facilitate the Offering, the Company has agreed to amend certain provisions of the Subscription Agreements and the respective Amended and Restated Certificates of Designations for the Series A Stock and the Series B Stock (the "Certificates of Designations") as set forth below;

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. CONSENTS AND WAIVERS

(a) OFFERING. Each of the A and B Investors hereby consents to: (i) the issuance of the Debentures in accordance with, and the terms and conditions of, the Securities Purchase Agreement, dated as of August 11, 2000, by and among the Company and the Debenture Holders substantially in the form attached as EXHIBIT A hereto, (ii) the terms and conditions of the Registration Rights Agreement, dated as of August 11, 2000, by and among the Company and the Debenture Holders substantially in the form attached as EXHIBIT B hereto, (iii) the terms and conditions of the Debenture Holders Warrants substantially in the form attached as EXHIBIT C hereto and (iv) the terms and provisions of the First Amended and Restated Certificate of Designations of the Series C Stock substantially in the form attached as EXHIBIT D hereto. Each of the A and B Investors hereby waives all restrictions relating to the Offering under Section 4(i) of each of the Subscription Agreements.

(b) NOTIFICATION AND PREEMPTIVE RIGHTS. Each of the A and B Investors hereby waives all of its notification and preemptive rights under Section 4(i) of each of the Subscription Agreements to purchase Debentures or Debenture Holder Warrants being offered by the Company in the Offering.

(c) ANTI-DILUTION ADJUSTMENTS. Each of the A and B Investors hereby waives any and all rights to anti-dilution adjustments resulting from the Offering under Section 6 of each of the Series A Warrants and the Series B Warrants.

(d) OTHER TRANSACTIONS. Notwithstanding the foregoing provisions of this Section 1, the consents and waivers given pursuant to this Section 1 apply only to the Offering and do not limit or effect the A and B Investors' rights with respect to any other transaction.

(e) EFFECTIVENESS. The consents and waivers given in this Section 1 shall have no effect and shall be deemed null and void if the Company fails to timely comply with its obligations under Sections 3 and 4.

2. AMENDMENT OF SUBSCRIPTION AGREEMENTS

(a) Section 4(j) of each of the Series A Subscription Agreements is hereby amended in its entirety to read as follows:

(j) CERTAIN SELLING RESTRICTIONS. So long as the Company is in compliance in all material respects with its obligations to the Buyer under this Agreement, the Certificate of Designations, the Warrants and the Registration Rights Agreement, during the 10 consecutive Trading Days (as defined in the Certificate of Designations) immediately preceding the Initial Reset Date (as defined in the Certificate of Designations), the Second Reset Date (as defined in the Certificate of Designations), and each Bimonthly Reset Date thereafter (as defined in the Certificate of Designations), the Buyer agrees on its behalf and on behalf of its Affiliates (as defined in the Certificate of Designations) that it will not (1) sell any shares of the Common Stock on Nasdaq or any other market where the Common Stock is then listed for trading unless such sale is made at or above 130% of the Fixed Conversation Price (as defined in the Certificate of Designations) or (2) engage in any short sales or other hedging transactions relating to the Common Stock.

(b) Section 4(j) of each of the Series B Subscription Agreements is hereby amended in its entirety to read as follows:

(j) CERTAIN SELLING RESTRICTIONS. So long as the Company is in compliance in all material respects with its obligations to the Buyer under this Agreement, the Certificate of Designations, the Warrants and the Registration Rights Agreement, during the 10 consecutive Trading Days (as defined in the Certificate of Designations) immediately preceding the Initial Reset Date (as defined in the Certificate of Designations) and each Quarterly Reset Date thereafter (as defined in the Certificate of Designations), the Buyer agrees on its behalf and on behalf of its Affiliates (as defined in the Certificate of Designations) that it will not (1) sell any shares of the Common Stock on Nasdaq or any other market where the Common Stock is then listed for trading unless such sale is made at or above 130% of the Fixed Conversation Price (as defined in the Certificate of Designations) or (2) engage in any short sales or other hedging transactions relating to the Common Stock.

3. AMENDMENT AND RESTATEMENT OF CERTIFICATES OF DESIGNATIONS

The Amended and Restated Certificate of Designations for each of the Series A Stock and the Series B Stock shall be further amended and restated as set forth in EXHIBIT E and

EXHIBIT F attached hereto, respectively (the "New Certificates"). The Company shall file the New Certificates with the Secretary of State of the State of Nevada within one business day after the initial closing of the Offering and shall provide written evidence thereof to each of the A and B Investors. Within one business day after the initial closing of the Offering, the Company shall deliver a legal opinion of Nevada counsel addressed to each of the A and B Investors, in the form previously provided to the A and B Investors, which opinion shall state that (i) the outstanding shares of each of the Series A Stock and Series B Stock, as amended by the New Certificates, are duly authorized, validly issued, fully paid and nonassessable and (ii) the provisions of Section 4 of the New Certificates are valid and enforceable in accordance with their terms. Time is of the essence with respect to the Company's compliance with its obligations under this Section 3.

4. REPRESENTATIONS AND WARRANTIES

The Company represents and warrants to, and covenants and agrees with, each A and B Investor that:

(a) AGREEMENT. This Agreement has been duly and validly authorized by the Company, this Agreement has been duly executed and delivered on behalf of the Company, and this Agreement is, the Subscription Agreements as amended hereby are, and the New Certificates when filed will be, valid and binding obligations of the Company enforceable in accordance with their respective terms, subject to general principles of equity and to bankruptcy, insolvency, moratorium and other similar laws affecting the enforcement of creditors' rights generally and limits upon rights to indemnity;

(b) NON-CONTRAVENTION. The execution and delivery of this Agreement by the Company and the amendment of the Subscription Agreements and the Certificates of Designations as contemplated hereby and completion of the other transactions contemplated hereby do not and will not conflict with or result in a breach by the Company of any of the terms or provisions of, or constitute a default or require the consent of any party under the Articles of Incorporation or By-laws of the Company, or any indenture, mortgage, deed of trust or other agreement or instrument to which the Company is a party or by which it or any of its properties or assets are bound or any applicable law, rule or regulation or any applicable decree, judgment or order of any court, United States federal or state regulatory body, administrative agency or other governmental body having jurisdiction over the Company or any of its properties or assets;

(c) REGISTRATION STATEMENTS; STOCKHOLDER APPROVAL. After giving effect to the Offering, the filing of the New Certificates, the filing of a Current Report on Form 8-K with the SEC as described below and the completion of the other transactions contemplated hereby, (i) the respective Registration Statements filed by the Company with the SEC registering the resale by the A and B Investors of the Common Stock issuable upon conversion of the Series A Stock and the Series B Stock and upon exercise of the Series A Warrants and the Series B Warrants will remain available for use by the A and B Investors as selling stockholders named therein, and the Company has no intent or reason to suspend the availability of such Registration Statements, and (ii) the Stockholder Approvals (as defined in the New Certificates) obtained at the Company's Annual Meeting of Stockholders held on July 26, 2000 will remain effective in permanently exempting the Company and the A and B Investors from the restrictions contained in the Stockholder Approval Rule on issuing Common Stock to the A and B Investors. Within

one business day after the initial closing of the Offering, the Company shall file a Current Report on Form 8-K with the SEC describing the material terms of the Offering and the transactions contemplated by this Agreement; and

(d) CONSULTATION. The Company has consulted with its outside counsel with respect to the representations and agreements made by the Company in this Agreement.

5. CONFIRMATION OF AGREEMENTS; ENTIRE AGREEMENT

Except as specifically consented to or waived in this Agreement, the A and B Investors will not be deemed to have consented to, waived or amended any other rights or provisions of any other agreement or document. Except as amended by this Agreement, the terms and provisions of the Subscription Agreements, the Certificates of Designations, the Investor Warrants, the Warrant Amendment Agreement, the First Consent, the Second Consent, the Transfer Agent Agreements and the several Registration Rights Agreements relating thereto (collectively, the "Existing Agreements") remain in full force and effect. All references in the Existing Agreements to the Subscription Agreements and the Certificates of Designations shall hereafter, in the case of the Subscription Agreements, and upon filing with the Secretary of State of the State of Nevada, in the case of the Certificates of Designations, be deemed to be references to the Subscription Agreements and the Certificates of Designations as amended hereby. This Agreement sets forth the entire agreement between the parties with respect to the subject matter hereof.

6. MISCELLANEOUS

(a) GOVERNING LAW. This Agreement shall be governed by and interpreted in accordance with the laws of the State of Arizona.

(b) COUNTERPARTS. This Agreement may be executed in counterparts and by the parties hereto on separate counterparts, all of which together shall constitute one and the same instrument. A telephone line facsimile copy of this Agreement bearing a signature on behalf of a party hereto shall be legal and binding on such party.

(c) HEADINGS, ETC. The headings, captions and footers of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement.

(d) SEVERABILITY. If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement or the validity or enforceability of this Agreement in any other jurisdiction.

(e) AMENDMENTS. No amendment, modification, waiver, discharge or termination of any provision of this Agreement nor consent to any departure by the A and B Investors or the Company therefrom shall in any event be effective unless the same shall be in writing and signed by the party to be charged with enforcement, and then shall be effective only

in the specific instance and for the purpose for which given. No course of dealing between the parties hereto shall operate as an amendment of this Agreement.

(f) WAIVERS. Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, or any course of dealings between the parties, shall not operate as a waiver thereof or an amendment hereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or exercise of any other right or power.

(g) NOTICES. Any notices required or permitted to be given under the terms of this Agreement shall be delivered in accordance with the notice provisions of the Subscription Agreements.

(h) EXPENSES. The Company shall pay or reimburse the A and B Investors for all reasonable expenses (including, without limitation, legal fees and expenses of counsel to the A and B Investors) incurred by the A and B Investors in connection with this Agreement, the Offering and the other transactions contemplated hereby. The Company hereby confirms its obligation to pay all reasonable legal and other expenses of the A and B Investors in accordance with the terms of each of the Existing Agreements. In the event any dispute, claim or litigation shall arise between the Company, on the one hand, and the A and B Investors, on the other hand, in connection with this Agreement or the transactions contemplated hereby, all costs and expenses, including reasonable attorneys' fees, of the prevailing party shall be promptly paid by the other party to such dispute, claim or litigation.

(i) SURVIVAL. The respective representations, warranties, covenants and agreements of each A and B Investor and the Company contained in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement shall survive the completion of the transactions contemplated hereby and shall remain in full force and effect regardless of any investigation made by or on behalf of them or any person controlling or advising any of them.

(j) FURTHER ASSURANCES. Each party to this Agreement will perform any and all acts and execute any and all documents as may be necessary and proper under the circumstances in order to accomplish the intents and purposes of this Agreement and to carry out its provisions.

(k) CONSTRUCTION. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

IN WITNESS WHEREOF, this Consent and Waiver Agreement has been duly executed by the A and B Investors and the Company by their respective officers thereunto duly authorized as of the date first set forth above.

ADVANTAGE FUND II LTD.

By: Genesee International, Inc.,
as General Manager

By: _____
Donald R. Morken
President

KOCH INVESTMENT GROUP LIMITED

By: _____
Name:
Title:

TITAN MOTORCYCLE CO. OF AMERICA

By: _____
Name:
Title:

EXHIBIT A
SECURITIES PURCHASE AGREEMENT

EXHIBIT B
REGISTRATION RIGHTS AGREEMENT

EXHIBIT C

WARRANTS

EXHIBIT D
FIRST AMENDED AND RESTATED
CERTIFICATE OF DESIGNATIONS OF
SERIES C CONVERTIBLE
PREFERRED STOCK

EXHIBIT E

SECOND AMENDED AND RESTATED
CERTIFICATE OF DESIGNATIONS OF SERIES
A CONVERTIBLE PREFERRED STOCK

EXHIBIT F

SECOND AMENDED AND RESTATED
CERTIFICATE OF DESIGNATIONS OF SERIES
B CONVERTIBLE PREFERRED STOCK