

FORM 10-QSB
Securities and Exchange Commission
Washington, D.C. 20549

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

For the quarterly period ended October 3, 1998

OR

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

For the transition period from _____ to _____

Commission file number 0-24477

TITAN MOTORCYCLE CO. OF AMERICA

(Exact name of registrant as specified in its charter)

Nevada

86-0776876

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

2222 West Peoria Avenue, Phoenix, Arizona

85029

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (602) 861-6977

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

Yes No

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

Number of shares of common stock, par value \$ 0.001,
outstanding as of November 10, 1998: 16,437,333

TITAN MOTORCYCLE CO. OF AMERICA

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

TITAN MOTORCYCLE CO. OF AMERICA
Consolidated Balance Sheets

ASSETS

	October 3, 1998	December 31, 1997
	----- (Unaudited)	-----
CURRENT ASSETS		
Cash	\$ 565,654	\$ 85,468
Accounts receivable, net	4,426,714	974,461
Inventory	11,113,568	6,635,917
Prepaid expenses	1,266,729	381,160
	-----	-----
Total Current Assets	17,372,665	8,077,006
	-----	-----
EQUIPMENT		
Autos and trucks	231,508	228,017
Machinery and equipment	251,199	199,226
Office equipment and software	339,198	211,495
Displays	41,534	41,534
Leasehold improvements	24,177	24,177
Less: accumulated depreciation	(259,047)	(121,749)
	-----	-----
Total Equipment	628,569	582,700
	-----	-----
OTHER ASSETS		
Deposits	55,063	55,063
Trademarks	62,371	54,288
	-----	-----
Total Other Assets	117,434	109,351
	-----	-----
TOTAL ASSETS	\$ 18,118,668	\$ 8,769,057
	=====	=====

TITAN MOTORCYCLE CO. OF AMERICA
Consolidated Balance Sheets (Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	October 3, 1998 (Unaudited)	December 31, 1997
	-----	-----
CURRENT LIABILITIES		
Accounts payable	\$ 3,536,578	\$ 2,052,731
Accrued expenses	226,849	216,657
Note payable - bank	6,429,793	--
Income tax payable	50	50
Deposits payable	144,045	100,940
	-----	-----
Total Current Liabilities	10,337,315	2,370,378
	-----	-----
LONG-TERM LIABILITIES		
Notes payable - related parties	2,035,183	1,928,664
	-----	-----
Total Long-Term Liabilities	2,035,183	1,928,664
	-----	-----
Total Liabilities	12,372,498	4,299,042
	-----	-----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, par value \$0.001; 100,000,000 shares authorized; 16,437,333 and 16,210,666 shares issued and outstanding, respectively	16,438	16,211
Additional paid-in capital	7,230,542	6,480,769
Accumulated deficit	(1,500,810)	(2,026,965)
	-----	-----
Total Stockholders' Equity	5,746,170	4,470,015
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 18,118,668	\$ 8,769,057
	=====	=====

TITAN MOTORCYCLE CO. OF AMERICA
Consolidated Statements of Operations
(Unaudited)

	For the Thirty-Nine Weeks Ended October 3, 1998	For the Nine Months Ended September 30, 1997	For the Three Months Ended	
			October 3, 1998	September 30, 1997
SALES, NET	\$ 21,055,020	\$ 9,351,844	\$ 8,170,973	\$ 3,697,175
COST OF GOODS SOLD	15,673,503	7,632,914	6,175,140	3,000,724
Gross Profit	5,381,517	1,718,930	1,995,833	696,451
OPERATING EXPENSES				
Advertising	202,365	62,592	69,463	32,717
Auto and truck expense	41,271	70,221	26,823	46,186
Bank charges	17,626	1,475	2,631	464
Contributions	2,196	17,038	2,196	17,038
Depreciation expense	137,298	60,728	50,820	25,792
Freight and postage	421,952	338,041	117,309	169,910
Insurance	350,494	260,155	117,162	92,024
Legal and accounting	90,546	56,228	29,759	26,199
Office supplies and expense	395,188	277,698	171,849	53,346
Printing	24,504	23,570	2,018	3,964
Research and development	87,025	114,980	32,160	60,900
Rent	288,256	154,806	100,846	71,359
Repairs and maintenance	96,018	29,126	37,030	13,775
Salaries and wages	1,747,210	850,068	572,193	436,445
Taxes and licenses	8,757	15,416	925	631
Telephone and utilities	179,553	113,923	79,919	57,855
Trade show and promotion	490,952	373,069	214,106	123,089
Total Operating Expenses	4,581,211	2,819,134	1,627,209	1,231,694
Income (Loss) from Operations	800,306	(1,100,204)	368,624	(535,243)
OTHER INCOME (EXPENSE)				
Gain (loss) on currency translation	(5,508)	15,521	(9,161)	12,426
Other income	5,276	69,638	634	6,640
Interest expense	(264,966)	(90,656)	(144,558)	(35,506)
Bad debt expense	(8,953)	--	(8,953)	--
Total Other Income (Expense)	\$ (274,151)	\$ (5,497)	\$ (162,038)	\$ (16,440)

TITAN MOTORCYCLE CO. OF AMERICA
 Consolidated Statements of Operations (Continued)
 (Unaudited)

	For the Thirty-Nine Weeks Ended October 3, 1998	For the Nine Months Ended September 30, 1997	For the Three Months Ended October 3, 1998	September 30, 1997
	-----	-----	-----	-----
NET INCOME (LOSS) BEFORE				
INCOME TAXES	\$ 526,155	\$ (1,105,701)	\$ 206,586	\$ (551,683)
INCOME TAXES	-	-	-	-
	-----	-----	-----	-----
NET INCOME (LOSS)	\$ 526,155	\$ (1,105,701)	\$ 206,586	\$ (551,683)
	=====	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	16,336,109	15,460,666	16,437,333	14,891,000
	=====	=====	=====	=====
NET INCOME (LOSS) PER SHARE - PRIMARY AND DILUTED	\$ 0.03	\$ (0.07)	\$ 0.01	\$ (0.04)
	=====	=====	=====	=====

TITAN MOTORCYCLE CO. OF AMERICA
Consolidated Statements of Stockholders' Equity

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit
	-----	-----	-----	-----
Balance, December 31, 1996	14,710,666	\$ 14,711	\$ 2,482,289	\$ (353,222)
Issuance of common stock for cash at \$2.50 per share	1,000,000	1,000	2,498,980	--
Issuance of common stock for cash at \$3.00 per share	500,000	500	1,499,500	--
Net loss for the year ended December 31, 1997	--	--	--	(1,673,743)
	-----	-----	-----	-----
Balance, December 31, 1997	16,210,666	16,211	6,480,769	(2,026,965)
Issuance of common stock for cash at \$3.00 per share (unaudited)	166,667	167	499,833	--
Issuance of common stock for prepaid advertising at \$4.17 per share (unaudited)	60,000	60	249,940	--
Net income for the thirty-nine weeks ended October 3, 1998 (unaudited)	--	--	--	526,155
	-----	-----	-----	-----
Balance, October 3, 1998 (unaudited)	<u>16,437,333</u>	<u>\$ 16,438</u>	<u>\$ 7,230,542</u>	<u>\$(1,500,810)</u>

TITAN MOTORCYCLE CO. OF AMERICA
Consolidated Statements of Cash Flows
(Unaudited)

	For the Thirty-Nine Weeks Ended October 3, 1998	For the Nine Months Ended September 30, 1997	For the Three Months Ended October 3, 1998	For the Three Months Ended September 30, 1997
	-----	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	\$ 526,155	\$(1,105,701)	\$ 206,586	\$ (551,683)
Adjustments to reconcile net income (loss) to net cash used in operating activities:				
Depreciation	137,298	60,728	50,820	25,792
Amortization of prepaid advertising	120,500	--	30,500	--
Bad debt expense	8,953	--	--	--
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable	(3,455,758)	(1,263,650)	(1,105,369)	981,194
(Increase) decrease in inventory	(4,477,651)	(4,063,231)	(1,138,382)	(2,411,057)
(Increase) decrease in other assets	(769,600)	(315,987)	(490,334)	(170,262)
Increase (decrease) in accounts payable	1,483,847	2,328,670	258,237	1,438,996
Increase (decrease) in deposits payable	43,105	71,148	92,810	(5,590)
Increase (decrease) in accrued expenses	10,192	72,424	(156,121)	21,399
Increase (decrease) in accrued interest payable	106,519	90,656	12,301	35,306
	-----	-----	-----	-----
Net Cash Used in Operating Activities	(6,266,440)	(4,124,943)	(2,238,952)	(635,905)
	-----	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment	(183,167)	(467,120)	(106,052)	(41,925)
	-----	-----	-----	-----
Net Cash Used in Investing Activities	(183,167)	(467,120)	(106,052)	(41,925)
	-----	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:				
Payments on notes payable	(650,000)	--	--	--
Proceeds from notes payable	7,079,793	--	2,910,658	--
Issuance of stock	500,000	2,500,000	--	500,000
New borrowings from related parties	--	1,299,980	--	--
	-----	-----	-----	-----
Net Cash Provided by Financing Activities	6,929,793	3,799,980	2,910,658	500,000
	-----	-----	-----	-----
NET INCREASE (DECREASE) IN CASH	480,186	(792,083)	565,654	(177,830)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	85,468	836,779	--	222,526
	-----	-----	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 565,654	\$ 44,696	\$ 565,654	\$ 44,696
	=====	=====	=====	=====

TITAN MOTORCYCLE CO. OF AMERICA
 Consolidated Statements of Cash Flows (Continued)
 (Unaudited)

	For the Thirty-Nine Weeks Ended October 3, 1998 -----	For the Nine Months Ended September 30, 1997 -----	For the Three Months Ended October 3, 1998 -----	For the Three Months Ended September 30, 1997 -----
SCHEDULE OF NON-CASH FINANCING ACTIVITIES				
Common stock issued for prepaid advertising	\$250,000	\$ --	\$ --	\$ --
CASH PAID FOR:				
Interest	\$148,776	\$ --	\$130,030	\$ --
Income taxes	\$ --	\$ --	\$ --	\$ --

TITAN MOTORCYCLE CO. OF AMERICA
Notes to the Consolidated Financial Statements
October 3, 1998 and September 30, 1997

NOTE 1 - CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at October 3, 1998 and for all periods presented have been made.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 1997 audited consolidated financial statements. The results of operations for the periods ended October 3, 1998 and September 30, 1997 are not necessarily indicative of the operating results for the full year.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS.

Effective January 1, 1998, the Company adopted a fiscal accounting period as opposed to the calendar accounting period of prior years. The effect of this change is that all quarters are now comprised of thirteen weeks, ending Saturday at midnight instead of the last calendar day of the month. The first two fiscal months of the quarter have four weeks each and the last fiscal month has five weeks. Although this conversion results in a difference of only a few days in the accounting period for 1998, the use of fiscal month accounting is a common practice for manufacturing companies and simplifies internal inventory and accounting functions.

OPERATING RESULTS - Thirteen-week period ended October 3, 1998 compared with three-month period ended September 30, 1997

OVERALL

Net Sales for the period in 1998 of \$8.2 million were \$4.5 million, or 121%, higher than net sales for the same period in 1997. The Company realized a net profit of \$206,600 or \$0.01 per share, in 1998 compared with a loss of \$551,700 or \$0.04 per share, for the same period in 1997. The Company has paid no dividends to date and currently has no plans to do so.

RESULTS OF OPERATIONS
MOTORCYCLE UNIT SHIPMENTS AND NET SALES

	1998	1997	INCREASE	% CHANGE
Motorcycle Units	282	138	144	104.4%
Net Sales (in 000's):				
Motorcycles	\$7,746	\$3,473	\$4,273	123.0%
Motorcycle Parts and Accessories	\$ 425	\$ 224	\$ 201	89.7%
Total Motorcycles and Parts	\$8,171	\$3,697	\$4,474	121.0%

The Company's business continues to consist predominantly of motorcycles at this point. A small portion of the business is in parts and accessories. The Company introduced its initial product offering in the Clothing and Accessories line in late 1997.

GROSS PROFIT

	1998	1997	INCREASE	% CHANGE
	-----	-----	-----	-----
Gross profit (In 000's)	\$1,995	\$ 696	\$1,229	187%

In the thirteen-weeks ended October 3, 1998, gross profit increased \$1,299,382, or 186.6%, as compared to the comparable period in 1997 due to the increased volume and margins. The gross profit margin was 24.9% as compared with 18.8% in 1997. The 1998 margin has been positively impacted by an average price per unit increase of 9.1% as the mix of bikes changed to reflect higher levels of customization on ordered units and more orders for high- end models. The Company has started to realize a substantial increase in its Gross Profit in 1998 as a result of significant engineering and cost reduction efforts that have been put in place during the past year as well as the increase in customization of its products. The Company has targeted a Gross Profit Margin of over 30% for its total business within the next 3-5 years.

OPERATING EXPENSES

	1998	1997	INCREASE	% CHANGE
	-----	-----	-----	-----
Operating Expenses (In 000's)	\$1,627	\$1,232	\$ 395	32.1%

Total operating expense for the thirteen-weeks ended October 3, 1998 increased \$395,515, or 32.1%, over the comparable period of 1997. This increase was due to a number of causes, including, but not limited to: an increase in advertising, trade shows and promotional activities to build the Company's brand name and recognition and drive higher sales levels; an increase in lease expense associated with moving into the new facility; an increase in research & development activity; and an increase in salaries and wages attributed to building both the management and support staff necessary to support a rapidly growing and significantly larger company. While the increases were substantial, both as a percentage of the prior year and in actual dollars, it was in keeping with the Company's plan to continue to invest in infrastructure and growth while becoming profitable in 1998 and the coming years. Operating expense as a percent of total revenue was 19.9% in the thirteen-week period ended October 3, 1998, down from 33.3% during the comparable period in 1997.

CONSOLIDATED INCOME TAXES

The Company's effective tax rate was 0.0% in both 1998 and 1997 as it recorded losses during 1997 and prior years and is benefitting from tax loss carry forwards during 1998. The Company currently has a tax loss carry forward of approximately \$1.5 million.

OPERATING RESULTS - Thirty-nine week period ended October 3, 1998 compared with

 nine-month period ended September 30, 1997

OVERALL

Net Sales for the period in 1998 of \$21.1 million were \$11.7 million, or 125%, higher than net sales for the same period in 1997. The Company realized a net profit of \$526,155 or \$0.03 per share, in 1998 compared with a loss of \$1,105,701 or \$0.07 per share, for the comparable period in 1997. The Company has paid no dividends to date and currently has no plans to do so.

RESULTS OF OPERATIONS

MOTORCYCLE UNIT SHIPMENTS AND NET SALES

	1998 -----	1997 -----	INCREASE -----	% CHANGE -----
Motorcycle Units	747	355	392	110.4%
Net Sales (in 000's):				
Motorcycles	\$19,885	\$ 8,954	\$10,931	122.1%
Motorcycle Parts and Accessories	\$ 1,170	\$ 398	\$ 772	194.0%
Total Motorcycles and Parts	\$21,055	\$ 9,352	\$11,703	125.1%

The Company's business continues to consist predominantly of motorcycles at this point.

A small portion of the business is in parts and accessories. The Company introduced its initial product offering in the Clothing and Accessories line in late 1997. While these segments have not been material to date, the Company

anticipates these segments could grow to 10-20% of total sales at some point in the future. By way of comparison, these segments represented about 20% of Harley-Davidson's total sales in 1997. While Titan does not expect to duplicate this volume, the mix of parts and accessories for Titan could approach this level on a percentage basis.

The continued growth in motorcycle shipments is due to several reasons. The continuing growth in reputation of the Company's motorcycles, and the resulting demand this has created, remains the primary growth driver. This, combined with the continuing growth in the dealership network and the Company's investment in new equipment and staff to meet the growing demand, has led to dramatic growth in shipments.

Company management continues to be gratified by the success that has been realized to date and the overwhelming acceptance of its products in the marketplace since its inception. During the last 3+ years the Company has seen growth in revenues from \$625,000 in 1995 to over \$13,000,000 in 1997 and now the first nine months of 1998 continues to experience the same dramatic growth, with sales of over \$21,055,000 compared with \$9,352,000 for the same period in 1997 (up 125%). During this same period, the dealer network has grown from 1 location in Phoenix to over 85 dealerships worldwide with over 20 applications from potential new dealers currently being evaluated by the Company. The Company is pleased with the strength of the network that includes Easyrider franchises, Harley Davidson dealers, independent dealers and Titan dealerships. The Company believes this expanding network is one key element in the continued growth of the business.

From the outset, Titan has been dedicated to building the finest production performance motorcycle available while providing the customer the ability to customize their motorcycle to a degree previously available only from low volume, custom builders. It is this focus on quality and providing the very best production motorcycle available that has created the strong reputation the Company has been able to develop so far and the foundation for continuing growth in the future.

The Company was very pleased to be able to report its first profit at the end of the first quarter of 1998 and show continued success with its second quarter and third quarter results. This profitability is due in large part to cost reduction efforts driven by engineering changes and cooperative efforts with key suppliers, as well as to focused efforts on managing SG&A expenses. As these efforts continue and as volume continues to grow, the Company anticipates continued higher levels of profit in the future.

The Company began 1997 at a production rate of 5 - 7 units per week and increased that through the year to reach 18 units per week by year-end. This rate has continued to increase with production exceeding 26 units per week in September 1998. For 1998, the Company's annual production target is to exceed

1000 units for the year. The Company plans to continue to develop its existing facilities and human resources, as well as add others as demand warrants, to meet the growing market acceptance of its products. The Company's ability to reach these production levels will depend on several factors. First and foremost will be its ability to continue to create high levels of demand in both the domestic and international markets. Once this is accomplished, the Company must be able to continue to increase efficiencies in its current facilities through engineering advances, adding facilities for both motorcycle and parts production, working with its developing supplier base, and continuing to attract production, engineering and support talent to the Company. There are no assurances that the Company will be able to accomplish all these things simultaneously or in the time frame to match sales demand. The Company could also experience delays in its growth or production as the result of supplier issues, labor shortages, or unforeseen competitive action, as well as from natural causes. These risks, if not offset, could negatively impact the Company's performance and its resulting cash flow.

GROSS PROFIT

	1998	1997	INCREASE	% CHANGE
	-----	-----	-----	-----
Gross profit (In 000's)	\$5,382	\$1,719	\$3,663	213%

In the first 9 months of 1998, gross profit increased \$3,662,587, or 213.1%, as compared to the same period in 1997 due to the increased volume and margins. The gross profit margin was 25.6% as compared with 18.4% in 1997. The 1998 margin has been positively impacted by an average price per unit increase of 5.5% as the mix of bikes changed to reflect higher levels of customization on ordered units and more orders for high-end models. The Company has started to realize a substantial increase in its Gross Profit in 1998 as a result of significant engineering and cost reduction efforts that have been put in place during the past 9 months as well as the increase in customization of its products. The Company has targeted a Gross Profit Margin of over 30% for its total business within the next 3-5 years.

The Company believes this Gross Margin level is possible due to several factors:

In the first 9 months of 1998, the gross margin has increased to 25.6% from 18.4% in 1997,

There have been additional cost reductions for component parts identified and in process that have not yet been reflected in the financial statements,

Additional cost reductions of more than 5% of sales have been identified and engineering work begun with anticipated impact in 1999, and

Large manufacturers have been able to achieve similar margins on products with lower average selling prices.

OPERATING EXPENSES

	1998	1997	INCREASE	% CHANGE
	-----	-----	-----	-----
Operating Expenses (In 000's)	\$4,581	\$2,819	\$1,762	62.5%

Total operating expense for 1998 increased \$1,762,077, or 62.5%, over the same period of 1997. This increase was due to a number of causes, including, but not limited to: an increase in advertising, trade shows and promotional activities to build the Company's brand name and recognition and drive higher sales levels; an increase in lease expense associated with moving into the new facility; an increase in research & development activity; and an increase in salaries and wages attributed to building both the management and support staff necessary to support a rapidly growing and significantly larger company. While the increases were substantial, both as a percentage of the prior year and in actual dollars, it was in keeping with the Company's plan to continue to invest in infrastructure and growth while becoming profitable in 1998 and the coming years. Operating expense as a percent of total revenue was 21.7% in the thirty-nine week period ended October 3, 1998, down from 30.2% during the comparable period in 1997.

CONSOLIDATED INCOME TAXES

The Company's effective tax rate was 0.0% in both 1998 and 1997 as it recorded losses during 1997 and prior years and is benefitting from tax loss carry forwards during 1998. The Company currently has a tax loss carry forward of approximately \$1.5 million.

WORKING CAPITAL MANAGEMENT

The Company supplies motorcycles to its dealers in one of two ways. First, the dealer can specify the motorcycle completely with customized paint and selected options with a lead time of 6-8 weeks, sometimes slightly longer during peak season. Alternatively, the dealer can select a completed bike from the Company's available Finished Goods inventory list for immediate shipment or one from the current production schedule that will be available inside the normal lead time window. The Company builds some inventory (up to one month's production) of finished motorcycles during the winter months that is consumed during the spring peak season. During the rest of the year the Company normally maintains a low level of finished goods inventory.

Motorcycles are typically either floored with major financial institutions by the dealer or are paid for in full prior to shipment by the Company. The Company receives payment for floored bikes within 2 weeks of shipment. During winter

months the Company may provide free flooring for dealers depending on model and stock situation to help smooth shipments and keep higher levels of product available for customers. The Company provides some extended payment terms to selected dealers from time to time as an incentive to carry larger floor inventories to promote higher levels of sales.

Parts used to build the bikes are usually available with short lead times, but some parts do require up to ten weeks. Due to high quality standards and reliability of delivery, the Company sets slightly high stocking levels to assure the availability of parts to production. The Company has an ongoing program to continue to upgrade its supplier base and to bring additional parts in house for production, reducing required inventory levels as well as part costs.

The Company has built a strong network of dealers both domestically and internationally. Collectively, there are almost 85 dealers currently in place with more being added every month. There are four categories of dealers in the Company's network; independent dealers, Easyrider stores and franchises, existing Harley Davidson dealers, and Titan dealerships. In 1997, no dealer represented more than 10% of the Company's revenue and only 2 were over 5%. To date in 1998, 3 dealers with common ownership (Titan of Los Angeles, Titan of Las Vegas, and Paragon Custom dba Titan of Phoenix) represent 25% of the Company's sales. Majority ownership of these dealerships is held by principals in the Company. No other dealer represents more than 5% of sales.

As of November 13, backlog orders stood at approximately \$2.5 million. The Company is presently completing more than 25 motorcycles each week. At this production volume the entire backlog can be shipped within 3 months.

DESCRIPTION OF MARKETS

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Surprisingly to some, the typical buyer of the Company's products is a male businessman or professional between 35 - 55 years of age, who has previously owned a production line motorcycle. The average age of a motorcycle owner is increasing, with the customer's median annual earnings exceeding \$50,000.00. It is anticipated that the population of foreign motorcycle enthusiasts may actually increase at a greater rate near the end of the century than the domestic market.

It is generally accepted that demand for the customized V-twin motorcycle will significantly outstrip production through the end of the millennium. At present, the Company occupies a unique niche and is without any significant competitor in its capacity to produce, from the ground up, a customized high-end V-twin motorcycle on a production basis, while preserving the capacity to complete special orders. The Company does not anticipate significant competition in this sector for the next twelve to twenty-four months.

Several companies compete in the market in the below \$20,000 price range, headed by Harley-Davidson who is clearly the dominant manufacturer. There is currently no indication that they intend to move into Titan's market niche, but the possibility of that happening at some time in the future cannot be discounted. There are other builders that are currently smaller than the Company in the below \$20,000 price range that are starting to produce some motorcycles at higher prices. None of these builders has any significant position in the Titan's niche at this time.

Over the next three years, the Company projects it can increase its market share of V-twin motorcycles, including both production line products and custom models, from its projected 0.5% market share in 1997 to 2% by the year 2000. The Company estimates that it has a greater than 50% market share for V-twin motorcycles over \$25,000 and anticipates that this market sector will also continue to increase.

ENVIRONMENTAL CONTROLS

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The Company's products meet all federal and state emission requirements and have been approved by the EPA and DOT.

The Company's manufacturing facilities also meet all federal, state and local environmental requirements. The primary area of potential discharge is the Company's paint facility, which meets all required standards. Expansion of this area would require additional capital requirements, but it is not anticipated that this would have any significant material effect on earnings or capital expenditures at this time.

IMPACT OF YEAR 2000

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The "Year 2000 Problem" exists because many existing computer programs use only the last two digits to refer to a year. Therefore, these programs do not properly recognize a year that begins with "20" instead of "19". If not corrected, many computer applications could fail or create erroneous results.

The Company has completed an analysis of its internal systems and the potential for issues associated with the year 2000 problem. All Company information systems already are or will be compliant before the end of 1998. The Company began in 1997 to bring on-line new systems to support both operations and financial reporting requirements as part as of building the infrastructure to support the Company's growth. As part of the conversion, the Company received assurances from its software suppliers that all systems are year 2000 compliant. To this point in time, the Company has installed modules that address inventory management, purchasing components, shop floor control and production scheduling,

and receiving. The remaining modules that include order entry, shipping and invoicing, and accounting are in the conversion process now and are expected to be operational before year end 1998.

Relative to Non-IT systems, the Company is currently investigating this area for potential problems. As the Company does not have a high degree of sophisticated equipment in its production process, the Company does not anticipate any major issues or cost to remediate. Again, this analysis should be complete before year-end 1998, along with a complete plan to address any identified issues.

With regard to third party year 2000 issues, the Company has begun discussions with its supplier base (and is currently surveying them), to ascertain the potential for a negative impact on the Company's operations and what steps are being taken to ensure continuity of supply of parts and service. While the Company believes its plans are adequate to deal with the year 2000 issues internally, and will be compliant on a timely basis, there is no guarantee that all suppliers and other parties that are essential to the Company's operations will do so. The failure of any supplier to adequately address this issue in a timely manner will result in the Company looking to other suppliers to fill the need. While the Company is single sourced for many of its components, there are alternative suppliers for all required parts. The potential exists for a material negative effect on Company operations if a key supplier does not adequately address the issue in a timely manner. The Company will be working with all key suppliers throughout this time period to ensure continuity of supply.

The Company has also evaluated the risks associated with this problem and its customers through discussions with key dealers. As the ordering process from dealers is a manual one, and stocks of motorcycles on dealer's floors is a relatively low number (typically between 5 and 25 units), the Company and the dealers involved in these discussions believe that the year 2000 problem will have no material impact to either the dealers or the Company.

The Company's cost to become year 2000 compliant is minimal and not material to this point, nor expected to be in the future. As the Company had already planned its systems conversions to facilitate its growth, there were no incremental costs associated with insuring those systems were year 2000 compliant. As a result, costs of the effort are mainly focused on following up with suppliers to determine their level of compliance. These costs are imbedded in other activities and are not expected to be material (less than \$50,000/year in both 1998 and 1999).

The most reasonable likely worst case Year 2000 scenario would be for a key supplier to not become compliant. If no steps were taken to address this issue, it could result in the Company's operations being shut down until the problem

was resolved. As discussed above, the Company is in the process of analyzing the readiness of all its suppliers to assure continuity of supply, so the probability of such a scenario is not yet known.

As the specifics of potential problems are not yet known, a detailed contingency plan has not yet been developed. Once more information is known from the survey of vendors, a specific contingency plan for likely scenarios will be developed. The Company would anticipate this being completed by the end of the first quarter of 1999.

After identifying the likelihood of such an event, the Company would take some or all of the following steps:

Work with the vendor to put in place a manual back-up system to assure continued supply until the vendor becomes compliant,

Bring on line an alternate vendor with the capacity to meet 100% of the Company's supply requirements, or

Put in place additional raw material inventory at either the vendor's location or in the Company's warehouse until continuity of supply is assured.

LIQUIDITY AND CAPITAL RESOURCES

The Company used \$2.24 million of cash in operating activities during the thirteen-week period ended October 3, 1998 compared with \$0.64 million during the comparable period of 1997. During the thirty-nine weeks ended October 3, 1998 the Company used \$6.3 million of cash in operating activities, compared with \$4.1 million during the comparable period in 1997. Net income adjusted for depreciation and amortization provided \$0.28 million in the thirteen-weeks ended October 3, 1998, while net losses adjusted for depreciation and amortization consumed \$0.56 million during the comparable period in 1997. Net income adjusted for depreciation and amortization provided \$0.79 million in the thirty-nine weeks ended October 3, 1998, while net losses adjusted for depreciation and amortization consumed \$1.01 million for the comparable period in 1997.

As the Company continued to ramp production, inventories increased \$1.1 million during the thirteen-week period ended October 3, 1998 and \$4.5 million for the thirty-nine week period ended October 3, 1998 over the \$2.4 million and \$4.1 million increases in the respective comparable periods in 1997. Accounts receivable increased by \$1.1 million on sales of \$8.1 million for the thirteen-week period ended October 3, 1998, and \$3.5 million on sales of 21.1 million for the thirty-nine week period ended October 3, 1998. In the nine-month period ended September 30, 1997, Accounts Receivable increased \$1.3 million. In the three-month period ended September 30, 1997, Accounts Receivable decreased by \$1.0 million as the Company entered into a manufacturer's flooring agreement

with Transamerica, whereby most dealers finance their motorcycle inventory directly with Transamerica and the Company receives funds in a more timely manner. This effectively reduces the Company's outstanding receivables substantially.

The contractual agreement with Transamerica is at no cost to the Company, but provides for a repurchase obligation on the part of the Company should a Titan dealership fail to meet its financial obligation and Transamerica seizes motorcycles in new condition upon a dealer's default. The Company presently provides guarantees for flooring for two of its dealers. It is anticipated that these guarantees will be removed in first quarter of 1999. When Titan invoices a dealer using the Transamerica program, a copy of the invoice is sent to Transamerica by Titan, and Transamerica pays the Company in full within 7 to 10 calendar days. Approximately 60-65% of all sales are currently paid for through this arrangement with Transamerica. The Company recently entered into a similar agreement with Bombardier Capital. The remainder are cash sales.

Capital expenditures totaled \$106,052 during the thirteen-week period ended October 3, 1998 compared with \$41,925 during the comparable period in 1997. Capital expenditures for the thirty-nine week period ended October 3, 1998 were \$183,167 compared to \$467,120 during the comparable period in 1997. These expenditures were predominantly associated with bringing on line the new manufacturing facility.

Cash was provided through the issuance and sale of stock for \$0.5 million in the thirty-nine weeks ended October 3, 1998 as compared with \$2.5 million during the comparable period in 1997. Additionally, the Company had net borrowings in 1998 of \$2.9 million for the thirteen-week period ended October 3, and \$6.4 million for the thirty-nine week period in 1998. Net borrowings were \$1.3 million in 1997. A more detailed description of cash flows can be found in the attached financial statements.

INFLATION

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Inflation rates have been trending upward recently after several years of low to moderate increases. Inflation will result in the escalation of costs as well as increasing operating expenses for the Company. The Company anticipates the ability to offset most of these increases through its cost reduction program and modest price increases, provided that inflation rates do not accelerate dramatically.

FOREIGN RISK FACTORS

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The primary risk to foreign sales is the state of the economy in the Company's overseas markets. This evidences itself both in the willingness of the marketplace to purchase the product and in the exchange rates for transactions which ultimately impacts the final price of the product of the Company in the

dealer's country. Other risks include the relative strength of individual dealerships in their respective countries, marketing expertise of the dealer network, transportation delays associated with shipping products from Phoenix, and individual country regulatory requirements. The Company believes it has taken the necessary steps and signed up strong dealers in the countries where it is currently represented to mitigate the above risks, except for those related to country economics.

FORWARD-LOOKING STATEMENTS

Certain matters in the above discussion contain "forward-looking statements. These forward-looking statements can generally be identified as such because the context of the statement will include words such as the Company "believes," "anticipates," "expects," "estimates" or words of similar meaning. Similarly, statements that describe the Company's future plans, objectives or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties which are described in close proximity to such statements and which could cause actual results to differ materially from those anticipated as of the date of this report. Shareholders, potential investors and other readers are urged to consider these factors in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included herein are only made as of the date of this report and the Company undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

PART II - OTHER INFORMATION

ITEM 5. Other Information

LEASE AGREEMENT

The Company has finalized a new, multi-year lease agreement adding 60,000 square feet of additional floor space for manufacturing-related activities. The new lease, which provides for occupancy in January 1999, will bring the Company's total floor space to over 125,000 square feet. The lease runs for a period of five years beginning January 1, 1999. The lease calls for the building to be occupied in two phases, each representing roughly half of the total square footage. The monthly rent expense obligation is \$16,698 for each phase occupied.

MANUFACTURING AGREEMENT

The Company has entered into an agreement with Shelby American Inc., producer of the legendary Cobra Roadster, to jointly develop a limited edition companion motorcycle to the new Series One Shelby motorcar. The unique, one-of-a-kind, custom designed, Titan-produced motorcycle will sport the latest technology high-performance parameters, with design aesthetics inspired by the new state-of-the-art Shelby Roadster. Initial production of up to 500 units of the matching serialized motorcycles will be made available beginning in the first quarter of 1999 to the purchasers of the companion limited edition Shelby Series One Roadster.

LINE OF CREDIT

The Company entered into an agreement increasing the Company's existing line of credit to a new limit of \$10 million dollars from the previous limit of \$5 million. This additional availability should enhance the Company's flexibility for continued growth.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Description
10.1	Shelby American Inc. Contract
10.2	Biltmore Peoria LLC. Lease Agreement dated September 25, 1998
27	Financial Data Schedule

(b) Reports on Form 8-K

During the quarter ended October 3, 1998, and the period from October 4 through November 10, 1998, the Company filed no reports on Form 8-K.

SIGNATURES

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

TITAN MOTORCYCLE COMPANY OF AMERICA
(Registrant)

By:

Francis S. Keery
Chief Executive Officer

Dated: November 16, 1998

By:

Robert P. Lobban
Chief Financial Officer
(Principal Financial Officer
and Officer Duly Authorized
to sign this Report)

LICENSE AGREEMENT

This TRADEMARK LICENSE AGREEMENT ("AGREEMENT") is made and entered into this 4th day of November, 1998, by And between Shelby American Licensing, Inc., a corporation with an address at 19020 Anelo Avenue, Gardena, California 90248, U.S.A. ("LICENSOR") and Titan Motorcycle Company of America, Inc. a Nevada Corporation, whose address is 2222 West Peoria Avenue, Phoenix, Arizona, 85029. ("LICENSEE")

RECITALS:

A. LICENSOR and/or LICENSOR's affiliated entities (hereinafter collectively "LICENSOR") are the proprietors of certain licensed properties, including but not limited to the names, symbols, shapes, likenesses and combinations of names, symbols, and shapes; "CS" DESIGNS, "-SHELBY," "CARROLL SHELBY." CARROLL SHELBY'S PHOTOGRAPH & LIKENESS, CARROLL SHELBY'S SIGNATURE, "SHELBY COBRA," "SHELBY GT 350," "SHELBY GT 350H," "SHELBY GT 350R," "SHELBY GT 500," "SHELBY GT 500KR," "SHELBY COBRA 427," "SHELBY 289 COBRA COUPE'" "SHELBY COBRA 289FIA," "FIA 289," "FIA Mark 2," "SHELBY COBRA 427 S/C," "COBRA," "COBRA 427 S/C," "427 SIC," "COBRA 427," "427," "SHELBY SERIES 1," "SHELBY SERIES 1 LOGO," "SHELBY S.P. 360," and the COBRA SNAKE DESIGNS used in connection with any variants of the 1960's COBRAS. The distinctive appearance and shape of the Cobra 260, 289, 427, Coupe, and Shelby Series 1 are protected trade dress property of Shelby American Licensing, Inc. These licensed properties, through promotion and use, have achieved a unique and widespread celebrity and goodwill among the trade and members of the general public as being associated with LICENSOR and LICENSOR's vehicles and related products.

B. LICENSEE desires to obtain the right to use LICENSOR's licensed properties, including the name SHELBY, in connection with the manufacture, sale, and/or distribution of certain merchandise designed to evoke LICENSOR and/or LICENSOR's products whereby LICENSEE may benefit commercially from the goodwill associated with LICENSOR, LICENSOR's vehicles and related products and LICENSOR's officially licensed properties.

C. LICENSOR desires to license LICENSEE to use certain of LICENSOR's licensed properties and in connection with the manufacture, sale and/or distribution of merchandise designed to evoke LICENSOR and/or LICENSOR's products.

NOW, THEREFORE it is hereby agreed as follows

1. DEFINITIONS

1.1 LICENSED PROPERTIES means LICENSOR I a trademarks, copyrightable material, and other industrial and intellectual property limited to the names "SHELBY," "CARROLL SHELBY," "CARROLL SHELBY SIGNATURE AND LIKENESS," "SHELBY SERIES 1," and "SHELBY SERIES 1 LOGO." The distinctive appearance and shape of the Cobra 260, 289, 427, Coupe, and Series 1 is protected trade dress property of Shelby American Licensing, Inc. The LICENSED PROPERTIES may be protected by trademark and/or copyright registrations and/or by federal, state, and common laws

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governing trademark, trade dress, copyright, and/or the right of publicity in various countries of the world, with respect to motor vehicles, parts, accessories, and other goods.

1.2 LICENSEE's GOODS includes the following: (1) A one-time, limited production "Shelby Series 1" edition of the "Titan" motorcycle, fully assembled and certified by all appropriate federal and state agencies as "street legal", including all accessories thereto whether sold together or separately, up to a maximum quantity of 500 factory manufactured motorcycles; (2) Wearing apparel comprising T-shirts, sweat shirt/pants, jackets, and caps displaying a Titan/Shelby Series 1 motorcycle theme.

1.3 LICENSED PRODUCTS means LICENSEE's GOODS which bear one or more of the LICENSED PROPERTIES, or that are sold or distributed in association with one or more of the LICENSED PROPERTIES, pursuant to this AGREEMENT.

1.4 LICENSED TERRITORY means worldwide territory

1.5 All LICENSEE'S goods and any additions to LICENSEE'S goods and/or new designs shall be submitted in writing to LICENSOR for prior written approval along with samples.

2. GRANT OF LICENSE

2.1 LICENSOR hereby grants to LICENSEE an exclusive license as to the one-time limited production Shelby Series 1 edition of the Titan motorcycle for a period of one year commencing November 4, 1998 and expiring November 3, 1999 and a non-exclusive license thereafter and a non-exclusive license for wearing apparel for use of the LICENSED PROPERTIES solely and only upon and in connection with the manufacture, sale, and distribution of the LICENSED PRODUCTS in the LICENSED TERRITORY. The license granted under this AGREEMENT is intended to enable LICENSEE to benefit commercially from the goodwill associated with LICENSOR, LICENSOR's vehicles and related products, and LICENSOR's officially LICENSED

3. ROYALTY PROVISIONS

[EDITED TO PROTECT COMPANY CONFIDENTIAL INFORMATION]

4.1 LICENSEE shall furnish to LICENSOR a royalty report not later than thirty (30) days after the end of each calendar quarter (i.e., not later than May 1, August 1, November 1 and February 1) for all LICENSED PRODUCTS sold or distributed by or for it during such calendar quarter. The royalty report shall be submitted in a format found to be acceptable to LICENSOR and be certified to be accurate by LICENSEE. Each report shall include the number, description, manufacturer's reference number and gross sales price, itemized deductions from gross sales price and net sales price of the LICENSED PRODUCTS distributed and/or sold by LICENSEE during the quarter, together with any returns made during the preceding quarter.

4.2 Each royalty report submitted by LICENSEE to LICENSOR pursuant to Paragraph 4.1 shall be accompanied by payment of the royalty due for the calendar quarter covered by the report.

4.3 The first royalty report shall be due after one full calendar quarter has been completed (e.g., if the AGREEMENT is executed November 15, then the first statement would be due no later than May 1). Royalty reports shall be provided for all subsequent calendar quarters regardless of whether or not any of the LICENSED PRODUCTS have been sold or distributed during the preceding quarter.

4.4 The receipt or acceptance by LICENSOR of any royalty report furnished pursuant to this AGREEMENT or of any royalties paid shall not preclude LICENSOR

from questioning the correctness thereof at any time. In the event that any inconsistencies or mistakes are discovered in such royalty report payments, they shall immediately be rectified and the appropriate payments made by LICENSEE.

4.5 The payment of the royalty shall reach LICENSOR within thirty (30) days from the end of the calendar quarter, but in no event later than forty-five (45) days after the end of the calendar quarter. If the payment reaches the LICENSOR more than forty-five (45) days after the end of the calendar quarter, LICENSEE shall also owe LICENSOR a late payment charge of ten percent (10%) of the royalty due that quarter. If this late payment charge does not accompany the payment, LICENSOR will so notify LICENSEE and LICENSEE shall immediately forward such late payment charge to LICENSOR.

4.6 All payments made hereunder by check should be made payable to Shelby American Licensing, Inc., in U.S. currency [confidential banking information deleted].

4.7 once during each calendar year in which this contract is in effect, and once after expiration or termination of this contract, LICENSOR shall be entitled to an independent audit of LICENSEE's account books, records, invoices, and other pertinent data by a certified public accountant or qualified auditor to be designated by LICENSOR, to determine LICENSEE's sales of LICENSED PRODUCTS. The audit shall be limited to determination of LICENSEE's sales of LICENSED PRODUCTS, and shall be conducted during normal business hours at LICENSEE's home office. The cost of the audit shall be paid by LICENSOR unless the audit shows that LICENSEE understated sales of LICENSED PRODUCTS by more than ten percent (10%), in which case the LICENSEE shall pay all of LICENSOR's reasonable costs of the audit.

5. TERM

5.1 This AGREEMENT as it pertains to wearing apparel shall become effective upon November 4, 1998, and shall continue until November 3, 2004. This AGREEMENT as it pertains to motorcycles shall become effective upon November 4, 1998, and shall continue until the one-time, limited production "Shelby Series 1" edition of the "Titan" motorcycle are sold, unless sooner terminated pursuant to the terms and conditions of this AGREEMENT. This agreement may be renewed or extended for another three years beyond the TERM upon mutual written agreement of the parties.

6. ACKNOWLEDGMENTS

6.1 LICENSEE acknowledges and accepts all of LICENSOR's rights and interests in and to the LICENSED PROPERTIES. LICENSEE acknowledges that LICENSOR is the sole and exclusive owner of the licensed properties and that nothing contained in this agreement or arising from the granting or exercise of the license granted herein shall give LICENSEE, successors in-interest, affiliates, or agents, or any third party, any right, title, or interest, other than the license granted in and to the licensed properties or the goodwill associated with such licensed properties. Without waiving any defenses in the event of litigation brought against LICENSEE BY LICENSOR, LICENSEE agrees that it will not, during the term of this AGREEMENT or thereafter, attack or challenge in any manner or in any forum the ownership and interests of LICENSOR, or any affiliated company of LICENSOR, in and to the LICENSED PROPERTIES, nor will LICENSEE attack or challenge the validity of this AGREEMENT.

6.2 LICENSEE acknowledges and agrees that neither this AGREEMENT nor LICENSEE's exercise of its rights under this AGREEMENT shall affect the ownership by LICENSOR of any of the goodwill or other rights of whatsoever nature pertaining to the LICENSED PROPERTIES, and that such goodwill or other rights pertaining to the LICENSED PROPERTIES shall be and remain in the name of LICENSOR and/or LICENSOR's affiliated companies.

6.3 LICENSEE shall not attempt to register any of the LICENSED PROPERTIES either alone or in combination with other marks or indicia, nor shall LICENSEE use or attempt to register any marks confusingly similar to any of the LICENSED PROPERTIES.

6.4 LICENSOR and LICENSEE agree that all uses of the LICENSED PROPERTIES pursuant to this AGREEMENT shall inure solely to the benefit of LICENSOR and/or LICENSOR's affiliated companies.

6.5 LICENSEE agrees to place the following Trademark notices on all advertising materials and product catalogs as well as packaging where applicable: "SHELBY, CARROLL SHELBY, CARROLL SHELBY'S PHOTOGRAPH & LIKENESS, CARROLL SHELBY'S SIGNATURE, SHELBY SERIES 1, SHELBY SERIES 1 LOGO, are registered trademarks of Shelby American Licensing, Inc. and are used with permission." Where applicable, "The distinctive appearance and shape of the Series 1 is the protected trade dress property of Shelby American Licensing, Inc." LICENSEE shall be permitted to place the name Titan Motorcycle Company of America and/or the designation 'C___, All Rights Reserved' on the box in which the Licensed Products are contained. Where LICENSED PROPERTIES appear on LICENSED GOODS, LICENSEE agrees to place a TM or R in a circle at the end of the LICENSED PROPERTIES.

7. GOOD WILL AND PROMOTIONAL VALUE

7.1 LICENSEE recognizes the great value of the goodwill associated with the LICENSED PROPERTIES and acknowledges that the LICENSED PROPERTIES, and all rights therein and the goodwill pertaining thereto, belong exclusively to LICENSOR. LICENSEE further recognizes and acknowledges that the LICENSED PROPERTIES have acquired secondary meaning in the mind of this public.

8. TRADEMARK PROTECTION MAINTENANCE AND LABELING

8.1 The license granted under this AGREEMENT is conditioned upon LICENSEE's full and complete compliance with the provisions of the trademark, patent, and copyright laws of the United States and of the foreign country or countries in the LICENSED TERRITORY in which it sells or distributes LICENSED PRODUCTS. LICENSEE agrees to bear any costs which may be necessary to comply with such laws, but only as they relate to LICENSEE's manufacture, sale, distribution, or exploitation of LICENSED PRODUCTS.

8.2 LICENSEE agrees to provide LICENSOR at LICENSOR's request and expense such reasonable assistance as LICENSOR may require in maintaining and/or procuring registration of or protection for any of LICENSOR's rights to the LICENSED PROPERTIES in the LICENSED TERRITORY, and further agrees to cooperate in facilitating LICENSOR's compliance with all applicable laws concerning LICENSOR's rights to the LICENSED PROPERTIES in the LICENSED TERRITORY. LICENSEE further agrees to cooperate in the recordation of this AGREEMENT pursuant to the applicable laws within the LICENSED TERRITORY.

8.3 LICENSEE agrees that it will cause to appear on or within each LICENSE PRODUCT manufactured and/or sold by it under this AGREEMENT and on or within all advertising, promotional, or display material pertaining to the LICENSED PRODUCTS and on any and all cartons, containers, packaging, and/or wrapping material pertaining to the LICENSED PRODUCTS, such copyright, trademark, and other notices as LICENSOR shall reasonably designate in writing.

8.4 LICENSEE agrees to assist LICENSOR to the extent necessary to protect LICENSOR's rights in the LICENSED PROPERTIES. LICENSOR may commence or prosecute any claims or suits in LICENSOR's own name or in LICENSEE's name, or may join LICENSEE as a party thereto at LICENSOR's expense. LICENSEE shall notify

LICENSOR of any infringements or incitations of the LICENSES PROPERTIES on articles similar to those covered by this AGREEMENT which may come to LICENSEE's attention, and LICENSOR shall have the sole right to determine whether or not any action shall be taken on account of any such infringements or imitation. Nothing contained herein shall be construed to obligate or require LICENSOR to take any such action. LICENSEE shall not institute any suit or take any action on account of any such infringements or imitations without first obtaining LICENSOR's written consent and such consent shall not be unreasonably withheld.

8.5 LICENSEE agrees that it will not manufacture, have manufactured or sell any products bearing or using TRADEMARKS or trade dress which are not LICENSED PRODUCTS and acknowledges that such sale shall constitute a material breach of this Agreement.

9. INSURANCE AND INDEMNIFICATION

9.1 LICENSEE agrees to hold harmless, defend, and indemnify LICENSOR and Carroll Shelby, individually, against any and all allegations, claims, suits, loss, attorneys, fees, or damage arising out of LICENSEE's manufacture, distribution, or sale of the LICENSED PRODUCTS, or any use by third parties of such LICENSED PRODUCTS manufactured, distributed, or sold by LICENSEE, or arising out of any alleged unauthorized use of any patent, copyright, design, mark, process, idea, method or device by LICENSEE in connection with the LICENSED PRODUCTS.

9.2 LICENSEE shall acquire and maintain at its sole cost and expense throughout the term of this AGREEMENT Commercial General Liability Insurance, including product liability and contractual liability, (hereinafter referred to as "COMMERCIAL GENERAL LIABILITY INSURANCE"), underwritten by an insurance company which has been rated at least A-VI by the most recent edition of Bests insurance report. The financial status of insurance companies located outside the United States must be acceptable to LICENSOR. This insurance coverage shall provide protection against any and all claims, demands, causes of action or damages, including attorneys, fees, arising out of any alleged defects in the LICENSED PRODUCTS, or any use thereof, of not less than Ten Million Dollars (\$10,000,000.00) combined single limit for personal injury and property damage with LICENSOR and Carroll H. Shelby, an individual, named as an additional insured parties. In addition, LICENSEE shall name LICENSOR and Carroll H. Shelby, an individual, as insureds on any excess or umbrella policies carried by LICENSEE.

9.3 LICENSEE shall furnish to LICENSOR certificates issued by the insurance company setting forth the amount of COMMERCIAL GENERAL LIABILITY INSURANCE, the policy number, the date of expiration, and a provision that the LICENSOR shall receive thirty (30) days written notice prior to termination, reduction, or modification of the coverage. LICENSEE's purchase of the COMMERCIAL GENERAL LIABILITY INSURANCE or furnishing of the certificate of insurance shall not relieve LICENSEE of any other of its obligations or liabilities under this AGREEMENT.

9.4 LICENSOR does not and shall not hold LICENSEE harmless from or against any allegations, claims, suits, loss, attorneys, fees, or damage arising out of the use by LICENSEE of the LICENSED PROPERTIES as the result of any allegation or claim by a third party. In LICENSOR's sole discretion, LICENSOR may undertake to register the LICENSED PROPERTIES in the LICENSED TERRITORY in respect of the LICENSED PRODUCTS, but LICENSOR shall have no obligation to file any such applications nor to continue to prosecute such applications to completion. If the LICENSED PROPERTIES are eventually registered in the LICENSED TERRITORY, LICENSOR will, if possible, renew such registrations during the term of the AGREEMENT.

10.QUALITY CONTROL

10.1 LICENSEE agrees that the LICENSED PRODUCTS sold or distributed by it in association with the LICENSED PROPERTIES shall be of a high standard and of such style, appearance, and quality as to be adequate and suited to their exploitation do the best advantage and to the protection and enhancement of the LICENSED PROPERTIES and the goodwill pertaining thereto. LICENSEE also agrees that the LICENSED PRODUCTS shall meet or exceed any and all government standards, regulations, guidelines, rules, laws, and the like regarding such LICENSED PRODUCTS.

10.2 To assure that the nature and quality of LICENSED PRODUCTS are satisfactory, LICENSEE shall, before selling or distributing any of the LICENSED PRODUCTS, furnish to LICENSOR, a sample of the LICENSED PRODUCT together with the catalogs, brochures, and advertising. The quality and style of such LICENSED PRODUCTS shall be subject to LICENSOR's prior written approval. LICENSOR shall state its approval or disapproval of the sample within twenty (20) business days of receipt of the sample, and shall not unreasonably withhold approval. After the sample of the LICENSED PRODUCT, brochures, catalogs, and advertising have been approved pursuant to this AGREEMENT, LICENSEE shall not depart therefrom in any material respect without LICENSOR's prior written approval.

10.3 If at any time the LICENSED PRODUCTS do not meet the QUALITY LEVEL of the samples approved by the LICENSOR, LICENSOR shall have the right to require LICENSEE to discontinue the use of the LICENSED PROPERTIES in connection with the sale of the LICENSED PRODUCTS, unless modifications satisfactory to LICENSOR are made within sixty (60) days from notice of disapproval.

11.NON-ASSIGNABILITY

11.1 This AGREEMENT is personal to LICENSEE and may not be assigned or sublicensed without the prior written consent of LICENSOR.

12.MARKETING

12.1 LICENSEE agrees that during the term of this AGREEMENT it will diligently develop, and when developed, manufacture, distribute, and/or sell in accordance with sound business practice, the LICENSED PRODUCTS in the LICENSED TERRITORY.

13.RECORDS

13.1 LICENSEE shall keep accurate books of account and records covering all transactions relating to the license granted under this AGREEMENT, and LICENSOR or its nominee shall have the right, after providing reasonable notice, at all reasonable business hours, to examine and audit said books of account and records and all other documents and material in the possession or under the control of LICENSEE with respect to the license granted under this AGREEMENT, and shall have free and full access thereto for said purposes and for the purpose of making extracts therefrom (such extracts only to be used for purposes of such audit).

LICENSEE, at the option of LICENSOR, agrees to produce certified copies of the books of account and records at the offices of M. Neil Cummings & Associates, LOB Angeles, California upon the receipt by LICENSEE of ten (10) days written notice from LICENSOR.

13.2 LICENSEE must segregate the records identified in Paragraph 13.1 in such a manner as to facilitate a complete audit and agrees that such audit may be used as a basis for settlement of charges in accordance with this AGREEMENT.

13.3 Upon reasonable request, but no more than once per year, LICENSEE shall at its own expense furnish a detailed statement prepared by a certified public accountant or personally attested to and verified as accurate by an officer of LICENSEE showing the number, description, gross sales price, itemized deductions from gross sales price and net sales price of the LICENSED PRODUCTS manufactured, sold or distributed by or for LICENSEE during the preceding calendar year.

13.4 All books of account and records kept under Paragraph 13.1 shall be retained by LICENSEE for at least two (2) years after the termination of this AGREEMENT.

13.5 The parties agree that they will not use, disclose, reproduce, or otherwise make available any confidential and/or proprietary business information or trade secrets of the other party or any other information disclosed by the disclosing party that may be reasonably deemed proprietary and/or confidential, including, but not limited to any and all unpublished sales, marketing, and/or advertising figures, marketing plans, programs, and the monetary terms of this Agreement ("Confidential Information"). Each party shall take such commercially reasonable steps as it takes to protect its own Confidential Information to ensure that the other party's Confidential Information is not disclosed to any third-party. This confidentiality provision shall survive the termination or expiration of this Agreement for a period of five (5) years thereafter.

14. TERMINATION

14.1 If LICENSEE is in material breach of any of the provisions of this AGREEMENT, LICENSOR shall have the right to terminate this AGREEMENT upon sixty (60) days written notice, provided that LICENSEE fails to cure such violation during said sixty (60) day period.

14.2 If LICENSEE files a petition in bankruptcy or is adjudicated bankrupt or if a petition in bankruptcy is filed against LICENSEE or if it becomes insolvent, or makes an assignment for the benefit of its creditor or an arrangement pursuant to any bankruptcy law or if LICENSEE discontinues all or a significant portion of its business or if a receiver is appointed for it or its business, this AGREEMENT shall automatically terminate without any notice or lapse of time being necessary. In the event the AGREEMENT is so terminated, LICENSEE, its receivers, representatives, trustees, agents, administrators, successors, or assigns shall have no right to self-exploit, distribute or in any way deal with the LICENSED PRODUCTS or any carton, container, packing, wrapping material, advertising, promotional, or display material pertaining thereto.

14.3 LICENSOR shall have the right to immediately terminate this AGREEMENT by giving written notice to LICENSEE: (a) If LICENSOR has required LICENSEE to discontinue use of the LICENSED PROPERTIES under Paragraph 10.3; (b) If LICENSEE shall fail to make payments, including any applicable late fees, due LICENSOR under Section 4 hereof within thirty (30) days after LICENSOR's giving a written demand for such payment by LICENSEE; or (c) If LICENSEE takes any actions in connection with the manufacture, offering for sale, sale, advertising, promotion, shipment, and/or distribution of the LICENSED PRODUCTS which, in the sole opinion of LICENSOR, damages or reflects adversely upon LICENSOR, LICENSOR's products, or the LICENSED PROPERTIES. LICENSEE shall have 30 days under this paragraph (c) in which to cure the breach.

14.4 Termination of the AGREEMENT under the provisions of Paragraph 14 shall be without prejudice to any rights which LICENSOR may otherwise have against LICENSEE. Upon termination of this AGREEMENT, all royalties shall become immediately due and payable.

14.5 Upon termination or expiration, other than termination under Paragraph 14.3 herein, LICENSEE shall promptly provide LICENSOR with an inventory of LICENSED

PRODUCTS on hand and then have six (6) months within which to sell or otherwise dispose of that inventory of LICENSED PRODUCTS and thereafter LICENSEE shall promptly discontinue the sale of such LICENSED PRODUCTS. At the end of the six (6) month period of time or upon termination of this AGREEMENT under Paragraph 14.2 or Paragraph 14.3, LICENSEE shall promptly destroy, in a manner approved by LICENSOR all LICENSED PRODUCTS as well as any carton, container, packing or wrapping material, advertising, promotional or display material pertaining thereto unless the LICENSED PROPERTIES can be and are removed therefrom.

15. GOVERNING LAW AND VENUE

15.1 This AGREEMENT shall be governed by and construed in accordance with the laws of the State of California, and any litigation shall be commenced by either party, if at all, only in an appropriate California forum, with Los Angeles County as the proper venue and jurisdiction.

16. EXCLUSIVE REMEDY

16.1 LICENSEE's exclusive remedy for any cause of action arising as a result of this AGREEMENT shall be the payment by LICENSOR to LICENSEE of an amount of money not exceeding the total of the royalties actually paid by LICENSEE to LICENSOR pursuant to this AGREEMENT.

17. CONTROLLING AGREEMENT

17.1 This AGREEMENT is the sole AGREEMENT between the parties with respect to the matters referred to herein, and cancels and supersedes all prior written or oral agreements between the parties.

18. AMENDMENTS

18.1 LICENSED PROPERTIES, LICENSEE's GOODS, LICENSED PRODUCTS, and LICENSED TERRITORIES may be amended to include or delete trademarks, goods, products or countries only by mutual written agreement of the parties.

19. ALTERNATIVE DISPUTE RESOLUTION (ADR)

19.1 If any dispute arises hereunder, the parties shall first attempt to resolve the disputed matter within thirty (30) days of the dispute first arising by meeting and conferring by telephone, or in person, to attempt to reach mutual agreement. If the parties are unable to do so, the venue of any subsequent litigation shall be in accordance with paragraph 15, above.

20. NOTICES

20.1 Any notices or other communications required or permitted under this AGREEMENT shall be made in writing and mailed to:

If to LICENSOR: SHELBY AMERICAN LICENSING, INC.
c/o Law Offices of M. Neil Cummings & Associates
1800 Avenue of the Stars, Suite 1000
Los Angeles, CA 90067
Fax: (310) 277-7553

If to LICENSEE: Titan Motorcycle Company of America Inc
2222 West Peoria Avenue
Phoenix, Arizona 85029
Fax: 602-861-9942

20.2 Royalty reports required by Paragraph 4 of this AGREEMENT, and the royalty payments called for under this Agreement, shall be mailed to:

SHELBY AMERICAN LICENSING, INC.
c/o Law Offices of M. Neil Cummings & Associates
1800 Avenue of the Stars, Suite 1000
Los Angeles, CA 90067

21. RELATIONSHIP BETWEEN THE PARTIES

21.1 It is agreed and understood that LICENSEE is not an agent or employee of LICENSOR. LICENSOR has no proprietary interest in LICENSEE and has no interest in the business of LICENSEE, except to the extent set forth in this AGREEMENT.

LICENSOR

SHELBY AMERICAN LICENSING, INC.

By: _____
Carroll H. Shelby

Title: President

Date: 11-6-98 _____

LICENSEE:

TITAN MOTORCYCLE COMPANY OF AMERICA, INC.

By: _____
Frank Keery

Title: Chief Executive Officer

Date: 5 Nov. '98 _____

INDUSTRIAL LEASE AGREEMENT

THIS LEASE is made and entered into as of September 25, 1998, by and between Biltmore Peoria LLC (hereinafter "Landlord"), and Titan Motorcycle Company of America, a Nevada corporation (hereinafter "Tenant"). For and in consideration of the rental and of the covenants and agreements hereinafter set forth to be kept and performed by the Tenant, Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the Premises herein described for the term, at the rental and subject to and upon all of the terms, covenants and agreements hereinafter set forth.

1. Premises

1.1 Description. Landlord hereby leases to Tenant and Tenant hereby rents from Landlord those certain Premises, crosshatched on Exhibit A, located in the building known as 2250 W. Peoria, located in the City of Peoria and County of Maricopa, Arizona. The entire Premises consists of a building of approximately 60,720 square feet, approximately 5,400 square feet of land to the west of the building on the Premises, and approximately 93,000 square feet of land on the east side of the building on the Premises. On the Commencement Date, Landlord leases to Tenant all of the Premises except the area of approximately 30,360 square feet designated on Exhibit A as the Phase 2 Area. Until the date Tenant leases the Phase 2 Area, the term "Premises" as used herein does not include the Phase 2 Area. If Tenant is not in default hereunder on the Phase 2 Commencement Date (as defined in Section 3.2), then on the Phase 2 Commencement Date, Landlord will lease to Tenant all of the Premises, including the Phase 2 Area.

1.2 Work of Improvement. The obligations of Landlord and Tenant to perform the work and supply material and labor to prepare the Premises for occupancy are set forth in detail in Exhibit B. Landlord and Tenant shall expend all funds and do all acts required of them in Exhibit B and shall have all the work performed promptly and diligently in a first-class workmanlike manner.

2. Term

2.1 Term. The term of this Lease shall begin on the Commencement Date and extend until March 30, 2004, unless sooner terminated pursuant to this lease. The Lease will commence (the "Commencement Date") three (3) days after the later of the: (i) substantial completion of all Tenant Improvements, including the Tenant Improvements for the Phase 2 Area, or (ii) issuance of a Certificate of Occupancy by the proper governmental agency with respect to all the Premises, including the Phase 2 Area, or, if no Certificate of Occupancy be issued by any governmental agency, then after certification by Landlord's architect or contractor that the Landlord's construction work has been completed; provided, however, the Commencement Date may not be earlier than November 1, 1998, without Tenant's written consent. Landlord will substantially complete the Tenant Improvements and obtain a certificate of occupancy for the entire Premises not later than January 1, 1999. Landlord and Tenant shall execute a written acknowledgment of the Commencement Date as soon as practicable after the Commencement Date.

2.2 Delay in Commencement. Tenant agrees that in the event of the inability of Landlord for any reason to deliver possession of the Premises to Tenant on the Commencement Date as extended by the period of any Tenant Delays (as defined in Exhibit B), Landlord shall not be liable for any damage thereby except as expressly stated else where in this Lease, nor shall such inability affect the validity of this Lease or the obligations of Tenant hereunder, but in such case Tenant shall not be obligated to pay rent or other monetary sums until possession of the Premises is tendered to Tenant; provided that if the delay in delivery of possession exceeds thirty (30) days; then the expiration date of the

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term of the lease shall be extended by the period of time computed from the scheduled Commencement Date to the date possession is tendered by Landlord. In the event Landlord shall not have delivered possession of the Premises by February 1, 1999, as extended by the period of any Tenant Delays (the "Deadline"), then Tenant at its option to be exercised within sixty (60) days after the Deadline may terminate this Lease and upon Landlord's return of any monies previously deposited by Tenant, the parties shall have no further rights or liabilities toward each other. If Tenant occupies the Premises prior to said Commencement Date, such occupancy shall be subject to all provisions hereof, such occupancy shall not advance the termination date, and Tenant shall pay rent for such period at the initial monthly rates as set forth below.

3. Rent

Tenant shall pay to Landlord as rent for the Premises in advance on the first day of each calendar month of the term of this Lease without deduction, offset, prior notice or demand, in lawful money of the United States, the following amounts:

3.1 Beginning on the sixty-first (61st) day after the Commencement Date, the sum of Sixteen Thousand Six Hundred and Ninety-Eight Dollars (\$16,698.00) per month for the Premises, excluding the Phase 2 Area;

and

3.2 Beginning on the earlier of the date Tenant possesses any portion of the Phase 2 Area or one year from the Commencement Date (the "Phase 2 Commencement Date"), additional rent in the sum of Sixteen Thousand Six Hundred and Ninety-Eight Dollars (\$16,698.00) per month for the Phase 2 Area.

If the Commencement Date is not the first day of a month, or if the Lease termination date is not the last day of a month, a prorated monthly installment shall be paid at the then current rate for the fractional month during which the Lease commences and/or terminates. Concurrently with Tenant's execution of this Lease, Tenant shall pay to Landlord the sum of Sixteen Thousand Six Hundred Ninety-Eight dollars (\$16,698.00) as rent for the first month for which rent is payable.

4. Security Deposit

Within three days after the issuance of the Certificate of Occupancy for the Premises, Tenant shall deposit with Landlord the sum of Sixty-six Thousand Seven Hundred Ninety-two Dollars (\$66,792.00). On the second anniversary of the Commencement Date, the amount of the security deposit will be reduced by one half and Landlord will refund to Tenant Thirty-three Thousand Three Hundred Ninety-six Dollars (\$33,396.00) if Tenant has never been in default under the terms of this Lease. Said sums shall be held by Landlord as a security deposit for the faithful performance by Tenant of all of the terms, covenants, and conditions of this Lease to be kept and performed by Tenant during the term hereof. If Tenant defaults with respect to any provisions of this Lease, including but not limited to the provisions relating to the payment of rent and any of the monetary sums due herewith, Landlord may (but shall not be required to) use, apply or retain all or any part of this security deposit for the payment of any other amount which Landlord may spend or become obligated to spend by reason of Tenant's default or to compensate Landlord for any other loss or damage which Landlord may suffer by reason of Tenant's default. If any portion of said deposit is so used or applied, Tenant shall, within ten (10) days after written demand therefor, deposit cash with Landlord in an amount sufficient to restore the security deposit to its original amount; Tenant's failure to do so shall be a material breach of this Lease. Landlord shall not be required to keep this security deposit separate from its general funds, and Tenant shall not be entitled to interest on such deposit. If Tenant shall fully and faithfully perform every provision of this Lease to be performed by it, the

security deposit or any balance thereof shall be returned to Tenant (or, at Landlord's option, to the last assignee of Tenant's interests hereunder) at the expiration of the Lease term and after Tenant has vacated the Premises. In the event of termination of Landlord's interest in this Lease, Landlord shall transfer said deposit to Landlord's successor in interest, whereupon Tenant agrees to release Landlord from all liability for the return of such deposit or the accounting therefor.

5. Taxation

5.1 Payment of Real Property Taxes. Tenant shall pay to Landlord an amount equal to all real property taxes applicable to the Premises during the term of this Lease, after giving due consideration that Tenant will not lease the Phase 2 Area until after the Phase 2 Commencement Date. Notwithstanding anything herein to the contrary, Landlord rather than Tenant will be liable for and will pay one half of all real property taxes attributable to the real property on which the Premises is located until the Phase 2 Commencement Date. Along with each monthly payment of rent, Tenant shall pay Landlord one twelfth of the real property taxes assessed against the Premises for the current year of the Lease. Landlord will deliver to Tenant a copy of the annual real property tax assessment for the Premises not later than ten (10) days after the assessment is issued by the Maricopa County Assessor. To the extent Tenant overpays Landlord for real property taxes for any period, Landlord will credit the overpayment against the next monthly rent amount due hereunder. Without in any way relieving Tenant's obligation to pay all the tax payments to Landlord when due and payable, Tenant may appeal or contest any property tax assessment and Landlord shall cooperate with Tenant in such instance; provided, however, that Landlord shall not be required to incur any cost or expense in connection therewith. In the event of any such cost or expense, Tenant agrees to pay and/or reimburse Landlord for the cost or expense.

5.2 Proration; Joint Assessment. In the event any such real property taxes paid by Tenant cover any period of time prior to commencement or after the expiration of the term of this Lease, Tenant's share of such taxes shall be equitably prorated to cover only the period of time within the fiscal tax year during which this Lease is in effect, and Landlord shall reimburse Tenant to the extent required. With respect to any assessments which may be levied against or upon the Premises, or which under the laws then in force may be evidenced by improvement or other bonds or may be paid in annual installments, only the amount of such annual installment (with appropriate proration for any partial year) and interest due thereon shall be included within the computation of the annual taxes and assessments levied against the Premises. In the event the Premises are not separately assessed, Tenant's liability shall be an equitable proportion of the real property taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Landlord from the respective valuations assigned to the Assessor's worksheets or such other information as may be reasonably available to Landlord, with Landlord's reasonable determination thereof in good faith to be conclusive.

5.3 Definition of "Real Property Tax". As used in this Lease, the term "real property tax" shall include any form of assessment, levy, penalty or tax (other than inheritance, estate, net income or franchise taxes), imposed by any authority having the direct or indirect power to tax, including any city, county, state or federal government or any school, agricultural, lighting, drainage or other improvement district thereof, whether such tax is (a) upon, allocable to or measured by the area of the Premises or the rental payable hereunder, including without limitation any gross income tax or excise tax levied by the State, any political subdivision thereof, city or Federal government with respect to the receipt of such rental; or (b) upon or with respect to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises or any portion thereof, or (c) upon or measured by the value of Tenant's personal property, equipment or fixtures located in the Premises; or (d) upon this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the Premises; or (e) whether or not now customary or within the contemplation of the parties.

5.4 Personal Property Taxes. Tenant shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Tenant contained in the Premises or elsewhere. When possible, Tenant shall cause said trade fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of the Landlord.

6. Use

6.1 Use. The Premises shall be used and occupied by Tenant for only the following purposes and for no other purpose whatsoever without obtaining the prior written consent of Landlord: The manufacture, storage, and repair of motorcycles and motorcycle components and uses ancillary to those purposes.

6.2 Suitability. If the Premises are completed as of the date of execution hereof, then Tenant, by execution of this Lease, shall be deemed to have accepted the Premises in the condition existing as of the date of execution, subject to any defects specified in a written instrument dated as of the date of this Lease and delivered to Landlord on or before the date hereof. In any event this Lease shall be subject to all applicable zoning ordinances and to any municipal, county and state laws and regulations governing and regulating the use of the Premises. Tenant acknowledges that neither Landlord nor Landlord's agent has made any representation or warranty as to the suitability of the Premises for the conduct of Tenant's business.

6.3 Uses Prohibited.

(a) Tenant shall not do or permit anything to be done in or about the Premises which will increase the existing rate of insurance upon the Premises (unless Tenant shall pay any increased premium as a result of such use or acts) or cause the cancellation of any insurance policy covering said Premises or any building of which the Premises may be a part, nor shall Tenant sell or permit to be kept, used or sold in or about said Premises any articles which may be prohibited by a standard form policy of fire insurance.

(b) Tenant shall not do or permit anything to be done in or about the Premises which will in any way obstruct or interfere with the rights of other tenants or occupants of any building of which the Premises may be a part or injure them or use or allow the Premises to be used for any unlawful purpose, nor shall Tenant cause, maintain or permit any nuisance in, on or about the Premises. Tenant shall not commit or suffer to be committed any waste in or upon the Premises.

(c) Tenant shall not use the Premises or permit anything to be done in or about the Premises which will in any way conflict with any law, statute, zoning restriction, ordinance or governmental rule or regulation or requirements of duly constituted public authorities now in force or which may hereafter be enacted or promulgated. Tenant shall at its sole cost and expense promptly comply with all laws, statutes, ordinances and governmental rules, regulations or requirements now in force or which may hereafter be in force and with the requirements of any board of fire underwrites or other similar body now or hereafter constituted relating to or affecting the condition, use or occupancy of the Premises. The judgment of any court of competent jurisdiction or the admission of Tenant in any action against Tenant, whether Landlord be a party thereto or not, that Tenant has violated any law, statute, ordinance or governmental rule, regulation or requirement, shall be conclusive of that fact as between Landlord and Tenant.

7. Utilities

Tenant shall pay prior to delinquency for all water, gas, heat, light, power, telephone, sewage, air conditioning and ventilating, scavenger, janitorial, landscaping and all other materials and utilities supplied to the Premises. If any such services are not separately metered to Tenant, Tenant shall pay a reasonable proportion of all charges which are jointly metered, the determination to be made by Landlord in its reasonable discretion, and payment to be made by Tenant within ten (10) days of receipt of a statement for such charges.

8. Maintenance and Repairs, Alterations and Additions

8.1 Landlord's Obligations. On or before the Commencement Date, Landlord, at Landlord's expense, will cause to be installed on the Premises, including the Phase 2 Area, a new high quality heating, ventilation, air-conditioning and cooling system (collectively the "HVAC System") on the Premises and the Phase 2 Area that is sufficient to meet the reasonable needs of Tenant during the term of this Lease. The HVAC System will comply with all applicable laws and regulations. Subject to the provisions of Section 13 and except for damages caused by any negligent or intentional act or omission of Tenant and Tenant's agents, employees or invitees, Landlord, at Landlord's expense, shall keep in good order, condition and repair the foundations, exterior walls and the exterior roof of the Premises. On or before the Commencement Date, Landlord will obtain a prepaid service contract with a qualified roofing contractor that provides for the maintenance of the exterior roof of the Premises for one year after the Commencement Date. Landlord shall not, however, be obligated to paint such exterior, nor shall Landlord be required to maintain the interior surface of exterior walls, windows, doors or plate glass. Landlord shall have no obligation to make repairs under this Paragraph 8.1 until a reasonable time after receipt of written notice of the need for such repairs. Tenant expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Tenant the right to make repairs at Landlord's expense or to terminate this lease because of Landlord's failure to keep the Premises in good order, condition and repair.

8.2 Tenant's Obligations.

(a) Subject to the provisions of Sections 13 and 8.1, Tenant, at Tenant's expense, shall keep in good order, condition and repair the Premises and every part thereof, regardless of whether the damaged portion of the Premises or the means of repairing the same are accessible to Tenant, including without limitation thereto, all plumbing, heating, air conditioning, ventilating, electrical and lighting facilities and equipment within the Premises and all sidewalks, landscaping, driveways, parking lots, fences and signs located in the areas which are adjacent to and included with the Premises.

(b) Upon the expiration or earlier termination of this Lease, Tenant shall surrender the Premises in the same condition as received, broom clean, ordinary wear and tear and damage by fire, earthquake, act of God or the elements alone excepted. Tenant, at its sole cost and expense, agrees to repair any damage to the Premises caused by or in connection with the removal of any articles of personal property, business or trade fixtures, machinery, equipment, cabinetwork, furniture, movable partition, or permanent improvements or addition, including without limitation thereto, repairing the floor and patching and painting the walls where required by Landlord to Landlord's reasonable satisfaction. Tenant shall indemnify the Landlord against any loss or liability resulting from delay by Tenant in so surrendering the Premises, including without limitation, any claims made by any succeeding tenant founded on such delay.

8.3 Landlord's Rights. In the event Tenant fails to perform Tenant's obligations under this Section 8, Landlord shall give Tenant notice to do such acts as are reasonably required to so maintain the Premises. If Tenant fails to do the work and diligently prosecute it to completion, then Landlord shall have the right (but not the obligation) to do such acts and expend such Funds at the

expense of Tenant as are reasonably required to perform such work. Any amount so expended by Landlord shall be paid by Tenant promptly after demand with interest at ten percent (10%) per annum, from the date of such work. Landlord shall have no liability to Tenant for any inconvenience or interference with the use of the Premises by Tenant as a result of performing any such work.

8.4 Alterations and Additions.

(a) Tenant shall not, without Landlord's prior written consent, make any alterations, improvements or utility installations in, on or about the Premises, except for non-structural alterations not exceeding \$10,000.00 in cost. As used in this Section 8.4, the term "utility installations" shall include ducting, power panels, fluorescent fixtures, space heaters, conduit and wiring. As a condition to giving such consent, Landlord may require that Tenant agree to remove any such alterations, additions, improvements or utility installations at the expiration of the term and to restore the Premises to their prior condition. As a further condition to giving such consent, Landlord may require Tenant to provide Landlord, at Tenant's sole cost and expense, a lien and completion bond in an amount equal to one and one-half times the estimated cost of such improvements, to insure Landlord against any liability for mechanics' and materialmen's liens and to insure completion of the work.

(b) Unless Landlord requires their removal, as set forth in Paragraph 8.4(a), all alterations, additions, improvements and utility installations (whether or not such utility installations constitute trade fixtures of Tenant), which may be made on the Premises, shall at the expiration or earlier termination of the Lease become the property of Landlord and remain upon and be surrendered with the Premises. Notwithstanding the provisions of this paragraph 8.4(b), personal property, business and trade fixtures, cabinetwork, furniture, movable partitions, machinery and equipment, other than that which is affixed to the Premises so that it cannot be removed without material damage to the Premises, shall remain the property of Tenant and may be removed by Tenant subject to the provisions of Paragraph 8.2 at any time during the term of this Lease when Tenant is not in default.

9. Entry by Landlord

Landlord and Landlord's agents shall have the right at reasonable times to enter the Premises to inspect the same or to maintain or repair, make alterations or additions to the Premises or any portion thereof or to show the Premises to prospective purchasers, tenants or lenders. Landlord may, at any time, place on or about the Premises any ordinary "for sale" signs; Landlord may at any time during the last one hundred eighty (180) days of the term of the Lease place on or about the Premises any ordinary "for lease" signs. Tenant hereby waives any claim for abatement of rent or for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment of the Premises, and any other loss arising out of Landlord's exercise of its rights in this paragraph.

10. Liens

Tenant shall keep the Premises and any building of which the Premises are a part free from any liens arising out of work performed, materials furnished or obligations incurred by Tenant and shall indemnify, hold harmless and defend Landlord from any liens and encumbrances arising out of any work performed or materials furnished by or at the direction of Tenant. In the event that Tenant shall not, within twenty (20) days following the imposition of any such lien, cause such lien to be released of record by payment or posting of a proper bond, Landlord shall have, in addition to all other remedies provided herein and by law, the right, but not the obligation, to cause the same to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien. All such sums paid by Landlord and all expenses

incurred by it in connection therewith including attorney's fees and costs shall be payable to Landlord by Tenant on demand with interest at the rate of ten percent (10%) per annum. Landlord shall have the right at all times to post and keep posted on the Premises any notices permitted or required by law, or which Landlord shall deem proper, for the protection of Landlord and the Premises, and any other party having an interest therein, from mechanics' and materialmen's liens, and Tenant shall give to Landlord at least ten (10) business days prior written notice of the expected date of commencement of any work relating to alterations or additions to the Premises.

11. Indemnity

11.1 Indemnity. Tenant shall indemnify and hold Landlord harmless from and against any and all claims of liability for any injury or damage to any person or property arising from Tenant's use of the Premises, or from the conduct of Tenant's business, or from any activity, work or thing done, permitted or suffered by Tenant in or about the Premises or elsewhere. Tenant shall further indemnify and hold Landlord harmless from and against any and all claims arising from any breach or default in the performance of any obligation on Tenant's part to be performed under this Lease, or arising from any negligence of Tenant or Tenant's agents, contractors or employees, and from and against all costs, attorneys' fees, expenses and liabilities incurred in the defense of any such claim or any action or proceeding brought thereon. In the event any action or proceeding is brought against Landlord by reason of any such claim, Tenant upon notice from Landlord shall defend same at Tenant's expense by counsel satisfactory to Landlord. Tenant, as a material part of the consideration to Landlord, hereby assumes all risk of damage to property, or injury to persons in, upon or about the Premises arising from any cause and Tenant hereby waives all claims in respect thereof against Landlord, except for claims arising from the negligence or intentional acts of Landlord and its employees, agents and contractors. The indemnification contained in this subsection will survive the termination of this Lease.

11.2 Exemption of Landlord From Liability. Landlord shall not be liable for injury to Tenant's business or loss of income therefrom or for damage which may be sustained by the person, goods, wares, merchandise or property of Tenant, its employees, invitees, customers, agents or contractors or any other person in or about the Premises, caused by or resulting from fire, steam, electricity, gas, water or rain, which may leak or flow from or into any part of the Premises, or from the breakage, leakage, obstruction or other defects of the pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures of the same, whether the said damage or injury results from conditions arising upon the Premises or upon other portions of the building of which the Premises are a part, or from other sources or places and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Tenant. Landlord shall not be liable for any damages arising from any act or neglect of any other tenant, if any, of the building in which the Premises are located.

12. Insurance

12.1 Liability Insurance. Tenant shall, at Tenant's expense, procure and maintain at all times during the term of this Lease a policy of comprehensive public liability insurance insuring Landlord and Tenant against any liability arising out of the ownership, use, occupancy, or maintenance of the Premises and appurtenant areas. Such insurance shall at all times be in an amount of not less than \$500,000.00 for injury to or death of any one person in any one accident or occurrence and in an amount of not less than \$1,000,000.00 for injury to or death of more than one person in any one accident or occurrence, and in an amount of not less than \$50,000.00 for liability for property damage. The limits of such insurance shall not limit the liability of Tenant. If the Premises are part of a larger property, said insurance shall have a landlord's protective liability endorsement attached thereto. All insurance required hereunder shall be with companies rated AAA or better in "Best's Insurance Guide." Tenant shall deliver to Landlord certificates of insurance evidencing the existence and amounts of such insurance with loss payable clauses satisfactory to Landlord, provided that in the event Tenant fails to procure and

maintain such insurance, Landlord may (but shall not be required to) procure same at Tenant's expense after ten (10) days prior written notice to Tenant. All such policies shall be written as primary policies, not contributing with and not in excess of coverage which the Landlord may carry. Tenant shall, within twenty (20) days prior to the expiration of such policies, furnish Landlord with renewals or binders or Landlord may order such insurance and charge the cost to Tenant, which amount shall be payable by Tenant upon demand. Tenant shall have the right to provide such insurance coverage pursuant to blanket policies obtained by Tenant provided such blanket policies expressly afford coverage to the Premises and to Tenant as required by this Lease.

12.2 Property Insurance. Landlord shall, at Tenant's expense, procure and maintain at all times during the terms of this Lease a policy or policies of insurance covering loss or damage to the Premises in the amount of the full replacement value thereof (exclusive of Tenant's trade fixtures and equipment) providing protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, special extended perils (all risk) and sprinkler leakage. Tenant shall pay such annual insurance premiums to Landlord within fifteen (15) days after receipt by Tenant of a copy of the premium statement or other reasonably satisfactory evidence of the amount due, which shall include the method of calculation of Tenant's share thereof based on rentable square footage if the insurance covers other improvements than the Premises. Such insurance shall provide for payment of loss thereunder to Landlord or the holder of a first mortgage or deed of trust on the Premises. Landlord shall, on Tenant's demand, deliver appropriate proof of required insurance coverage to Tenant.

12.3 Waiver of Subrogation. Landlord and Tenant each hereby waive any and all rights of recovery against the officers, employees, agents and representatives of the other, on account of loss or damage occasioned to such waiving party of its property or the property of others under its control caused by fire or any of the extended coverage risks described above to the extent that such loss or damage is insured against under any insurance policy in force at the time of such loss or damage. The insuring party shall, upon obtaining the policies of insurance required under this Lease, give notice to the insurance carrier or carriers that the foregoing mutual waiver of subrogation is contained in this Lease.

13. Damage or Destruction

13.1 Partial Damage - Insured. In the event improvements on the Premises are damaged by any casualty which is covered under an insurance policy required to be maintained pursuant to Section 12.2, then Landlord shall repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect.

13.2 Partial Damage - Uninsured. In the event more than one third of the Premises are materially damaged, except by a negligent or willful act or omission of Tenant, by any casualty not covered under an insurance policy required to be maintained pursuant to Section 12.2, then Landlord may, at Landlord's option, either (a) repair such damage as soon as reasonably possible at Landlord's expense, in which event this Lease shall continue in full force and effect, or (b) give written notice to Tenant within thirty (30) days after the date of occurrence of such damage of Landlord's intention to cancel and terminate this Lease as of the date of the occurrence of the damage. In the event Landlord elects to terminate this Lease pursuant to this Section 13.2, Tenant shall have the right within ten (10) days after receipt of the required notice to notify Landlord in writing of Tenant's intention to repair such damage at Tenant's expense, without reimbursement from Landlord, in which event this Lease shall continue in full force and effect, and Tenant shall proceed to make such repairs as soon as reasonably possible. If Tenant does not give such notice within the ten (10) day period, this Lease shall be canceled and terminated as of the date of the occurrence of such damage.

13.3 Total Destruction. If the Premises are totally destroyed during the term of this Lease from any cause whether or not covered by the insurance

required under Section 12.2 (including any destruction required by any authorized public authority), this Lease shall automatically terminate as of the date of such total destruction. Total destruction is defined as 50% or greater destruction of the Premises.

13.4 Damage Near End of The Term. If the Premises are partially destroyed or damaged during the last six (6) months of the term of this Lease, Landlord may at Landlord's option cancel and terminate this Lease as of the date of occurrence of such damage by giving written notice to Tenant of Landlord's election to do so within thirty (30) days after the date of occurrence of such damage.

13.5 Landlord's Obligations. The Landlord shall not be required to repair any injury or damage by fire or other cause, or to make any restoration or replacement of any panelings, decorations, office fixtures, partitions, railings, ceilings, floor covering, equipment, machinery or fixtures or any other improvements or property installed in the Premises by Tenant or at the direct or indirect expense of Tenant. Tenant shall be required to restore or replace same in the event of damage.

13.6 Abatement of Rent; Tenant's Remedies.

(a) If the Premises are partially destroyed or damaged and Landlord or Tenant repairs them pursuant to this Lease, the rent payable hereunder for the period during which such damage and repair continues shall be abated in proportion to the extent to which Tenant's use of the Premises is impaired. Except for abatement of rent, if any, Tenant shall have no claim against Landlord for any damage suffered by reason of any such damages, destruction, repair or restoration unless the damage is caused by the intentional acts or gross negligence of Landlord or its agents, employees or contractors.

(b) If Landlord shall be obligated to repair or restore the Premises under this Section 13 and shall not commence such repair or restoration within ninety (90) days after such obligation shall accrue, Tenant at Tenant's option may cancel and terminate this Lease by written notice to Landlord at any time prior to the commencement of such repair or restoration. In such event this Lease shall terminate as of the date of such notice.

13.7 Termination - Advance Payments. Upon termination of this Lease pursuant to Section 13, an equitable adjustment shall be made concerning advance rent and any advance payments made by Tenant to Landlord. Landlord shall, in addition, return to Tenant so much of Tenant's security deposit as has not theretofore been applied by Landlord.

14. Condemnation

14.1 If the Premises or any portion thereof are taken under the power of eminent domain, or sold by Landlord under the threat of the exercise of said power (all of which is herein referred to as "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever occurs first. If more than ten percent (10%) of the floor area of any buildings on the Premises, or more than twenty-five percent (25%) of the land area of the Premises not covered with buildings, is taken by condemnation, either Landlord or Tenant may terminate this Lease, as of the date the condemning authority takes possession, by notice in writing of such election within twenty (20) days after Landlord shall have notified Tenant of the taking, or in the absence of such notice then within twenty (20) days after the condemnation authority shall have taken possession.

14.2 If this Lease is not terminated by either Landlord or Tenant then it shall remain in full force and effect as to the portion of the Premises remaining, provided the rent shall be reduced in the proportion that the floor area of the buildings taken within the Premises bears to the total floor area of

all buildings located on the Premises. In the event this Lease is not so terminated then Landlord agrees, at Landlord's sole cost, to restore the Premises to a complete unit with like quality and character as existed prior to the condemnation as soon as reasonably possible. All awards for the taking of any part of the Premises or any payment made under the threat of the exercise of power of eminent domain shall be the property of Landlord, whether made as compensation for diminution of value of a leasehold or for the taking of the fee or as severance damages; provided, however, that Tenant shall be entitled to any award for loss of or damage to Tenant's trade fixtures and removable personal property. In the event that this Lease is not terminated by reason of such condemnation, Landlord shall, to the extent of severance damages received by Landlord in connection with such condemnation, repair any damage to the Premises caused by such condemnation except to the extent that Tenant has been reimbursed therefor by the condemning authority. Tenant shall pay any amount in excess of such severance damages required to complete such repair.

15. Assignment & Subletting

15.1 Landlord's Consent Required. Tenant shall not assign, transfer mortgage, pledge, hypothecate or encumber this Lease or any interest therein, and shall not sublet the Premises or any part thereof, without the prior written consent of Landlord and any attempt to do so without such consent being first had and obtained shall be wholly void and shall constitute a breach of this Lease.

15.2 Reasonable Consent. If Tenant complies with the following conditions, and Landlord is reasonably satisfied with the information, Landlord shall not unreasonably withhold its consent to the assigning or subletting of the Premises or any portion thereof. Tenant shall submit in writing to Landlord; (a) the name and legal composition of the proposed subtenant or assignee; (b) the nature of the proposed subtenant's or assignee's business to be carried on in the Premises; (c) the terms and provisions of the proposed sublease or assignment; (d) such reasonable financial information as Landlord may request concerning the proposed subtenant or assignee.

15.3 No Release of Tenant. No consent by Landlord to any assignment or subletting by Tenant shall release Tenant from any obligation to be performed by the Tenant under this Lease, whether occurring before or after such consent, assignment or subletting. The consent by Landlord to any assignment or subletting shall not relieve Tenant from the obligation to obtain Landlord's express written consent to any other assignment or subletting. The acceptance of rent by Landlord from any other person shall not be deemed to be a waiver by Landlord of any provision of this Lease or to be a consent to any assignment, subletting or other transfer. Consent to one assignment, subletting or other transfer shall not be deemed to constitute consent to any subsequent assignment, subletting or other transfer.

15.4 Attorney's Fees. In the event Landlord shall consent to a sublease or assignment under this Section 15, Tenant shall pay Landlord's reasonable attorney's fees not to exceed \$500.00 incurred in connection with giving such consent.

16. Subordination

16.1 Subordination. This Lease at Landlord's option shall be subject and subordinate to the lien of any mortgages or deeds of trust in any amount or amounts whatsoever now or hereafter placed on or against the land or improvements or either thereof, of which the Premises are a part, or on or against Landlord's interest or estate therein, or on or against any ground or underlying lease, without the necessity of the execution and delivery of any further instruments on the part of Tenant to effectuate such subordination. If any mortgagee, trustee or ground lessor shall elect to have this Lease prior to the lien of its mortgage, deed of trust or ground lease, and shall give written notice thereof to Tenant, this Lease shall be deemed prior to such mortgage, deed of trust or ground lease, whether this Lease is dated prior or subsequent to the date of said mortgage, deed of trust or ground lease or the date of the recording thereof.

16.2 Subordination Agreement. Tenant covenants and agrees to execute and deliver upon demand without charge therefore, such further instruments evidencing such subordination of this Lease to such ground or underlying leases and to the lien of any such mortgages or deeds of trust as may be required by Landlord. If Tenant does not sign such agreements, instruments, releases or other documents within ten business days of demand, Tenant hereby appoints Landlord as Tenant's attorney in fact, irrevocably, to execute and deliver any such agreements, instruments, releases or other documents.

16.3 Quiet Enjoyment. Landlord covenants and agrees with Tenant that upon Tenant paying rent and other monetary sums due under the Lease and performing its covenants and conditions, Tenant shall and may peaceably and quietly have, hold and enjoy the Premises for the term, subject however to the terms of the Lease and of any of the aforesaid ground leases, mortgages or deeds of trust described above.

16.4 Attornment. In the event any proceedings are brought for default under any ground or underlying lease or in the event of foreclosure or the exercise of the power of sale under any mortgage or deed of trust made by the Landlord covering the Premises, the Tenant shall attorn to the purchaser upon any such foreclosure or sale and recognize such purchaser as the Landlord under this Lease; provided such purchaser expressly agrees in writing to be bound by the terms of the Lease.

16.5 Condition Precedent. Notwithstanding anything herein to the contrary, paragraphs 16.1, 16.2 and 16.4 shall not be binding on Tenant unless the holder (the "Holder") of the interest to which Tenant is to subordinate its interest under this Lease has delivered to Tenant a binding written recordable instrument (subject to Tenant's reasonable approval) pursuant to which Holder covenants that Holder will not disturb Tenant's interest to the Premises as provided in this Lease so long as Tenant does not default hereunder. Also notwithstanding anything herein to the contrary, Tenant shall have an option to terminate this Lease at any time until such time as Landlord delivers to Tenant a recordable subordination, nondisturbance and attornment agreement (subject to Tenant's reasonable approval) enforceable against all persons and entities that have any lien or encumbrance on the Premises, which agreement contains a binding covenant from the lienholder(s) that the lienholder(s) will not disturb Tenant's interest to the Premises as provided in this Lease so long as Tenant does not default hereunder.

17. Default; Remedies

17.1 Default. The occurrence of any of the following shall constitute a material default and breach of this Lease by Tenant:

(a) Any failure by Tenant to pay the rent or any other monetary sums required to be paid hereunder (where such failure continues for three (3) days after written notice thereof by Landlord to Tenant);

(b) The abandonment or vacation of the Premises by Tenant;

(c) A failure by Tenant to observe and perform any other provision of this Lease to be observed or performed by Tenant, where such failure continues for twenty-five (25) days after written notice thereof by Landlord to Tenant; provided, however, that if the nature of such default is such that the same cannot reasonably be cured within such twenty-five (25) day period, Tenant shall not be deemed to be in default if Tenant shall within such period commence such cure and thereafter diligently prosecute the same to completion.

(d) The making by Tenant of any general assignment or general arrangement for the benefit of creditors; the filing by or against Tenant of a petition to have Tenant adjudged a bankrupt or of a petition for reorganization or arrangement

under any law relating to bankruptcy (unless, in the case of a petition filed against Tenant, the same is dismissed within sixty (60) days); the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within thirty (30) days; or the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where such seizure is not discharged within thirty (30) days.

17.2 Remedies. In the event of any such material default or breach by Tenant, Landlord may at anytime thereafter, with or without notice and demand and without limiting Landlord in the exercise of any right or remedy at law or in equity which Landlord may have by reason of such default or breach:

(a) Maintain this Lease in full force and effect and recover the rent and other monetary charges as they become due, without terminating Tenant's right to possession, irrespective of whether Tenant shall have the right to attempt to re-let the Premises at such rent; and upon such conditions and for such a term, and to do all acts necessary to maintain or preserve the Premises as Landlord deems reasonable and necessary without being deemed to have elected to terminate the Lease including removal of all persons and Property from the Premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Tenant. Notwithstanding that Landlord fails to elect to terminate the Lease initially, Landlord at any time during the term of this Lease may elect to terminate this Lease by virtue of such previous default of Tenant.

(b) Terminate Tenant's right to possession by any lawful means, in which case this Lease shall terminate and Tenant shall immediately surrender possession of the Premises to Landlord. In the event Landlord shall be entitled to recover from Tenant all damages incurred by Landlord by reason of Tenant's default including without limitation thereto, the following: (i) The worth at the time of award of any unpaid rent which had been earned at the time of such termination; plus (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that is proved could have been reasonably avoided; plus (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that is proved could be reasonably avoided; plus (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom; plus (v) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable state law. Upon any such re-entry Landlord, at Tenant's cost, shall have the right to make any reasonable repairs, alterations or modifications to the Premises, which Landlord in its sole discretion deems reasonable and necessary. As used in subparagraph (ii) and (iii) the "worth at the time of award" is computed by allowing interest at the rate of twelve percent (12%) per annum, from the date of default. As used in subparagraph (i) above, the "worth at the time of award" is computed by discounting such amount at the discount rate of the U.S. Federal Reserve Bank at the time of award plus one percent (1%). The term "rent", as used in this Section 17, shall be deemed to be and to mean the rent to be paid pursuant to Section 3 and all other monetary sums required to be paid by Tenant pursuant to the terms of this Lease. A condition to the termination of the Lease under this Section 17.2(b) is that Landlord notify Tenant in writing that Landlord elects to terminate the Lease as of a specific date.

17.3 Late Charges. Tenant hereby acknowledges that late payment by Tenant to Landlord of rent and other sums due hereunder will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to

processing and accounting charges, and late charges which may be imposed on Landlord by the terms of any mortgage or trust deed covering the Premises. Accordingly, if any installment of rent or any other sum due from Tenant shall not be received by Landlord or Landlord's designee within ten (10) days after such amount shall be due, Tenant shall pay to Landlord a late charge equal to five percent (5 %) of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of late payment by Tenant. Acceptance of such late charge by Landlord shall in no event constitute a waiver of Tenant's default with respect to such overdue amount, nor prevent Landlord from exercising any of the other rights and remedies granted hereunder.

17.4 Default by Landlord. Landlord shall not be in default unless Landlord fails to perform obligations required of Landlord within a reasonable time, but in no event later than thirty (30) days after written notice by Tenant to Landlord and to the holder of any first mortgage or deed of trust covering the Premises whose name and address shall have theretofore been furnished to Tenant in writing, specifying wherein Landlord has failed to perform such obligation; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for performance, then Landlord shall not be in default if Landlord commences performance within such thirty-day period and thereafter diligently prosecutes the same to completion.

18. Broker's Fee

Upon execution of this Lease by both parties, Landlord shall pay to Lee and Associates, a licensed real estate broker, a commission for brokerage services heretofore tendered. Tenant agrees to indemnify Landlord against claims of other brokers claiming to have represented Tenant in this transaction. Landlord agrees to indemnify Tenant against claims of other brokers claiming to have represented Landlord in this transaction.

19. Miscellaneous

19.1 Estoppel Certificate.

(a) Tenant shall at any time upon not less than ten (10) days prior written notice from Landlord execute, acknowledge and deliver to Landlord a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord hereunder, or specifying such defaults if any are claimed. Any such statement may be conclusively relied upon by a prospective purchaser or encumbrancer of the Premises.

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

(c) If Landlord desires to finance or refinance said Premises, or any part thereof, Tenant hereby agrees to deliver to any lender designated by Landlord such financial statements of Tenant as may be reasonably required by such lender; provided, however, that the lender covenants in writing to maintain all Confidential Information about Tenant confidential and not disclose it to any other party. Such statements shall include the past three years' financial statements of Tenant. All Confidential Financial Information shall be received by Landlord in confidence and shall be used only for the purposes herein set forth. The term "Confidential Information" means any and all information not a matter of public record that Tenant delivers to Landlord and designates as confidential.

19.2 Transfer of Landlord's Interest. In the event of a sale or conveyance by Landlord of Landlord's interest in the Premises other than a transfer for security purposes only, Landlord shall be relieved from and after the date specified in such notice of transfer of all obligations and liabilities accruing thereafter on the part of the Landlord, provided that any funds in the hands of Landlord at the time of transfer in which Tenant has an interest, shall be delivered to the successor of Landlord. This Lease shall not be affected by any such sale and Tenant agrees to attorn to the purchaser or assignee provided all Landlord's obligations hereunder are assumed in writing by the transferee.

19.3 Captions; Attachments; Defined Terms.

(a) The captions of the paragraphs of this Lease are for convenience only and shall not be deemed to be relevant in resolving any question of interpretation or construction of any section of this Lease.

(b) Exhibits attached hereto, and addenda and schedules initialed by the parties, are deemed by attachment to constitute part of this Lease and are incorporated herein.

(c) The words "Landlord" and "Tenant", as used herein, shall include the plural as well as the singular. Words used in neuter gender include the masculine and feminine and words in the masculine or feminine gender include the neuter. If there be more than one Landlord or Tenant, the obligations hereunder imposed upon Landlord or Tenant shall be joint and several. If the Tenants are husband and wife, the obligations shall extend individually to their sole and separate property as well as to their community property. The term "Landlord" shall mean only the owner or owners at the time in question of the fee title or a tenant's interest in a ground lease of the Premises. The obligations contained in this Lease to be performed by Landlord shall be binding on Landlord's successors and assigns only during their respective periods of ownership.

19.4 Entire Agreement. This instrument along with any exhibits and attachments hereto constitutes the entire agreement between Landlord and Tenant relative to the Premises and this Agreement and the exhibits and attachments may be altered, amended or revoked only by an instrument in writing signed by both Tenant relative to the Premises and this Agreement and the exhibits and attachments may be altered, amended or revoked only by an instrument in writing signed both by Landlord and Tenant. Landlord and Tenant agree hereby that all prior or contemporaneous oral agreements between and among themselves and their agents or representatives relative to the leasing of the Premises are merged in or revoked by this Agreement.

19.5 Severability. If any term or provision of this Lease shall, to any extent, be determined by a court of competent jurisdiction to be invalid or unenforceable, the remainder of this Lease shall not be affected thereby, and each term and provision of this Lease shall be valid and be enforceable to the fullest extent permitted by law.

19.6 Costs of Suit.

(a) If Tenant or Landlord shall bring any action for any relief against the other, declaratory or otherwise, arising out of this Lease, including any suit by Landlord for the recovery of rent or possession of the Premises, the losing party shall pay the successful party a reasonable sum for attorneys' fees which shall be deemed to have accrued on the commencement of such action and shall be paid whether or not such action is prosecuted to judgment.

(b) Should Landlord, without fault on Landlord's part, be made a party to any litigation instituted by Tenant or by any third party against Tenant, or by or against any person holding

under or using the Premises by license of Tenant, or for the foreclosure of any lien for labor or material furnished to or for Tenant or any such other person or otherwise arising out of or resulting from any act or transaction of Tenant or of any such other person, Tenant covenants to save and hold Landlord harmless from any judgment rendered against Landlord or the Premises or any part thereof, and all costs and expenses, including reasonable attorneys' fees, incurred by Landlord in or in connection with such litigation.

19.7 Time; Joint and Several Liability. Time is of the essence of this Lease and each and every provision hereof, except as to the conditions relating to the delivery of possession of the Premises to Tenant. All the terms, covenants and conditions contained in this Lease to be performed by either party, if such party shall consist of more than one person or organization, shall be deemed to be joint and several, and all rights and remedies of the parties shall be cumulative and non-exclusive of any other remedy at law or in equity.

19.8 Binding Effect; Choice of Law. The parties hereto agree that all the provisions hereof are to be construed as both covenants and conditions as though the words importing such covenants and conditions were used in each separate paragraph hereof, subject to any provisions hereof restricting assignment or subletting by Tenant and subject to Section 19.2, all of the provisions hereof shall bind and inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors and assigns. This Lease shall be governed by the laws of the State of Arizona.

19.9 Waiver. No covenant, term or condition or the breach thereof shall be deemed waived, except by written consent of the party against whom the waiver is claimed, and any waiver or the breach of any covenant, term or condition shall not be deemed to be a waiver of any preceding or succeeding breach of the same or any other covenant, term or condition. Acceptance by Landlord of any performance by Tenant after the time the same shall have become due shall not constitute a waiver by Landlord of the breach or default of any covenant, term or condition unless otherwise expressly agreed to by Landlord in writing.

19.10 Surrender of Premises. The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation thereof, shall not work a merger, and shall, at the option of the Landlord, terminate all or any existing subleases or subtenancies, or may, at the option of Landlord, operate as an assignment to it of any or all such subleases or subtenancies.

19.11 Holding Over. If Tenant remains in possession of all or any part of the Premises after the expiration of the term hereof, with or without the express or implied consent of Landlord, such tenancy shall be from month to month only, and not a renewal hereof or an extension for any further term, and in such case, monthly rent shall be 150% of the rent in the last month of the Lease term this and other monetary sums due hereunder shall be payable at the time specified in this Lease and such month to month tenancy shall be subject to every other term, covenant and agreement contained herein.

19.12 Signs and Auctions. Tenant shall not place any sign upon the Premises or conduct any auction thereon without Landlord's prior written consent.

19.13 Reasonable Consent. Except as limited elsewhere in this Lease, wherever in this Lease Landlord or Tenant is required to give its consent or approval to any action on the part of the other, such consent or approval shall not be unreasonably withheld. In the event of failure to give any such consent, the other party shall be entitled to specific performance at law and shall have such other remedies as are reserved to it under this Lease, but in no event shall Landlord or Tenant be responsible in monetary damages for failure to give consent unless said failure is withheld maliciously or in bad faith.

19.14 Interest on Past Due Obligations. Except as expressly herein provided, any amount due to Landlord not paid when due shall bear interest at twelve percent (12%) per annum from the due date. Payment of such interest shall not excuse or cure any default by Tenant under this Lease.

19.15 Recording. Tenant shall not record this Lease without Landlord's prior written consent, and such recordation shall, at the option of Landlord constitute a non-curable default of Tenant hereunder. Either party shall upon request of the other, execute, acknowledge and deliver to the other a "short form" memorandum of this Lease for recording purposes.

19.16 Notices. All notices or demands of any kind required or desired to be given by Landlord or Tenant hereunder shall be in writing and shall be deemed delivered forty-eight (48) hours after depositing the notice or demand in the United States mail certified or registered, postage prepaid, addressed to the Landlord or Tenant respectively at the addresses set forth after their signatures at the end of this Lease.

19.17 Corporate Authority. If Tenant is a corporation, each individual executing this Lease on behalf of said corporation represents and warrants that he is duly authorized to execute and deliver this Lease on behalf of said corporation in accordance with a duly adopted resolution of the Board of Directors of said corporation or in accordance with the Bylaws of said corporation, and that this Lease is binding upon said corporation in accordance with its terms. If Tenant is a corporation Tenant shall, within thirty (30) days after execution of this Lease, deliver to Landlord a certified copy of a resolution of the Board of Directors of said corporation authorizing or ratifying the execution of this Lease.

19.18 Option to Renew.

(a) Tenant will have two (2) successive rights to renew this Lease for two (2) five-year terms (the "Renewal Terms") by giving notice of exercise of the Renewal Option to Landlord at least six (6) months before the end of the lease term and the first Renewal Term, as the case may be; provided, however, Tenant may not renew this Lease if Tenant is in default hereunder on the last day of the then expiring term of this Lease. If Tenant fails to deliver timely written notice of exercise of a Renewal Option to Landlord, the Renewal Options shall lapse and Tenant will have no further privilege to extend the lease term.

(b) Each Renewal Term shall be on the same terms and conditions of this Lease (unless by their very nature inapplicable), except that the monthly rent payable by Tenant to Landlord during each renewal term shall be based on the prevailing "market rental rate" for comparable space in competing buildings of similar size, type, quality and location. Determination of the "market rental rate" will give appropriate consideration to rental rates for renewals, rental escalations, tenant improvement allowances and other terms that would affect the economics in a similar lease renewal at comparable property.

(c) In the event Landlord and Tenant are unable to mutually agree on the "market rental rate" to be applied to the Premises, Landlord and Tenant shall mutually select an MAI commercial real estate appraiser, and the opinion of such appraiser shall be binding upon both Landlord and Tenant. If Landlord and Tenant fail to mutually select such an MAI appraiser, the president of the Arizona Chapter of the Appraisal Institute shall select the appraiser who shall have at least ten years recent experience valuing commercial real property in Maricopa County, Arizona. Or Landlord and Tenant may select another highly qualified real estate professional with many years of experience in the relevant market to determine the "market rental rate."

19.19 Landlord's & Tenant's Representations & Warranties.

(a) For purposes of this section 19.19, the term "Hazardous Material" means any flammable items, explosives, radioactive materials, hazardous, noxious, disease-causing, or toxic substances, materials or wastes or related materials, including any substances defined as or included in the definition of "hazardous substances," "hazardous wastes," "infectious wastes," "hazardous materials" or "toxic substances" now or subsequently regulated under any applicable federal, state or local laws or regulations or ordinances, including, without limitation, oil, petroleum-based products, paints, solvents, lead, mercury, cyanide, DDT, printing inks, acids, pesticides, ammonia compounds and other chemical products, asbestos, radon, PCBs and similar compounds, and including all products and materials which may have adverse effects on the environment or the health and safety of persons. "Environmental Laws" shall mean any federal, state or local environmental, health and/or safety-related law, and any related decision of the courts, ordinance, rule, regulation, code, order, directive, guideline, permit or permit condition.

(b) Landlord hereby represents and warrants the following to Tenant as of the Commencement Date:

1. Based on Landlord's actual knowledge without inquiry and except as disclosed on Exhibit C, the Premises has not been used for the disposal of refuse or waste, or for the generation, processing, manufacture, storage, handling, treatment, release, discharge or disposal of any Hazardous Materials.

2. Based on Landlord's actual knowledge without inquiry, the Premises is in compliance with all Environmental Laws.

3. Based on Landlord's actual knowledge without inquiry, no (i) asbestos containing materials, (ii) machinery, equipment or fixtures containing PCBs, (iii) storage tanks for gasoline or any other substance or (iv) urea formaldehyde foam insulation has been installed, used, stored, handled or located on the Premises.

4. The Premises contains no asbestos or other Hazardous Materials, excepting insubstantial amounts thereof, if any, in quantities not having materially adverse effects on the environment or upon the health and safety of persons.

5. Notwithstanding any other provision of this Lease, Landlord shall and hereby does agree to indemnify, protect, defend and hold harmless Tenant and its partners, directors, officers, employees, shareholders, members, agents, contractors and each of their respective successors and assigns from and against any and all claims, judgments, damages, penalties, fines, taxes, costs, liabilities, losses and expenses arising at any time during or after the term of this Lease as a result of or in connection with Landlord's breach of any representation, warranty or covenant contained in this paragraph 19.19.

(c) Tenant hereby covenants, represents and warrants the following to Landlord:

1. Tenant agrees not to introduce any Hazardous Material in, on or adjacent to the Premises without (i) obtaining Landlord's prior written approval, which approval will not be unreasonably withheld or delayed, (ii) providing Landlord with thirty (30) days prior written notice of the exact amount, nature, and manner of intended use of such Hazardous Materials, and (iii) complying with all applicable

federal, state and local laws, rules, regulations, policies and authorities relating to the storage, use, disposal and clean-up of Hazardous Materials, including, but not limited to, the obtaining of all proper permits.

2. Notwithstanding foregoing subsection, Tenant agrees not to allow the following Hazardous Materials to be used, stored, or introduced onto or from the Premises in any manner whatsoever during the term of this Lease:

- (i) 1,1,1,2-Tetrachloroethane;
- (ii) Tetrachlorethylene;
- (iii) Trichloroethylene; and
- (iv) 1, 1,2-Trichloroediane.
- (v) 1, 1 - DCE (1, 1 - dichloroethene)
- (vi) DCM (dichloromethane)

The prohibition contained in this subsection with respect to the designated hazardous materials applies to Tenant, its employees, assigns, contractors, invitees, and their equipment, including, but not limited to, personal and business vehicles.

3. Tenant shall immediately notify Landlord if it becomes aware of any release of Hazardous Material onto the Premises and of any inquiry, test, investigation, or enforcement proceeding by, against or directed at Tenant or the Premises concerning any Hazardous Material as soon as practicable after Tenant becomes aware thereof. Tenant acknowledges that Landlord, as the owner of the Premises, shall have the right, at its election, in its own name, to negotiate, defend, approve, and appeal, any action taken or order issued with regard to any Hazardous Material alleged to be on or affecting the Premises by any applicable governmental authority and that if such Hazardous Material was unlawfully released onto or from the Premises by Tenant, such costs shall be at Tenant's expense.

4. If Tenant's storage, use or disposal of any Hazardous Material in, on or adjacent to the Premises results in any further contamination of the Premises, the soil, surface or groundwater thereunder or the air above and around the Premises requiring remediation under federal, state or local statutes, ordinances, regulations or policies, Tenant agrees to clean-up the contamination immediately, at Tenant's sole cost and expense. Tenant further agrees to indemnify, defend and hold Landlord harmless from and against any claims, suits, causes of action, costs, damages, loss and fees, including attorneys' fees and costs, arising out of or in connection with (i) any clean-up work, inquiry or enforcement proceeding relating to Hazardous Materials used, stored or disposed of by Tenant or its agents, employees, contractors or invitees on or about the Premises, and (ii) the use, storage, disposal or release by Tenant or its agents, employees, contractors or invitees of any Hazardous Materials on or about the Premises.

5. Notwithstanding any other right of entry granted to Landlord under this Lease, Landlord shall have reasonable right, without materially disturbing Tenant's use of the Premises, to enter the Premises or to have consultants enter the Premises throughout the Term at reasonable times for the purpose of determining: (1) whether the Premises are in conformity with federal, state and local statutes, regulations, ordinances and policies, including those pertaining to the environmental condition of the Premises; (2) whether Tenant has complied with

Tenant's obligations under this Section 19.19, and (3) the preventive measures, if any, required of Tenant to ensure the safe use, storage and disposal of Hazardous Materials on the Premises. Tenant agrees to provide access and reasonable assistance, at no cost to Tenant, for such inspections. Such inspections include, but are not limited to, entering the Premises with machinery for the purpose of obtaining laboratory samples. Landlord shall not be limited in the number of such inspections during the term of this Lease, but the number and extent of inspections must be reasonable. If, during such inspections, it is found that Tenant's use of Hazardous Materials constitutes a violation of this Lease, Tenant shall reimburse Landlord for the reasonable cost of such inspections within ten (10) days of receipt of a written statement and supporting documentation therefor. If such consultants reasonably determine that the Premises are in material violation of any applicable Environmental Law, Tenant shall, in a timely manner, at its expense, remove such Hazardous Materials or otherwise comply with the reasonable recommendations of such consultants to the reasonable satisfaction of Landlord and any applicable governmental agencies. If Tenant fails to do so, Landlord, at its sole discretion, may cause the violation and/or contamination to be remedied at Tenant's sole reasonable cost and expense. The right granted to Landlord herein to inspect the Premises shall not create a duty on Landlord's part to inspect the Premises, or liability of Landlord for Tenant's use, storage or disposal of Hazardous Materials, it being understood that Tenant shall be solely responsible for all liability in connection therewith.

6. Tenant shall surrender the Premises to Landlord upon the expiration or earlier termination of this Lease free of Hazardous Materials brought onto or released in, on, under or from the Premises by Tenant or its agents, employees, contractors, invitees, assignees or subtenants and in a condition which complies with all governmental statutes, ordinances, regulations and policies.

In Witness Whereof, the Landlord and Tenant have executed this Lease the date and year first above written.

LANDLORD:
BILTMORE PEORIA, LLC

TENANT:
TITAN MOTORCYCLE COMPANY

By:
Title:

By:
Title:

Address:

Address:

5151 N. 16th Street, #130
Phoenix, Arizona 85016

2222 West Peoria
Phoenix, Arizona 85029

(If Tenant is a corporation, the authorized officers must sign on behalf of the corporation. The Lease must be executed by the President or a Vice President and the Secretary or Assistant Secretary unless the Bylaws or a Resolution of the Board of Directors shall otherwise provide, in which event the Bylaws or a certified copy of the Resolution, as the case may be, must be furnished.)

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