SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of Earliest Event Reported): October 1997

TAKE-TWO INTERACTIVE SOFTWARE, INC.
(Exact name of registrant as specified in its charter)

Delaware	0-29230	11-3299195
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

575 Broadway, New York, New York	10012
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (212)941-2988

Not Applicable
Former name or former address, if changed since last report

Item 5. Other Event.

Pursuant to a Securities Purchase Agreement, dated October 14, 1997, the Company issued and sold to Infinity Investors Limited, Infinity Emerging Opportunities Limited and Glacier Capital Limited (collectively, the "Funds") (i) 10% secured convertible notes (the "Notes") in the aggregate principal amount of $4,200,000; (ii) 50,000 shares of Common Stock, par value $.01 per share (the "Grant Shares"); and (iii) five-year warrants (the "Warrants") to purchase 250,000 shares of Common Stock (the "Warrant Shares") exercisable at a price of $6.46 per share. The net proceeds to the Company from the sale of the Notes, Grant Shares and Warrants was $4,007,000. In addition, the Company paid $168,000 and issued 20,000 shares of Common Stock and Warrants to purchase 5,000 shares of Common Stock to Whale Securities Co., L.P. as a fee for services rendered in connection with the transactions contemplated by the Securities Purchase Agreement.

The Notes are secured by a first priority security interest in letters of credit issued in respect of purchase orders for Wheel of Fortune(R) and Jeopardy!(R) products designed for Nintendo 64 platform (the "Products"), and are convertible, at the option of the holder, at any time commencing February

28, 1998 into shares of Common Stock (the "Note Conversion Shares"), having a value of 75% of the lowest daily weighted average sales price of the Common Stock during a period of fifteen (15) days prior to conversion, subject to a conversion limit (the "Conversion Limit") of 19.9% of the then issued and outstanding shares of Common Stock of the Company. In the event that aggregate Note Conversion Shares and other securities issuable under the Securities Purchase Agreement exceed the Conversion Limit, the Company will have 60 days following notice by the Funds to (i) obtain shareholder approval of the issuance of such securities or (ii) repay the balance of the Notes.

The Notes mature on September 30, 1999. The Company is required to repay the Notes prior to maturity under certain circumstances, including in the event of a change of control, a transfer of all or substantially all of the Company's assets, a merger or consolidation of the Company, the issuance of securities exceeding the Conversion Limit (if shareholder approval has not been obtained) or the failure of the Company to fulfill certain securities registration obligations described below. Notes repaid after February 28, 1998 are repayable at a premium. In addition, the Company is required to prepay the Notes through payments and collections (including draws under letters of credit) from the sale of the Products received by the Company after December 31, 1997. In addition, under certain circumstances (including in the event the value of the collateral securing the Notes does not equal or exceed the unpaid principal amount of the Notes), the Company will be required to establish a lockbox account into which all collections related to the products will be deposited.

Pursuant to the Securities Purchase Agreement, the Company will issue additional Grant Shares (the "Additional Grant Shares") to the Funds in the event that the closing bid price of the Common Stock during the period ending thirty days from the date of effectiveness of a registration statement covering the Grant Shares (adjusted for certain events specified in the agreement) does not equal $7.75. In the event that any Additional Grant Shares are issued, the exercise price of the Warrants will be adjusted so that the value of the Warrants (using a Black-Scholes or similar model) equals the value of the Warrants as of the closing date.

The Company granted to the Funds registration rights covering the Note Conversion Shares, Grant Shares, Warrant Shares and Additional Grant Shares (collectively, the "Securities") pursuant to a Registration Rights Agreement. Under such agreement, the Company is obligated to file a registration statement covering the sale of the Securities on or prior to April 14, 1998 and use its best efforts to cause such registration statement to become effective by June 30, 1998.

The Company also agreed to certain covenants, including limitations on the issuance of securities, mergers and acquisitions, incurrence of indebtedness, liens, the payment of dividends, capital expenditures and minimum levels of net worth.

The foregoing summary descriptions of the Securities Purchase Agreement and collateral documents are not necessarily complete and are qualified in their entirety by reference to the applicable documents filed with the Securities and Exchange Commission as exhibits hereto.

Item 7. Exhibits

1. Securities Purchase Agreement, dated October 14, 1997, by and among the Company and the Funds

2. Convertible Note No. 1, dated October 14, 1997, in favor of Infinity Investors Limited

3. Convertible Note No. 2, dated October 14, 1997, in favor of Infinity Emerging Opportunities Limited

4. Convertible Note No. 3, dated October 14, 1997, in favor of Glacier Capital Limited

5. Common Stock Purchase Warrant, dated October 14, 1997, in favor of Infinity Investors Limited

6. Common Stock Purchase Warrant, dated October 14, 1997, in favor of Infinity Emerging Opportunities Limited

7. Common Stock Purchase Warrant, dated October 14, 1997, in favor of Glacier Capital Limited

8. Registration Rights Agreement, dated October 14, 1997, by and among the Company and the Funds

9. Security Agreement, dated October 14, 1997, by and between the Company and HW Partners, L.P., as agent for and representative of the Funds

10. Security Agreement, dated October 14, 1997, by and between Inventory Management Systems, Inc. and HW Partners, L.P., as agent for and representative of the Funds

11. Transfer Agent Agreement, dated October 14, 1997, by and among the Company, the Funds and American Stock Transfer & Trust Company, as transfer agent.

SIGNATURES

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

Dated: October ___, 1997

TAKE-TWO INTERACTIVE SOFTWARE, INC.

By /s/ Ryan A. Brant

Name: Ryan A. Brant
Title: Chairman

SECURITIES PURCHASE AGREEMENT

dated as of

October 14, 1997

by and among

TAKE-TWO INTERACTIVE SOFTWARE, INC.,
as the Company,

and

INFINITY INVESTORS LIMITED

and

INFINITY EMERGING OPPORTUNITIES LIMITED

and

GLACIER CAPITAL LIMITED

as the Purchasers

SECURITIES PURCHASE AGREEMENT

AGREEMENT, dated as of October 14, 1997 among Take-Two Interactive Software Inc., a Delaware corporation (the "Company"), and INFINITY INVESTORS LIMITED, a Nevis, West Indies corporation, INFINITY EMERGING OPPORTUNITIES LIMITED, a Nevis, West Indies corporation, and GLACIER CAPITAL LIMITED, a Nevis, West Indies corporation (collectively, the "Purchasers").

The parties hereto agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1. Definitions. The following terms, as used herein, have the following meanings:

"Acceptable Letters of Credit" means letters of credit under which the Company is the sole beneficiary (i) issued by U.S. commercial banks rated P-1 or better by Standard & Poors Ratings Service, (ii) issued to provide for the payment of the purchase price of Products sold by the Company, and (iii) which have been assigned to the Purchasers, with acknowledgment of such assignment by the issuers of such letters of credit, in form and substance satisfactory to the Purchasers in their sole discretion.

"Additional Collateral" has the meaning set forth in Section 3.9(b).

"Additional Grant Shares" shall mean a number of shares of Common Stock equal to the product of 50,000 multiplied by the Closing Market Price, with such amount divided by the average of the Closing Bid Prices of the Common Stock for each Trading Day during the Test Period, and subtracting from such result the number of Grant Shares issued at the Closing. The number of Additional Grant Shares issued to the Purchasers shall, however, be subject to the Payment Option for Additional Grant Shares.

"Affiliate" means, with respect to any Person (the "Subject Person"), (i) any other Person (a "Controlling Person") that directly, or indirectly through one or more intermediaries, Controls the Subject Person or (ii) any other Person (other than the Subject Person or a Consolidated Subsidiary of the Subject Person) which is Controlled by or is under common Control with a Controlling Person (other than, in the case of a Subject Person that is a Consolidated Subsidiary, any other Consolidated Subsidiary of the same Controlling Person).

"Agreement" means this Securities Purchase Agreement, as amended, supplemented or otherwise modified from time to time in accordance with its terms.

"Asset Sale" has the meaning set forth in Section 8.20.

"Balance Sheet" has the meaning set forth in Section 5.5

"Balance Sheet Date" has the meaning set forth in Section 5.5.

"Barclays Bank Debt" means that certain Debt owed by Take-Two Interactive Software Europe Limited, a wholly-owned Subsidiary of the Company, payable to Barclays Bank in the United Kingdom, not to exceed 500,000 pounds aggregate principal amount at any time outstanding, which is secured by certain assets of Take-Two Interactive Software Europe Limited.

"Benefit Arrangement" means at any time an employee benefit plan within the meaning of Section 3(3) of ERISA which is not a Plan or a Multiemployer Plan and which is maintained or otherwise contributed to by the Company.

"Benefit Plans" has the meaning set forth in Section 5.7(b).

"Bridge Period" means the time period commencing on the Closing Date and ending February 28, 1998.

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

"Capital Expenditures" means any expenditure by the Company or any Subsidiary for an asset which will be used in a year or years subsequent to the year in which the expenditure is made and which asset is properly classifiable in relevant financial statements as property, equipment, improvements or fixed assets, or a similar type of capitalized asset in accordance with GAAP.

"Capital Reorganization" has the meaning set forth in Section 11.5.

"Cash Equivalents" means (i) securities issued or directly and fully guaranteed or insured as to principal and interest by the United States of America or any agency or instrumentality thereof (provided that the full faith and credit of the United States of America is pledged in support thereof), maturing within one year of the date of acquisition, (ii) time deposits and

certificates of deposit of any domestic commercial bank having combined capital, surplus and undivided profits of not less than $100,000,000 (including a domestic branch of a foreign bank) whose outstanding senior long-term debt securities are rated, or that is a wholly owned Subsidiary of a bank holding company whose outstanding senior long-term debt securities are

rated, either A- or higher by Standard & Poor's Ratings Service or A3 or higher by Moody's Investors Service, Inc., maturing within one year of the date of acquisition, (iii) repurchase obligations with a term of not more than 7 days for underlying securities of the types described in clause (i) above entered into with any bank meeting the qualifications specified in clause (ii) above, (iv) commercial paper rated at least A-1 or the equivalent thereof by Standard & Poor's Ratings Service or at least P-1 or the equivalent thereof by Moody's Investors Service, Inc., maturing within one year after the date of acquisition and (v) investments in money market funds substantially all of whose assets are comprised of securities of the types described in clauses (i) through (iv) above.

"Change of Control" means (i) after the date of this Agreement any person or group of persons (within the meaning of Sections 13 and 14 of the Exchange Act and the rules and regulations of the Commission relating to such Sections) shall have acquired beneficial ownership (within the meaning of Rules 13d-3 and 13d-5 promulgated by the Commission pursuant to the Exchange Act) of 50.1% or more of the outstanding shares of Common Stock of the Company, or (ii) individuals constituting the board of directors of the Company on the date hereof (together with any new directors whose election by such board of directors or whose nomination for election by the stockholders of the Company was approved by a vote of at least 50.1% of the directors then still in office who were either directors as of the date hereof or whose election or nomination for election was previously so approved) ceases for any reason to constitute a majority of the board of directors of the Company then in office.

"Citibank Debt" means that certain Debt payable to Citibank, N.A., not to exceed $250,000 aggregate principal amount at any time outstanding, which may be secured by certain assets of the Company.

"Closing" or "Closing Date" means the date on which all of the conditions set forth in Sections 7.1 and 7.2 shall have been satisfied and the Grant Shares, the Convertible Notes and the Warrants have been issued by the Company and the Purchase Price therefore has been paid by the Purchasers.

"Closing Bid Price" shall mean the closing bid price of the Company's Common Stock as reported by Bloomberg L.P. on the Nasdaq Market or, if not reported by Bloomberg, L.P. on the Nasdaq Market, as reported by such other exchange or market where the Common Stock is then traded.

"Closing Market Price" means the Market Price of the Common Stock as of the date immediately prior to the Closing.

"Code" means the Internal Revenue Code of 1986, as amended.

"Collateral" has the meaning set forth in Section 3.9(a).

"Commission" means the Securities and Exchange Commission or any entity succeeding to all of its material functions.

"Common Stock" means the common stock, $.01 par value per share, of the Company.

"Company" means Take-Two Interactive Software, Inc., a corporation incorporated under the laws of Delaware, and its successors.

"Company Corporate Documents" means the certificate of incorporation and by-laws of the Company.

"Consolidated Net Worth" means at any date the total shareholder's equity which would appear on a consolidated balance sheet of the Company prepared as of such date.

"Consolidated Subsidiary" means at any date with respect to any Person any Subsidiary or other entity, the accounts of which would be consolidated with those of such Person in its consolidated financial statements if such statements were prepared as of such date.

"Control" (including, with correlative meanings, the terms "Controlling," "Controlled by" and under "common Control with"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that Person, whether through the ownership of voting securities, by contract or otherwise .

"Conversion Date" shall mean the date of delivery (including delivery via telecopy) of a Notice of Conversion for all or a portion of a Convertible Note by the holder thereof to the Company and the Transfer Agent.

"Conversion Limit" has the meaning set forth in Section 10.5(c).

"Conversion Price" shall mean the formula F/P where F = the outstanding principal amount of the Convertible Note being converted, and P = 75% multiplied by the lowest daily weighted average sales price of the Common Stock as reported by Bloomberg, L.P. (the "DWASP") during the Lookback Period; provided, however, commencing after the first anniversary of this Agreement the Conversion Price shall be the lesser of the foregoing amount and the product of 75% multiplied by the DWASP during the then applicable Lookback Period (the "Maximum Conversion Price").

"Conversion Shares" means the shares of Common Stock issuable upon conversion of the Convertible Notes.

"Convertible Note(s)" means the Company's 10% secured convertible promissory notes issuable at the Closing pursuant to the terms of this Agreement, substantially in the form set forth as Exhibit A hereto.

"Crestar Debt" means that certain Debt owed by Inventory Management Systems, Inc., a wholly-owned Subsidiary of the Company, payable to Crestar Bank, Richmond, Virginia, not to exceed $250,000 aggregate principal amount at any time outstanding, which is secured by certain assets of Inventory Management

Systems, Inc.

"Deadline" has the meaning set forth in Section 10.3.

"Debt" of any Person means at any date, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes, or other similar instruments issued by such Person, (iii) all obligations of such Person as lessee which (y) are capitalized in accordance with GAAP or (z) arise pursuant to sale-leaseback transactions, (iv) all reimbursement obligations of such Person in respect of letters of credit or other similar instruments, (v) all Debt of others secured by a Lien on any asset of such Person, whether or not such Debt is otherwise an obligation of such Person and (vi) all Debt of others Guaranteed by such Person.

"Default" means any event or condition which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

"Default Fee" has the meaning set forth in the Registration Rights Agreement.

"Derivative Securities" has the meaning set forth in Section 10.2.

"Discounted Equity Offerings" has the meaning set forth in Section 10.2.

"Directors" means the individuals then serving on the board of directors or similar such management council of the Company.

"DWASP" has the meaning set forth in the definition of Conversion Price.

"Environmental Laws" means any and all federal, state, local and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or other governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or hazardous substances or wastes into the environment, including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport

or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or hazardous substances or wastes or the cleanup or other remediation thereof.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

"ERISA Group" means the Company and each Subsidiary and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Company or any Subsidiary, are treated as a single employer under the Code.

"Event of Default" has the meaning set forth in Article XII hereof.

"Excess Shares" has the meaning set forth in Section 4.1.

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

"Financing" means a public or private financing consummated (meaning closing and funding) through the issuance of equity securities and/or debt securities (or securities convertible into or exchangeable for debt securities) of the Company.

"Financing Documents" means this Agreement, the Warrants, the Transfer Agent Agreement, the Registration Rights Agreement, the Security Agreement, the Subsidiary Security Agreement and the Convertible Notes.

"Fixed Price(s)" has the meaning set forth in Section 11.1.

"Formula Price" shall mean a dollar amount equal to the product of (x) the number of shares of Common Stock into which the Convertible Notes are then convertible at the then applicable Conversion Price and (y) the last reported sales price of the Common Stock as reported by Bloomberg, L.P. on the applicable date the Convertible Notes are redeemed as set forth in Section 3.6 hereof, plus accrued and unpaid interest through the date of repayment.

"GAAP" has the meaning set forth in Section 1.2.

"Grant Shares" means the 50,000 shares of Common Stock to be issued to the Purchasers on the Closing Date.

"Guarantee" or "Guaranties" by any Person means any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing (whether by virtue of partnership arrangements, by agreement to keep well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain a minimum net worth, financial ratio or similar requirements, or otherwise) any Debt of any other Person and, without limiting the generality of the foregoing,

any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or (ii) entered into for the purpose of assuring in any other manner the holder of such Debt of the payment thereof or to protect such holder against loss in respect thereof (in whole or in part); provided that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business. The term Guarantee used as a verb has a corresponding meaning.

"Hazardous Materials" means any hazardous materials, hazardous wastes, hazardous constituents, hazardous or toxic substances or petroleum products (including crude oil or any derivative or fraction thereof), defined or regulated as such in or under any Environmental Laws.

"Intellectual Property" has the meaning set forth in Section 5.19.

"Investment" means any investment in any Person, whether by means of share purchase, partnership interest, capital contribution, loan, time deposit or otherwise.

"Lien" means, any lien, mechanic's lien, materialmen's lien, lease, easement, charge, encumbrance, mortgage, conditional sale agreement, title retention agreement, agreement to sell or convey, option, claim, title imperfection, encroachment or other survey defect, pledge, restriction, security interest or other adverse claim, whether arising by contract or under law or otherwise (including, without limitation, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the Uniform Commercial Code or comparable law

of any jurisdiction in respect of any of the foregoing).

"Limitation on Conversion" has the meaning set forth in Section 10.5(a).

"Lockbox Event" has the meaning set forth in Section 3.9(b).

"Lookback Period" shall mean with respect to each Convertible Note, the period commencing on the date the Convertible Notes are initially convertible pursuant to their stated terms, a period of fifteen (15) Trading Days prior to the Conversion Date, increasing by two (2) Trading Days each thirty (30) Trading Days thereafter, up to a maximum of thirty-one (31) Trading Days prior to the Conversion Date.

"Majority Holders" means (i) as of the Closing Date, the Purchasers and (ii) at any time thereafter, the holders of more than 50% in aggregate principal amount of the Convertible Notes outstanding at such time.

"Market Price" shall mean the Closing Bid Price of the Common Stock preceding the date of determination.

"Material Plan" means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of $250,000.

"Maturity Date" shall mean September 30, 1999.

"Maximum Conversion Price" has the meaning set forth in the definition of Conversion Price.

"Maximum Number of Shares" has the meaning set forth in Section 10.5(d).

"Multiemployer Plan" means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions, including for these purposes any Person which ceased to be a member of the ERISA Group during such five year period.

"Nasdaq Market" means the Stock Market's SmallCap Division.

"Nasdaq Redemption Event" has the meaning set forth in Section 3.5(a).

"National Bank of Canada Debt" means that certain Debt payable to National Bank of Canada, New York Branch,, not to exceed $800,000 aggregate principal amount at any time outstanding, which may be secured by certain assets of the Company.

"Net Cash Proceeds" means, with respect to any transaction, the total amount of cash proceeds received by the Company or any Subsidiary less (i) reasonable underwriters' fees, brokerage commissions, reasonable professional fees and other customary out-of-pocket expenses payable in connection with such transaction, and (ii) in the case of dispositions of assets, (A) actual transfer taxes (but not income taxes) payable with respect to such dispositions, and (B) the amount of Debt, if any, secured by a Lien on the asset or assets disposed of and required to be, and actually repaid by the Company or any Subsidiary in connection therewith, and any trade payables specifically relating to such asset or assets sold by the Company or any Subsidiary that are not assumed by the purchaser of such asset or assets.

"Note Maturity Date" has the meaning set forth in Section 4.1.

"Notice of Conversion" means the form to be delivered by a holder of a Convertible Note upon conversion of all or a portion thereof to the Transfer Agent and the Company substantially in the form of Exhibit B attached hereto.

"Notice of Exercise" means the form to be delivered by a holder of a Warrant upon exercise of all or a portion thereof to the Company substantially in the form of Exhibit C attached hereto.

"Officer's Certificate" shall mean a certificate executed by the President, chief executive officer or chief financial officer of the Company in the form of Exhibit G attached hereto.

"Other Taxes" has the meaning set forth in Section 3.8(b).

"Par Value Redemption Price" has the meaning set forth in Section 3.4.

"Payment Option for Additional Grant Shares" shall have the meaning set forth in Section 4.1.

"PBGC" means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

"Permits" means all domestic and foreign licenses, permits and approvals required for the full operation of the Company and the Subsidiaries, including state, federal, city and county permits and approvals.

"Permitted Debt" has the meaning set forth in Section 8.8.

"Permitted Transferee" means any Person that acquires the Grant Shares, Additional Grant Shares, Convertible Notes or Warrants, or the Conversion Shares or Warrant Shares, in compliance with Article X other than any Person who acquires such Grant Shares, Additional Grant Shares, Convertible Notes, Warrants, Conversion Shares or Warrant Shares (i) in a public offering or (ii) in the open market, pursuant to sales under Rule 144 of the Securities Act or otherwise.

"Person" means an individual, corporation, partnership, trust, incorporated or unincorporated association, joint venture, joint stock company, government (or any agency or political subdivision thereof) or other entity of any kind.

"Plan" means at any time an employee pension benefit plan (other than a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under the Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

"Products" means the Nintendo versions of Wheel of Fortune (R) and Jeopardy (R) distributed or sold by the Company.

"Purchase Price" means the purchase price for the Convertible Notes as set forth in Section 2.1(d) hereof.

"Purchasers" means, collectively, those entities listed in the introduction to this Agreement and their successors and assigns, including holders from time to time of the Convertible Notes.

"Qualified Financing" shall mean any issuance of debt or equity securities of the Company that is not prohibited pursuant to the terms of this Agreement.

"Registrable Securities" has the meaning set forth in Section 10.1.

"Registration Default" has the meaning set forth in Section 10.1(e).

"Registration Maintenance Period" has the meaning set forth in the Registration Rights Agreement.

"Registration Statement" has the meaning set forth in Section 10.1(b).

"Registration Rights Agreement" means the agreement between the Company and the Purchasers dated the date hereof substantially in the form set forth in Exhibit D attached hereto.

"Reimbursement Fee" has the meaning set forth in Section 13.4.

"Required Effectiveness Date" has the meaning set forth in the Registration Rights Agreement.

"Restricted Payment" means, with respect to any Person, (i) any dividend or other distribution on any shares of capital stock of such Person (except dividends payable solely in shares of capital stock of the same or junior class of such Person and dividends from a wholly-owned direct or indirect Subsidiary of the Company to its parent corporation), (ii) any payment on account of the purchase, redemption, retirement or acquisition of (a) any shares of such Person's capital stock or (b) any option, warrant or other right to acquire shares of such Person's capital stock or (iii) any loan, or advance or capital contribution to any Person (a "Stockholder") owning any capital stock of such Person other than relocation, travel or like advances to officers and employees in the ordinary course of business.

"Revaluation Date" shall mean the date on which the Registration Statement is declared effective by the Commission.

"Revolving Credit Debt" means any borrowing by the Company under a revolving credit working capital facility, provided the full amount of Debt owed thereunder is required to be, and is, reduced to zero for at least thirty (30) consecutive days during each calendar year.

"Rights Offering" has the meaning set forth in Section 11.3.

"SEC Reports" shall have the meaning set forth in Section 5.5.

"Securities" means the Grant Shares, Additional Grant Shares, Convertible Notes, Warrants and, as applicable, the Conversion Shares and the Warrant Shares.

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

"Security Agreement" means the agreement between the Company and the Purchasers dated the date hereof substantially in the form set forth in Exhibit K attached hereto.

"Share Note" has the meaning set forth in Section 4.1.

"Share Reorganization" has the meaning set forth Section 11.2.

"Solvency Certificate" shall mean a certificate executed by the chief financial officer of the Company as to the solvency of the Company, the adequacy of its capital and its ability to pay its debts which such Solvency Certificate shall be in the form of Exhibit F attached hereto.

"Special Distribution" has the meaning set forth in Section 11.4.

"Subsidiary" means, with respect to any Person, any corporation or other entity of which a majority of the capital stock or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by such Person. Unless specified to the contrary, "Subsidiary" means a Subsidiary of the Company.

"Subsidiary Corporate Documents" means the certificates of incorporation and by-laws of each Subsidiary.

"Subsidiary Security Agreement" means the agreement between the Company's wholly-owned Subsidiary, Inventory Management Systems, Inc., and the Purchasers dated as of the date hereof substantially in the form set forth in Exhibit L attached hereto.

"Taxes" has the meaning set forth in Section 3.8.

"Test Period" means the period ending thirty (30) days after the Revaluation Date.

"Trading Day" shall mean any Business Day in which the Nasdaq Market or other automated quotation system or exchange on which the Common Stock is then traded is open for trading for at least four (4) hours.

"Transfer" means any disposition of Securities that would constitute a sale thereof under the Securities Act.

"Transfer Agent" means the Company's stock transfer agent; specifically, American Stock Transfer & Trust Company.

"Transfer Agent Agreement" means the agreement dated the date hereof among the Company, the Transfer Agent and the Purchasers, dated the date hereof substantially in the form set forth in Exhibit H attached hereto.

"Unfunded Liabilities" means, with respect to any Plan at any time, the amount (if any) by which (i) the present value of all benefits under such Plan exceeds (ii) the fair market value of all Plan assets allocable to such benefits (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

"Warrants" means the Common Stock Purchase Warrants issued to the Purchasers on the Closing Date in the form of Exhibit I hereto to purchase 250,000 shares of Common Stock (subject to adjustment as set forth therein).

"Warrant Shares" means the shares of Common Stock issuable upon exercise of the Warrants.

"Whale" means Whale Securities Co., L.P.

"Whale Warrants" has the meaning set forth in Section 2.2(e).

SECTION 1.2. Accounting Terms and Determinations. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared, in accordance with generally accepted accounting principles as in effect from time to time, applied on a consistent basis (except for changes concurred in by the Company's independent public accountants) ("GAAP"); provided that if the Company notifies each of the Purchasers that it wishes to amend any covenant in Article VIII to eliminate the effect of any change in GAAP on the operation of such covenant (or if any of the Purchasers notify the Company that the Majority Holders wish to amend Article VIII for such purpose), then the Company's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Company and the Majority Holders. All references to "dollars," "Dollars" or "$" are to United States dollars unless otherwise indicated.

ARTICLE II

PURCHASE AND SALE OF SECURITIES

SECTION 2.1. Commitment to Purchase.

(a) Subject to the terms and conditions set forth herein and in reliance on the representations and warranties of the Purchasers contained herein, the Company agrees to issue and sell and, subject to the terms and conditions set forth herein and in reliance on the representations and warranties of the Company contained herein, the Purchasers agree to purchase, on the Closing Date an aggregate principal amount of $4,200,000 of Convertible Notes.

(b) In connection with the Purchasers' agreement to purchase the Convertible Notes specified in this Article II, the Company shall issue and

deliver to the Purchasers on the Closing Date (x) the Warrants and (y) the Grant Shares.

(c) The portion of the Convertible Notes, Warrants and Grant Shares to be acquired by each Purchaser on the Closing Date is set forth on Schedule 2.1 attached hereto.

(d) The aggregate consideration payable by the Purchasers to the Company for the Convertible Notes shall be $4,032,000 (representing 96% of the original principal amount of the Convertible Notes issued on the Closing Date) (the "Purchase Price").

SECTION 2.2. Purchase of Securities.

(a) On the Closing Date, subject to the satisfaction of all terms and conditions set forth herein, each of the Purchasers shall deliver by wire transfer to the Transfer Agent immediately available funds the portion of the Purchase Price of the Convertible Notes to be purchased by it on such Closing Date, less the Reimbursement Fee.

(b) On the Closing Date, against payment as set forth in subsection 2.2 (a) above, the Company shall deliver to the Transfer Agent (i) a single Convertible Note for each Purchaser representing the principal amount of such Convertible Notes issued to such Purchaser, (ii) a single Warrant for each Purchaser representing the aggregate Warrants issued to such Purchaser, and (iii) a single shares certificate representing the aggregate Grant Shares issues to such Purchaser.

(c) As contemplated by the Transfer Agent Agreement, immediately upon receipt of the items specified in subsections 2.2 (a) and (b) above, the Transfer Agent shall (i) disburse the Purchase Price in accordance with Section 1 of the Transfer Agent Agreement, (ii) deliver the

Warrants and Grant Shares to the Purchasers and (iii) retain the Convertible Notes for the benefit of the Purchasers, as described therein.

(d) As further contemplated by Section 1(d) of the Transfer Agent Agreement, in lieu of effecting the closing of the purchase and sale of the Convertible Notes through the Transfer Agent, the Company and the Purchasers may directly consummate the deliveries described above.

(e) The Company shall (x) pay Whale a cash fee of 4% of the principal amount of Convertible Notes issued at the Closing and (y) issue (i) warrants to acquire 20,000 shares of Common Stock (the "Whale Warrants") and (ii) 5,000 shares of Common Stock. The Whale Warrants and shares of Common Stock issued to Whale will not be entitled to any of the pricing reset features described in this Agreement attributable to the Grant Shares and Warrants issued to the Purchasers.

ARTICLE III

PAYMENT TERMS OF CONVERTIBLE NOTES

SECTION 3.1. Payment of Principal and Interest; Payment Mechanics. The Company will pay all sums becoming due on each Convertible Note by the method

and at the address specified for such purpose set forth in the Transfer Agent Agreement.

SECTION 3.2. Conversion at Maturity. On the Maturity Date, the unpaid principal balance of each Convertible Note shall automatically be converted into shares of Common Stock on such date at the then applicable Conversion Price and the Maturity Date shall be deemed the Conversion Date with respect to such conversion without the requirement of delivery of a Notice of Conversion; provided, however, if on such date an Event of Default exists, such conversion shall not occur and the remaining balance of each Convertible Note shall be paid in cash at the Formula Price unless the holder thereof delivers to the Company a Notice of Conversion.

SECTION 3.3. Payment of Interest. Interest shall accrue on the outstanding principal amount of the Convertible Notes from day to day at the rate of 10% per annum to be calculated on the basis of a 360-day year. Interest shall be payable quarterly in cash as specified in each Convertible Note.

SECTION 3.4. Voluntary Prepayments. During the Bridge Period, the Company may, at its option, repay, in whole or in part, the Convertible Notes at a price equal to 100% of the aggregate principal amount then outstanding, together with all accrued and unpaid interest thereon (the "Par Value Redemption Price"). Thereafter, the Company may, at its option, following thirty (30) days prior written notice to the Purchasers (the expiration of such 30 day period being referred to as the "prepayment date"; provided, however, that if such date is not a

Business Day, the prepayment date shall be the next Business Day thereafter) prepay all of any portion of the Convertible Notes remaining unconverted on the prepayment date at the Formula Price. Partial prepayments shall be in an aggregate principal amount of $100,000 or a multiple thereof.

SECTION 3.5. Mandatory Repayment.

(a) Upon (i) the occurrence of a Change of Control of the Company, (ii) a transfer of all or substantially all of the assets of the Company to any Person in a single transaction or series of related transactions, (iii) a consolidation, merger or amalgamation of the Company with or into another Person (other than a merger (x) which does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of Common Stock or (y) which is effected solely to change the jurisdiction of incorporation of the Company and results in a reclassification, conversion or exchange of outstanding shares of Common Stock solely into shares of Common Stock), (iv) the issuance of the Maximum Number of Shares and the failure within sixty (60) days of such issuance to obtain shareholder approval to issue additional shares of Common Stock as described in Section 10.5(c) (the "Nasdaq Redemption Event") or (v) the occurrence of a Registration Default and the delivery to the Company by the holders of the Convertible Notes of a notice demanding that the Company redeem such Convertible Notes, then, in each case, the Company shall redeem all of the Convertible Notes for cash. If such redemption occurs prior to the expiration of the Bridge Period, the redemption price shall be Par Value Redemption Price. If such redemption occurs after the expiration of the Bridge Period, the redemption price shall be the Formula Price.

(b) Upon the consummation of any Discounted Equity Offering or other Financing that is not a Qualified Financing, the Company shall use the Net Cash

Proceeds therefrom to redeem the Convertible Notes for cash. If such redemption occurs prior to the expiration of the Bridge Period, the redemption price shall be Par Value Redemption Price. If such redemption occurs after the expiration of the Bridge Period, the redemption price shall be the Formula Price.

(c) The Company shall be required to prepay the Convertible Notes in an amount equal to all payments and other collections (including, without limitation pursuant to draws under letters of credit constituting Collateral) received by the Company after December 31, 1997 with respect to the sale of Products immediately upon the receipt of such payments and collections. Amounts received by Purchasers after December 31, 1997 pursuant to draws under letters of credit constituting Collateral shall be applied to payment of the Convertible Notes. If such redemption occurs prior to the expiration of the Bridge Period, the redemption price shall be Par Value Redemption Price. If such redemption occurs after the expiration of the Bridge Period, the redemption price shall be the Formula Price.

SECTION 3.6. Prepayment Procedures.

(a) Any prepayment or redemption of the Convertible Notes pursuant to Sections 3.4 or 3.5 above shall be deemed to be effective and consummated (for purposes of determining the Formula Price, and the time at which the Purchasers shall thereafter not be entitled to deliver a Notice of Conversion for the Convertible Notes) as follows:

(I) A prepayment pursuant to Sections 3.4, the "prepayment date" specified therein;

(II) A redemption pursuant to Section 3.5(a), the date of consummation of the applicable Change of Control, merger, asset sale, or delivery of the notice specified following the Registration Default;

(III) A redemption pursuant to Section 3.5(a), the date of consummation of the applicable Discounted Equity Offering or other Financing; and

(IV) A redemption pursuant to Section 3.5(c), the date of the receipt by the Company of the proceeds of the sales of Products.

(b) Within one (1) Business Day after (x) the Maturity Date (if applicable) or (y) the effective date of a repayment or redemption of the Convertible Notes, the Company shall deposit the applicable repayment/redemption price with the Transfer Agent for immediate delivery to each Purchaser of the Convertible Notes subject to redemption as contemplated by the Transfer Agent Agreement. Notwithstanding those procedures set forth in the Transfer Agent Agreement, the Purchaser may authorize the Company to pay all amounts due under the Convertible Notes directly to the Purchasers, followed by notice of the amount so paid to the Transfer Agent. Should any Purchaser not receive payment of any amounts due on redemption of its Convertible Notes by reason of the Company's failure to make payment at the times prescribed above for any reason, the Company shall pay to the applicable holder on demand (x) interest on the sums not paid when due at an annual rate equal to the lesser of (I) the maximum lawful rate of interest that may be paid thereon and (II) the then applicable interest rate on the Convertible Notes being redeemed plus four percent (4%) compounded at the end of each thirty (30) days, until the applicable holder is paid in full, and (y) all costs of collection, including, but not limited to, reasonable attorneys' fees and costs, whether or not suit or other formal proceedings are instituted. All

payments shall first be applied to accrued and unpaid interest.

(c) The Company shall select the Convertible Notes to be redeemed in any redemption in which not all of the Convertible Notes are to be redeemed so that the ratio of the Convertible Notes of each holder selected for redemption to the total Convertible Notes owned by that holder shall be the same as the ratio of all such Convertible Notes selected for redemption bears to the total of all then outstanding Convertible Notes. Should any Convertible Notes be required to be redeemed under the terms hereof not be redeemed solely by reason of limitations

imposed by law, the applicable Convertible Notes shall be redeemed on the earliest possible dates thereafter that the applicable Convertible Notes may be redeemed to the maximum extent permitted by law.

(d) Any Notice of Conversion delivered by any Purchaser (including delivery via telecopy) to the Company and the Transfer Agent after the date the Convertible Notes become convertible by their terms and prior to the (x) Maturity Date (if applicable) or (y) effective date of a redemption specified in Section 3.6(a) above, shall be honored by the Company and the conversion of the Convertible Notes shall be deemed effected on the Conversion Date. In addition, between the effective date of a redemption specified in Section 3.6(a) above and the date the Company is required to deliver the redemption proceeds to the Purchasers, if the Convertible Notes are convertible by their terms, the Purchasers may deliver a Notice of Conversion to the Company. Such notice will be (x) of no force or effect if the Company timely pays the redemption proceeds to the Purchasers when due or (y) honored as of the date of the Notice of Conversion if the Company fails to timely pay the redemption proceeds to the Purchasers when due.

SECTION 3.7. Ranking. The Convertible Notes will rank as secured obligations of the Company, parri passu to all other indebtedness of the Company not expressly subordinated to these Convertible Notes.

SECTION 3.8. Payment of Additional Amounts.

(a) Any and all payments by the Company hereunder or under the Convertible Notes to any Purchaser and each "qualified assignee" thereof shall be made free and clear of and without deduction or withholding for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto (all such taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes") unless such Taxes are required by law or the administration thereof to be deducted or withheld. If the Company shall be required by law or the administration thereof to deduct or withhold any Taxes from or in respect of any sum payable under the Convertible Notes (i) the holders of Convertible Notes subject to such Taxes shall have the right, but not the obligation, for a period of thirty (30) days commencing upon the day it shall have received written notice from the Company that it is required to withhold Taxes to transfer all or any portion of the Convertible Notes to a qualified assignee to the extent such transfer can be effected in accordance with the other provisions of this Agreement and applicable law; (ii) the Company shall make such deductions or withholdings; and (iii) the Company shall forthwith pay the full amount deducted or withheld to the relevant taxation or other

authority in accordance with applicable law. A "qualified assignee" of a Purchaser is a Person that is organized under the laws of (I) the United States or (II) any jurisdiction other than the United States or any political subdivision thereof and that (y) represents and warrants to each of the Company that payments of the Company to such assignee under the laws in existence on the date of

this Agreement would not be subject to any Taxes and (z) from time to time, as and when requested by the Company, executes and delivers to the Company and the Internal Revenue Service forms, and provides the Company with any information necessary to establish such assignee's continued exemption from Taxes under applicable law.

(b) If Taxes are imposed upon the Company and the holders of Convertible Notes subject to such Taxes have not exercised their right to transfer the Convertible Notes to a qualified assignee as set forth in this Section 3.8 (either by notice to the Company to that effect or failure to exercise such right within the thirty (30) day period prescribed), the Company shall either:

(i) On the fifth (5th) Business Day after the failure to exercise such right (such day being referred to as the "redemption date") prepay all of the Convertible Notes remaining unconverted on the redemption date and held by a party subject to Taxes in cash for the Par Value Redemption Price; or

(ii):

(I) The sum payable by the Company to the Purchasers shall be increased as may be necessary by the Company so that after making all required deductions or withholdings (including deductions and withholdings applicable to additional amounts paid under this Section 3.8), such Purchaser receives an amount equal to the sum it would have received if such deduction or withholding had been made; and

(II) The Company shall indemnify each Purchaser or qualified assignee, for the full amount of Taxes or Other Taxes (including, without limitation, any taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 3.8) paid by each Purchaser, or qualified assignee, and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. Payment under this indemnification shall be made within thirty (30) days from the date such Purchaser or assignee makes written demand therefore. A certificate as to the amount of such Taxes or Other Taxes submitted to the Company by such Purchaser or assignee shall be inclusive evidence of the amount due from the Company to such party.

(c) If the Company pays any Taxes or Other Taxes, the Purchasers shall cooperate in good faith with the Company to receive any tax credit or refund in the amount of such Taxes or Other Taxes applicable to the Purchasers (each a "Tax Refund").

Upon the receipt by the Purchasers of any Tax Refund, the Purchasers shall promptly remit the same to the Company.

(d) The Company shall forthwith pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies (all such taxes, charges and levies hereinafter referred to as "Other Taxes") which arise from any payment made under any of the Financing Documents or from the execution, delivery or registration of, or otherwise with respect to, this Agreement other than Taxes payable solely as a result of the transfer from the Purchasers to a Person of any Security.

(e) The Company shall indemnify each Purchaser, or qualified assignee, for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 3.8) paid by each Purchaser, or qualified assignee, and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. Payment under this indemnification shall be made within 30 days from the date such Purchaser or assignee makes written demand therefor. A certificate as to the amount of such Taxes or Other Taxes submitted to the Company by such Purchaser or assignee shall be conclusive evidence of the amount due from the Company to such party.

(f) Within 30 days after the date of any payment of Taxes, the Company will furnish to each Purchaser the original or a certified copy of a receipt evidencing payment thereof.

(g) Each of the Purchasers shall provide to the Company a Form W-8, stating that it is a non-U.S. person, together with any additional tax forms which may be required under the Code, as amended after the date hereof, to allow interest payments to be made to it without deduction.

SECTION 3.9. Collateral; Collateral Maintenance.

(a) Payment of the Convertible Notes and all indebtedness, liabilities and obligations of the Company under this Agreement and the other Financing Documents shall be secured by a first priority security interest on, in and to the collateral security described in the Security Agreement and the Subsidiary Security Agreement (collectively, the "Collateral"). Purchasers shall be entitled to retain, as collateral security, for the payment of the Secured Obligations (as defined in the Security Agreement), any amounts drawn under letters of credit constituting Collateral to the extent that the Company has not complied with this Section 3.9 hereof and to apply such amounts to payment of the Convertible Notes.

(b) Not later than fourteen (14) days after the Closing Date (the "Additional Collateral Date"), the Company shall assign to the Purchasers (or their representative), and shall grant to the Purchasers a security interest in, Acceptable Letters of Credit such that at all times after the Additional Collateral Date the outstanding undrawn aggregate face amount of the Acceptable Letters of Credit which have been assigned to the Purchasers (and in which the Purchasers shall have been granted a first priority security interest) shall equal or exceed the unpaid principal balance of the Convertible Notes. In the event that the Company fails to assign such additional Acceptable Letters of Credit to the Purchasers (and grant to the Purchasers a first priority security interest in such Acceptable Letters of Credit) by the Additional Collateral Date, or if on any date after the Additional Collateral Date the unpaid principal balance of the Convertible Notes exceeds the outstanding undrawn aggregate face amount of the Acceptable Letters of Credit which have been assigned to the Purchasers and in which the Purchasers have a first priority security interest (in either event, a "Lockbox Event"), the Company shall, within two (2) Business Days after the occurrence of such Lockbox Event, establish a lockbox account with Citibank, N.A., pursuant to the form of agreement attached as Exhibit K hereto, as to which the Purchasers or their representative shall have the sole right of withdrawal and into which all payments and collections with respect to the Products and all accounts receivable and purchase orders of the Company and its Subsidiaries relating thereto, will be deposited, all of the terms and conditions of which shall be satisfactory to the Purchasers in their sole discretion. The Company shall deliver to the Purchasers, on the date of assignment, the original counterparts of all additional Acceptable Letters of Credit assigned to the Purchasers pursuant to this Section 3.9(b).

ARTICLE IV

ADDITIONAL GRANT SHARES

SECTION 4.1. Additional Grant Shares. Upon expiration of the Test Period, the Company shall issue the Additional Grant Shares to the Purchasers if, but only if, the Closing Bid Prices of the Common Stock for each Trading Day during the Test Period does not equal or exceed the Market Price of the Common Stock on the day prior to the Closing Date. All such Additional Grant Shares shall be delivered no later than July 7, 1998 to the Purchasers, without additional compensation paid by the Purchasers, pro rata according to the number of Grant Shares issued on the Closing Date. Notwithstanding the foregoing, if the number of Additional Grant Shares would exceed 50,000 shares (the number of shares in excess of 50,000 being referred to as "Excess Shares"), then the Company shall deliver 50,000 shares of Common Stock to the Purchasers and, at the Company's option, the Company will either (x) deliver the Excess Shares to the Purchasers, or (y) deliver a note in a principal amount equal to the product of the number of Excess Shares and the Closing Bid Price on the last day of the Test Period (the "Share Note") bearing interest at ten percent (10%) per annum payable in full in ninety (90) days (the "Note Maturity Date") (the "Payment Option for Additional Grant Shares"). On the Note Maturity Date the Company will either (x) pay the Share Note in full in cash to the Purchasers or (y) deliver to the Purchasers the greater of (i) the number of Excess Shares or (ii) a number of

shares equal to the Share Note amount divided by the Closing Bid Price on the Note Maturity Date.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to the Purchasers, and each of them, as of the Closing Date as set forth herein.

SECTION 5.1. Corporate Existence and Power. The Company and each Subsidiary is a corporation (or other legal entity) duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and is duly qualified to conduct business as a foreign corporation, and has all corporate power and all governmental licenses, authorizations, permits, consents and approvals required to carry on its business as now conducted and as proposed to be conducted, except where such failure would not have a material adverse effect on the Company or the ability of the Company to continue its current operations or to fulfill its obligations hereunder and under the Financing Documents.

SECTION 5.2. Authorization and Execution. The execution, delivery and performance by the Company of each Financing Document to which it is a party and the issuance by the Company of the Securities have been duly and validly authorized and are within its corporate powers. This Agreement and each Financing Document to which it is a party has been duly executed and delivered by the Company and constitutes the valid and binding agreement of the Company. Each of the Financing Documents constitutes the valid and binding obligation of the Company, enforceable against the Company or such Subsidiary Guarantor, as the case may be, in accordance with its respective terms, subject to (i) applicable bankruptcy, insolvency or similar laws affecting the enforceability of creditors rights generally and (ii) equitable principles of general applicability.

SECTION 5.3. Governmental Authorization; the Securities. The execution and delivery by the Company of the Financing Documents does not and will not, the issuance and sale by the Company of the Securities does not and will not, and the consummation of the transactions contemplated hereby and thereby will not, require any action by or in respect of, or filing with, any governmental body, agency or governmental official except (a) such actions or filings that have been undertaken or made prior to the date hereof and that will be in full force and effect (or as to which all applicable waiting periods have expired) on and as of the date hereof or which are not required to be filed on or prior to the Closing Date, (b) such actions or filings that, if not obtained, would not in the aggregate impose materially adverse conditions upon the Company and (c) listing applications to be filed with the Nasdaq Market relating to the Grant Shares, Additional Grant Shares (if applicable), Conversion Shares and Warrant Shares. Upon conversion in accordance with the terms of the Convertible Notes, or upon exercise in accordance with the terms of the Warrants (assuming the payment of the exercise price set forth

in the Warrants), the shares of Common Stock when issued upon conversion or exercise and in accordance with the terms thereof shall be duly and validly issued and outstanding, fully paid and nonassessable, free and clear of any claims or preemptive rights. Assuming the representations and warranties of the Purchasers herein are true and correct in all material respects, each of the Securities will have been issued in material compliance with all applicable U.S. federal and state securities laws.

SECTION 5.4. Contravention. The execution and delivery by the Company of the Financing Documents to which it is a party did not and will not, the

issuance and sale by the Company of the Securities did not and will not and the consummation of the transactions contemplated hereby and thereby will not (including without limitation, execution, delivery and performance of the Lockbox Agreement), contravene or constitute a default under or violation of (i) any provision of applicable law or regulation, (ii) the Company Corporate Documents, (iii) any agreement, judgment, injunction, order, decree or other instrument binding upon the Company or any Subsidiary or any of their respective assets, or result in the creation or imposition of any Lien on any asset of the Company. The Company and each Subsidiary is in compliance with and conforms to all statutes, laws, ordinances, rules, regulations, orders, restrictions and all other legal requirements of any domestic or foreign government or any instrumentality thereof having jurisdiction over the conduct of its businesses or the ownership of its properties, except where such failure would not have a material adverse effect on the business, condition (financial or otherwise), operations, performance, properties or prospects of such corporation.

SECTION 5.5. Financial Information and SEC Reports. The Company has timely filed all forms, reports and documents with the Commission since April 30, 1997 required to be filed by it under the Exchange Act through the date hereof (collectively, the "SEC Reports"). Such SEC Reports, at the time filed, complied in all material respects with the requirements of the Exchange Act. None of the SEC Reports, including without limitation any financial statements or schedules included therein, contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading at the time they were filed. There have been no material adverse changes in the Company's business, properties, results of operations, condition (financial or otherwise) since the date of the Company's most recent Report on Form 10-Q for the period ended July 31, 1997, which have not been disclosed in the SEC Reports or to the Purchasers in writing. The audited and unaudited consolidated balance sheets of the Company contained in the SEC Reports, the related consolidated statements of income, changes in stockholders' equity and changes in cash flows for the period ended July 31, 1997, including the footnotes thereto, except as indicated therein, have been prepared in accordance with GAAP consistently followed throughout the periods indicated, except that the unaudited financial statements may be subject to normal audit adjustments and normal annual adjustments. The SEC Reports and the most recent report on Form 10-Q present fairly, in all material respects, the financial condition of the Company at the date thereof and, except as indicated therein, present fairly, in all material respects, the results of the operations of the Company and the cash flows for the period indicated.

SECTION 5.6. Litigation. Except as disclosed in the SEC Reports, there is no action, suit or proceeding pending or, to the knowledge of the Company, threatened against the Company or any Subsidiary, before any court or arbitrator or any governmental body, agency or official in which there is a reasonable possibility of an adverse decision which could materially adversely affect the business, condition (financial or otherwise), operations, performance, properties or prospects of the Company or any Subsidiary or which challenges the validity of any Financing Document.

SECTION 5.7. Compliance with ERISA and other Benefit Plans.

(a) Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Code with respect to each Plan and is in compliance in all material respects with the presently applicable provisions

of ERISA and the Code with respect to each Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Code in respect of any Plan, (ii) failed to make any required contribution or payment to any Plan or Multiemployer Plan or in respect of any Benefit Arrangement, or made any amendment to any Plan or Benefit Arrangement, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Code or (iii) incurred any liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

(b) The benefit plans not covered under clause (a) above (including profit sharing, deferred compensation, stock option, employee stock purchase, bonus, retirement, health or insurance plans, collectively the "Benefit Plans") relating to the employees of the Company are duly registered where required by, and are in good standing, in all material respects, under, all applicable laws. All required employer and employee contributions and premiums under the Benefit Plans to the date hereof have been made, the respective fund or funds established under the Benefit Plans are funded in accordance with applicable laws, and no past service funding liabilities exist thereunder.

(c) No Benefit Plans have any unfunded liabilities, either on a "going concern" or "winding up" basis and determined in accordance with all applicable laws and actuarial practices and using actuarial assumptions and methods that are reasonable in the circumstances. No event has occurred and no condition exists with respect to any Benefit Plans that has resulted or could reasonably be expected to result in any pension plan having its registration revoked or wound up (in whole or in part) or refused for the purposes of any applicable laws or being placed under the administration of any relevant pension benefits regulatory authority or being required to pay any taxes or penalties (in any material amounts) under any applicable laws.

SECTION 5.8. Environmental Matters. The costs and liabilities associated with Environmental Laws (including the cost of compliance therewith) are unlikely to have a material adverse effect on the business, condition (financial or otherwise), operations, performance,

properties or prospects of the Company or any Subsidiary. Each of the Company and the Subsidiaries conducts its businesses in compliance in all material respects with all applicable Environmental Laws.

SECTION 5.9. Taxes. All United States federal, state, county, municipality local or foreign income tax returns and all other material tax returns (including foreign tax returns) which are required to be filed by or on behalf of the Company and each Subsidiary have been filed or will be filed within the time prescribed by law (including any extension of time approved by the appropriate taxing authority) and all material taxes due pursuant to such returns or pursuant to any assessment received by the Company have been paid except those being disputed in good faith and for which adequate reserves have been established. The charges, accruals and reserves on the books of the Company in respect of taxes or other governmental charges have been established in accordance with GAAP.

SECTION 5.10. Investments, Joint Ventures. The Company has no Subsidiaries or other direct or indirect Investment in any Person, and the Company is not a party to any partnership, management, shareholders' or joint venture or similar agreement other than as set forth on Schedule 5.10 hereto.

SECTION 5.11. Not an Investment Company. Neither the Company nor any Subsidiary is an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

SECTION 5.12. Full Disclosure. The written information heretofore furnished by the Company to the Purchasers for purposes of or in connection with this Agreement or any transaction contemplated hereby does not (taken together and on the date as of which such information is furnished), contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein, in the light of the circumstances under which they are made, not misleading.

SECTION 5.13. Capitalization. As of the date hereof, the authorized, issued and outstanding capital stock of the Company is as set forth on Schedule 5.13 hereto; and no other shares of capital stock of the Company will be outstanding. Other than as set forth on Schedule 5.13 hereto, there are no subscriptions, options, warrants, rights, convertible securities, exchangeable securities or other agreements or commitments of any character pursuant to which the Company is required to issue any shares of its capital stock. The Common Stock is registered under Section 12(g) of the Exchange Act.

SECTION 5.14. Solicitation. No form of general solicitation or general advertising was used by the Company or, to the best of its actual knowledge, any other Person acting on behalf of the Company in connection with the offer and sale of the Securities. Neither the Company, nor, to its knowledge, any Person acting on behalf of the Company, has, either directly or indirectly, sold or offered for sale to any Person (other than the Purchasers) any of the

Securities or, within the six months prior to the date hereof, any other similar security of the Company except as contemplated by this Agreement, and the Company represents that neither itself nor any Person authorized to act on its behalf (except that the Company makes no representation as to the Purchasers and their Affiliates) will sell or offer for sale any such security to, or solicit any offers to buy any such security from, or otherwise approach or negotiate in respect thereof with, any Person or Persons so as thereby to cause the issuance or sale of any of the Securities to be in violation of any of the provisions of Section 5 of the Securities Act. The issuance of the Securities to the Purchasers will not be integrated with any other issuance of the Company"s securities (past, current or future) which requires stockholder approval under the rules of the Nasdaq Market.

SECTION 5.15. Permits. (a) Each of the Company and its Subsidiaries has all material Permits as are necessary for the conduct of its business as it is currently carried on; (b) all such Permits are in full force and effect, and the Company has fulfilled and performed all material obligations with respect to such Permits; (c) to the best of the Company's knowledge, no event has occurred which allows, or after notice or lapse of time would allow, revocation or termination by the issuer thereof or which results in any other material impairment of the rights of the holder of any such Permit; and (d) the Company has no reason to believe that any governmental body or agency is considering limiting, suspending or revoking any such Permit.

SECTION 5.16. Leases. Except as disclosed on Schedule 5.16 hereto, neither the Company nor any Subsidiary is a party to any capital lease obligation with a value greater than $100,000 or to any operating lease with an aggregate annual rental greater than $100,000 during the life of such lease.

SECTION 5.17. Absence of Any Undisclosed Liabilities or Capital Calls. There are no liabilities of the Company or any Subsidiary of any kind whatsoever, whether accrued, contingent, absolute, determined, determinable or otherwise, and there is no existing condition, situation or set of circumstances which could reasonably be expected to result in such a liability, other than (i) those liabilities provided for in the financial statements delivered pursuant to Section 5.5 hereof, (ii) other undisclosed liabilities which, individually or in the aggregate, are not material to the Company, and (iii) obligations to perform under commitments incurred in the ordinary course of business of the Company after the Balance Sheet Date.

SECTION 5.18. Governmental Regulation. Neither the Company nor any Subsidiary is, or will be upon the issuance and sale of the Securities and the use of the proceeds described herein, subject to regulation under the Public Utility Holding Company Act of 1935, as amended, the Federal Power Act, the Interstate Commerce Act or to any federal or state statute or regulation limiting its ability to issue and perform its obligations under any Financing Document.

SECTION 5.19. Intellectual Property Rights. Each of the Company and its Subsidiaries owns, or is licensed under, and has the rights to use, all material patents, trademarks, trade names, copyrights, technology, know-how and processes (collectively, "Intellectual

Property") used in, or necessary for the conduct of its business as currently conducted; to the best of the Company's knowledge, no claims have been asserted by any Person to the use of any such Intellectual Property or challenging or questioning the validity or effectiveness of any license or agreement related thereto. To the best of the Company's knowledge, there is no valid basis for any such claim and the use of such Intellectual Property by the Company will not infringe upon the rights of any Person.

SECTION 5.20. Insurance. The Company and its Subsidiaries maintain, with financially sound and reputable insurance companies, insurance in at least such amounts and against such risks such that any uninsured loss would not have a material adverse effect on the business, condition (financial or otherwise), operations, performance, properties or prospects of the Company. All insurance coverages of the Company are in full force and effect and there are no past due premiums in respect of any such insurance.

SECTION 5.21. Title to Properties. The Company and its Subsidiaries have good and marketable title to all their respective properties reflected on the financial statements referred to in Section 5.5, and, except for the Liens (x) permitted by Section 8.11 or (y) listed on Schedule 5.21 hereto there is no Lien on any asset of the Company. Except for financing statements (or their equivalent) filed, recorded or registered with respect to Liens permitted by Section 8.11, there are no currently effective financing statements (or their equivalent) of record in any jurisdiction covering any tangible or intangible assets of the Company.

SECTION 5.22. Eligibility to use Form S-3. The Company will take all necessary action to meet, the "registrant eligibility" requirements set forth in the general instructions to Form S-3 promulgated by the Commission from and after April 15, 1998.

SECTION 5.23. Internal Accounting Controls. The Company maintains a system of internal accounting controls sufficient, in the judgment of the Company's

board of directors, to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

SECTION 5.24. Waiver of Registration Rights. The Company hereby represents that only those Persons listed on Schedule 5.24 attached hereto have the right, contractual or otherwise, to require the Company to include any securities (as defined in Section 2(1) of the Securities Act, including, without limitation, the Common Stock or any derivative securities thereof) of the Company in the Registration Statement.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF THE PURCHASERS

SECTION 6.1. Purchase for Investment; Authority; Binding Agreement. Each Purchaser as to itself only hereby represents and warrants to the Company that:

(a) the Purchaser is an "accredited investor" within the meaning of Rule 501(a) under the Securities Act and the Securities to be acquired by it pursuant to this Agreement are being acquired for its own account and not with a view toward, or for sale in connection with, any resale thereof except in compliance with applicable United States federal and state securities law; provided that the disposition of the Purchaser's property shall at all times be and remain within its control;

(b) the execution, delivery and performance of this Agreement and the purchase of the Securities pursuant hereto are within the Purchaser's corporate or partnership powers, as applicable, and have been duly and validly authorized by all requisite corporate or partnership action;

(c) this Agreement has been duly executed and delivered by the Purchaser;

(d) the execution and delivery by the Purchaser of the Financing Documents to which it is a party does not, and the consummation of the transactions contemplated hereby and thereby will not, contravene or constitute a default under or violation of (i) any provision of applicable law or regulation, or (ii) any agreement, judgment, injunction, order, decree or other instrument binding upon the Purchasers;

(e) Purchaser understands that the Securities have not been registered under the Securities Act and may not be transferred or sold except as specified in this Agreement;

(f) this Agreement constitutes a valid and binding agreement of the Purchaser enforceable in accordance with its terms, subject to (i) applicable bankruptcy, insolvency or similar laws affecting the enforceability of creditors rights generally and (ii) equitable principles of general applicability;

(g) the Purchaser has such knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of its investment in the Securities and the Purchaser is capable of bearing the

economic risks of such investment;

(h) the Purchaser is knowledgeable, sophisticated and experienced in business and financial matters; the Purchaser has previously invested in securities similar to the Securities and fully understands the limitations on transfer described herein; the Purchaser has been afforded access to information about the Company and the financial condition, results of operations,

property, management and prospects of the Company sufficient to enable it to evaluate its investment in the Securities; the Purchaser has been afforded the opportunity to ask such questions as it has deemed necessary of, and to receive answers from, representatives of the Company concerning the terms and conditions of the offering of the Securities and the merits and the risks of investing in the Securities; and the Purchaser has been afforded the opportunity to obtain such additional information which the Company possesses or can acquire that is necessary to verify the accuracy and completeness of the information given to the Purchaser concerning the Company. The foregoing does not in any way relieve the Company of its representations and other undertakings hereunder, and shall not limit the Purchasers' ability to rely thereon;

(i) Each of the Purchasers is a Nevis, West Indies corporation.

(j) no part of the source of funds used by the Purchaser to acquire the Securities constitutes assets allocated to any separate account maintained by the Purchaser in which any employee benefit plan (or its related trust) has any interest.

ARTICLE VII

CONDITIONS PRECEDENT TO PURCHASE OF SECURITIES

SECTION 7.1. Conditions Precedent to Purchase on the Closing Date. The obligation of the Purchasers to purchase Convertible Notes pursuant to the Agreement on the Closing Date is subject to the condition precedent that each of the following conditions shall have been satisfied to the reasonable satisfaction of the Purchasers as of such Closing Date:

(a) Receipt by each of the Purchasers of a Solvency Certificate executed by the chief financial officer of the Company;

(b) Receipt by each of the Purchasers of evidence satisfactory to it as to (i) the receipt by the Company of all governmental, board of directors, shareholders and third party consents and approvals necessary or desirable in connection with the issuance and sale of the Securities, and (ii) the expiration of all applicable waiting periods without any action having been taken by any competent authority that could restrain, prevent or impose any materially adverse conditions thereon or that could seek or threaten any of the foregoing;

(c) Receipt by each of the Purchasers of duly executed counterparts of this Agreement, the Registration Rights Agreement, the Security Agreement, the Subsidiary Security Agreement and the Transfer Agent Agreement signed by the Company and, with respect to the Transfer Agent Agreement, signed by the Transfer Agent;

(d) Each of the Purchasers shall have received an opinion, dated the Closing Date, of Tenzer Greenblatt LLP substantially in the form attached as Exhibit I hereto;

(e) All fees and expenses due and payable by the Company on or prior to the Closing Date shall have been paid or duly provided for in full as contemplated by the Transfer Agent Agreement;

(f) The Grant Shares, Convertible Notes and Warrants being acquired by the Purchasers on the Closing Date shall have been duly executed and delivered as provided in the Transfer Agent Agreement;

(g) The Purchasers shall have received an Officer's Certificate executed by the President, chief executive officer or chief financial officer of the Company;

(h) The Company Corporate Documents and the Subsidiary Corporate Documents shall be in full force and effect and no term or condition thereof shall have been amended, waived or otherwise modified in violation of this Agreement;

(i) The Purchasers or the Transfer Agent, as applicable, shall have confirmed receipt of the Grant Shares, Convertible Notes and the Warrants to be issued on the Closing Date, duly executed by the Company, in the denominations and registered in the names of the Purchasers specified in or pursuant to Schedule 2.1;

(j) Receipt by the Purchasers of the original letters of credit constituting the Collateral, with assignments thereof to the Purchasers in form satisfactory to the Purchasers, acknowledged by the issuers of such letters of credit;

(k) Receipt by the Purchasers of evidence reasonably satisfactory to them that their security interests in the Collateral are of first priority;

(l) Receipt by each of the Purchasers of duly executed counterparts of a lien subordination agreement, in a form satisfactory to the Purchaser, with respect to the Citibank Debt, the National Bank of Canada Debt and the Crestar Debt;

(m) Receipt by the Purchasers of Uniform Commercial Code financing statements duly executed by the Company with respect to any Collateral for filing in the State of New York pursuant to the Security Agreement; and

(n) The Purchasers shall have received all other opinions, resolutions, certificates, instruments, agreements or other documents as they shall reasonably request.

SECTION 7.2. Conditions to the Company's Obligations. The obligations of the Company to issue and sell to the Purchasers the Securities to be issued and sold pursuant to this Agreement are subject to the satisfaction, at or prior to Closing Date, of the following conditions:

(a) The representations and warranties of the Purchasers contained herein shall be true and correct in all material respects on the Closing Date and the Purchasers shall have performed and complied in all material respects with all agreements required by this Agreement to be performed or complied with by the Purchasers at or prior to Closing Date;

(b) The issue and sale of the Securities by the Company shall not be prohibited by any applicable law, court order or governmental regulation;

(c) On the Closing Date, receipt by the Company of duly executed counterparts of this Agreement, the Registration Rights Agreement, and the Transfer Agent Agreement signed by the Purchasers, and, with respect to the Transfer Agent Agreement, signed by the Transfer Agent; and

(d) The Company shall have received payment of the Purchase Price of the Convertible Notes to be purchased on such Closing Date in the manner contemplated by the Transfer Agent Agreement.

ARTICLE VIII

COVENANTS

The Company hereby agrees that, from and after the date hereof for so long as any Convertible Notes remain outstanding (except for Sections 8.1(a) and (d), 8.14 and 8.22 - 8.24, which shall apply for so long as any Convertible Notes or Warrants remain outstanding) and for the benefit of the Purchasers:

SECTION 8.1. Information. The Company will deliver to each holder of the Convertible Notes:

(a) promptly upon the filing thereof, copies of all registration statements (other than the exhibits thereto and any registration statements on Form S-8 or its equivalent) and reports on Forms 10-K, 10-Q and 8-K (or their equivalents) which the Company or any Subsidiary has filed with the Commission;

(b) simultaneously with the delivery of each item referred to in clause (a) above, a certificate from the Company stating that no Default or Event of Default has occurred and is continuing, or, if as of the date of such delivery a Default or Event of Default shall have occurred and be continuing, a certificate from the Company setting forth the details of such Default or Event of Default and the action which the Company is taking or proposes to take with respect thereto;

(c) within three (3) Business Days after any executive officer of the Company obtains knowledge of a Default or Event of Default, a certificate of the chief financial officer or the chief

accounting officer of the Company setting forth the details thereof and the action which the Company is taking or proposes to take with respect thereto;

(d) promptly upon the mailing thereof to the shareholders of the Company

generally, copies of all financial statements, reports and proxy statements so mailed and any other document generally distributed to shareholders;

(e) if and when any member of the ERISA Group (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives notice of complete or partial withdrawal liability under Title IV of ERISA or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Code, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA, a copy of such notice; or (vii) fails to make any required payment or contribution to any Plan or Multiemployer Plan or in respect of any Benefit Arrangement or makes any amendment to any Plan or Benefit Arrangement which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a certificate of the chief financial officer or the chief accounting officer of the Company setting forth details as to such occurrence and action, if any, which the Company or applicable member of the ERISA Group is required or proposes to take; and

(f) promptly following the commencement thereof, notice and a description in reasonable detail of any litigation or proceeding to which the Company or any Subsidiary is a party in which the amount involved is $500,000 or more and not covered by insurance or in which injunctive or similar relief is sought.

SECTION 8.2. Payment of Obligations. The Company and each Subsidiary will pay and discharge, at or before maturity, all their respective material obligations, including, without limitation, tax liabilities, except where the same may be contested in good faith by appropriate proceedings and will maintain, in accordance with GAAP, appropriate reserves for the accrual of any of the same.

SECTION 8.3. Maintenance of Property; Insurance. The Company and each Subsidiary will keep, all property useful and necessary in its business in good working order and condition, ordinary wear and tear excepted. In addition, the Company and each Subsidiary will

maintain insurance in at least such amounts and against such risks as it has insured against as of the Closing Date.

SECTION 8.4. Maintenance of Existence. The Company and each Subsidiary will continue to engage in business of the same general type as now conducted by the Company and such Subsidiaries, and will preserve, renew and keep in full force and effect its respective corporate existence and their respective material rights, privileges and franchises necessary or desirable in the normal conduct of business.

SECTION 8.5. Compliance with Laws. The Company and each Subsidiary will

comply, in all material respects, with all federal, state, municipal, local or foreign applicable laws, ordinances, rules, regulations, municipal by-laws, codes and requirements of governmental authorities (including, without limitation, Environmental Laws and ERISA and the rules and regulations thereunder) except (i) where compliance therewith is contested in good faith by appropriate proceedings or (ii) where non-compliance therewith could not reasonably be expected, in the aggregate, to have a material adverse effect on the business, condition (financial or otherwise), operations, performance, properties or prospects of the Company or such Subsidiary.

SECTION 8.6. Inspection of Property, Books and Records. The Company and each Subsidiary will keep proper books of record and account in which transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and to maintain asset accountability in relation to their respective businesses and activities; and will permit, during normal business hours, H.W. Partners, L.P., or an affiliate thereof, as representatives of the Purchasers, to visit and inspect any of their respective properties, upon reasonable prior notice, to examine and make abstracts from any of their respective books and records and to discuss their respective affairs, finances and accounts with their respective executive officers and independent public accountants, during usual business hours.

SECTION 8.7. Investment Company Act. The Company will not be or become an open-end investment trust, unit investment trust or face-amount certificate company that is or is required to be registered under Section 8 of the Investment Company Act of 1940, as amended.

SECTION 8.8. Limitation on Debt or Other Liabilities. Neither the Company nor any Subsidiary will create, incur, assume or suffer to exist (at any time after the Closing Date, after giving effect to the application of the proceeds of the issuance of the Securities) any Debt exceeding, in the aggregate for the Company and such Subsidiaries, $750,000, except for the following (such Debt being referred to as "Permitted Debt"):

(i) Debt incurred or assumed solely to pay all or any part of the purchase price or cost of construction, of any real or personal property (or any improvement thereon) acquired or constructed by the Company or a Subsidiary after the Closing Date provided: (a) any Lien with respect to such Debt shall extend solely to the item or items of such property (or

improvements thereon) so acquired or constructed and, if required by the terms of the instrument originally creating such Lien, other property (or improvement thereon) which is an improvement to or is acquired for specific use in connection with such acquired or constructed property (or improvement thereon) or which is real property being improved by such acquired or constructed property (or improvement thereon); (b) the principal amount of the Debt for such property shall at no time exceed an amount equal to the cost of the acquisition or the operation of the property (or improvement thereon) so acquired or constructed; and (c) any Lien with respect to such Debt shall be created within sixty (60) days of the acquisition or construction of such property;

(ii) Non-recourse Debt which, by its terms, bars the lender thereof from action against the Company or any Subsidiary, as borrower, if the security value falls below the amount required to repay such Debt;

(iii) Debt incurred in connection with equipment leases to which the Company or its Subsidiary is a party incurred in the ordinary course of

business;

(iv) Debt incurred in connection with trade accounts payable arising in the ordinary course of business;

(v) Revolving Credit Debt;

(vi) Debt incurred with respect to the Convertible Notes;

(vii) Debt incurred from time to time in connection with working capital credit facilities of the Company and its Subsidiaries as in effect as of the Closing Date of this Agreement (including the Citibank Debt, the National Bank of Canada Debt, the Crestar Debt and the Barclays Bank Debt);

(viii) Unsecured Debt subordinated to the convertible Notes on terms reasonably satisfactory to the Purchasers;

(ix) Guaranties of a Subsidiary by the Company or by the Company of any Subsidiary of Permitted Debt;

(x) Reimbursement obligations in respect of Letters of Credit and similar obligations established by the Company in favor of suppliers the Products and other inventory items in the ordinary course of business;

(xi) Debt of a Subsidiary owing to the Company or another Subsidiary;

(xii) Debt in an amount sufficient to prepay in full or redeem in full the Convertible Notes when required or permitted hereunder; and

(xiii) Debt of the Company and its Subsidiaries reflected on the Company's balance sheet as of July 31, 1997 and the notes thereto included in the Company's Quarterly Report on Form 10-QSB for the quarter ended July 31, 1997.

SECTION 8.9. Restricted Payments. Neither the Company nor any Subsidiary will declare or make Restricted Payments in excess of $100,000 during any twelve (12) month period.

SECTION 8.10. Investments. Neither the Company nor any Subsidiary will make or acquire any Investment in any Person, other than in the ordinary course of business which shall be limited to (a) Investments in Cash Equivalents and (b) Investments in Subsidiaries existing on the Closing Date and in Subsidiaries permitted by Section 8.21.

SECTION 8.11. Liens. Neither the Company nor any Subsidiary will create, assume or suffer to exist any Lien on any asset now owned or hereafter acquired by it, except:

(i) (A) inchoate mechanics, workmen's and carriers' liens, incident to current construction, (B) mechanics, warehousemen's, unpaid vendors and carriers' liens incident to such construction, (C) statutory and common law Liens of landlords under equipment leases to which the Company or any Subsidiary is a party and (D) Liens of carriers, warehousemen, mechanics and materialmen or other similar statutory Liens, security deposits under leases and with utilities and surety or appeal bonds;

(ii) Liens incurred on deposits made in the ordinary course of business in connection with workers' compensation, performance bonds,

unemployment insurance and other types of social security, other than any Lien imposed by or under ERISA;

(iii) Liens for taxes not yet due, the availability or amount of which is being contested in good faith by the Company or any Subsidiary;

(iv) Easements, rights of way, permits, licenses, zoning ordinances, covenants, restrictions, defects, minor irregularities of title and other similar Liens on property which in the case of any particular parcel of real property do not materially detract from the value or utilization of such real property;

(v) Liens created by or resulting from any litigation or legal proceeding which is currently being contested by such Company or Subsidiary in good faith and by appropriate proceedings;

(vi) Liens securing Permitted Debt;

(vii) Liens in favor of customs and all other similar governmental authorities for customs duties and similar charges in connection with importation of the Products and the inventory items by the Company; and

(viii) Security interests on personal property of the Company or its subsidiaries securing the Citibank Debt, the National Bank of Canada Debt, the Crestar Debt and the Barclays Bank Debt, and in the case of the Citibank Debt, The National Bank of Canada Debt and the Crestar Debt, subordinated to the security interest of the Purchasers in the Collateral on terms reasonably satisfactory to the Purchasers.

Notwithstanding any other provision hereof, the Company shall not permit any lien to exist with respect to the Collateral.

SECTION 8.12. Transactions with Affiliates. The Company and each Subsidiary will not, directly or indirectly, pay any funds to or for the account of, make any investment (whether by acquisition of stock or indebtedness, by loan, advance, transfer of property, guarantee or other agreement to pay, purchase or service, directly or indirectly, any Debt, or otherwise) in, lease, sell, transfer or otherwise dispose of any assets, tangible or intangible, to, or participate in, or effect any transaction in connection with any joint enterprise or other joint arrangement with, any Affiliate, except, (1) pursuant to those agreements specifically identified on Schedule 8.12 attached hereto (with a copy of such agreements annexed to such Schedule 8.12) and (2) on terms to the Company or such Subsidiary no less favorable than terms that could be obtained by the Company or such Subsidiary from a Person that is not an Affiliate of the Company upon negotiation at arms' length, as determined in good faith by the Board of Directors of the Company; provided that no determination of the Board of Directors shall be required with respect to any such transactions entered into in the ordinary course of business. In addition, transactions between the Company and its Consolidated Subsidiaries or among such Subsidiaries which do not violate any other provisions of this Agreement shall not be prohibited.

SECTION 8.13. Merger or Consolidation. The Company will not, in a single transaction or a series of related transactions, (i) consolidate with or merge with or into any other Person, or (ii) permit any other Person to consolidate with or merge into it, unless (w) either (A) the Company shall be the survivor of such merger or consolidation or (B) the surviving Person shall expressly

assume by supplemental agreement all of the obligations of the Company under the Securities and this Agreement; (x) immediately before and immediately after giving effect to such transaction (including any indebtedness incurred or anticipated to be incurred in connection with the transaction), no Default or Event of Default shall have occurred and be continuing and, following the transaction, the Company may incur $1.00 of Debt without violating Section 8.8 hereof; (y) if the Company is not the surviving entity, such surviving entity's common shares shall be listed on either The New York Stock Exchange, American Stock Exchange, or the Nasdaq Stock Market's National Market or the Nasdaq Small Cap Market and (z) the Company has delivered to the Purchasers an officers' certificate stating that such consolidation, merger or transfer complies with this Agreement, that the surviving Person agrees to be bound thereby and

that all conditions precedent in this Agreement relating to such transaction have been satisfied; provided, however, nothing contained in this Section 8.13 shall alter or diminish the Company's obligations under Section 3.5(a) of this Agreement.

SECTION 8.14. Maintenance of Reporting Status; Supplemental Information. So long as any of the Securities are outstanding, the Company shall timely file all reports required to be filed with the SEC pursuant to the Exchange Act. The Company shall not terminate its status as an issuer required to file reports under the Exchange Act, even if the Exchange Act or the rules and regulations thereunder would permit such termination. If at any time the Company is not subject to the requirements of Section 13 or 15(d) of the Exchange Act, the Company will promptly furnish at its expense, upon request, for the benefit of the holders from time to time of Securities, and prospective purchasers of Securities, information satisfying the information requirements of Rule 144 under the Securities Act.

SECTION 8.15. Use of Proceeds. The proceeds from the issuance and sale of the Securities by the Company shall initially be used solely to fund manufacturing costs for the Products, more commonly known as "Nintendo 64" video games. None of the proceeds from the issuance and sale of Securities by the Company pursuant to this Agreement will be used directly or indirectly for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any "margin stock" within the meaning of Regulation G of the Board of Governors of the Federal Reserve System.

SECTION 8.16. Limitation on Restrictions Affecting Subsidiaries. The Company will not enter into, or suffer to exist, any agreement (other than the Financing Documents) with any Person which prohibits or limits the ability of any Subsidiary to (a) pay dividends or make other distributions or pay any Debt owed to the Company or any Subsidiary, (b) make loans or advances to the Company or any Subsidiary or (c) transfer any of its properties or assets to the Company or any Subsidiary.

SECTION 8.17. Restrictions on Certain Amendments. Neither the Company nor any Subsidiary will waive any provision of, amend, or suffer to be amended, any provision of such entity's existing indebtedness, any material contract or agreement previously or hereafter filed by the Company with the Commission as part of its SEC Reports, any Company Corporate Document or Subsidiary Corporate Document if such amendment would materially adversely affect the Purchasers or the holders of the Securities without the prior written consent of the Majority Holders, which such consent shall not be unreasonably withheld.

SECTION 8.18. Compliance with Terms and Conditions of Contracts. The Company will comply, in all material respects, with all terms and conditions of all material contracts to which it is subject.

SECTION 8.19. Consolidated Net Worth. The Company will not permit its Consolidated Net Worth at the end of any of its fiscal quarters to be less than $5,000,000.

SECTION 8.20. Limitation on Asset Sales. Neither the Company nor any Subsidiary will consummate an Asset Sale unless (i) it receives consideration in cash at the time of such Asset Sale at least equal to the fair market value of the assets sold or otherwise disposed of (as determined in good faith by the Company's Board of Directors) and (ii) the Net Cash Proceeds of such sale are used to either (a) purchase similar assets in the same line of business of equivalent value within sixty (60) days of the date of the Asset Sale or (b) immediately redeem or prepay the Convertible Notes or (c) a combination of purchases and prepayment permitted by the foregoing clauses (a) and (b), except that the Company can engage in Asset Sales otherwise prohibited by this Section 8.21 not exceeding $500,000 over the life of the Convertible Notes and sales of obsolete, worn-out or no longer useful assets in the ordinary course of business. As used herein, "Asset Sale" means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) of shares of capital stock of a Subsidiary (other than directors' qualifying shares), property or other assets (each referred to for the purposes of this definition as a "disposition"), except sale of Products and other inventory or goods in the ordinary course of business including any disposition by means of a merger, consolidation or similar transaction (other than as permitted under Section 8.13).

SECTION 8.21. Limitation on Subsidiaries. Neither the Company nor any Subsidiary shall permit the creation of any Subsidiaries not in existence on the Closing Date unless approved, in writing, by the Majority Holders, which such consent shall not be unreasonably withheld.

SECTION 8.22. Reserved Shares and Listings.

(a) The Company will reserve from its authorized but unissued shares of Common Stock a sufficient number of shares of Common Stock to permit issuance of the Grant Shares, Additional Grant Shares, Conversion Shares and Warrant Shares.

(b) The Company will maintain the listing of its Common Stock on the Nasdaq Market and will comply in all respects with the Company's reporting, filing and other obligations under the bylaws or rules of the National Association of Securities Dealers and such exchanges, as applicable. The Company shall promptly provide to the Purchasers' representative, for delivery to the Purchasers, copies of any notices it receives from Nasdaq regarding the continued eligibility of the Common Stock for listing on the Nasdaq Market;

(c) The Company will not repurchase or otherwise enter into any other transaction (including stock split, recapitalization or other transaction) which would cause a decrease in the number of its shares of Common Stock issued and outstanding (other than transactions that similarly decrease the number of shares of Common Stock into which the Convertible Notes and Warrants are convertible or exercisable, as the case may be);

(d) The Company will (i) retain the Transfer Agent as the stock transfer agent for the Company's Common Stock, and (ii) if the Transfer Agent voluntarily or involuntarily fails to so serve, select an independent, unaffiliated replacement stock transfer agent willing to perform the duties of the Transfer Agent under the Transfer Agent Agreement; and

(e) On or prior to the date that the Commission declares effective the Registration Statement, the Company shall promptly secure the listing of the Grant Shares, Additional Grant Shares (if applicable), Conversion Shares and the Warrant Shares upon each national securities exchange or automated quotation system, if any, upon which shares of Common Stock are then listed (subject to official notice of issuance) and shall maintain, so long as any other shares of Common Stock shall be so listed, such listings of all Grant Shares, Additional Grant Shares (if applicable), Conversion Shares from time to time issuable upon conversion of the Convertible Notes or Warrant Shares issuable upon exercise of the Warrants.

SECTION 8.23. Issuance of Shares of Common Stock. Upon conversion of any Convertible Notes in accordance with their terms, and/or exercise of any Warrants in accordance with their terms, the Company will, and will use its best lawful efforts to cause the Transfer Agent to, issue one or more certificates representing Conversion Shares or Warrant Shares, as the case may be, in such name or names and in such denominations specified by a Purchaser in a Notice of Conversion or Notice of Exercise, as the case may be. As long as the Registration Statement contemplated by the Registration Rights Agreement shall remain effective and the following shares are registered thereunder, the Grant Shares, Additional Grants Shares, Conversion Shares and Warrant Shares shall be issued to any transferee of such shares from a Purchaser without restrictive legend, provided such shares have been disposed of in a manner in accordance with the plan of distribution set forth in the prospectus forming part of the Registration Statement and the Transfer Agent has received a confirmation in a form customarily utilized by the applicable registered broker/dealer substantially to the effect that the prospectus delivery requirements have been satisified. The Company further warrants and agrees that no instructions other than these instructions have been or will be given to the Transfer Agent. Nothing in this Section shall affect in any way a Purchaser's obligations to comply with all securities laws applicable to such Purchaser upon resale of such shares of Common Stock, including any prospectus delivery requirements.

SECTION 8.24. Form D; Blue Sky Laws. The Company agrees to file a Form D with respect to the Securities as required under Regulation D and to provide a copy thereof to the Purchasers' Representative promptly after such filing. The Company shall take such action as the Company shall reasonably determine is necessary to qualify the Securities for sale to the Purchasers at the Closing under applicable state securities or "blue sky" laws of the states of the United States (or to obtain an exemption from such qualifications), and shall provide evidence of any such action so taken to the Purchasers' Representative on or prior to the Closing Date.

SECTION 8.25. Further Assurances - Collateral. The Company agrees that at any time and from time to time it will promptly execute and deliver to the Purchasers all further instruments and documents and take all further action that may be reasonably necessary, or that the Purchasers may reasonably request, in order to establish, perfect and protect the security interests granted to the Purchasers under the Security Agreement and the Subsidiary Security Agreement or to enable the Purchasers to exercise and enforce their rights and remedies thereunder with respect to any Collateral. The Company acknowledges and agrees that all costs and expenses incurred in connection with perfecting and securing the security interests of the Purchasers in the additional acceptable letters of credit shall be borne by the Company and shall be payable to the Purchasers on demand. Such costs and expenses shall include, without limitation, all filing and recording fees and taxes, handling and courier fees, and the costs of search reports obtained in connection with such filings and records, wherever incurred.

ARTICLE IX

LIMITATION ON TRANSFERS

SECTION 9.1. Restrictions on Transfer. From and after their respective dates of issuance, none of the Securities shall be transferable except upon the conditions specified in this Article IX, which conditions are intended to ensure compliance with the provisions of the Securities Act in respect of the Transfer of any of such Securities or any interest therein. Each Purchaser will use its best efforts to cause any proposed transferee of any Securities held by it to agree to take and hold such Securities subject to the provisions and upon the conditions specified in this Article IX.

SECTION 9.2. Restrictive Legends.

(a) Each certificate for Securities issued to a Purchaser or to a subsequent transferee shall (except as contemplated by Section 8.23 and Section 10.3 hereof) include a legend in substantially the following form:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE COMPANY THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE COMPANY, (B) PURSUANT TO THE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, OR (C) IF REGISTERED UNDER THE SECURITIES ACT.

SECTION 9.3. Notice of Proposed Transfers. Prior to any proposed Transfer of the Securities other than a transfer (i) registered under the Securities Act, (ii) to an affiliate of a

Purchaser which is an "accredited investor" within the meaning of Rule 501(a) under the Securities Act, provided that any such transferee shall agree to be bound by the terms of this Agreement, or (iii) to be made in reliance on Rule 144 under the Securities Act, the holder thereof shall give written notice to

the Company of such holder's intention to effect such Transfer, setting forth the manner and circumstances of the proposed Transfer, which shall be accompanied by (A) an opinion of counsel reasonably satisfactory to the Company, confirming that such transfer does not give rise to a violation of the Securities Act, (B) representation letters in form and substance reasonably satisfactory to the Company and its counsel to ensure compliance with the provisions of the Securities Act and (C) letters in form and substance reasonably satisfactory to the Company and its counsel from each such transferee stating such transferee's agreement to be bound by the terms of this Agreement and the Registration Rights Agreement. Such proposed Transfer (other than as specified in clauses (i), (ii) or (iii) above) may be effected only if the Company shall have received such notice of transfer, opinion of counsel, representation letters and other letters referred to in the immediately preceding sentence, whereupon the holder of such Securities shall be entitled to Transfer such Securities in accordance with the terms of the notice delivered by the holder to the Company.

ARTICLE X

ADDITIONAL AGREEMENTS AMONG THE PARTIES

SECTION 10.1. Registration Rights.

(a) The Company shall grant the Purchasers registration rights covering the Grant Shares, Additional Grant Shares, Conversion Shares and Warrant Shares (the "Registrable Securities") on the terms set forth in the Registration Rights Agreement.

(b) The Company shall prepare and file, no later than April 14, 1998, a registration statement (the "Registration Statement") on Form S-3 (or such other form as is then available for registration) covering the sale of the Registrable Securities. The Company shall use its best efforts to cause the Registration Statement to be declared effective by the Commission no later than June 15, 1998. The Company shall pay all expenses of registration (other than underwriting fees and discounts, if any, in respect of Registrable Securities offered and sold under such Registration Statement by the Purchasers) in accordance with the terms of the Registration Rights Agreement.

(c) If the Registration Statement is (x) not declared effective by the Commission by the Required Effectiveness Date, or (y) such effectiveness is not maintained for the Registration Maintenance Period, the Company shall pay to each Purchaser monthly, as liquidated damages and not as a penalty, the greater of (x) its pro rata portion of an amount equal to 1.5% of the aggregate outstanding principal amount of the Convertible Notes, which monthly amount will be increased to 2% in the event that the Registration Statement is not declared effective by the Commission by July 15 or (y) $2,000 for each day the Registration Statement (i) is not declared effective by the

Commission by the Required Effectiveness Date or (ii) such period effectiveness is not maintained for the Registration Maintenance Period (the "Default Fee").

(d) Any such Default Fee shall be paid in cash by the Company to the Purchasers by wire transfer in immediately available funds on the last day of each calendar month following the event requiring its payment.

(e) The Company shall be obligated to maintain the effectiveness of the Registration Statement for a period of five (5) years following the Closing;

provided, that if the Warrants are no longer outstanding, such period shall be reduced to two (2) years. If, for any reason, (including but not limited to the issuance of all shares of Common Stock covered by the prospectus included in the Registration Statement), the Registration Statement (i) is not declared effective by June 15, 1998 or (ii) ceases to be effective for more than thirty (30) days during any consecutive twelve month period (a "Registration Default"), the holders of a majority of the Convertible Notes then outstanding may elect to cause the Company to repay the Convertible Notes in full at the Formula Price.

SECTION 10.2. Prohibition on Equity Offerings.

(a) Until such time as all of the Convertible Notes have been repaid or converted in full, the Company agrees that it will not issue (or, unless such issuance would, upon the closing thereof, result in the repayment in full of the Convertible Notes, agree to issue) any of its equity securities (or securities convertible into or exchangeable or exercisable for equity securities (the "Derivative Securities"), on terms that allow a holder thereof to acquire such equity securities (or Derivative Securities) at a discount to the Market Price of the Common Stock at the time of issuance or, in the case of Derivative Securities (other than Convertible Notes), at a conversion price based on any formula (other than standard anti-dilution provisions) based on the Market Price on a date later than the date of issuance (each such event, a "Discounted Equity Offering"). As used herein, "discount" shall include, but not be limited to, (1) any warrant, right or other security granted or offered in connection with such issuance which, on the applicable date of grant is offered with an exercise or conversion price, as the case may be, at less than the then current Market Price of the Common Stock or, if such security has an exercise or conversion price based on any formula (other than standard anti-dilution provisions) based on the Market Price on a date later than the date of issuance, then such price shall be at least equal to the Market Price on such date of exercise or conversion, as the case may be, or (2) any commissions, fees or other allowances paid in connection with such issuances (other than customary underwriter or placement agent commissions, fees or allowances). For the purposes of determining the Market Price at which Common Stock is acquired under this Section, normal underwriting commissions and placement fees (including underwriters' warrants) are permitted.

(b) Until such time as all of the Convertible Notes have been repaid or converted in full, the Company agrees it will not issue (or, unless such issuance would, upon the closing thereof, result in the repayment in full of the Convertible Notes, agree to issue) any of its equity securities

(or securities convertible into or exchangeable or exercisable for equity securities), unless any shares of Common Stock issued or issuable in connection therewith are "restricted securities". As used herein "restricted securities" shall mean securities which may not be sold by virtue of contractual restrictions imposed by the Company either pursuant to an exemption from registration under the Securities Act or pursuant to a registration statement filed by the Company with the Commission, in each case prior to eighteen (18) months following the date of issuance of such securities.

(c) The restrictions contained in this Section 10.2 shall not apply to the issuance by the Company of (or the agreement to issue) Common Stock or Derivative Securities in connection with (w) the acquisition (including by merger) of a business or of assets otherwise permitted under this Agreement, (x) stock option or other compensatory plans, (y) Derivative Securities outstanding

on the date hereof, or (z) issuances of Common Stock and Derivative Securities which do not violate or otherwise create a violation hereunder or issuances of Common Stock upon conversion and/or exercise of such Derivative Securities.

SECTION 10.3. Liquidated Damages.

(a) The Company shall, and shall use its best efforts to cause the Transfer Agent to, issue and deliver shares of Common Stock (x) within three (3) New York Stock Exchange Trading Days of delivery of a Notice of Conversion or Notice of Exercise, as applicable, with a restrictive legend, and/or (y) within five (5) New York Stock Exchange Trading Days of delivery of a Notice of Conversion or a Notice of Exercise, as applicable, without a restrictive legend, provided that such shares of Common Stock have been disposed of in accordance with the plan of distribution set forth in the prospectus forming a part of the Registration Statement (the "Deadline"). If for any reason, other than as a result of actions taken by a Purchaser in breach of this Agreement, the Company fails to issue such certificates of Common Stock by the Deadline, then, as compensation, and not as a penalty, the Company agrees to pay liquidated damages to the Purchaser that delivered such Notice of Conversion or Notice of Exercise for such late issuance of such certificates an amount equal to $1,000 per day for each day such certificates are not delivered for the first ten (10) days after the Deadline and $2,000 per day for each day thereafter. The Company understands that a delay in the issuance of such certificates after the Deadline could result in economic loss to the Purchaser.

(b) Upon demand, the Company shall promptly pay the Purchasers any liquidated damages incurred under this Section by wire transfer in immediately available funds to an account designated by the Purchasers. Nothing herein shall waive the Company's obligations to timely deliver Grant Shares, Additional Grant Shares, Conversion Shares or Warrant Shares or limit any Purchaser's right to pursue actual damages (less the amount of any liquidated damages received pursuant to the foregoing) for the Company's failure to issue and deliver shares of Common Stock to such Purchaser consistent with the terms of this Agreement.

SECTION 10.4. Conversion Notice. The Company agrees that, in addition to any other remedies which may be available to the Purchasers, including, but not limited to, the remedies available under Section 10.3, in the event the Company fails for any reason (other than as a result of actions taken by a Purchaser in breach of this Agreement) to effect delivery to a Purchaser of certificates representing Conversion Shares or Warrant Shares on or prior to the Deadline, such Purchaser will be entitled, if prior to the delivery of such certificates, to revoke the Notice of Conversion or Notice of Exercise by delivering a notice to such effect to the Company and to the Transfer Agent, whereupon the Company and the Purchaser shall each be restored to their respective positions immediately prior to delivery of such Notice of Conversion or Notice of Exercise.

SECTION 10.5. Limitation on Conversion Prior to Default.

(a) In addition to and not in lieu of the limitations on conversion set forth in the Convertible Notes and Warrants, the conversion and exercise rights of the Purchasers set forth in the Convertible Notes and Warrants, as applicable, shall be limited, solely to the extent required, from time to time, such that in no instance shall the maximum number of shares of Common Stock which the Purchasers (singularly, together with any Persons who in the determination of such Purchasers, together with such Purchasers, constitute a "group" as defined in Rule 13d-5 of the Exchange Act) may receive in respect of

any conversion of the Convertible Notes or exercise of the Warrants, exceed, at any one time, an amount equal to the remainder of (i) 4.99% of the then issued and outstanding shares of Common Stock of the Company following such conversion or exercise minus (ii) the number of shares of Common Stock of the Company then owned by the Purchasers (but exclusive of any shares of Common Stock deemed beneficially owned due to ownership of the Convertible Notes and Warrants) (the foregoing being herein referred to as the "Limitation on Conversion"). At the written request of the Company, the applicable Purchasers shall certify in each Notice of Conversion and Notice of Exercise that it is in compliance with the Limitation on Conversion.

(b) The Limitation on Conversion shall not apply, and shall be of no further force and effect, (i) upon the occurrence of any voluntary or mandatory redemption transaction described in Sections 3.4 or 3.5 hereof, (ii) on and following the Maturity Date or (iii) following the occurrence of any Event of Default described in Section 12.1 hereof and for which the applicable Purchaser has provided written notice thereof and which is not cured within the greater of the applicable time period specified in either (A) such written notice of the applicable Purchaser or (B) Section 12.1 hereof.

(c) If, at any time, the aggregate shares of Common Stock issuable upon conversion of the Convertible Notes, issuance of the Grant Shares and Additional Grant Shares and exercise of the Warrants exceeds the Conversion Limit (as hereafter defined) then in effect, (I) the Company shall deliver a notice to that effect to the Purchasers and the Transfer Agent ("Company Notice") and (ii) the Company shall, at the option of he Purchasers, within sixty (60) days of the Company Notice either (a) obtain approval of the Company's shareholders (or an appropriate waiver from the

Nasdaq Market) of the issuance of shares of Common Stock in excess of the Conversion Limit in a quantity reasonably acceptable to the purchasers and in all events sufficient to honor conversion in full of the Convertible Notes, issuance of the Grant Shares and Additional Grant shares and exercise in full of the Warrants, or (b) repay the Convertible Notes at the Formula Price and redeem the Warrants at the Warrant Redemption Price. The term "Warrant Redemption Price" shall mean the greater of (x) the appraised value of the Warrants on the date they are called for redemption (determined with reference to a "Black-Sholes" or similar option pricing model) and (y) the product of the excess of (1) the Market Price of the Common Stock on the date that the Warrants for called for redemption over (2) the exercise price of the Warrants.

(d) As used herein, "Conversion Limit" shall mean twenty percent (19.9%) of the then issued and outstanding shares of Common Stock of the Company as of the applicable date of determination, or such greater number of shares as the shareholders of the Company may have previously approved (the "Maximum Number of Shares").

(e) Subject to the foregoing limitations, each Purchaser shall, at its option, have the sole right to determine whether to exercise the right of conversion or exercise for the Convertible Notes and Warrants. The Company shall honor each Notice of Conversion and Notice of Exercise in the order received.

ARTICLE XI

ADJUSTMENT OF FIXED PRICE

SECTION 11.1. Reorganization. The exercise price of the Warrants set forth

therein (collectively, the "Fixed Prices") shall be adjusted as hereafter provided.

SECTION 11.2. Share Reorganization. If and whenever the Company shall:

(i) subdivide the outstanding shares of Common Stock into a greater number of shares;

(ii) consolidate the outstanding shares of Common Stock into a smaller number of shares;

(iii) issue Common Stock or securities convertible into or exchangeable for shares of Common Stock as a stock dividend to all or substantially all the holders of Common Stock; or

(iv) make a distribution on the outstanding Common Stock to all or substantially all the holders of Common Stock payable in Common Stock or securities convertible into or exchangeable for Common Stock;

any of such events being herein called a "Share Reorganization", then in each such case the applicable Fixed Price shall be adjusted, effective immediately after the record date at which the holders of Common Stock are determined for the purposes of the Share Reorganization or, if no record date is fixed, the effective date of the Share Reorganization, by multiplying the applicable Fixed Price in effect on such record or effective date, as the case may be, by a fraction of which:

(I) the numerator shall be the number of shares of Common Stock outstanding on such record or effective date (without giving effect to the transaction); and

(II) the denominator shall be the number of shares of Common Stock outstanding after giving effect to such Share Reorganization, including, in the case of a distribution of securities convertible into or exchangeable for shares of Common Stock, the number of shares of Common Stock that would have been outstanding if such securities had been converted into or exchanged for Common Stock on such record or effective date.

SECTION 11.3. Rights Offering. If and whenever the Company shall issue to all or substantially all the holders of Common Stock, rights, options or warrants under which such holders are entitled, during a period expiring not more than 45 days after the record date of such issue, to subscribe for or purchase Common Stock (or securities convertible into or exchangeable for Common Stock), at a price per share (or, in the case of securities convertible into or exchangeable for Common Stock, at an exchange or conversion price per share at the date of issue of such securities) of less than 95% of the Market Price of the Common Stock on such record date (any such event being herein called a "Rights Offering"), then in each such case the applicable Fixed Price shall be adjusted, effective immediately after the record date at which holders of Common Stock are determined for the purposes of the Rights Offering, by multiplying the applicable Fixed Price in effect on such record date by a fraction of which:

(i) the numerator shall be the sum of:

(I) the number of shares of Common Stock outstanding on such record date; and

(II) a number obtained by dividing:

(A) either,

(x) the product of the total number of shares of Common Stock so offered for subscription or purchase and the price at which such shares are so offered, or

(y) the product of the maximum number of shares of Common Stock into or for which the convertible or exchangeable securities so offered for subscription or

purchase may be converted or exchanged and the conversion or exchange price of such securities,

as the case may be, by

(B) the Market Price of the Common Stock on such record date; and

(ii) the denominator shall be the sum of:

(I) the number of shares of Common Stock outstanding on such record date; and

(II) the number of shares of Common Stock so offered for subscription or purchase (or, in the case of securities convertible into or exchangeable for Common Stock, the maximum number of shares of Common Stock for or into which the securities so offered for subscription or purchase may be converted or exchanged).

To the extent that such rights, options or warrants are not exercised prior to the expiry time thereof, the applicable Fixed Price shall be readjusted effective immediately after such expiry time to the applicable Fixed Price which would then have been in effect upon the number of shares of Common Stock (or securities exchangeable into Common Stock) actually delivered upon the exercise of such rights, options or warrants.

SECTION 11.4. Special Distribution. If and whenever the Company shall issue or distribute to all or substantially all the holders of Common Stock:

(i) shares of the Company of any class, other than Common Stock;

(ii) rights, options or warrants; or

(iii) any other assets (excluding cash dividends and equivalent dividends in shares paid in lieu of cash dividends in the ordinary course);

and if such issuance or distribution does not constitute a Share Reorganization or a Rights Offering (any such event being herein called a "Special Distribution"), then in each such case the applicable Fixed Price shall be adjusted, effective immediately after the record date at which the holders of Common Stock are determined for purposes of the Special Distribution, by multiplying the applicable Fixed Price in effect on such record date by a fraction of which:

(i) the numerator shall be the difference between:

(A) the product of the number of shares of Common Stock outstanding on such record date and the Market Price of the Common Stock on such date; and

(B) the fair market value, as determined by the Directors (whose determination shall be conclusive), to the holders of Common Stock of the shares, rights, options, warrants, evidences of indebtedness or other assets issued or distributed in the Special Distribution (net of any consideration paid therefor by the holders of Common Stock), and

(ii) the denominator shall be the product of the number of shares of Common Stock outstanding on such record date and the Market Price of the Common Stock on such date.

SECTION 11.5. Capital Reorganization. If and whenever there shall occur:

(i) a reclassification or redesignation of the shares of Common Stock or any change of the shares of Common Stock into other shares, other than in a Share Reorganization;

(ii) a consolidation, merger or amalgamation of the Company with, or into another body corporate; or

(iii) the transfer of all or substantially all of the assets of the Company to another body corporate;

(any such event being herein called a "Capital Reorganization"), then in each such case the holder who exercises the right to convert Convertible Notes or exercise the Warrants after the effective date of such Capital Reorganization shall be entitled to receive and shall accept, upon the exercise of such right, in lieu of the number of shares of Common Stock to which such holder was theretofore entitled upon the exercise of the conversion privilege, the aggregate number of shares or other securities or property of the Company or of the body corporate resulting from such Capital Reorganization that such holder would have been entitled to receive as a result of such Capital Reorganization if, on the effective date thereof, such holders had been the holder of the number of shares of Common Stock to which such holder was theretofore entitled upon conversion; provided, however, that no such Capital Reorganization shall be consummated in effect unless all necessary steps shall have been taken so that such holders shall thereafter be entitled to receive such number of shares or other securities of the Company or of the body corporate resulting from such Capital Reorganization, subject to adjustment thereafter in accordance with provisions the same, as nearly as may be possible, as those contained above.

SECTION 11.6. Adjustment Rules. The following rules and procedures shall be applicable to adjustments made in this Article X:

(a) no adjustment in the applicable Fixed Price shall be required unless such adjustment would result in a change of at least 1% in the applicable Fixed Price then in

effect, provided, however, that any adjustments which, but for the provisions of this clause would otherwise have been required to be made, shall be carried forward and taken into account in any subsequent adjustment;

(b) no adjustment in the applicable Fixed Price shall be made pursuant to this Article XI in respect of the issue from time to time of Common Stock to holders of Common Stock who exercise an option to receive substantially equivalent dividends in Common Stock in lieu of receiving cash dividends in the ordinary course; and

(c) if a dispute shall at any time arise with respect to any adjustment of the applicable Fixed Price, such dispute shall be conclusively determined by the auditors of the Company or, if they are unable or unwilling to act, by a firm of independent chartered accountants selected by the Directors and any such determination shall be binding upon the Company and Purchasers.

SECTION 11.7. Certificate as to Adjustment. The Company shall from time to time promptly after the occurrence of any event which requires an adjustment in the applicable Fixed Price deliver to the Purchasers a certificate specifying the nature of the event requiring the adjustment, the amount of the adjustment necessitated thereby, the applicable Fixed Price after giving effect to such adjustment and setting forth, in reasonable detail, the method of calculation and the facts upon which such calculation is based.

SECTION 11.8. Notice to Noteholders. If the Company shall fix a record date for:

(a) any Share Reorganization (other than the subdivision of outstanding Common Stock into a greater number of shares or the consolidation of outstanding Common Stock into a smaller number of shares),

(b) any Rights Offering.,

(c) any Special Distribution,

(d) any Capital Reorganization (other than a reclassification or redesignation of the Common Stock into other shares), or

(e) any cash dividend,

the Company shall, not less than 10 days prior to such record date or, if no record date is fixed, prior to the effective date of such event, give to the Purchasers notice of the particulars of the proposed event or the extent that such particulars have been determined at the time of giving the notice.

ARTICLE XII

EVENTS OF DEFAULT

SECTION 12.1. Events of Default. If one or more of the following events (each an "Event of Default") shall have occurred and be continuing:

(a) failure by the Company to pay or prepay when due, all or any part of the principal on any of the Convertible Notes;

(b) failure by the Company to pay (i) within three (3) Business Days of the due date thereof any interest on any Convertible Notes or (ii) within five (5) Business Days following the delivery of notice to the Company of any fees or any other amount payable (not otherwise referred to in (a) above or this clause (b)) by the Company under this Agreement;

(c) failure by the Company to timely comply with the requirements of Section 10.3 hereof, which failure is not cured within seven (7) days of such failure;

(d) failure on the part of the Company to observe or perform any covenant or agreement contained in any other Financing Document, which failure is not cured within the time period set forth therein;

(e) failure on the part of the Company to observe or perform any covenant contained in Sections 3.9, 8.4, 8.7-8.14 and 8.20 of this Agreement;

(f) failure on the part of the Company to observe or perform any covenant contained in this Agreement (other than those covered by clauses (a), (b), (c) or (e) above) for 30 days from the date of such occurrence;

(g) the trading in the Common Stock shall have been suspended by the Commission or by the Nasdaq Market (except for any suspension of trading of limited duration solely to permit dissemination of material information regarding the Company and except if, at the time there is any suspension on the Nasdaq Market, the Common Stock is then listed and approved for trading on either the New York Stock Exchange, the American Stock Exchange, the Nasdaq Stock Market's Small Cap Market, or the Nasdaq National Market within ten (10) Trading Days thereof);

(h) failure of the Company to obtain the listing of the Grant Shares, Additional Grant Shares, Conversion Shares and Warrant Shares as set forth in Section 8.23, which failure is not cured within fifteen (15) Business Days of such failure;

(i) the Company shall have its Common Stock delisted from the Nasdaq Market for at least ten (10) consecutive Trading Days and is unable to obtain a listing on either the New York Stock Exchange, the American Stock Exchange, the Nasdaq Stock Market's Small Cap Market or the Nasdaq Stock Market's National Market within such ten (10) Trading Days;

(j) the Registration Statement shall not have been declared effective by the Commission, with such effectiveness maintained, for the Registration Maintenance Period, which results in the Company incurring the Default Fee for a period of ten (10) days;

(k) the Company or any Subsidiary has commenced a voluntary case or other proceeding seeking liquidation, winding-up, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency, moratorium or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or

has consented to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or has made a general assignment for the benefit of creditors, or has failed generally to pay its debts as they become due, or has taken any corporate action to authorize any of the foregoing;

(l) an involuntary case or other proceeding has been commenced against the Company or any Subsidiary, seeking liquidation, winding-up, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency, moratorium or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days, or an order for relief has been entered against the Company or any Subsidiary under the federal bankruptcy laws as now or hereafter in effect;

(m) payment default in respect of any Debt in excess of $500,000 of the Company or any Subsidiary, or the Company or any Subsidiary has failed to pay at maturity or within any applicable period of grace any such Debt;

(n) judgments or orders for the payment of money which in the aggregate at any one time exceed $500,000 and are not covered by insurance have been rendered against the Company or any Subsidiary by a court of competent jurisdiction and such judgments or orders shall continue unsatisfied and unstayed for a period of 60 days;

(o) any representation, warranty, certification or statement made by the Company in any Financing Document or which is contained in any certificate, document

or financial or other statement furnished at any time under or in connection with any Financing Document shall prove to have been untrue in any material respect when made;

(p) any member of the ERISA Group has failed to pay when due an amount or amounts aggregating in excess of $100,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan has been filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC has instituted proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition has existed by reason of which the PBGC is entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there has occurred a complete or partial withdrawal from, or a default, within the meaning of Section 4219(c) (5) of ERISA, with respect to, one or more Multiemployer Plans which could cause one or more members of the ERISA Group to incur a current payment obligation in excess of $100,000;

(q) any Letter of Credit in which the Purchasers are granted a security interest pursuant to the Security Agreement and/or the Subsidiary Security Agreement shall, for any reason, cease to be an enforceable obligation of the issuer thereof or if any such issuer shall deny that it has any further liability or obligation thereunder, other than by reason of payment of the full amount of any Letter of Credit (unless within five (5)

days of such denial letter, such issuer either retracts such denial or the Company delivers to the Purchasers cash equal to the face amount of the Letter of Credit);

then, and in every such occurrence, any Purchaser may, with respect to an Event of Default specified in paragraphs (a) or (b), and the Majority Holders may, with respect to any other Event of Default, by notice to the Company, declare the Convertible Notes to be, and the Convertible Notes shall thereon become immediately due and payable; provided that in the case of any of the Events of Default specified in paragraph (k) or (l) above with respect the Company or any Subsidiary, then, without any notice to the Company or any other act by any Purchaser, the entire amount of the Convertible Notes shall become immediately due and payable, provided further, if any Event of Default has occurred and is continuing, and irrespective of whether any Convertible Note has been declared immediately due and payable hereunder, any Purchaser of Convertible Notes may proceed to protect and enforce the rights of such Purchaser by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in any Convertible Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise, and provided further, in the case of an Event of Default, the amount declared due and payable on the Convertible Notes shall be (x) prior to the expiration of the Bridge Period, the Par Value Redemption Price and (y) after the expiration of the Bridge Period the Formula Price thereof.

SECTION 12.2. Powers and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Purchasers is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy. Every power and remedy given by the Convertible Notes or by law may be exercised from time to time, and as often as shall be deemed expedient, by the Purchasers.

ARTICLE XIII

MISCELLANEOUS

SECTION 13.1. Notices. All notices, demands and other communications to any party hereunder shall be in writing (including telecopier or similar writing) and shall be given to such party at its address set forth on the signature pages hereof, or such other address as such party may hereafter specify for the purpose to the other parties. Each such notice, demand or other communication shall be effective (i) if given by telecopy, when such telecopy is transmitted to the telecopy number specified on the signature page hereof, (ii) if given by mail, four days after such communication is deposited in the mail with first class postage prepaid, addressed as aforesaid or (iii) if given by any other means, when delivered at the address specified in or pursuant to this Section.

SECTION 13.2. No Waivers; Amendments.

(a) No failure or delay on the part of any party in exercising any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any

single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

(b) Any provision of this Agreement may be amended, supplemented or waived if, but only if, such amendment, supplement or waiver is in writing and is signed by the Company and the Majority Holders; provided, that without the consent of each holder of any Convertible Note affected thereby, an amendment or waiver may not (a) reduce the aggregate principal amount of Convertible Notes whose holders must consent to an amendment or waiver, (b) reduce the rate or extend the time for payment of interest on any Convertible Note, (c) reduce the principal amount of or extend the stated maturity of any Convertible Note or (d) make any Convertible Note payable in money or property other than as stated in such Convertible Note. In determining whether the holders of the requisite principal amount of Convertible Notes have concurred in any direction, consent, or waiver as provided in any Financing Document, Convertible Notes which are owned by the Company or any other obligor on or guarantor of the Convertible Notes, or by any Person Controlling, Controlled by, or under Common Control with

any of the foregoing, shall be disregarded and deemed not to be outstanding for the purpose of any such determination; and provided further that no such amendment, supplement or waiver which affects the rights of the Purchasers and their affiliates otherwise than solely in their capacities as holders of Convertible Notes shall be effective with respect to them without their prior written consent.

SECTION 13.3. Indemnification. The Company agrees to indemnify and hold harmless each Purchaser, its affiliates, and each Person, if any, who controls such Purchaser, or any of its affiliates, within the meaning of the Securities Act or the Exchange Act (a Controlling Person"), and the respective partners, agents, employees, officers and directors of the Purchasers, their affiliates and any such Controlling Person (each an Indemnified Party" and collectively, the "Indemnified Partie), from and against any and all losses, claims, damages, liabilities and expenses (including, without limitation and as incurred, reasonable costs of investigating, preparing or defending any such claim or action, whether or not such Indemnified Party is a party thereto, provided that the Company shall not be obligated to advance such costs to any Indemnified Party other than the Purchasers unless it has received from such Indemnified Party an undertaking to repay to the Company the costs so advanced if it should be determined by final judgment of a court of competent jurisdiction that such Indemnified Party was not entitled to indemnification hereunder with respect to such costs) which may be incurred by such Indemnified Party in connection with any investigative, administrative or judicial proceeding brought or threatened that relates to or arises out of, or is in connection with any activities contemplated by any Financing Document or any other services rendered in connection herewith; provided that the Company will not be responsible for any claims, liabilities losses, damages or expenses that are determined by final judgment of a court of competent jurisdiction to result from such Indemnified Party's gross negligence, willful misconduct or bad faith.

If any action shall be brought against an Indemnified Party with respect to which indemnity may be sought against the Company under this Agreement, such Indemnified Party shall promptly notify the Company in writing and the Company, at its option, may, assume the defense thereof, including the employment of counsel reasonably satisfactory to such Indemnified Party and payment of all reasonable fees and expenses. The failure to so notify the Company shall not

affect any obligations the Company may have to such Indemnified Party under this Agreement or otherwise unless the Company is materially adversely affected by such failure. Such Indemnified Party shall have the right to employ separate counsel in such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party, unless: (i) the Company has failed to assume the defense and employ counsel or (ii) the named parties to any such action (including any impleaded parties) include such Indemnified Party and the Company, and such Indemnified Party shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the Company, in which case, if such Indemnified Party notifies the Company in writing that it elects to employ separate counsel at the expense of the Company, the Company shall not have the right to assume the defense of such action or proceeding on behalf of such Indemnified Party, provided, however, that the Company

shall not, in connection with any one such action or proceeding or separate but substantially similar or related actions or proceedings in the same jurisdiction arising out of the same general allegations or circumstances, be responsible hereunder for the reasonable fees and expenses of more than one such firm of separate counsel, which counsel shall be designated by the Purchasers. The Company shall not be liable for any settlement of any such action effected without the written consent of the Company (which shall not be unreasonably withheld) and the Company agrees to indemnify and hold harmless each Indemnified Party from and against any loss or liability by reason of settlement of any action effected with the consent of the Company. In addition, the Company will not, without the prior written consent of the Purchasers, which consent will not be unreasonably withheld, settle or compromise or consent to the entry of any judgment in or otherwise seek to terminate any pending or threatened action, claim, suit or proceeding in respect to which indemnification or contribution may be sought hereunder (whether or not any Indemnified Party is a party thereto) unless such settlement, compromise, consent or termination includes an express unconditional release of the Purchasers and the other Indemnified Parties, satisfactory in form and substance to the Purchasers, from all liability arising out of such action, claim, suit or proceeding.

If for any reason the foregoing indemnity is unavailable (otherwise than pursuant to the express terms of such indemnity) to an Indemnified Party or insufficient to hold an Indemnified Party harmless, then in lieu of indemnifying such Indemnified Party, the Company shall contribute to the amount paid or payable by such Indemnified Party as a result of such claims, liabilities, losses, damages, or expenses (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and by the Purchasers on the other from the transactions contemplated by this Agreement or (ii) if the allocation provided by clause (i) is not permitted under applicable law, in such proportion as is appropriate to reflect not only the relative benefits received by the Company on the one hand and the Purchasers on the other, but also the relative fault of the Company and the Purchasers as well as any other relevant equitable considerations. Notwithstanding the provisions of this Section 13.3, the aggregate contribution of all Indemnified Parties shall not exceed the amount of interest and fees actually received by the Purchasers pursuant to this Agreement. It is hereby further agreed that the relative benefits to the Company on the one hand and the Purchasers on the other with respect to the transactions contemplated hereby shall be determined by reference to, among other things, whether any untrue or alleged untrue statement of material fact or the omission or alleged omission to state a material fact related to information supplied by the Company or by the Purchasers and the

parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation

The indemnification, contribution and expense reimbursement obligations set forth in this Section 13.3 (i) shall be in addition to any liability the Company may have to any Indemnified Party at common law or otherwise, (ii) shall survive the termination of this Agreement and the other Financing Documents and the payment in full of the Convertible Notes and (iii) shall

remain operative and in full force and effect regardless of any investigation made by or on behalf of the Purchasers or any other Indemnified Party.

SECTION 13.4. Expenses: Documentary Taxes. The Company agrees to pay (i) the out-of-pocket costs, expenses and other payments in connection with the purchase and sale of the Securities as contemplated by this Agreement, including the fees and disbursements of special counsel for the Purchasers incurred in connection with the preparation of the Financing Documents, in the amount of $25,000 (the "Reimbursement Fee"), (ii) all reasonable out-of-pocket expenses of the Purchasers, including fees and disbursements of counsel, in connection with any waiver or consent hereunder or under any other Financing Document or any amendment hereof or thereof and (iii) all reasonable out-of-pocket expenses of the Purchasers and each holder of Securities, including fees and disbursements of counsel, in connection with any collection, bankruptcy, insolvency and other enforcement proceedings resulting therefrom. In addition, the Company agrees to pay any and all stamp, transfer and other similar taxes, assessments or charges payable in connection with the execution and delivery of any Financing Document or the issuance of the Securities to the Purchasers, excluding their assigns.

SECTION 13.5. Payment. The Company agrees that, so long as a Purchaser shall own any Convertible Notes purchased by it from the Company hereunder, the Company will use its best efforts to cause the Transfer Agent to make payments to such Purchaser (or the Company will, if authorized under Section 3.6(b), make payments to such Purchaser) of all amounts due thereon by wire transfer by 1:00 P.M. (New York City time) on the date of payment to the Transfer Agent for disbursement to the Purchasers as required by the Transfer Agent Agreement.

SECTION 13.6. Successors and Assigns. This Agreement shall be binding upon the Company and upon the Purchasers and their respective successors and assigns; provided that the Company shall not assign or otherwise transfer its rights or obligations under this Agreement to any other Person without the prior written consent of the Majority Holders. All provisions hereunder purporting to give rights to Purchasers and their affiliates or to holders of Securities are for the express benefit of such Persons and their successors and assigns.

SECTION 13.7. Brokers. The Company represents and warrants that it has not employed any broker, finder, financial advisor or investment banker other than Alpine Capital Partners, Inc. or Whale (whose fees are summarized on Schedule 13.7) who would be entitled to any brokerage, finder's or other fee or commission payable by the Company or the Purchasers in connection with the sale of the Securities. Each Purchaser hereby warrants that it has not employed any broker, finder, financial advisor or investment banker who would be entitled to any brokerage, finder's or other fee or commission payable by the Company in connection with the sale of the Securities.

SECTION 13.8. New York Law; Submission to Jurisdiction; Waiver of Jury Trial; Appointment of Agent. THIS AGREEMENT AND FINANCING DOCUMENTS SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF

THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO THE CHOICE OF LAW PROVISIONS THEREUNDER. EACH PARTY HERETO HEREBY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF TEXAS AND OF ANY TEXAS STATE COURT SITTING IN DALLAS, TEXAS FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. EACH PARTY HERETO IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

SECTION 13.9. Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated unless a failure of consideration would result thereby.

SECTION 13.10 Survival. The provisions hereof shall survive the termination of this Agreement and the payment in full of the Convertible Notes and shall remain operative and in full force and effect, except the representations and warranties of the Company and Purchasers shall survive for a period of two (2) years following the Closing.

SECTION 13.11. Counterparts. This Agreement may be executed by telecopy signature and in any number of counterparts each of which shall be an original with the same effect as if the signatures there to and hereto were upon the same instrument.

[Signature Pages Follow]

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

TAKE-TWO INTERACTIVE SOFTWARE, INC.

By: /s/ Ryan Brant

Name: Ryan Brant

Title: CEO

Address: 575 Broadway, 6th Floor
New York, New York 10012
Attn: Mr. Ryan Brant

INFINITY INVESTORS LIMITED

By: /s/ James E. Martin

Name: James E. Martin

Title: Director

Address: 38 Hertford Street
London, England WIY 7TG
011-44-171-355-4975
Attn: J. A. Loughran

INFINITY EMERGING OPPORTUNITIES LIMITED

By: /s/ James E. Martin

Name: James E. Martin

Title: Director

Address: 38 Hertford Street
London, England WIY 7TG
Fax: 011-44-171-355-4975
Attn: J. A. Loughran

GLACIER CAPITAL LIMITED

By: /s/ James E. Miller

Name: James E. Miller

Title: President

Address: 38 Hertford Street
London, England WIY 7TG
Fax: 011-44-171-355-4975
Attn: J. A. Loughran

Address: 38 Hertford Street
London, England WIY 7TG
Fax: 011-44-171-355-4975
Attn: J. A. Loughran

With a copy to: HW Partners, L.P.
1601Elm Street
4000 Thanksgiving Tower
Dallas, Texas 75201
Telephone: (214) 720-1689
Fax: (214) 720-1662
Attn: Stuart Chasanoff, Esq.

SCHEDULES

Schedule 2.1 - Pro Rata Portion of Securities
Schedule 5.10 - Investments, Joint Ventures
Schedule 5.13 - Capitalization
Schedule 5.16 - Leases
Schedule 5.21 - .
Liens
Schedule 7.1(m) - Waivers of Registration Rights
Schedule 8.12 - Transactions with Affiliates
Schedule 13.7 Broker Fees

EXHIBITS

Exhibit A - Form of Convertible Note
Exhibit B - Form of Notice of Conversion
Exhibit C - Form of Notice of Exercise
Exhibit D - Form of Registration Rights Agreement
Exhibit E - Form of Solvency Certificate
Exhibit F - Form of Officer's Certificate
Exhibit G - Form of Transfer Agent Agreement
Exhibit H - Form of Warrant
Exhibit I - Form of Company Counsel's Opinion

Exhibit J - Form of Security Agreement
Exhibit K - Form of Lockbox Agreement
Exhibit L - Form of Subsidiary Security Agreement

SCHEDULE 2.1

CONVERTIBLE NOTES [to be confirmed]

Name	Purchase Price	Aggregate Principal Amount of Notes
Infinity Investors Limited	$2,092,000	$2,200,000
Infinity Emerging Opportunities Limited	$960,000	$1,000,000
Glacier Capital Limited	$960,000	$1,000,000

GRANT SHARES

Name	Number of Shares
Infinity Investors Limited	27,000
Infinity Emerging Opportunities Limited	11,500
Glacier Capital Limited	11,500

WARRANTS

Name	Warrants
Infinity Investors Limited	135,000
Infinity Emerging Opportunities Limited	57,500
Glacier Capital Limited	57,500

SCHEDULE 5.10

Investments, Joint Ventures, Subsidiaries

Inventory Management Systems, Inc.

Take-Two Interactive Software Europe Limited

Alternative Reality Technologies, Inc.

Mission Studios Corporation

SCHEDULE 5.13

Capitalization as of October 14, 1997

Outstanding Securities:

Form of Securities	Amount Outstanding
$.01 Common Stock	9,195,043
Public Warrants	1,890,000
Underwriter's Warrants	320,000
Options under 1994 Option Plan	879,991
Options under 1997 Option Plan	275,000
Non-Plan Options	80,320
$.01 Warrants	391,199
(fully diluted)	12,981,553

SCHEDULE 5.16

Leases as of October 14, 1997

Capital Leases with value greater than $100,000.

1. Computer/Software Package lease with U.S. Media Capital in the amount of $340,000.

2. Computer Equipment and software leases (2) with Lighthouse Capital in the amounts of $110,450 and $54,540, respectively.

Operating Leases with annual rental greater than $100,000.

None.

SCHEDULE 5.21

Liens as of October 14, 1997

1. Security interest in all existing and after-acquired personal property and fixtures of the Company and the proceeds thereof in favor of Citibank, N.A. securing all obligations of the Company to Citibank, including advances under $250,000 line of credit.

2. Security interest in all existing and after-acquired personal property of the Company in favor of National Bank of Canada, New York Branch, and the proceeds thereof securing all obligations of the Company to National Bank of Canada, New York branch, including an $800,000 term loan.

3. Capital leases of computer equipment and software between the Company and AT&T Leasing Services, U.S. Media Capital and Lighthouse Capital.

4. Security interest in all existing and after-acquired personal property and fixtures of Inventory Management Systems, Inc. ("IMSI"), a Subsidiary of the Company, in the favor of Crestar Bank ("Crestar"), Richmond, Virginia, and the proceeds thereof, securing all obligations of IMSI to Crestar, including advances under a $250,000 line of credit.

5. Security interest in all existing personal property of Take-Two Interactive Software Europe Limited ("Take-Two Europe"), a Subsidiary of the Company, and the proceeds thereof, securing all obligations of Take-Two Europe to Barclays Bank, United Kingdom, including advances under a 500,000 pounds (UK) line of credit.

6. Pledge of shares of common stock of Mission Studios Corporation to Thomas Ptak to secure payment of a promissory note issued by the Company to Thomas Ptak having a principal balance of approximately of $221,000.

SCHEDULE 5.24

Registration Rights as of October 1, 1997

GameTek, Inc.:

406,553 shares of Common Stock (one holder)

SCHEDULE 8.12

Transactions with Affiliates

None.

SCHEDULE 13.7

Broker Fees

None, except for any fees payable to Whale Securities, Co., L.P. and Alpine Capital Partners, Inc. [Describe How Much]

EXHIBIT C

FORM OF NOTICE OF EXERCISE - WARRANT

(To be executed only upon exercise or conversion of the Warrant in whole or in part)

To Take-Two Interactive Software, Inc.

The undersigned registered holder of the accompanying Warrant hereby exercises such Warrant or portion thereof for, and purchases thereunder, _____(1) shares of Common Stock (as defined in such Warrant) and herewith makes payment therefor in the amount and manner set forth below, as of the date written below. The undersigned requests that the certificates for such shares of Common Stock be issued in the name of, and delivered to, _____ whose address is _____

_____.

The Exercise Price is paid as follows:

|_| Bank draft payable to the Company in the amount of $_____.

|_| Wire transfer to the account of the Company in the amount of $_____.

|_| Delivery of _____ previously held shares having an aggregate Market Value of $_____.

|_| Cashless exercise. Surrender of _____ shares purchasable under this Warrant for such shares of Common Stock issuable in exchange therefor pursuant to the Cashless Exercise provisions of the within Warrant, as provided in Section 1.1(iv) thereto.

Upon exercise pursuant to this Notice of Exercise, the holder will be in compliance with the Limitation on Exercise (as defined in the Securities Purchase Agreement pursuant to which this Warrant was issued).

Dated: _____

_____
(Name must conform to name of holder as specified on the face of the Warrant)

By:_____

(1) Insert the number of shares of Common Stock as to which the accompanying Warrant is being exercised. In the case of a partial exercise, a new Warrant or Warrants will be issued and delivered, representing the unexercised portion of the accompanying Warrant, to the holder surrendering the same.

Name:_____

Title:_____

Address of holder: _____

_____

_____

Date of exercise:_____

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"). THE HOLDER HEREOF BY PURCHASING SUCH SECURITIES AGREES FOR THE BENEFIT OF THE COMPANY THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE COMPANY, (B) PURSUANT TO THE EXEMPTION FROM REGISTRATION UNDER THE 1933 ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, OR (C) IF REGISTERED UNDER THE 1933 ACT AND APPLICABLE STATE SECURITIES LAWS. IN ADDITION, A SECURITIES PURCHASE AGREEMENT DATED AS OF THE DATE HEREOF, A COPY OF WHICH MAY BE OBTAINED FROM THE COMPANY AT ITS PRINCIPAL EXECUTIVE OFFICE, CONTAINS CERTAIN ADDITIONAL AGREEMENTS AMONG THE PARTIES, INCLUDING, WITHOUT LIMITATION, PROVISIONS WHICH (A) LIMIT THE CONVERSION RIGHTS OF THE HOLDER, (B) SPECIFY VOLUNTARY AND MANDATORY REPAYMENT, PREPAYMENT AND REDEMPTION RIGHTS AND OBLIGATIONS AND (C) SPECIFY EVENTS OF DEFAULT FOLLOWING WHICH THE REMAINING BALANCE DUE AND OWING HEREWITH MAY BE ACCELERATED.

No. 1 $2,200,000

TAKE-TWO INTERACTIVE SOFTWARE, INC.

Convertible Note

TAKE-TWO INTERACTIVE SOFTWARE, INC., a Delaware corporation (together with its successors, the "Company"), for value received hereby promises to pay to:

Infinity Investors Limited

(the "Holder") and registered assigns, the principal sum of Two Million Two Hundred Thousand Dollars ($2,200,000) on the Maturity Date by wire transfer of immediately available funds to the Holder in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, and to pay interest, quarterly in arrears, on (i) the last day of April, July, September and December of each year until the Maturity Date, commencing December 31, 1997 (unless such day is not a Business Day, in which event on the next succeeding Business Day) (each an "Interest Payment Date"), (ii) the Maturity Date, (iii) each Conversion Date, and (iv) the date the principal amount of this Convertible Note shall be declared to be or shall automatically become due and payable, on the principal sum hereof outstanding in like coin or currency, at the rates per annum set forth below, from the most recent Interest Payment Date to which interest has been paid on this Convertible Note, or if no interest has been paid on this Convertible Note, from the date of this Convertible Note until payment in full of the principal sum hereof has been made.

The interest rate shall be ten percent (10%) per annum (the "Interest Rate") or, if less, the maximum rate permitted by applicable law. Past due amounts (including interest, to the extent permitted by law) will also accrue interest at the Interest Rate plus four percent (4%) per annum or, if less, the maximum rate permitted by applicable law, and will be payable on demand. Interest on this Convertible Note will be calculated on the basis of a 360-day year of twelve 30 day months. All payments of principal and interest hereunder shall be made for the benefit of the Holder pursuant to the terms of the Transfer Agent Agreement.

This Convertible Note is one of a duly authorized issuance of up to

$4,200,000 aggregate principal amount of Convertible Notes of the Company (the "Convertible Note") referred to in that Securities Purchase Agreement dated as of the date hereof between the Company, Infinity Investors Limited, Infinity Emerging Opportunities Limited, Glacier Capital Limited and Summit Capital Limited (as the same may be amended from time to time in accordance with its terms, the "Agreement"). The Agreement contains certain additional agreements among the parties with respect to the terms of this Convertible Note, including, without limitation, provisions which (i) limit the conversion rights of the Holder, (ii) specify voluntary and mandatory repayment, prepayment and redemption rights and obligations, and (iii) specify Events of Default following which the remaining balance due and owing hereunder may be accelerated. All such provisions are an integral part of this Convertible Note and are incorporated herein by reference. This Convertible Note is transferable and assignable to one or more purchasers in accordance with the limitations set forth in the Agreement.

The Company shall keep through the Transfer Agent a register (the "Register") in which shall be entered the names and addresses of the registered holder of this Convertible Note and particulars of this Convertible Note held by such holder and of all transfers of this Convertible Note. References to the Holder or "Holders" shall mean the Person listed in the Register as the registered holder of this Convertible Note. The ownership of this Convertible Note shall be proven by the Register.

1. Certain Terms Defined. All terms defined in the Agreement and not otherwise defined herein shall have for purposes hereof the meanings provided for therein.

2. Covenants. Unless the Majority Holders otherwise consent in writing, the Company covenants and agrees to observe and perform each of its obligations and undertakings contained in the Agreement, which obligations and undertakings are expressly assumed herein by the Company and made for the benefit of the Holders.

3. Payment and Prepayment of Principal of Convertible Note. Subject to Section 3.2 of the Agreement, the Company shall repay the remaining unpaid balance of this Convertible Note at the Formula Price on the Maturity Date. The Company may, and shall be obligated to, prepay all or a portion of this Convertible Note at either the Par Value Redemption Price or Formula Price, as applicable, on the terms and conditions specified in the Agreement.

4.1 Conversion of Convertible Note. The Holder shall have the right, at its option, at any time, and from time to time, after (i) the occurrence of an Event of Default or (ii) February 28, 1998, whichever shall occur earlier, to convert the principal amount of this Convertible Note, or any portion of such principal amount that is $1,000 or an integral multiple thereof, into that number of fully paid and nonassessable shares of Common Stock (as such shares shall then be constituted) obtained by dividing the aggregate principal amount of this Convertible Note or portion thereof subject to conversion by the applicable Conversion Price. The Holder is not entitled to any rights of a holder of Common Stock until such holder has converted its Convertible Note to Common Stock and only to the extent such Convertible Note is deemed to have been converted to Common Stock under Section 4.2 below. Notwithstanding the foregoing, the conversion rights of the Holder set forth herein shall be limited to the extent set forth in the Agreement.

4.2 When Conversion Effective. The conversion of this Convertible Note shall be deemed to have been effected at 8:00 a.m. on the Business Day (the

"Conversion Date") on which the Holder of this Convertible Note shall have delivered, prior to 4:00 p.m., Dallas, Texas time, to the Transfer Agent, with a copy to the Company (including delivery via facsimile), a written notice of conversion substantially in the form annexed to the Agreement (each a "Notice of Conversion"). At such time the Person or Persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become the holder or holders of record thereof.

4.3 Delivery of Stock Certificates. etc. As soon as practicable after conversion of this Convertible Note, in whole or in part, the Company at its expense (including the payment by it of any applicable issue taxes) will cause to be issued in the name of and delivered to the holder hereof or as such holder (upon payment by such holder of any applicable transfer taxes) may direct, a certificate or certificates for the number of duly authorized, validly issued, fully paid and nonassessable shares of Common Stock to which such holder shall be entitled upon such conversion plus, in lieu of any fractional share to which such holder would otherwise be entitled, cash in an amount equal to the same fraction of the Closing Bid Price per share on the Business Day next preceding the Conversion Date.

5. Modification of Convertible Note. This Convertible Note may be modified without prior notice to any Holder but with the written consent of the Majority Holders and the Company. However, without the consent of each Holder affected, an amendment, supplement or waiver may not (1) reduce the principal amount of Convertible Notes whose Holders must consent to an amendment, supplement or waiver, (2) reduce the rate or extend the time for payment of interest on any Convertible Note, (3) reduce the principal amount of or extend the fixed maturity of any Convertible Note or alter the redemption or conversion provisions with respect thereto or (4) make any Convertible Note payable in money or property other than as stated in the Convertible Note.

6. Miscellaneous. This Convertible Note shall be deemed to be a contract made under the laws of the State of New York, and for all purposes shall be governed by and construed in accordance with the laws of said State. The parties hereto, including all guarantors or endorsers, hereby waive presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance and enforcement of this Convertible Note, except as specifically provided herein, and assent to extensions of the time of payment, or forbearance or other indulgence without notice. The Company hereby submits to the [non-exclusive] jurisdiction of the United States District Court for the Northern District of Texas and of any Texas state court sitting in Dallas, Texas for purposes of all legal proceedings arising out of or relating to this Convertible Note. The Company irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum. The Company hereby irrevocably waives any and all right to trial by jury in any legal proceeding arising out of or relating to this Convertible Note.

The Holder of this Convertible Note by acceptance of this Convertible Note agrees to be bound by the provisions of this Convertible Note which are expressly binding on such Holder.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

Dated: October 14, 1997

TAKE-TWO INTERACTIVE SOFTWARE, INC.

By: /s/ Ryan Brant

Name: Ryan Brant

Title: CEO

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"). THE HOLDER HEREOF BY PURCHASING SUCH SECURITIES AGREES FOR THE BENEFIT OF THE COMPANY THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE COMPANY, (B) PURSUANT TO THE EXEMPTION FROM REGISTRATION UNDER THE 1933 ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, OR (C) IF REGISTERED UNDER THE 1933 ACT AND APPLICABLE STATE SECURITIES LAWS. IN ADDITION, A SECURITIES PURCHASE AGREEMENT DATED AS OF THE DATE HEREOF, A COPY OF WHICH MAY BE OBTAINED FROM THE COMPANY AT ITS PRINCIPAL EXECUTIVE OFFICE, CONTAINS CERTAIN ADDITIONAL AGREEMENTS AMONG THE PARTIES, INCLUDING, WITHOUT LIMITATION, PROVISIONS WHICH (A) LIMIT THE CONVERSION RIGHTS OF THE HOLDER, (B) SPECIFY VOLUNTARY AND MANDATORY REPAYMENT, PREPAYMENT AND REDEMPTION RIGHTS AND OBLIGATIONS AND (C) SPECIFY EVENTS OF DEFAULT FOLLOWING WHICH THE REMAINING BALANCE DUE AND OWING HEREWITH MAY BE ACCELERATED.

No. 2 $1,000,000

TAKE-TWO INTERACTIVE SOFTWARE, INC.

Convertible Note

TAKE-TWO INTERACTIVE SOFTWARE, INC., a Delaware corporation (together with its successors, the "Company"), for value received hereby promises to pay to:

Infinity Emerging Opportunities Limited

(the "Holder") and registered assigns, the principal sum of One Million Dollars ($1,000,000) on the Maturity Date by wire transfer of immediately available funds to the Holder in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, and to pay interest, quarterly in arrears, on (i) the last day of April, July, September and December of each year until the Maturity Date, commencing December 31, 1997 (unless such day is not a Business Day, in which event on the next succeeding Business Day) (each an "Interest Payment Date"), (ii) the Maturity Date, (iii) each Conversion Date, and (iv) the date the principal amount of this Convertible Note shall be declared to be or shall automatically become due and payable, on the principal sum hereof outstanding in like coin or currency, at the rates per annum set forth below, from the most recent Interest Payment Date to which interest has been paid on this Convertible Note, or if no interest

has been paid on this Convertible Note, from the date of this Convertible Note until payment in full of the principal sum hereof has been made.

The interest rate shall be ten percent (10%) per annum (the "Interest Rate") or, if less, the maximum rate permitted by applicable law. Past due amounts (including interest, to the extent permitted by law) will also accrue interest at the Interest Rate plus four percent (4%) per annum or, if less, the maximum rate permitted by applicable law, and will be payable on demand. Interest on this Convertible Note will be calculated on the basis of a 360-day year of twelve 30 day months. All payments of principal and interest hereunder shall be made for the benefit of the Holder pursuant to the terms of the

Transfer Agent Agreement.

This Convertible Note is one of a duly authorized issuance of up to $4,200,000 aggregate principal amount of Convertible Notes of the Company (the "Convertible Note") referred to in that Securities Purchase Agreement dated as of the date hereof between the Company, Infinity Investors Limited, Infinity Emerging Opportunities Limited, Glacier Capital Limited and Summit Capital Limited (as the same may be amended from time to time in accordance with its terms, the "Agreement"). The Agreement contains certain additional agreements among the parties with respect to the terms of this Convertible Note, including, without limitation, provisions which (i) limit the conversion rights of the Holder, (ii) specify voluntary and mandatory repayment, prepayment and redemption rights and obligations, and (iii) specify Events of Default following which the remaining balance due and owing hereunder may be accelerated. All such provisions are an integral part of this Convertible Note and are incorporated herein by reference. This Convertible Note is transferable and assignable to one or more purchasers in accordance with the limitations set forth in the Agreement.

The Company shall keep through the Transfer Agent a register (the "Register") in which shall be entered the names and addresses of the registered holder of this Convertible Note and particulars of this Convertible Note held by such holder and of all transfers of this Convertible Note. References to the Holder or "Holders" shall mean the Person listed in the Register as the registered holder of this Convertible Note. The ownership of this Convertible Note shall be proven by the Register.

1. Certain Terms Defined. All terms defined in the Agreement and not otherwise defined herein shall have for purposes hereof the meanings provided for therein.

2. Covenants. Unless the Majority Holders otherwise consent in writing, the Company covenants and agrees to observe and perform each of its obligations and undertakings contained in the Agreement, which obligations and undertakings are expressly assumed herein by the Company and made for the benefit of the Holders.

3. Payment and Prepayment of Principal of Convertible Note. Subject to Section 3.2 of the Agreement, the Company shall repay the remaining unpaid balance of this Convertible Note at the Formula Price on the Maturity Date. The Company may, and shall be

obligated to, prepay all or a portion of this Convertible Note at either the Par Value Redemption Price or Formula Price, as applicable, on the terms and conditions specified in the Agreement.

4.1 Conversion of Convertible Note. The Holder shall have the right, at its option, at any time, and from time to time, after (i) the occurrence of an Event of Default or (ii) February 28, 1998, whichever shall occur earlier, to convert the principal amount of this Convertible Note, or any portion of such principal amount that is $1,000 or an integral multiple thereof, into that number of fully paid and nonassessable shares of Common Stock (as such shares shall then be constituted) obtained by dividing the aggregate principal amount of this Convertible Note or portion thereof subject to conversion by the applicable Conversion Price. The Holder is not entitled to any rights of a holder of Common Stock until such holder has converted its Convertible Note to Common Stock and only to the extent such Convertible Note is deemed to have been converted to Common Stock under Section 4.2 below. Notwithstanding the foregoing, the

conversion rights of the Holder set forth herein shall be limited to the extent set forth in the Agreement.

4.2 When Conversion Effective. The conversion of this Convertible Note shall be deemed to have been effected at 8:00 a.m. on the Business Day (the "Conversion Date") on which the Holder of this Convertible Note shall have delivered, prior to 4:00 p.m., Dallas, Texas time, to the Transfer Agent, with a copy to the Company (including delivery via facsimile), a written notice of conversion substantially in the form annexed to the Agreement (each a "Notice of Conversion"). At such time the Person or Persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become the holder or holders of record thereof.

4.3 Delivery of Stock Certificates. etc. As soon as practicable after conversion of this Convertible Note, in whole or in part, the Company at its expense (including the payment by it of any applicable issue taxes) will cause to be issued in the name of and delivered to the holder hereof or as such holder (upon payment by such holder of any applicable transfer taxes) may direct, a certificate or certificates for the number of duly authorized, validly issued, fully paid and nonassessable shares of Common Stock to which such holder shall be entitled upon such conversion plus, in lieu of any fractional share to which such holder would otherwise be entitled, cash in an amount equal to the same fraction of the Closing Bid Price per share on the Business Day next preceding the Conversion Date.

5. Modification of Convertible Note. This Convertible Note may be modified without prior notice to any Holder but with the written consent of the Majority Holders and the Company. However, without the consent of each Holder affected, an amendment, supplement or waiver may not (1) reduce the principal amount of Convertible Notes whose Holders must consent to an amendment, supplement or waiver, (2) reduce the rate or extend the time for payment of interest on any Convertible Note, (3) reduce the principal amount of or extend the fixed maturity of any Convertible Note or alter the redemption or conversion provisions with

respect thereto or (4) make any Convertible Note payable in money or property other than as stated in the Convertible Note.

6. Miscellaneous. This Convertible Note shall be deemed to be a contract made under the laws of the State of New York, and for all purposes shall be governed by and construed in accordance with the laws of said State. The parties hereto, including all guarantors or endorsers, hereby waive presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance and enforcement of this Convertible Note, except as specifically provided herein, and assent to extensions of the time of payment, or forbearance or other indulgence without notice. The Company hereby submits to the [non-exclusive] jurisdiction of the United States District Court for the Northern District of Texas and of any Texas state court sitting in Dallas, Texas for purposes of all legal proceedings arising out of or relating to this Convertible Note. The Company irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum. The Company hereby irrevocably waives any and all right to trial by jury in any legal proceeding arising out of or relating to this Convertible Note.

The Holder of this Convertible Note by acceptance of this Convertible Note agrees to be bound by the provisions of this Convertible Note which are expressly binding on such Holder.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

Dated: October 14, 1997

TAKE-TWO INTERACTIVE SOFTWARE, INC.

By: /s/ Ryan Brant

Name: Ryan Brant

Title: CEO

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"). THE HOLDER HEREOF BY PURCHASING SUCH SECURITIES AGREES FOR THE BENEFIT OF THE COMPANY THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE COMPANY, (B) PURSUANT TO THE EXEMPTION FROM REGISTRATION UNDER THE 1933 ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, OR (C) IF REGISTERED UNDER THE 1933 ACT AND APPLICABLE STATE SECURITIES LAWS. IN ADDITION, A SECURITIES PURCHASE AGREEMENT DATED AS OF THE DATE HEREOF, A COPY OF WHICH MAY BE OBTAINED FROM THE COMPANY AT ITS PRINCIPAL EXECUTIVE OFFICE, CONTAINS CERTAIN ADDITIONAL AGREEMENTS AMONG THE PARTIES, INCLUDING, WITHOUT LIMITATION, PROVISIONS WHICH (A) LIMIT THE CONVERSION RIGHTS OF THE HOLDER, (B) SPECIFY VOLUNTARY AND MANDATORY REPAYMENT, PREPAYMENT AND REDEMPTION RIGHTS AND OBLIGATIONS AND (C) SPECIFY EVENTS OF DEFAULT FOLLOWING WHICH THE REMAINING BALANCE DUE AND OWING HEREWITH MAY BE ACCELERATED.

No. 3 $1,000,000

TAKE-TWO INTERACTIVE SOFTWARE, INC.

Convertible Note

TAKE-TWO INTERACTIVE SOFTWARE, INC., a Delaware corporation (together with its successors, the "Company"), for value received hereby promises to pay to:

Glacier Capital Limited

(the "Holder") and registered assigns, the principal sum of One Million Dollars ($1,000,000) on the Maturity Date by wire transfer of immediately available funds to the Holder in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, and to pay interest, quarterly in arrears, on (i) the last day of April, July, September and December of each year until the Maturity Date, commencing December 31, 1997 (unless such day is not a Business Day, in which event on the next succeeding Business Day) (each an "Interest Payment Date"), (ii) the Maturity Date, (iii) each Conversion Date, and (iv) the date the principal amount of this Convertible Note shall be declared to be or shall automatically become due and payable, on the principal sum hereof outstanding in like coin or currency, at the rates per annum set forth below, from the most recent Interest Payment Date to which interest has been paid on this Convertible Note, or if no interest

has been paid on this Convertible Note, from the date of this Convertible Note until payment in full of the principal sum hereof has been made.

The interest rate shall be ten percent (10%) per annum (the "Interest Rate") or, if less, the maximum rate permitted by applicable law. Past due amounts (including interest, to the extent permitted by law) will also accrue interest at the Interest Rate plus four percent (4%) per annum or, if less, the maximum rate permitted by applicable law, and will be payable on demand. Interest on this Convertible Note will be calculated on the basis of a 360-day year of twelve 30 day months. All payments of principal and interest hereunder shall be made for the benefit of the Holder pursuant to the terms of the Transfer Agent Agreement.

This Convertible Note is one of a duly authorized issuance of up to $4,200,000 aggregate principal amount of Convertible Notes of the Company (the "Convertible Note") referred to in that Securities Purchase Agreement dated as of the date hereof between the Company, Infinity Investors Limited, Infinity Emerging Opportunities Limited, Glacier Capital Limited and Summit Capital Limited (as the same may be amended from time to time in accordance with its terms, the "Agreement"). The Agreement contains certain additional agreements among the parties with respect to the terms of this Convertible Note, including, without limitation, provisions which (i) limit the conversion rights of the Holder, (ii) specify voluntary and mandatory repayment, prepayment and redemption rights and obligations, and (iii) specify Events of Default following which the remaining balance due and owing hereunder may be accelerated. All such provisions are an integral part of this Convertible Note and are incorporated herein by reference. This Convertible Note is transferable and assignable to one or more purchasers in accordance with the limitations set forth in the Agreement.

The Company shall keep through the Transfer Agent a register (the "Register") in which shall be entered the names and addresses of the registered holder of this Convertible Note and particulars of this Convertible Note held by such holder and of all transfers of this Convertible Note. References to the Holder or "Holders" shall mean the Person listed in the Register as the registered holder of this Convertible Note. The ownership of this Convertible Note shall be proven by the Register.

1. Certain Terms Defined. All terms defined in the Agreement and not otherwise defined herein shall have for purposes hereof the meanings provided for therein.

2. Covenants. Unless the Majority Holders otherwise consent in writing, the Company covenants and agrees to observe and perform each of its obligations and undertakings contained in the Agreement, which obligations and undertakings are expressly assumed herein by the Company and made for the benefit of the Holders.

3. Payment and Prepayment of Principal of Convertible Note. Subject to Section 3.2 of the Agreement, the Company shall repay the remaining unpaid balance of this Convertible Note at the Formula Price on the Maturity Date. The Company may, and shall be

obligated to, prepay all or a portion of this Convertible Note at either the Par Value Redemption Price or Formula Price, as applicable, on the terms and conditions specified in the Agreement.

4.1 Conversion of Convertible Note. The Holder shall have the right, at its option, at any time, and from time to time, after (i) the occurrence of an Event of Default or (ii) February 28, 1998, whichever shall occur earlier, to convert the principal amount of this Convertible Note, or any portion of such principal amount that is $1,000 or an integral multiple thereof, into that number of fully paid and nonassessable shares of Common Stock (as such shares shall then be constituted) obtained by dividing the aggregate principal amount of this Convertible Note or portion thereof subject to conversion by the applicable Conversion Price. The Holder is not entitled to any rights of a holder of Common Stock until such holder has converted its Convertible Note to Common Stock and only to the extent such Convertible Note is deemed to have been converted to Common Stock under Section 4.2 below. Notwithstanding the foregoing, the conversion rights of the Holder set forth herein shall be limited to the extent set forth in the Agreement.

4.2 When Conversion Effective. The conversion of this Convertible Note shall be deemed to have been effected at 8:00 a.m. on the Business Day (the "Conversion Date") on which the Holder of this Convertible Note shall have delivered, prior to 4:00 p.m., Dallas, Texas time, to the Transfer Agent, with a copy to the Company (including delivery via facsimile), a written notice of conversion substantially in the form annexed to the Agreement (each a "Notice of Conversion"). At such time the Person or Persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become the holder or holders of record thereof.

4.3 Delivery of Stock Certificates. etc. As soon as practicable after conversion of this Convertible Note, in whole or in part, the Company at its expense (including the payment by it of any applicable issue taxes) will cause to be issued in the name of and delivered to the holder hereof or as such holder (upon payment by such holder of any applicable transfer taxes) may direct, a certificate or certificates for the number of duly authorized, validly issued, fully paid and nonassessable shares of Common Stock to which such holder shall be entitled upon such conversion plus, in lieu of any fractional share to which such holder would otherwise be entitled, cash in an amount equal to the same fraction of the Closing Bid Price per share on the Business Day next preceding the Conversion Date.

5. Modification of Convertible Note. This Convertible Note may be modified without prior notice to any Holder but with the written consent of the Majority Holders and the Company. However, without the consent of each Holder affected, an amendment, supplement or waiver may not (1) reduce the principal amount of Convertible Notes whose Holders must consent to an amendment, supplement or waiver, (2) reduce the rate or extend the time for payment of interest on any Convertible Note, (3) reduce the principal amount of or extend the fixed maturity of any Convertible Note or alter the redemption or conversion provisions with

respect thereto or (4) make any Convertible Note payable in money or property other than as stated in the Convertible Note.

6. Miscellaneous. This Convertible Note shall be deemed to be a contract made under the laws of the State of New York, and for all purposes shall be governed by and construed in accordance with the laws of said State. The parties hereto, including all guarantors or endorsers, hereby waive presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance and enforcement of this Convertible Note, except as specifically provided herein, and assent to extensions of the time of payment, or forbearance or other indulgence without notice. The Company hereby submits to the [non-exclusive] jurisdiction of the United States District Court for the Northern District of Texas and of any Texas state court sitting in Dallas, Texas for purposes of all legal proceedings arising out of or relating to this Convertible Note. The Company irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum. The Company hereby irrevocably waives any and all right to trial by jury in any legal proceeding arising out of or relating to this Convertible Note.

The Holder of this Convertible Note by acceptance of this Convertible Note agrees to be bound by the provisions of this Convertible Note which are expressly binding on such Holder.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

Dated: October _____, 1997

TAKE-TWO INTERACTIVE SOFTWARE, INC.

By: /s/ Ryan Brant

Name: Ryan Brant

Title: CEO

THIS COMMON STOCK PURCHASE WARRANT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"); OR UNDER ANY APPLICABLE LAW OR REGULATION OF ANY STATE. THIS COMMON STOCK WARRANT MAY NOT BE SOLD, OFFERED, ASSIGNED OR TRANSFERRED UNLESS THE WARRANT IS REGISTERED UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS, OR SUCH OFFERS, SALES, ASSIGNMENTS AND TRANSFERS ARE MADE PURSUANT TO THE AVAILABLE EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF THOSE LAWS. FURTHERMORE, THESE SECURITIES ARE SUBJECT TO CERTAIN LIMITATIONS ON EXERCISE, AND THE SHARES OF COMMON STOCK RECEIVED UPON EXERCISE ARE SUBJECT TO CERTAIN LIMITATIONS ON SALE, IN EACH CASE AS DESCRIBED IN THAT CERTAIN SECURITIES PURCHASE AGREEMENT DATED THE DATE HEREOF (THE "PURCHASE AGREEMENT") BETWEEN, AMONG OTHERS, THE COMPANY AND THE INITIAL HOLDER HEREOF. THIS COMMON STOCK PURCHASE WARRANT CERTIFICATE REFERS TO AND IS SPECIFICALLY GOVERNED BY CERTAIN PROVISIONS CONTAINED IN THE PURCHASE AGREEMENT, A COPY OF WHICH IS ON FILE WITH AND MAY BE OBTAINED FROM THE COMPANY AT ITS PRINCIPAL PLACE OF BUSINESS.

TAKE-TWO INTERACTIVE SOFTWARE, INC.

COMMON STOCK PURCHASE WARRANT

DATED: October 14, 1997

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		No. 1	Infinity Investors Limited
Number of Common Shares:	135,000	Holder:	38 Hertford Street
Purchase Price:	$6.46		London, England
Expiration Date:	October 14, 2002		WIY 7TG

For identification only.
The governing terms of this Warrant are set forth below.

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TAKE-TWO INTERACTIVE SOFTWARE, INC., a Delaware corporation (the "Company"), hereby certifies that, for value received, Infinity Investors Limited or its assigns (each a "Holder"), is entitled, subject to the terms set forth below, to purchase from the Company at any time or from time to time after the date hereof and prior to October 14, 2002 (the "Exercise Period"), at the Purchase Price hereafter defined, One Hundred Thirty-Five Thousand (135,000) fully paid and nonassessable shares of Common Stock (as hereinafter defined) of the Company. The number and character of such shares of Common Stock and the Purchase Price are subject to adjustment as provided herein.

This Warrant (this "Warrant"; such term to include any warrants issued in substitution therefor) is one of a series of Common Stock Purchase Warrants issued in connection with that certain Securities Purchase Agreement (the "Purchase Agreement") dated of even date herewith between, among others, the initial Holder hereof and the Company.

The purchase price per share of Common Stock issuable upon exercise of this Warrant (the "Purchase Price") shall initially be $6.46; provided, however, that the Purchase Price shall be adjusted from time to time as provided herein.

As used herein the following terms, unless the context otherwise requires, have the following respective meanings:

(a) The term "Company" shall include Take-Two Interactive Software, Inc. and any entity that shall succeed or assume the obligations of such corporation hereunder.

(b) The term "Common Stock" includes (a) the Company's common stock, $.01 par value per share, (b) any other capital stock of any class or classes (however designated) of the Company, authorized on or after such date, the holders of which shall have the right, without limitation as to amount, either to all or to a share of the balance of current dividends and liquidating dividends after the payment of dividends and distributions on any shares entitled to preference, and the holders of which shall ordinarily, in the absence of contingencies, be entitled to vote for the election of a majority of directors of the Company (even though the right so to vote has been suspended by the happening of such a contingency) and (c) any other securities into which or for which any of the securities described in (a) or (b) may be converted or exchanged pursuant to a plan of recapitalization, reorganization, merger, sale of assets or otherwise.

(c) The term "Other Securities" refers to any stock (other than Common Stock) and other securities of the Company or any other person (corporate or otherwise) that the holder of this Warrant at any time shall be entitled to receive, or shall have received, on the exercise of this Warrant, in lieu of or in addition to Common Stock, or that at any time shall be issuable or shall have been issued in exchange for or in replacement of Common Stock or Other Securities pursuant to Section 4 or otherwise.

(d) The term "Market Value" shall mean the average closing price of the Common Stock during the twenty (20) trading days preceding (but not excluding) the Exercise Date as reported on any national securities exchange or automated quotation system on which the Common Stock is then traded (as reported by Bloomberg L.P.).

1. Exercise of Warrant.

1.1. Method of Exercise. This Warrant may be exercised in whole or in part (but not as to a fractional share of Common Stock), at any time and from time to time during the Exercise Period by the Holder hereof by delivery of a notice of exercise (a "Notice of Exercise") substantially in the form attached hereto as Exhibit A via facsimile to the

Company. Promptly thereafter the Holder shall surrender this Warrant to the Company at its principal office, accompanied by payment of the Purchase Price multiplied by the number of shares of Common Stock for which this Warrant is being exercised (the "Exercise Price"). Payment of the Exercise Price shall be made, at the option of the Holder, (i) by check or bank draft payable to the order of the Company, (ii) by wire transfer to the account of the Company, (iii) in shares of Common Stock having a Market Value on the Exercise Date (as hereinafter defined) equal to the aggregate Exercise Price or (iv) by presentation and surrender of this Warrant to the Company for cashless exercise (a "Cashless Exercise"), with such surrender being deemed a waiver of the Holder's obligation to pay all or any portion of the Exercise Price. In the event the Holder elects a Cashless Exercise (which such election shall be irrevocable) the Holder shall exchange this Warrant for that number of shares of Common Stock determined by multiplying the number of shares of Common Stock as to which the Warrant is being

exercised by a fraction, the numerator of which shall be the difference between the then current Market Value of the issued and outstanding Common Stock and the Purchase Price, and the denominator of which shall be the then current Market Value of the issued and outstanding Common Stock. If the amount of the payment received by the Company is less than the Exercise Price, the Holder will be notified of the deficiency and shall make payment in that amount within five (5) business days. In the event the payment exceeds the Exercise Price, the Company will promptly refund the excess to the Holder. Upon exercise, the Holder shall be entitled to receive, promptly after payment in full, one or more certificates, issued in the Holder's name or in such name or names as the Holder may direct, subject to the limitations on transfer contained herein, for the number of shares of Common Stock so purchased. The shares so purchased shall be deemed to be issued as of the close of business on the date on which the Company shall have received from the Holder payment in full of the Exercise Price (the "Exercise Date").

1.2. Regulation D Restrictions. The Holder hereof represents and warrants to the Company that it has acquired this Warrant and anticipates acquiring the shares of Common Stock issuable upon exercise of the Warrant solely for its own account for investment purposes and not with a view to or for resale of such securities unless such resale has been registered with the Securities and Exchange Commission or an applicable exemption is available therefor. At the time this Warrant is exercised, the Company may require the Holder to state in the Notice of Exercise such representations concerning the Holder as are necessary or appropriate to assure compliance by the Holder with the Securities Act.

1.3. Company Acknowledgment. The Company will, at the time of the exercise of this Warrant, upon the request of the Holder hereof, acknowledge in writing its continuing obligation to afford to the Holder any rights to which the Holder shall continue to be entitled after such exercise in accordance with the provisions of this Warrant. If the Holder shall fail to make any such request, such failure shall not affect the continuing obligation of the Company to afford to the Holder any such rights.

1.4. Limitation on Exercise. Notwithstanding the rights of the Holder to exercise all or a portion of this Warrant as described herein, such exercise rights shall be limited solely in the manner set forth in the Purchase Agreement as if such provisions were specifically set forth herein.

2. Delivery of Stock Certificates, etc., on Exercise. As soon as practicable after the exercise of this Warrant, and in any event within the time periods specified in the Purchase Agreement, the Company at its expense (including the payment by it of any applicable issue, stamp or transfer taxes upon issuance to the Holder) will cause to be issued in the name of and delivered to the Holder thereof, or, to the extent permissible hereunder, to such other person as the Holder may direct, a certificate or certificates for the number of fully paid and nonassessable shares of Common Stock (or Other Securities) to which the Holder shall be entitled on such exercise, plus, in lieu of any fractional share to which the Holder would otherwise be entitled, cash equal to such fraction multiplied by the then applicable Purchase Price, together with any other stock or other securities and property (including cash, where applicable) to which the Holder is entitled upon such exercise pursuant to Section 1 or otherwise.

3. Adjustment for Extraordinary Events. The Purchase Price to be paid by the Holder upon exercise of this Warrant shall be adjusted in case at any time or from time to time the Company should (i) subdivide the outstanding shares of Common Stock into a greater number of shares, (ii) consolidate the outstanding shares of Common Stock into a smaller number of shares, (iii) issue shares of Common Stock or securities convertible into or exchangeable for shares of Common Stock as a dividend to all or substantially all holders of shares of Common Stock or (iv) issue by reclassification of shares of Common Stock, any shares of capital stock of the Company, in each event pursuant to Article X of the Purchase Agreement as if such provisions were specifically set forth herein.

4. Exercise Price Reset.

4.1 Adjustment to Purchase Price if Additional Grant Shares are Issued. If the Company is obligated to issue any Additional Grant Shares (as defined in the Purchase Agreement), the Purchase Price shall be adjusted so that this Warrant will have a "value" equal to the "value" of this Warrant as of its original date of issue. For the purposes of this Section 4, the term "value" shall mean a good faith valuation of the theoretical trade price of this Warrant, prepared by HW Partners, L.P. (or such other entity as designated by the Holder) using a Black-Scholes or similar model and using as the "market price" for such model the market Price (as defined in the Purchase Agreement) used to determine the number of Additional Grant Shares.

4.2 Notice of Warrant Value. Within seven (7) business days after the Closing Date (as such term is defined in the Purchase Agreement), HW Partners, L.P. will deliver to the Company a certificate describing in reasonable detail the calculation of the value of this Warrant. Within seven (7) business days after the date on which the number of Additional Grant Shares is calculated (if any), HW Partners, L.P. will deliver to the

Company a certificate indicating in reasonable detail, (1) its calculation of the value of this Warrant as of such date and (2) its determination of the new Purchase Price for this Warrant as of such date. If there is no dispute as to the adjustment to the Purchase Price, the Company shall cause its auditors to deliver a notice of adjustment pursuant to Section 9 of this Warrant as promptly as practicable (but within ten (10) business days.).

4.3 Dispute as to Warrant Value. In the event that the Company disputes any calculation of Warrant value under this Section 4, the matter shall be referred to an Independent Financial Expert for final determination; provided that the Company notifies HW Partners, L.P. of such dispute within five (5) business days of written receipt of any certificate of Warrant value. For purposes of this Section 4.3, an Independent Financial Expert shall mean a nationally recognized investment banking firm (i) which does not (and whose directors, officers and employees and affiliates do not), have a direct or indirect financial interest in either the Company or any holder of this Warrant (other than a beneficial ownership, directly or indirectly, of less than one percent of the outstanding shares of capital stock of the Company), (ii) which has not been, and, at the time it is called upon to give independent financial services to the Company, is not (and none of whose directors, officers, employees or affiliates is) a promoter, director or officer of the Company or any of its affiliates or an underwriter with respect to any of the

Company's securities, (iii) which does not provide any advice or opinions to the Company or any Warrant holder except as an Independent Financial Expert and (iv) which is mutually agreeable to the Company and the holders of a majority of the Warrants. If the Company and the holders of a majority of the Warrants do not promptly agree as to the Independent Financial Expert, each shall appoint one investment banking firm and the two firms so appointed shall select the Independent financial Expert to be employed by the Company. An Independent Financial Expert shall be compensated by the Company for opinions or services it provides as an Independent Financial Expert. In making its determination of the value of this Warrant, the Independent Financial Expert shall use one or more valuation methods that the Independent Financial Expert, in its professional judgment, determines to be most appropriate. After the Independent Financial Expert has made its determination, the Company shall cause the Independent Financial Expert to prepare a report (a "Value Report") stating the methods of valuation considered or used and the value of the Warrant or other security it values and containing a statement as to the nature and scope of the examination made. Such Value Report shall accompany any notice of adjustment sent by the Company to the Holder pursuant to this Warrant; provided, that the adjustment to the Exercise Price that is the subject of such notice requires the services of any Independent Financial Expert.

5. No Impairment. The Company will not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be

necessary or appropriate in order to protect the rights of the Holder of this Warrant against impairment. Without limiting the generality of the foregoing, the Company (a) will not increase the par value of any shares of stock receivable on the exercise of this Warrant above the amount payable therefor on such exercise, (b) will take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of stock on the exercise of this Warrant and (c) will not transfer all or substantially all of its properties and assets to any other person (corporate or otherwise), or consolidate with or merge into any other person or permit any such person to consolidate with or merge into the Company (if the Company is not the surviving person), unless such other person shall expressly assume in writing and will be bound by all the terms of this Warrant.

6. Accountants' Certificate as to Adjustments. In each case of any adjustment or readjustment in the shares of Common Stock (or Other Securities) or the Purchase Price issuable on the exercise of this Warrant, the Company at its expense will cause independent certified public accountants of national standing selected by the Company (which may be the Company's auditors) to compute such adjustment or readjustment in accordance with the terms of this Warrant and prepare a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based, including a statement of (a) the consideration received or receivable by the Company for any additional shares of Common Stock (or Other Securities) issued or sold or deemed to have been issued or sold, (b) the number of shares of Common Stock (or Other Securities) outstanding or deemed to be outstanding and (c) the Purchase Price and the number of shares of Common Stock to be received upon exercise of this Warrant, in effect immediately prior to such issue or sale and as adjusted and readjusted as provided in this Warrant. The Company will forthwith mail a copy of each such certificate to the Holder of this Warrant, and will, on the written request at any time of the Holder of this Warrant, furnish to the Holder a like certificate setting forth the Purchase Price at the time in effect and showing how it was calculated.

7. Notices of Record Date, etc. In the event of

(a) any taking by the Company of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, or

(b) any capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company or any transfer of all or substantially all the assets of the Company to, or consolidation or merger of the Company with or into, any other person, or

(c) any voluntary or involuntary dissolution, liquidation or winding-up of the Company,

then, and in each such event, the Company will mail or cause to be mailed to the Holder of this Warrant a notice specifying (i) the date on which any such record is to be taken for the purpose of such dividend, distribution or right, and stating the amount and character of such dividend, distribution or right, and (ii) the date on which any such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up is to take place, and the time, if any, as of which the holders of record of Common Stock (or Other Securities) shall be entitled to exchange their shares of Common Stock (or Other Securities) for securities or other property deliverable on such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up. Such notice shall be mailed at least 20 days prior to the date specified in such notice on which any action is to be taken.

8. Reservation of Stock, etc. Issuable on Exercise of Warrant. The Company will at all times reserve and keep available, solely for issuance and delivery on the exercise of this Warrant, all shares of Common Stock (or Other Securities) from time to time issuable on the exercise of this Warrant.

9. Exchange of Warrant. On surrender for exchange of this Warrant, properly endorsed, to the Company, the Company at its expense will issue and deliver to or on the order of the holder thereof a new Warrant of like tenor, in the name of such Holder or as such Holder (on payment by such holder of any applicable transfer taxes) may direct, calling in the aggregate on the face or faces thereof for the number of shares of Common Stock called for on the face of the Warrant so surrendered.

10. Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction of this Warrant, on delivery of an indemnity agreement or security reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, on surrender and cancellation of this Warrant, the Company at its expense will execute and deliver, in lieu thereof, a new Warrant of like tenor.

11. Remedies. The Company stipulates that the remedies at law of the Holder of this Warrant in the event of any default by the Company in the performance of or compliance with any of the terms of this Warrant are not and will not be adequate, and that such terms may be specifically enforced by a decree for the specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

12. Negotiability, etc. This Warrant is issued upon the following terms, to

all of which each Holder or owner hereof by the taking hereof consents and agrees:

(a) title to this Warrant may be transferred by endorsement (by the Holder hereof executing the form of assignment at the end hereof) and delivery in the same manner as in the case of a negotiable instrument transferable by endorsement and delivery;

(b) any person in possession of this Warrant properly endorsed is authorized to represent himself as absolute owner hereof and is empowered to transfer absolute title hereto by endorsement and delivery hereof to a bona fide purchaser hereof for value; each prior taker or owner waives and renounces all of his equities or rights in this Warrant in favor of each such bona fide purchaser, and each such bona fide purchaser shall acquire absolute title hereto and to all rights represented hereby;

(c) until this Warrant is transferred on the books of the Company, the Company may treat the registered Holder hereof as the absolute owner hereof for all purposes, notwithstanding any notice to the contrary; and

(d) notwithstanding the foregoing, this Warrant may not be sold, transferred or assigned except pursuant to an effective registration statement under the Securities Act of 1933, as amended (the "Act"), or, pursuant to an applicable exemption therefrom (including in accordance with Regulation D promulgated under the Act).

13. Registration Rights. The Company is obligated to register the shares of Common Stock issuable upon exercise of this Warrant in accordance with the terms of a Registration Rights Agreement between the Company and the Holder dated the date hereof.

14. Notices, etc. All notices and other communications from the Company to the holder of this Warrant shall be mailed by first class registered or certified mail, postage prepaid, at such address as may have been furnished to the Company in writing by the Holder or, until any the Holder furnishes to the Company an address, then to, and at the address of, the last Holder of this Warrant who has so furnished an address to the Company.

15. Miscellaneous. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought. This Warrant shall be construed and enforced in accordance with and governed by the internal laws of the State of New York, except where the Texas Business Corporation Act or other law applies. The headings in this Warrant are for purposes of reference only, and shall not limit or otherwise affect any of the terms hereof. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision.

DATED as of October 14, 1997.

TAKE-TWO INTERACTIVE SOFTWARE, INC.

By: /s/ Ryan Brant

Name: Ryan Brant

Title: CEO

EXHIBIT A

FORM OF NOTICE OF EXERCISE - WARRANT

(To be executed only upon exercise or conversion
of the Warrant in whole or in part)

To Take-Two Interactive Software, Inc.

The undersigned registered holder of the accompanying Warrant hereby exercises such Warrant or portion thereof for, and purchases thereunder, _____/1 shares of Common Stock (as defined in such Warrant) and herewith makes payment therefor in the amount and manner set forth below, as of the date written below. The undersigned requests that the certificates for such shares of Common Stock be issued in the name of, and delivered to, _____ _____ whose address is _____ _____.

The Exercise Price is paid as follows:

|_| Bank draft payable to the Company in the amount of $_____.

|_| Wire transfer to the account of the Company in the amount of $_____.

|_| Delivery of _____ previously held shares having an aggregate Market Value of $_____.

|_| Cashless exercise. Surrender of _____ shares purchasable under this Warrant for such shares of Common Stock issuable in exchange therefor pursuant to the Cashless Exercise provisions of the within Warrant, as provided in Section 1.1(iv) thereto.

Upon exercise pursuant to this Notice of Exercise, the holder will be in compliance with the Limitation on Exercise (as defined in the Securities Purchase Agreement pursuant to which this Warrant was issued).

Dated: _____

_____
(Name must conform to name of holder as specified on the face of the Warrant)

By:_____
Name:_____
Title:_____

Address of holder:

_____

_____

_____

Date of exercise:_____

- --------

1 Insert the number of shares of Common Stock as to which the accompanying Warrant is being exercised. In the case of a partial exercise, a new Warrant or Warrants will be issued and delivered, representing the unexercised portion of the accompanying Warrant, to the holder surrendering the same.

THIS COMMON STOCK PURCHASE WARRANT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"); OR UNDER ANY APPLICABLE LAW OR REGULATION OF ANY STATE. THIS COMMON STOCK WARRANT MAY NOT BE SOLD, OFFERED, ASSIGNED OR TRANSFERRED UNLESS THE WARRANT IS REGISTERED UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS, OR SUCH OFFERS, SALES, ASSIGNMENTS AND TRANSFERS ARE MADE PURSUANT TO THE AVAILABLE EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF THOSE LAWS. FURTHERMORE, THESE SECURITIES ARE SUBJECT TO CERTAIN LIMITATIONS ON EXERCISE, AND THE SHARES OF COMMON STOCK RECEIVED UPON EXERCISE ARE SUBJECT TO CERTAIN LIMITATIONS ON SALE, IN EACH CASE AS DESCRIBED IN THAT CERTAIN SECURITIES PURCHASE AGREEMENT DATED THE DATE HEREOF (THE "PURCHASE AGREEMENT") BETWEEN, AMONG OTHERS, THE COMPANY AND THE INITIAL HOLDER HEREOF. THIS COMMON STOCK PURCHASE WARRANT CERTIFICATE REFERS TO AND IS SPECIFICALLY GOVERNED BY CERTAIN PROVISIONS CONTAINED IN THE PURCHASE AGREEMENT, A COPY OF WHICH IS ON FILE WITH AND MAY BE OBTAINED FROM THE COMPANY AT ITS PRINCIPAL PLACE OF BUSINESS.

TAKE-TWO INTERACTIVE SOFTWARE, INC.

COMMON STOCK PURCHASE WARRANT

DATED: October 14, 1997

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No.

2 Infinity Emerging Opportunities Limited
Number of Common Shares: 57,500 Holder: 38 Hertford Street
Purchase Price: $6.46 London, England
Expiration Date: October 14, 2002 WIY 7TG

For identification only. The governing terms of this Warrant are set forth below.

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TAKE-TWO INTERACTIVE SOFTWARE, INC., a Delaware corporation (the "Company"), hereby certifies that, for value received, Infinity Emerging Opportunities Limited or its assigns (each a "Holder"), is entitled, subject to the terms set forth below, to purchase from the Company at any time or from time to time after the date hereof and prior to October 14, 2002 (the "Exercise Period"), at the Purchase Price hereafter defined, Fifty-Seven Thousand Five Hundred (57,500) fully paid and nonassessable shares of Common Stock (as hereinafter defined) of the Company. The number and character of such shares of Common Stock and the Purchase Price are subject to adjustment as provided herein.

This Warrant (this "Warrant"; such term to include any warrants issued in substitution therefor) is one of a series of Common Stock Purchase Warrants issued in connection with that certain Securities Purchase Agreement (the "Purchase Agreement") dated of even date herewith between, among others, the initial Holder hereof and the Company.

The purchase price per share of Common Stock issuable upon exercise of this Warrant (the "Purchase Price") shall initially be $6.46; provided, however, that the Purchase Price shall be adjusted from time to time as provided herein.

As used herein the following terms, unless the context otherwise requires, have the following respective meanings:

(a) The term "Company" shall include Take-Two Interactive Software, Inc. and any entity that shall succeed or assume the obligations of such corporation hereunder.

(b) The term "Common Stock" includes (a) the Company's common stock, $.01 par value per share, (b) any other capital stock of any class or classes (however designated) of the Company, authorized on or after such date, the holders of which shall have the right, without limitation as to amount, either to all or to a share of the balance of current dividends and liquidating dividends after the payment of dividends and distributions on any shares entitled to preference, and the holders of which shall ordinarily, in the absence of contingencies, be entitled to vote for the election of a majority of directors of the Company (even though the right so to vote has been suspended by the happening of such a contingency) and (c) any other securities into which or for which any of the securities described in (a) or (b) may be converted or exchanged pursuant to a plan of recapitalization, reorganization, merger, sale of assets or otherwise.

(c) The term "Other Securities" refers to any stock (other than Common Stock) and other securities of the Company or any other person (corporate or otherwise) that the holder of this Warrant at any time shall be entitled to receive, or shall have received, on the exercise of this Warrant, in lieu of or in addition to Common Stock, or that at any time shall be issuable or shall have been issued in exchange for or in replacement of Common Stock or Other Securities pursuant to Section 4 or otherwise.

(d) The term "Market Value" shall mean the average closing price of the Common Stock during the twenty (20) trading days preceding (but not excluding) the Exercise Date as reported on any national securities exchange or automated quotation system on which the Common Stock is then traded (as reported by Bloomberg L.P.).

1. Exercise of Warrant.

1.1. Method of Exercise. This Warrant may be exercised in whole or in part (but not as to a fractional share of Common Stock), at any time and from time to time during the Exercise Period by the Holder hereof by delivery of a notice of exercise (a "Notice of Exercise") substantially in the form attached hereto as Exhibit A via facsimile to the Company. Promptly thereafter the Holder shall surrender this Warrant to the

Company at its principal office, accompanied by payment of the Purchase Price multiplied by the number of shares of Common Stock for which this Warrant is being exercised (the "Exercise Price"). Payment of the Exercise Price shall be made, at the option of the Holder, (i) by check or bank draft payable to the order of the Company, (ii) by wire transfer to the account of the Company, (iii) in shares of Common Stock having a Market Value on the Exercise Date (as hereinafter defined) equal to the aggregate Exercise Price or (iv) by presentation and surrender of this Warrant to the Company for cashless exercise (a "Cashless Exercise"), with such surrender being deemed a waiver of the Holder's obligation to pay all or any portion of the Exercise Price. In the event the Holder elects a Cashless Exercise (which such election shall be irrevocable) the Holder shall exchange this Warrant for that number of shares of Common Stock determined by multiplying the number of shares of Common Stock as to which the Warrant is being exercised by a fraction, the numerator of which shall be the difference between the then current Market Value of the issued and outstanding Common Stock and the Purchase Price, and the denominator of which shall be the then current Market Value of the issued and outstanding Common Stock. If the amount of the payment received by the Company is less than the Exercise

Price, the Holder will be notified of the deficiency and shall make payment in that amount within five (5) business days. In the event the payment exceeds the Exercise Price, the Company will promptly refund the excess to the Holder. Upon exercise, the Holder shall be entitled to receive, promptly after payment in full, one or more certificates, issued in the Holder's name or in such name or names as the Holder may direct, subject to the limitations on transfer contained herein, for the number of shares of Common Stock so purchased. The shares so purchased shall be deemed to be issued as of the close of business on the date on which the Company shall have received from the Holder payment in full of the Exercise Price (the "Exercise Date").

1.2. Regulation D Restrictions. The Holder hereof represents and warrants to the Company that it has acquired this Warrant and anticipates acquiring the shares of Common Stock issuable upon exercise of the Warrant solely for its own account for investment purposes and not with a view to or for resale of such securities unless such resale has been registered with the Securities and Exchange Commission or an applicable exemption is available therefor. At the time this Warrant is exercised, the Company may require the Holder to state in the Notice of Exercise such representations concerning the Holder as are necessary or appropriate to assure compliance by the Holder with the Securities Act.

1.3. Company Acknowledgment. The Company will, at the time of the exercise of this Warrant, upon the request of the Holder hereof, acknowledge in writing its continuing obligation to afford to the Holder any rights to which the Holder shall continue to be entitled after such exercise in accordance with the provisions of this Warrant. If the Holder shall fail to make any such request, such failure shall not affect the continuing obligation of the Company to afford to the Holder any such rights.

1.4. Limitation on Exercise. Notwithstanding the rights of the Holder to exercise all or a portion of this Warrant as described herein, such exercise rights shall be limited solely in the manner set forth in the Purchase Agreement as if such provisions were specifically set forth herein.

2. Delivery of Stock Certificates, etc., on Exercise. As soon as practicable after the exercise of this Warrant, and in any event within the time periods specified in the Purchase Agreement, the Company at its expense (including the payment by it of any applicable issue, stamp or transfer taxes upon issuance to the Holder) will cause to be issued in the name of and delivered to the Holder thereof, or, to the extent permissible hereunder, to such other person as the Holder may direct, a certificate or certificates for the number of fully paid and nonassessable shares of Common Stock (or Other Securities) to which the Holder shall be entitled on such exercise, plus, in lieu of any fractional share to which the Holder would otherwise be entitled, cash equal to such fraction multiplied by the then applicable Purchase Price, together with any other stock or other securities and property (including cash, where applicable) to which the Holder is entitled upon such exercise pursuant to Section 1 or otherwise.

3. Adjustment for Extraordinary Events. The Purchase Price to be paid by the Holder upon exercise of this Warrant shall be adjusted in case at any time or from time to time the Company should (i) subdivide the outstanding shares of Common Stock into a greater number of shares, (ii) consolidate the outstanding shares of Common Stock into a smaller number of shares, (iii) issue shares of Common Stock or securities convertible into or exchangeable for shares of Common Stock as a dividend to all or substantially all holders of shares of Common

Stock or (iv) issue by reclassification of shares of Common Stock, any shares of capital stock of the Company, in each event pursuant to Article X of the Purchase Agreement as if such provisions were specifically set forth herein.

4. Exercise Price Reset.

4.1 Adjustment to Purchase Price if Additional Grant Shares are Issued. If the Company is obligated to issue any Additional Grant Shares (as defined in the Purchase Agreement), the Purchase Price shall be adjusted so that this Warrant will have a "value" equal to the "value" of this Warrant as of its original date of issue. For the purposes of this Section 4, the term "value" shall mean a good faith valuation of the theoretical trade price of this Warrant, prepared by HW Partners, L.P. (or such other entity as designated by the Holder) using a Black-Scholes or similar model and using as the "market price" for such model the market Price (as defined in the Purchase Agreement) used to determine the number of Additional Grant Shares.

4.2 Notice of Warrant Value. Within seven (7) business days after the Closing Date (as such term is defined in the Purchase Agreement), HW Partners, L.P. will deliver to the Company a certificate describing in reasonable detail the calculation of the value of this Warrant. Within seven (7) business days after the date on which the number of Additional Grant Shares is calculated (if any), HW Partners, L.P. will deliver to the

Company a certificate indicating in reasonable detail, (1) its calculation of the value of this Warrant as of such date and (2) its determination of the new Purchase Price for this Warrant as of such date. If there is no dispute as to the adjustment to the Purchase Price, the Company shall cause its auditors to deliver a notice of adjustment pursuant to Section 9 of this Warrant as promptly as practicable (but within ten (10) business days.).

4.3 Dispute as to Warrant Value. In the event that the Company disputes any calculation of Warrant value under this Section 4, the matter shall be referred to an Independent Financial Expert for final determination; provided that the Company notifies HW Partners, L.P. of such dispute within five (5) business days of written receipt of any certificate of Warrant value. For purposes of this Section 4.3, an Independent Financial Expert shall mean a nationally recognized investment banking firm (i) which does not (and whose directors, officers and employees and affiliates do not), have a direct or indirect financial interest in either the Company or any holder of this Warrant (other than a beneficial ownership, directly or indirectly, of less than one percent of the outstanding shares of capital stock of the Company), (ii) which has not been, and, at the time it is called upon to give independent financial services to the Company, is not (and none of whose directors, officers, employees or affiliates is) a promoter, director or officer of the Company or any of its affiliates or an underwriter with respect to any of the Company's securities, (iii) which does not provide any advice or opinions to the Company or any Warrant holder except as an Independent Financial Expert and (iv) which is mutually agreeable to the Company and the holders of a majority of the Warrants. If the Company and the holders of a majority of the Warrants do not promptly agree as to the Independent Financial Expert, each shall appoint one investment banking firm and the two firms so appointed shall select the Independent financial Expert to be employed by the Company. An Independent Financial Expert shall be compensated by the Company for opinions or services it provides as an Independent Financial Expert. In making its determination of the value of this Warrant, the Independent Financial Expert shall use one or more valuation methods that the Independent Financial Expert, in its professional judgment, determines

to be most appropriate. After the Independent Financial Expert has made its determination, the Company shall cause the Independent Financial Expert to prepare a report (a "Value Report") stating the methods of valuation considered or used and the value of the Warrant or other security it values and containing a statement as to the nature and scope of the examination made. Such Value Report shall accompany any notice of adjustment sent by the Company to the Holder pursuant to this Warrant; provided, that the adjustment to the Exercise Price that is the subject of such notice requires the services of any Independent Financial Expert.

5. No Impairment. The Company will not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be

necessary or appropriate in order to protect the rights of the Holder of this Warrant against impairment. Without limiting the generality of the foregoing, the Company (a) will not increase the par value of any shares of stock receivable on the exercise of this Warrant above the amount payable therefor on such exercise, (b) will take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of stock on the exercise of this Warrant and (c) will not transfer all or substantially all of its properties and assets to any other person (corporate or otherwise), or consolidate with or merge into any other person or permit any such person to consolidate with or merge into the Company (if the Company is not the surviving person), unless such other person shall expressly assume in writing and will be bound by all the terms of this Warrant.

6. Accountants' Certificate as to Adjustments. In each case of any adjustment or readjustment in the shares of Common Stock (or Other Securities) or the Purchase Price issuable on the exercise of this Warrant, the Company at its expense will cause independent certified public accountants of national standing selected by the Company (which may be the Company's auditors) to compute such adjustment or readjustment in accordance with the terms of this Warrant and prepare a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based, including a statement of (a) the consideration received or receivable by the Company for any additional shares of Common Stock (or Other Securities) issued or sold or deemed to have been issued or sold, (b) the number of shares of Common Stock (or Other Securities) outstanding or deemed to be outstanding and (c) the Purchase Price and the number of shares of Common Stock to be received upon exercise of this Warrant, in effect immediately prior to such issue or sale and as adjusted and readjusted as provided in this Warrant. The Company will forthwith mail a copy of each such certificate to the Holder of this Warrant, and will, on the written request at any time of the Holder of this Warrant, furnish to the Holder a like certificate setting forth the Purchase Price at the time in effect and showing how it was calculated.

7. Notices of Record Date, etc. In the event of

(a) any taking by the Company of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, or

(b) any capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company or any transfer of all

or substantially all the assets of the Company to, or consolidation or merger of the Company with or into, any other person, or

(c) any voluntary or involuntary dissolution, liquidation or winding-up of the Company,

then, and in each such event, the Company will mail or cause to be mailed to the Holder of this Warrant a notice specifying (i) the date on which any such record is to be taken for the purpose of such dividend, distribution or right, and stating the amount and character of such dividend, distribution or right, and (ii) the date on which any such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up is to take place, and the time, if any, as of which the holders of record of Common Stock (or Other Securities) shall be entitled to exchange their shares of Common Stock (or Other Securities) for securities or other property deliverable on such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up. Such notice shall be mailed at least 20 days prior to the date specified in such notice on which any action is to be taken.

8. Reservation of Stock, etc. Issuable on Exercise of Warrant. The Company will at all times reserve and keep available, solely for issuance and delivery on the exercise of this Warrant, all shares of Common Stock (or Other Securities) from time to time issuable on the exercise of this Warrant.

9. Exchange of Warrant. On surrender for exchange of this Warrant, properly endorsed, to the Company, the Company at its expense will issue and deliver to or on the order of the holder thereof a new Warrant of like tenor, in the name of such Holder or as such Holder (on payment by such holder of any applicable transfer taxes) may direct, calling in the aggregate on the face or faces thereof for the number of shares of Common Stock called for on the face of the Warrant so surrendered.

10. Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction of this Warrant, on delivery of an indemnity agreement or security reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, on surrender and cancellation of this Warrant, the Company at its expense will execute and deliver, in lieu thereof, a new Warrant of like tenor.

11. Remedies. The Company stipulates that the remedies at law of the Holder of this Warrant in the event of any default by the Company in the performance of or compliance with any of the terms of this Warrant are not and will not be adequate, and that such terms may be specifically enforced by a decree for the specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

12. Negotiability, etc. This Warrant is issued upon the following terms, to all of which each Holder or owner hereof by the taking hereof consents and agrees:

(a) title to this Warrant may be transferred by endorsement (by the Holder hereof executing the form of assignment at the end hereof) and delivery in the same manner as in the case of a negotiable instrument transferable by endorsement and delivery;

(b) any person in possession of this Warrant properly endorsed is authorized to represent himself as absolute owner hereof and is empowered to transfer absolute title hereto by endorsement and delivery hereof to a bona fide purchaser hereof for value; each prior taker or owner waives and renounces all of his equities or rights in this Warrant in favor of each such bona fide purchaser, and each such bona fide purchaser shall acquire absolute title hereto and to all rights represented hereby;

(c) until this Warrant is transferred on the books of the Company, the Company may treat the registered Holder hereof as the absolute owner hereof for all purposes, notwithstanding any notice to the contrary; and

(d) notwithstanding the foregoing, this Warrant may not be sold, transferred or assigned except pursuant to an effective registration statement under the Securities Act of 1933, as amended (the "Act"), or, pursuant to an applicable exemption therefrom (including in accordance with Regulation D promulgated under the Act).

13. Registration Rights. The Company is obligated to register the shares of Common Stock issuable upon exercise of this Warrant in accordance with the terms of a Registration Rights Agreement between the Company and the Holder dated the date hereof.

14. Notices, etc. All notices and other communications from the Company to the holder of this Warrant shall be mailed by first class registered or certified mail, postage prepaid, at such address as may have been furnished to the Company in writing by the Holder or, until any the Holder furnishes to the Company an address, then to, and at the address of, the last Holder of this Warrant who has so furnished an address to the Company.

15. Miscellaneous. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought. This Warrant shall be construed and enforced in accordance with and governed by the internal laws of the State of New York, except where the Texas Business Corporation Act or other law applies. The headings in this Warrant are for purposes of reference only, and shall not limit or otherwise affect any of the terms hereof. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision.

DATED as of October 14, 1997.

TAKE-TWO INTERACTIVE SOFTWARE, INC.

By: /s/ Ryan Brant

Name: Ryan Brant

Title: CEO

EXHIBIT A

FORM OF NOTICE OF EXERCISE - WARRANT

(To be executed only upon exercise or conversion
of the Warrant in whole or in part)

To Take-Two Interactive Software, Inc.

The undersigned registered holder of the accompanying Warrant hereby exercises such Warrant or portion thereof for, and purchases thereunder, _____/1 shares of Common Stock (as defined in such Warrant) and herewith makes payment therefor in the amount and manner set forth below, as of the date written below. The undersigned requests that the certificates for such shares of Common Stock be issued in the name of, and delivered to, _____ _____ whose address is _____ _____.

The Exercise Price is paid as follows:

|_| Bank draft payable to the Company in the amount of $_____.

|_| Wire transfer to the account of the Company in the amount of $_____.

|_| Delivery of _____ previously held shares having an aggregate Market Value of $_____.

|_| Cashless exercise. Surrender of _____ shares purchasable under this Warrant for such shares of Common Stock issuable in exchange therefor pursuant to the Cashless Exercise provisions of the within Warrant, as provided in Section 1.1(iv) thereto.

Upon exercise pursuant to this Notice of Exercise, the holder will be in compliance with the Limitation on Exercise (as defined in the Securities Purchase Agreement pursuant to which this Warrant was issued).

Dated: _____

_____
(Name must conform to name of holder as specified on the face of the Warrant)

By:_____
Name:_____
Title:_____

Address of holder:

_____

_____

_____

Date of exercise:_____

- --------
1 Insert the number of shares of Common Stock as to which the accompanying Warrant is being exercised. In the case of a partial exercise, a new Warrant or Warrants will be issued and delivered, representing the

unexercised portion of the accompanying Warrant, to the holder surrendering the same.

THIS COMMON STOCK PURCHASE WARRANT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"); OR UNDER ANY APPLICABLE LAW OR REGULATION OF ANY STATE. THIS COMMON STOCK WARRANT MAY NOT BE SOLD, OFFERED, ASSIGNED OR TRANSFERRED UNLESS THE WARRANT IS REGISTERED UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS, OR SUCH OFFERS, SALES, ASSIGNMENTS AND TRANSFERS ARE MADE PURSUANT TO THE AVAILABLE EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF THOSE LAWS. FURTHERMORE, THESE SECURITIES ARE SUBJECT TO CERTAIN LIMITATIONS ON EXERCISE, AND THE SHARES OF COMMON STOCK RECEIVED UPON EXERCISE ARE SUBJECT TO CERTAIN LIMITATIONS ON SALE, IN EACH CASE AS DESCRIBED IN THAT CERTAIN SECURITIES PURCHASE AGREEMENT DATED THE DATE HEREOF (THE "PURCHASE AGREEMENT") BETWEEN, AMONG OTHERS, THE COMPANY AND THE INITIAL HOLDER HEREOF. THIS COMMON STOCK PURCHASE WARRANT CERTIFICATE REFERS TO AND IS SPECIFICALLY GOVERNED BY CERTAIN PROVISIONS CONTAINED IN THE PURCHASE AGREEMENT, A COPY OF WHICH IS ON FILE WITH AND MAY BE OBTAINED FROM THE COMPANY AT ITS PRINCIPAL PLACE OF BUSINESS.

TAKE-TWO INTERACTIVE SOFTWARE, INC.

COMMON STOCK PURCHASE WARRANT

DATED: October 14, 1997

- ---

No. 3 Glacier Capital Limited
Number of Common Shares: 57,500 Holder: 38 Hertford Street
Purchase Price: $6.46 London, England
Expiration Date: October 14, 2002 WIY 7TG

For identification only.
The governing terms of this Warrant are set forth below.

- ---

TAKE-TWO INTERACTIVE SOFTWARE, INC., a Delaware corporation (the "Company"), hereby certifies that, for value received, Glacier Capital Limited or its assigns (each a "Holder"), is entitled, subject to the terms set forth below, to purchase from the Company at any time or from time to time after the date hereof and prior to October 14, 2002 (the "Exercise Period"), at the Purchase Price hereafter defined, Fifty-Seven Thousand Five Hundred (57,500) fully paid and nonassessable shares of Common Stock (as hereinafter defined) of the Company. The number and character of such shares of Common Stock and the Purchase Price are subject to adjustment as provided herein.

This Warrant (this "Warrant"; such term to include any warrants issued in substitution therefor) is one of a series of Common Stock Purchase Warrants issued in connection with that certain Securities Purchase Agreement (the "Purchase Agreement") dated of even date herewith between, among others, the initial Holder hereof and the Company.

The purchase price per share of Common Stock issuable upon exercise of this Warrant (the "Purchase Price") shall initially be $6.46; provided, however, that the Purchase Price shall be adjusted from time to time as provided herein.

As used herein the following terms, unless the context otherwise requires, have the following respective meanings:

(a) The term "Company" shall include Take-Two Interactive Software, Inc. and any entity that shall succeed or assume the obligations of such

corporation hereunder.

(b) The term "Common Stock" includes (a) the Company's common stock, $.01 par value per share, (b) any other capital stock of any class or classes (however designated) of the Company, authorized on or after such date, the holders of which shall have the right, without limitation as to amount, either to all or to a share of the balance of current dividends and liquidating dividends after the payment of dividends and distributions on any shares entitled to preference, and the holders of which shall ordinarily, in the absence of contingencies, be entitled to vote for the election of a majority of directors of the Company (even though the right so to vote has been suspended by the happening of such a contingency) and (c) any other securities into which or for which any of the securities described in (a) or (b) may be converted or exchanged pursuant to a plan of recapitalization, reorganization, merger, sale of assets or otherwise.

(c) The term "Other Securities" refers to any stock (other than Common Stock) and other securities of the Company or any other person (corporate or otherwise) that the holder of this Warrant at any time shall be entitled to receive, or shall have received, on the exercise of this Warrant, in lieu of or in addition to Common Stock, or that at any time shall be issuable or shall have been issued in exchange for or in replacement of Common Stock or Other Securities pursuant to Section 4 or otherwise.

(d) The term "Market Value" shall mean the average closing price of the Common Stock during the twenty (20) trading days preceding (but not excluding) the Exercise Date as reported on any national securities exchange or automated quotation system on which the Common Stock is then traded (as reported by Bloomberg L.P.).

1. Exercise of Warrant.

1.1. Method of Exercise. This Warrant may be exercised in whole or in part (but not as to a fractional share of Common Stock), at any time and from time to time during the Exercise Period by the Holder hereof by delivery of a notice of exercise (a "Notice of Exercise") substantially in the form attached hereto as Exhibit A via facsimile to the Company. Promptly thereafter the Holder shall surrender this Warrant to the

Company at its principal office, accompanied by payment of the Purchase Price multiplied by the number of shares of Common Stock for which this Warrant is being exercised (the "Exercise Price"). Payment of the Exercise Price shall be made, at the option of the Holder, (i) by check or bank draft payable to the order of the Company, (ii) by wire transfer to the account of the Company, (iii) in shares of Common Stock having a Market Value on the Exercise Date (as hereinafter defined) equal to the aggregate Exercise Price or (iv) by presentation and surrender of this Warrant to the Company for cashless exercise (a "Cashless Exercise"), with such surrender being deemed a waiver of the Holder's obligation to pay all or any portion of the Exercise Price. In the event the Holder elects a Cashless Exercise (which such election shall be irrevocable) the Holder shall exchange this Warrant for that number of shares of Common Stock determined by multiplying the number of shares of Common Stock as to which the Warrant is being exercised by a fraction, the numerator of which shall be the difference between the then current Market Value of the issued and outstanding Common Stock and the Purchase Price, and the denominator of which shall be the then current Market Value of the issued and outstanding Common Stock. If the amount of the payment received by the Company is less than the Exercise Price, the Holder will be notified of the deficiency and shall make payment in that amount within five (5) business days. In the event the payment exceeds the Exercise Price, the Company will promptly refund the excess to

the Holder. Upon exercise, the Holder shall be entitled to receive, promptly after payment in full, one or more certificates, issued in the Holder's name or in such name or names as the Holder may direct, subject to the limitations on transfer contained herein, for the number of shares of Common Stock so purchased. The shares so purchased shall be deemed to be issued as of the close of business on the date on which the Company shall have received from the Holder payment in full of the Exercise Price (the "Exercise Date").

1.2. Regulation D Restrictions. The Holder hereof represents and warrants to the Company that it has acquired this Warrant and anticipates acquiring the shares of Common Stock issuable upon exercise of the Warrant solely for its own account for investment purposes and not with a view to or for resale of such securities unless such resale has been registered with the Securities and Exchange Commission or an applicable exemption is available therefor. At the time this Warrant is exercised, the Company may require the Holder to state in the Notice of Exercise such representations concerning the Holder as are necessary or appropriate to assure compliance by the Holder with the Securities Act.

1.3. Company Acknowledgment. The Company will, at the time of the exercise of this Warrant, upon the request of the Holder hereof, acknowledge in writing its continuing obligation to afford to the Holder any rights to which the Holder shall continue to be entitled after such exercise in accordance with the provisions of this Warrant. If the Holder shall fail to make any such request, such failure shall not affect the continuing obligation of the Company to afford to the Holder any such rights.

1.4. Limitation on Exercise. Notwithstanding the rights of the Holder to exercise all or a portion of this Warrant as described herein, such exercise rights shall be limited solely in the manner set forth in the Purchase Agreement as if such provisions were specifically set forth herein.

2. Delivery of Stock Certificates, etc., on Exercise. As soon as practicable after the exercise of this Warrant, and in any event within the time periods specified in the Purchase Agreement, the Company at its expense (including the payment by it of any applicable issue, stamp or transfer taxes upon issuance to the Holder) will cause to be issued in the name of and delivered to the Holder thereof, or, to the extent permissible hereunder, to such other person as the Holder may direct, a certificate or certificates for the number of fully paid and nonassessable shares of Common Stock (or Other Securities) to which the Holder shall be entitled on such exercise, plus, in lieu of any fractional share to which the Holder would otherwise be entitled, cash equal to such fraction multiplied by the then applicable Purchase Price, together with any other stock or other securities and property (including cash, where applicable) to which the Holder is entitled upon such exercise pursuant to Section 1 or otherwise.

3. Adjustment for Extraordinary Events. The Purchase Price to be paid by the Holder upon exercise of this Warrant shall be adjusted in case at any time or from time to time the Company should (i) subdivide the outstanding shares of Common Stock into a greater number of shares, (ii) consolidate the outstanding shares of Common Stock into a smaller number of shares, (iii) issue shares of Common Stock or securities convertible into or exchangeable for shares of Common Stock as a dividend to all or substantially all holders of shares of Common Stock or (iv) issue by reclassification of shares of Common Stock, any shares of capital stock of the Company, in each event pursuant to Article X of the Purchase Agreement as if such provisions were specifically set forth herein.

4. Exercise Price Reset.

4.1 Adjustment to Purchase Price if Additional Grant Shares are Issued. If the Company is obligated to issue any Additional Grant Shares (as defined in the Purchase Agreement), the Purchase Price shall be adjusted so that this Warrant will have a "value" equal to the "value" of this Warrant as of its original date of issue. For the purposes of this Section 4, the term "value" shall mean a good faith valuation of the theoretical trade price of this Warrant, prepared by HW Partners, L.P. (or such other entity as designated by the Holder) using a Black-Scholes or similar model and using as the "market price" for such model the market Price (as defined in the Purchase Agreement) used to determine the number of Additional Grant Shares.

4.2 Notice of Warrant Value. Within seven (7) business days after the Closing Date (as such term is defined in the Purchase Agreement), HW Partners, L.P. will deliver to the Company a certificate describing in reasonable detail the calculation of the value of this Warrant. Within seven (7) business days after the date on which the number of Additional Grant Shares is calculated (if any), HW Partners, L.P. will deliver to the

Company a certificate indicating in reasonable detail, (1) its calculation of the value of this Warrant as of such date and (2) its determination of the new Purchase Price for this Warrant as of such date. If there is no dispute as to the adjustment to the Purchase Price, the Company shall cause its auditors to deliver a notice of adjustment pursuant to Section 9 of this Warrant as promptly as practicable (but within ten (10) business days.).

4.3 Dispute as to Warrant Value. In the event that the Company disputes any calculation of Warrant value under this Section 4, the matter shall be referred to an Independent Financial Expert for final determination; provided that the Company notifies HW Partners, L.P. of such dispute within five (5) business days of written receipt of any certificate of Warrant value. For purposes of this Section 4.3, an Independent Financial Expert shall mean a nationally recognized investment banking firm (i) which does not (and whose directors, officers and employees and affiliates do not), have a direct or indirect financial interest in either the Company or any holder of this Warrant (other than a beneficial ownership, directly or indirectly, of less than one percent of the outstanding shares of capital stock of the Company), (ii) which has not been, and, at the time it is called upon to give independent financial services to the Company, is not (and none of whose directors, officers, employees or affiliates is) a promoter, director or officer of the Company or any of its affiliates or an underwriter with respect to any of the Company's securities, (iii) which does not provide any advice or opinions to the Company or any Warrant holder except as an Independent Financial Expert and (iv) which is mutually agreeable to the Company and the holders of a majority of the Warrants. If the Company and the holders of a majority of the Warrants do not promptly agree as to the Independent Financial Expert, each shall appoint one investment banking firm and the two firms so appointed shall select the Independent financial Expert to be employed by the Company. An Independent Financial Expert shall be compensated by the Company for opinions or services it provides as an Independent Financial Expert. In making its determination of the value of this Warrant, the Independent Financial Expert shall use one or more valuation methods that the Independent Financial Expert, in its professional judgment, determines to be most appropriate. After the Independent Financial Expert has made its determination, the Company shall cause the Independent Financial Expert to prepare a report (a "Value Report") stating the methods of valuation considered or used and the value of the Warrant or other security it values and containing a statement as to the nature and scope of the examination

made. Such Value Report shall accompany any notice of adjustment sent by the Company to the Holder pursuant to this Warrant; provided, that the adjustment to the Exercise Price that is the subject of such notice requires the services of any Independent Financial Expert.

5. No Impairment. The Company will not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be

necessary or appropriate in order to protect the rights of the Holder of this Warrant against impairment. Without limiting the generality of the foregoing, the Company (a) will not increase the par value of any shares of stock receivable on the exercise of this Warrant above the amount payable therefor on such exercise, (b) will take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of stock on the exercise of this Warrant and (c) will not transfer all or substantially all of its properties and assets to any other person (corporate or otherwise), or consolidate with or merge into any other person or permit any such person to consolidate with or merge into the Company (if the Company is not the surviving person), unless such other person shall expressly assume in writing and will be bound by all the terms of this Warrant.

6. Accountants' Certificate as to Adjustments. In each case of any adjustment or readjustment in the shares of Common Stock (or Other Securities) or the Purchase Price issuable on the exercise of this Warrant, the Company at its expense will cause independent certified public accountants of national standing selected by the Company (which may be the Company's auditors) to compute such adjustment or readjustment in accordance with the terms of this Warrant and prepare a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based, including a statement of (a) the consideration received or receivable by the Company for any additional shares of Common Stock (or Other Securities) issued or sold or deemed to have been issued or sold, (b) the number of shares of Common Stock (or Other Securities) outstanding or deemed to be outstanding and (c) the Purchase Price and the number of shares of Common Stock to be received upon exercise of this Warrant, in effect immediately prior to such issue or sale and as adjusted and readjusted as provided in this Warrant. The Company will forthwith mail a copy of each such certificate to the Holder of this Warrant, and will, on the written request at any time of the Holder of this Warrant, furnish to the Holder a like certificate setting forth the Purchase Price at the time in effect and showing how it was calculated.

7. Notices of Record Date, etc. In the event of

(a) any taking by the Company of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, or

(b) any capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company or any transfer of all or substantially all the assets of the Company to, or consolidation or merger of the Company with or into, any other person, or

(c) any voluntary or involuntary dissolution, liquidation or winding-up of the Company,

then, and in each such event, the Company will mail or cause to be mailed to the Holder of this Warrant a notice specifying (i) the date on which any such record is to be taken for the purpose of such dividend, distribution or right, and stating the amount and character of such dividend, distribution or right, and (ii) the date on which any such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up is to take place, and the time, if any, as of which the holders of record of Common Stock (or Other Securities) shall be entitled to exchange their shares of Common Stock (or Other Securities) for securities or other property deliverable on such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up. Such notice shall be mailed at least 20 days prior to the date specified in such notice on which any action is to be taken.

8. Reservation of Stock, etc. Issuable on Exercise of Warrant. The Company will at all times reserve and keep available, solely for issuance and delivery on the exercise of this Warrant, all shares of Common Stock (or Other Securities) from time to time issuable on the exercise of this Warrant.

9. Exchange of Warrant. On surrender for exchange of this Warrant, properly endorsed, to the Company, the Company at its expense will issue and deliver to or on the order of the holder thereof a new Warrant of like tenor, in the name of such Holder or as such Holder (on payment by such holder of any applicable transfer taxes) may direct, calling in the aggregate on the face or faces thereof for the number of shares of Common Stock called for on the face of the Warrant so surrendered.

10. Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction of this Warrant, on delivery of an indemnity agreement or security reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, on surrender and cancellation of this Warrant, the Company at its expense will execute and deliver, in lieu thereof, a new Warrant of like tenor.

11. Remedies. The Company stipulates that the remedies at law of the Holder of this Warrant in the event of any default by the Company in the performance of or compliance with any of the terms of this Warrant are not and will not be adequate, and that such terms may be specifically enforced by a decree for the specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

12. Negotiability, etc. This Warrant is issued upon the following terms, to all of which each Holder or owner hereof by the taking hereof consents and agrees:

(a) title to this Warrant may be transferred by endorsement (by the Holder hereof executing the form of assignment at the end hereof) and delivery in the same manner as in the case of a negotiable instrument transferable by endorsement and delivery;

(b) any person in possession of this Warrant properly endorsed is

authorized to represent himself as absolute owner hereof and is empowered to transfer absolute title hereto by endorsement and delivery hereof to a bona fide purchaser hereof for value; each prior taker or owner waives and renounces all of his equities or rights in this Warrant in favor of each such bona fide purchaser, and each such bona fide purchaser shall acquire absolute title hereto and to all rights represented hereby;

(c) until this Warrant is transferred on the books of the Company, the Company may treat the registered Holder hereof as the absolute owner hereof for all purposes, notwithstanding any notice to the contrary; and

(d) notwithstanding the foregoing, this Warrant may not be sold, transferred or assigned except pursuant to an effective registration statement under the Securities Act of 1933, as amended (the "Act"), or, pursuant to an applicable exemption therefrom (including in accordance with Regulation D promulgated under the Act).

13. Registration Rights. The Company is obligated to register the shares of Common Stock issuable upon exercise of this Warrant in accordance with the terms of a Registration Rights Agreement between the Company and the Holder dated the date hereof.

14. Notices, etc. All notices and other communications from the Company to the holder of this Warrant shall be mailed by first class registered or certified mail, postage prepaid, at such address as may have been furnished to the Company in writing by the Holder or, until any the Holder furnishes to the Company an address, then to, and at the address of, the last Holder of this Warrant who has so furnished an address to the Company.

15. Miscellaneous. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought. This Warrant shall be construed and enforced in accordance with and governed by the internal laws of the State of New York, except where the Texas Business Corporation Act or other law applies. The headings in this Warrant are for purposes of reference only, and shall not limit or otherwise affect any of the terms hereof. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision.

DATED as of October 14, 1997.

TAKE-TWO INTERACTIVE SOFTWARE, INC.

By: /s/ Ryan Brant

Name: Ryan Brant

Title: CEO

EXHIBIT A

FORM OF NOTICE OF EXERCISE - WARRANT

(To be executed only upon exercise or conversion
of the Warrant in whole or in part)

To Take-Two Interactive Software, Inc.

The undersigned registered holder of the accompanying Warrant hereby exercises such Warrant or portion thereof for, and purchases thereunder, _____1 shares of Common Stock (as defined in such Warrant) and herewith makes payment therefor in the amount and manner set forth below, as of the date written below. The undersigned requests that the certificates for such shares of Common Stock be issued in the name of, and delivered to, _____ _____ whose address is _____ _____.

The Exercise Price is paid as follows:

|_| Bank draft payable to the Company in the amount of $_____.

|_| Wire transfer to the account of the Company in the amount of $_____.

|_| Delivery of _____ previously held shares having an aggregate Market Value of $_____.

|_| Cashless exercise. Surrender of _____ shares purchasable under this Warrant for such shares of Common Stock issuable in exchange therefor pursuant to the Cashless Exercise provisions of the within Warrant, as provided in Section 1.1(iv) thereto.

Upon exercise pursuant to this Notice of Exercise, the holder will be in compliance with the Limitation on Exercise (as defined in the Securities Purchase Agreement pursuant to which this Warrant was issued).

Dated: _____

_____
(Name must conform to name of holder as specified on the face of the Warrant)

By:_____
Name:_____
Title:_____

Address of holder:

_____

_____

_____

Date of exercise: _____

- --------

1 Insert the number of shares of Common Stock as to which the accompanying Warrant is being exercised. In the case of a partial exercise, a new Warrant or Warrants will be issued and delivered, representing the unexercised portion of the accompanying Warrant, to the holder surrendering the same.

REGISTRATION RIGHTS AGREEMENT

REGISTRATION RIGHTS AGREEMENT (this "Agreement"), dated as of October 14, 1997, among TAKE-TWO INTERACTIVE SOFTWARE, INC., a Delaware corporation (the "Company"), and the other undersigned parties hereto, (collectively, the "Funds").

1. Introduction. The Company and the Funds have today executed that certain Securities Purchase Agreement (the "Note Purchase Agreement"), pursuant to which the Company has agreed, among other things, to issue an aggregate of $4,200,000 (U.S.) principal amount of 10% Convertible Notes of the Company (the "Notes") to the Funds or their successors, assigns or transferees (collectively, the "Holders"). The Notes are convertible into an indeterminable number of shares (the "Note Conversion Shares") of the Company's common stock, par value $.01 per share (the "Common Stock"), pursuant to the terms of the Notes. In addition, pursuant to the terms of the Note Purchase Agreement and the transactions contemplated thereby, the Company has issued to the Funds (i) an aggregate of 50,000 shares of Common Stock (the "Grant Shares") and (ii) Common Stock Purchase Warrants exercisable for an aggregate 250,000 shares of Common Stock (the "Warrant Shares"). The Company has agreed to issue an indeterminable number of additional shares of Common Stock (the "Additional Grant Shares") on or before July 7, 1998, upon the occurrence of certain events specified in the Note Purchase Agreement. The number of Note Conversion Shares, Grant Shares, Warrant Shares and Additional Grant Shares (collectively, the "Securities") is subject to adjustment upon the occurrence of stock splits, recapitalizations and similar events occurring after the date hereof. The Company represents and warrants that the Company's Common Stock is currently eligible for trading on the Nasdaq Stock Market's SmallCap Market ("SmallCap Market") under the symbol "TTWO". Certain capitalized terms used in this Agreement are defined in Section 3 hereof; references to sections shall be to sections of this Agreement.

2. Registration under Securities Act, etc.

2.1 Registration on Request.

(a) Registration of Registrable Securities. As soon as is practicable after the Closing Date (as defined in the Note Purchase Agreement), but in no event later than April 14, 1998, demand for which is hereby given and acknowledged, the Company shall prepare and file a registration statement to effect the registration under the Securities Act of all, but not less than all, of the Registrable Securities to the extent requisite to permit the public offer and sale of such Registrable Securities. The Company shall use its best efforts to cause the registration statement which is the subject of this Section 2.1(a) (the "Registration Statement") to be declared effective by the Commission upon the earlier to occur of (i) June 15, 1998 or (ii) five (5) business days after receipt of a "no review" letter from the Commission (the "Required Effectiveness Date"). Nothing contained herein shall be deemed to limit the number of

Registrable Securities to be registered by the Company as required under the Note Purchase Agreement. As a result, should the Registration Statement not relate to the maximum number of Registrable Securities acquired by (or potentially acquirable by) the holders thereof upon conversion of the Note, exercise of the Warrant or in connection with the issuance of Grant Shares or Additional Grant Shares, the Company shall be required to file a separate registration statement (utilizing Rule 462 promulgated under the Exchange Act, where applicable) relating to such Registrable Securities which then remain unregistered. The provisions of this Agreement shall relate to such separate registration statement as if it were an amendment to the Registration Statement.

(b) Registration Statement Form. Registrations under this Section 2.1 shall be on Form S-3 or, in the event the Company is not then eligible to use such Form S-3, then such other appropriate registration form of the Commission as shall permit the disposition of such Registrable Securities in accordance with the intended method or methods of disposition specified by the Funds; provided, however, such intended method of disposition shall not include an underwritten offering of the Registrable Securities.

(d) Expenses. The Company will pay all Registration Expenses in connection with any registration required by this Section 2.1.

(e) Effective Registration Statement. The registration pursuant to Section 2.1(a) shall not be deemed to have been effected (i) unless a Registration Statement has become effective within the time period specified herein, provided that a registration which does not become effective after the Company has filed the Registration Statement solely by reason of the refusal to proceed of any holder of Registrable Securities (other than a refusal to proceed based upon the advice of counsel in the form of a letter signed by such counsel and provided to the Company relating to a disclosure matter unrelated to such holder) shall be deemed to have been effected by the Company or (ii) if, after it has become effective, the Registration Statement becomes subject to any stop order, injunction or other order or extraordinary requirement of the Commission or other governmental agency or court for any reason which is not removed after a period of thirty (30) days.

(f) [Intentionally Left Blank]

(g) [Intentionally Left Blank]

(h) Plan of Distribution. The Company hereby agrees that the Registration Statement shall include a plan of distribution section reasonably acceptable to the Funds and substantially in the form annexed hereto; provided, however, such plan of distribution section shall be modified by the Company so as to not provide for the disposition of the Registrable Securities on the basis of an underwritten offering.

2.2 Incidental Registration.

(a) Right to Include Registrable Securities. If (1) any principal or interest shall be outstanding under the Notes as of April 15, 1998 (whether or not then due and owing) and (2) the Company proposes to register any of its securities under the Securities Act (other than by a registration in connection with an acquisition in a manner which would not permit registration of Registrable Securities for sale to the public, on Form S-8, or any successor form thereto, on Form S-4, or any successor form thereto and other than pursuant to Section 2.1), on an underwritten basis (either best-efforts or firm-commitment at any time after April 15, 1998 but before the third (3rd) anniversary of the date hereof), then, the Company will each such time give thirty (30) days written notice to the Sellers' Representative of its intention to do so. Upon the written request of the Sellers' Representative made within twenty (20) days after the receipt of any such notice (which request shall specify the Registrable Securities intended to be disposed of by any such Holder, the Company will, subject to the terms of this Agreement, effect the registration under the Securities Act of up to that number of Registrable Securities equal to that number of Note Conversion Shares acquirable upon conversion of up to 75% of the original principal amount of the Notes which the Company has been so requested to register by the Sellers' Representative, to the extent requisite to permit the disposition of such Registrable Securities so to be registered, by inclusion of such Registrable Securities in the registration statement which covers the securities which the Company proposes to register, provided that if, at any time after giving written notice of its intention to

register any securities and prior to the effective date of the registration statement filed in connection with such registration, the Company shall determine for any reason either not to register or to delay registration of such securities, the Company may, at its election, give written notice of such determination to each Holder and, thereupon, (i) in the case of a determination not to register, shall be relieved of its obligation to register any Registrable Securities in connection with such registration under this Section 2.2 (but not from its obligation to pay the Registration Expenses in connection therewith), and (ii) in the case of a determination to delay registering, shall be permitted to delay registering any Registrable Securities, for the same period as the delay in registering such other securities. No registration effected under this Section 2.2 shall relieve the Company of its obligation to effect the registration under Section 2.1, nor shall any such registration hereunder be deemed to have been effected pursuant to Section 2.1. The Company will pay all Registration Expenses in connection with each registration of Registrable Securities requested pursuant to this Section 2.2. The right provided the Holders of the Registrable Securities pursuant to this Section shall be exercisable at their sole discretion and will in no way limit any of the Company's obligations to pay the Securities according to their terms.

(b) Priority in Incidental Registrations. If the managing underwriter of the underwritten offering contemplated by this Section 2.2 shall inform the Company and holders of the Registrable Securities requesting such registration by letter of its belief that the number of Registrable Securities requested to be included in such registration exceeds the number which can be sold in such offering, then the Company will include in such registration, to the extent of the number which the Company is so advised can be sold in such offering, (i) first securities proposed by the Company to be sold for its own account, and (ii) second Registrable Securities

and securities of other selling security holders requested to be included in such registration pro rata on the basis of the number of shares of such securities so proposed to be sold and so requested to be included; provided, however, the holders of Registrable Securities shall have priority to all shares sought to be included by officers and directors of the Company as well as holders of ten percent (10%) or more of the Company's Common Stock; and provided further that in the event the managing underwriter determines that the Company register securities solely for its own account, and not for the account of any selling shareholders, the Registrable Securities will not be included in such registration statement.

(c) Holdback Agreements. Subject to such other reasonable requirements as may be imposed by the underwriter as a condition of inclusion of Registrable Securities in the registration statement, each Fund agrees by acquisition of Registrable Securities, if so required by the managing underwriter, not to sell, make any short sale of, loan, grant any option for the purchase of, effect any public sale or distribution of or otherwise dispose of, except as part of such underwritten registration, any equity securities of the Company, during such reasonable period of time requested by the underwriter; provided however, such period shall not exceed a period commencing 10 days prior to the commencement of such underwritten offering and ending 180 days following the completion of such underwritten offering.

2.3 Registration Procedures. If and whenever the Company is required to effect the registration of any Registrable Securities under the Securities Act as provided in Section 2.1 and, as applicable, 2.2, the Company shall, as expeditiously as possible:

(i) prepare and file with the Commission the Registration Statement to effect such registration (including such audited financial statements as may be required by the Securities Act or the rules and regulations

promulgated thereunder); provided nothing contained herein shall require the Company to undergo an audit except in the ordinary course of business and as otherwise required to effect the registration of the Registrable Securities and thereafter use its best efforts to cause such registration statement to be declared effective by the Commission, as soon as practicable, but in any event no later than the Required Effectiveness Date in Section 2.4; provided, however, that at least two (2) Business Days before filing such Registration Statement or any amendments thereto, the Company will furnish to the counsel selected by the holders of Registrable Securities which are to be included in such registration, copies of all such documents proposed to be filed;

(ii) with respect to any Registration Statement pursuant to Section 2.1(a), prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective and to comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities covered by such registration statement until the earlier to occur of five (5) years after the date of this Agreement or such time as all of the securities which are the subject of such registration statement cease to be Registrable Securities (such period, in each case, the

"Registration Maintenance Period"); provided, however, that if the Common Stock Purchase Warrants have been exercised, the Registration Maintenance Period shall be reduced to two (2) years;

(iii) furnish to each seller of Registrable Securities covered by such registration statement such number of conformed copies of such registration statement and of each such amendment and supplement thereto (in each case including all exhibits), such number of copies of the prospectus contained in such registration statement (including each preliminary prospectus and any summary prospectus) and any other prospectus filed under Rule 424 under the Securities Act, in conformity with the requirements of the Securities Act, and such other documents, as such seller may reasonably request in order to facilitate the public sale or other disposition of the Registrable Securities owned by such seller;

(iv) use its reasonable efforts to register or qualify all Registrable Securities and other securities covered by such registration statement under such other securities laws or blue sky laws as any seller thereof shall reasonably request, to keep such registrations or qualifications in effect for so long as such registration statement remains in effect, and take any other action which may be reasonably necessary to enable such seller to consummate the disposition in such jurisdictions of the securities owned by such seller, except that the Company shall not for any such purpose be required to qualify generally to do business as a foreign corporation in any jurisdiction wherein it would not but for the requirements of this subdivision (iv) be obligated to be so qualified or to consent to general service of process in any such jurisdiction;

(v) [Intentionally Left Blank]

(vi) [Intentionally Left Blank]

(vii) notify the Sellers' Representative and its counsel promptly and confirm such advice in writing promptly after the Company has knowledge thereof:

(v) when the registration statement, the prospectus or any prospectus supplement related thereto or post-effective amendment to

the registration statement has been filed, and, with respect to the registration statement or any post-effective amendment thereto, when the same has become effective;

(w) of any request by the Commission for amendments or supplements to the registration statement or the prospectus or for additional information;

(x) of the issuance by the Commission of any stop order suspending the effectiveness of the registration statement or the initiation of any proceedings by any Person for that purpose; and

(y) of the receipt by the Company of any notification with respect to the suspension of the qualification of any Registrable Securities for sale under the securities or blue sky laws of any jurisdiction or the initiation or threat of any proceeding for such purpose;

(viii) notify each seller of Registrable Securities covered by such registration statement, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, upon discovery that, or upon the happening of any event as a result of which, the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, and at the reasonable request of any such seller promptly prepare and furnish to such seller a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing;

(ix) use its reasonable efforts to obtain the withdrawal of any order suspending the effectiveness of the registration statement at the earliest possible moment;

(x) otherwise use its best efforts to comply with all applicable rules and regulations of the Commission, and make available to its security holders, as soon as reasonably practicable, an earnings statement covering the period of at least twelve months, but not more than eighteen months, beginning with the first full calendar month after the effective date of such registration statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder;

(xi) use its reasonable efforts to list all Registrable Securities covered by such registration statement on any securities exchange on which any of the Registrable Securities are then listed.

The Company may require each seller of Registrable Securities as to which any registration is being effected to furnish the Company such information regarding such seller and the distribution of such securities as the Company may from time to time reasonably request in writing.

The Company will not file any registration statement or amendment thereto or any prospectus or any supplement thereto (including such documents incorporated by reference and proposed to be filed after the initial filing of the registration statement) to which the Sellers' Representative shall reasonably object, provided that the Company may file such document in a form required by law or upon the advice of its counsel.

The Company represents and warrants to each holder of Registrable Securities that it has obtained all necessary waivers, consents and authorizations necessary to execute this Agreement and consummate the transactions contemplated hereby other than such waivers, consents and/or authorizations specifically contemplated by the Note Purchase Agreement.

Each Fund agrees that, upon receipt of any notice from the Company of the occurrence of any event of the kind described in subdivision (viii) of this Section 2.3, such Fund will forthwith discontinue such Fund's disposition of Registrable Securities pursuant to the registration statement relating to such Registrable Securities until such Fund's receipt of the copies of the supplemented or amended prospectus contemplated by subdivision (viii) of this Section 2.3 and, if so directed by the Company, will deliver to the Company (at the Company's expense) all copies, other than permanent file copies, then in such Fund's possession of the prospectus relating to such Registrable Securities current at the time of receipt of such notice.

If any such registration statement refers to any Holder of Registrable Securities by name or otherwise as the holder of any securities of the Company, then such holder shall have the right to require (a) the insertion therein of language, in form and substance reasonably satisfactory to such holder, to the effect that the holding by such holder of such securities is not to be construed as a recommendation by such holder of the investment quality of the Company's securities covered thereby and that such holding does not imply that such holder will assist in meeting any future financial requirements of the Company, or (b) in the event that such reference to such holder by name or otherwise is not required by the Securities Act or any similar federal statute then in force, the deletion of the reference to such holder.

2.4 Underwritten Offerings. [Intentionally Omitted]

2.5 Preparation; Reasonable Investigation. In connection with the preparation and filing of each registration statement under the Securities Act pursuant to this Agreement, the Company will give the holders of Registrable Securities registered under such registration statement, and their respective counsel and accountants, the opportunity to participate in the preparation of such registration statement, each prospectus included therein or filed with the Commission, and each amendment thereof or supplement thereto, and will give each of them such access to its books and records and such opportunities to discuss the business of the Company with its officers and the independent public accountants who have certified its financial statements as shall be necessary, in the reasonable opinion of such holders' and such underwriters' respective counsel, to conduct a reasonable investigation within the meaning of the Securities Act.

2.6 Registration Default Fee. If the Registration Statement contemplated in Section 2.1 is (x) not declared effective by the Required Effectiveness Date or (y) such effectiveness is not maintained for the Registration Maintenance Period, then the Company shall pay to the Funds the Default Fee specified in Section 10.1 of the Note Purchase Agreement.

2.7 Indemnification.

(a) Indemnification by the Company. In the event of any registration of any Registrable Securities under the Securities Act, the Company will, and hereby does agree to, indemnify and hold harmless the holder of any Registrable Securities covered by such registration statement, its directors and officers, each other Person who participates as an underwriter in the offering or sale of such securities and each other Person, if any, who controls such holder or any such underwriter within the meaning of the Securities Act against any losses, claims, damages or liabilities, joint or several, to which such holder or any such director or officer or underwriter or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which such securities were registered under the Securities Act, any preliminary prospectus, final prospectus or summary prospectus contained therein, or any amendment or supplement thereto, or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and the Company will reimburse such holder and each such director, officer, underwriter and controlling person for any legal or any other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, liability, action or proceeding, provided that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, any such preliminary prospectus, final prospectus, summary prospectus, amendment or supplement in reliance upon and in conformity with written information furnished to the Company by such holder or underwriter stating that it is for use in the preparation thereof and, provided further that the Company shall not be liable to any Person who participates as an underwriter in the offering or sale of Registrable Securities or to any other Person, if any, who controls such underwriter within the meaning of the Securities Act, in any such case to the extent that any such loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arises out of such Person's failure to send or give a copy of the final prospectus, as the same may be then supplemented or amended, within the time required by the Securities Act to the Person asserting the existence of an untrue statement or alleged untrue statement or omission or alleged omission at or prior to the written confirmation of the sale of Registrable Securities to such Person if such statement or omission was corrected in such final prospectus or an amendment or supplement thereto. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such holder or any such director, officer, underwriter or controlling person and shall survive the transfer of such securities by such holder.

(b) Indemnification by the Sellers. The Company may require, as a condition to including any Registrable Securities in any registration statement filed pursuant to this Agreement, that the Company shall have received an agreement satisfactory to it from the prospective seller of such Registrable Securities, to indemnify and hold harmless (in the same manner and to the same extent as set forth in subdivision (a) of this Section 2.7) the Company,

each director of the Company, each officer of the Company and each other Person, if any, who controls the Company within the meaning of the Securities Act, with respect to any statement or alleged statement in or omission or alleged omission from such registration statement, any preliminary prospectus, final prospectus or summary prospectus contained therein, or any amendment or supplement thereto, if such statement or alleged statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company through an instrument duly executed by such seller specifically stating

that it is for use in the preparation of such registration statement, preliminary prospectus, final prospectus, summary prospectus, amendment or supplement. Any such indemnity shall remain in full force and effect, regardless of any investigation made by or on behalf of the Company or any such director, officer or controlling person and shall survive the transfer of such securities by such seller.

(c) Notices of Claims. etc. Promptly after receipt by an indemnified party of notice of the commencement of any action or proceeding involving a claim referred to in the preceding subdivisions of this Section 2.7, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party, give written notice to the latter of the commencement of such action, provided that the failure of any indemnified party to give notice as provided herein shall not relieve the indemnifying party of its obligations under the preceding subdivisions of this Section 2.7, except to the extent that the indemnifying party is actually prejudiced by such failure to give notice. In case any such action is brought against an indemnified party, unless in such indemnified party's reasonable judgment a conflict of interest between such indemnified and indemnifying parties may exist in respect of such claim, the indemnifying party shall be entitled to participate in and to assume the defense thereof, jointly with any other indemnifying party similarly notified, to the extent that the indemnifying party may wish, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party for any legal or other expenses subsequently incurred by the latter in connection with the defense thereof other than reasonable costs of investigation. No indemnifying party shall, without the consent of the indemnified party, consent to entry of any judgment or enter into any settlement of any such action which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability, or a covenant not to sue, in respect to such claim or litigation. No indemnified party shall consent to entry of any judgment or enter into any settlement of any such action the defense of which has been assumed by an indemnifying party without the consent of such indemnifying party.

(d) Other Indemnification. Indemnification similar to that specified in the preceding subdivisions of this Section 2.7 (with appropriate modifications) shall be given by the Company and each seller of Registrable Securities (but only if and to the extent required pursuant to the terms of 2.7(b)) with respect to any required registration or other qualification of securities under any Federal or state law or regulation of any governmental authority, other than the Securities Act.

(e) Indemnification Payments. The indemnification required by this Section 2.7 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or expense, loss, damage or liability is incurred.

(f) Contribution. If the indemnification provided for in the preceding subdivisions of this Section 2.7 is unavailable to an indemnified party in respect of any expense, loss, claim, damage or liability referred to therein, then each indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such expense, loss, claim, damage or liability (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the holder or underwriter, as the case may be, on the other from the distribution of the Registrable Securities or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one

hand and of the holder or underwriter, as the case may be, on the other in connection with the statements or omissions which resulted in such expense, loss, damage or liability, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the holder or underwriter, as the case may be, on the other in connection with the distribution of the Registrable Securities shall be deemed to be in the same proportion as the total net proceeds received by the Company from the initial sale of the Registrable Securities by the Company to the purchasers pursuant to the Note Purchase Agreement and the Warrants bear to the gain, if any, realized by all selling holders participating in such offering or the underwriting discounts and commissions received by the underwriter, as the case may be. The relative fault of the Company on the one hand and of the holder or underwriter, as the case may be, on the other shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or omission to state a material fact relates to information supplied by the Company, by the holder or by the underwriter and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission, provided that the foregoing contribution agreement shall not inure to the benefit of any indemnified party if indemnification would be unavailable to such indemnified party by reason of the provisions contained in the first sentence of subdivision (a) of this Section 2.7, and in no event shall the obligation of any indemnifying party to contribute under this subdivision (f) exceed the amount that such indemnifying party would have been obligated to pay by way of indemnification if the indemnification provided for under subdivisions (b) of this Section 2.7 had been available under the circumstances.

The Company and the holders of Registrable Securities agree that it would not be just and equitable if contribution pursuant to this subdivision (f) were determined by pro rata allocation (even if the holders and any underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an indemnified party as a result of the losses, claims, damages and liabilities referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth in the preceding

sentence and subdivision (c) of this Section 2.7, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim.

Notwithstanding the provisions of this subdivision (f), no holder of Registrable Securities or underwriter shall be required to contribute any amount in excess of the amount by which (i) in the case of any such holder, the net proceeds received by such holder from the sale of Registrable Securities or (ii) in the case of an underwriter, the total price at which the Registrable Securities purchased by it and distributed to the public were offered to the public exceeds, in any such case, the amount of any damages that such holder or underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

3. Definitions. As used herein, unless the context otherwise requires, the following terms have the following respective meanings:

"Commission": The Securities and Exchange Commission or any other Federal agency at the time administering the Securities Act.

"Common Stock": As defined in Section 1.

"Company": As defined in the introductory paragraph of this Agreement.

"Conversion Shares": As defined in Section 1.

"Exchange Act": The Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission thereunder.

"Notes": As defined in Section 1, such term to include any securities issued in substitution of or in addition to such Notes.

"Note Purchase Agreement": As defined in Section 1.

"Person": A corporation, association, partnership, organization, business, individual, governmental or political subdivision thereof or a governmental agency.

"Preferred Stock": As defined in Section 1, such term to include any securities issued in substitution of or in addition to such Preferred Stock.

"Registrable Securities": The Securities and any securities issued or issuable with respect to such Securities by way of stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or otherwise. Once issued, any such securities shall cease to be Registrable Securities upon the

earlier of (a) the sale of such securities pursuant to an effective registration statement under the Securities Act, (b) the distribution thereof to the public pursuant to Rule 144 (or any successor provision) under the Securities Act, (c) a transfer pursuant to which new certificates for them not bearing a legend restricting further transfer shall have been delivered by the Company and subsequent disposition of them shall not require registration or qualification of them under the Securities Act or any similar state law then in force, (d) they shall have ceased to be outstanding, (e) upon completion of the applicable Registration Maintenance Period, or (f) any and all legends restricting transfer thereof have been removed in accordance with the provisions of Rule 144(k) (or any successor provision) under the Securities Act; and provided that the Note Conversion Shares shall cease to become Registrable Securities upon repayment in full of the Notes.

"Registration Expenses": All expenses incident to the Company's performance of or its compliance with this Agreement, including, without limitation, all registration, filing and NASD fees, all stock exchange and SmallCap Market listing fees, all fees and expenses of complying with securities or blue sky laws, all word processing, duplicating and printing expenses, messenger and delivery expenses, the fees and disbursements of counsel for the Company and of its independent public accountants, and any fees and disbursements of underwriters customarily paid by issuers or sellers of securities, but excluding underwriting discounts and commissions and transfer taxes paid or payable by the holders of Registrable Securities.

"Registration Maintenance Period": As defined in Section 2.3.

"Required Effectiveness Date": As defined in Section 2.1.

"Securities Act": The Securities Act of 1933, as amended, and the rules and regulations of the Commission thereunder.

"Sellers' Representative": HW Partners L.P., as long as one or more of the Funds shall be a Holder or such Person designated by HW Partners L.P. (or subsequent Sellers' Representative) at the time of disposition of the last of

the Notes held by one or more of the Funds (or subsequent Sellers' Representative).

4. Rule 144. The Company shall timely file the reports required to be filed by it under the Securities Act and the Exchange Act (including but not limited to the reports under Sections 13 and 15(d) of the Exchange Act referred to in subparagraph (c) of Rule 144 adopted by the Commission under the Securities Act) and the rules and regulations adopted by the Commission thereunder (or, if the Company is not required to file such reports, will, upon the request of any holder of Registrable Securities, make publicly available other information) and will take such further action as any holder of Registrable Securities may reasonably request, all to the extent required from time to time to enable such holder to sell Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by (a) Rule 144 under the Securities Act, as such Rule may be amended from time to time, or (b) any similar rule or regulation hereafter adopted by the Commission.

5. Amendments and Waivers. This Agreement may be amended and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company shall have obtained the written consent to such amendment, action or omission to act by the Sellers' Representative. Each holder of Registrable Securities hereby authorizes the Sellers' Representative to take such action relating to this Agreement and the Registrable Securities as it shall in its good faith determination deem appropriate. Each holder of any Registrable Securities at the time or thereafter outstanding shall be bound by any consent authorized by this Section 5, whether or not such Registrable Securities shall have been marked to indicate such consent.

6. Nominees for Beneficial Owners. In the event that any Registrable Securities are held by a nominee for the beneficial owner thereof, the beneficial owner thereof may, at its election, be treated as the holder of such Registrable Securities for purposes of any request or other action by any holder or holders of Registrable Securities pursuant to this Agreement or any determination of any number or percentage of shares of Registrable Securities held by any holder or holders of Registrable Securities contemplated by this Agreement. If the beneficial owner of any Registrable Securities so elects, the Company may require assurances reasonably satisfactory to it of such owner's beneficial ownership of such Registrable Securities.

7. Notices. Except as otherwise provided in this Agreement, all notices, requests and other communications to any Person provided for hereunder shall be in writing and shall be given to such Person (a) in the case of a party hereto other than the Company, addressed to such party in the manner set forth in the Note Purchase Agreement or at such other address as such party shall have furnished to the Company in writing, or (b) in the case of any other holder of Registrable Securities, at the address that such holder shall have furnished to the Company in writing, or, until any such other holder so furnishes to the Company an address, then to and at the address of the last holder of such Registrable Securities who has furnished an address to the Company, or (c) in the case of the Company, at the address set forth on the signature page hereto, to the attention of its President, or at such other address, or to the attention of such other officer, as the Company shall have furnished to each holder of Registrable Securities at the time outstanding. Each such notice, request or other communication shall be effective (i) if given by mail, 72 hours after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid or (ii) if given by any other means (including, without limitation, by fax or air courier), when delivered at the address specified above, provided that any such notice, request or communication shall not be effective until received.

8. Assignment. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto. In addition, and whether or not any express assignment shall have been made, the provisions of this Agreement which are for the benefit of the parties hereto other than the Company shall also be for the benefit of and enforceable by any subsequent holder of any Registrable Securities, subject to the provisions respecting the minimum numbers or percentages of shares of Registrable Securities required in order to be entitled to certain rights, or take certain actions. contained herein. Each of the Holders of the Registrable Securities agrees, by accepting any portion of the Registrable Securities after the date hereof, to the provisions of

this Agreement including, without limitation, appointment of the Sellers' Representative to act on behalf of such Holder pursuant to the terms hereof which such actions shall be made in the good faith discretion of the Sellers' Representative and be binding on all persons for all purposes.

9. Descriptive Headings. The descriptive headings of the several sections and paragraphs of this Agreement are inserted for reference only and shall not limit or otherwise affect the meaning hereof.

10. GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES SHALL BE GOVERNED BY, THE LAWS OF THE STATE OF NEW YORK WITHOUT REFERENCE TO THE PRINCIPLES OF CONFLICTS OF LAWS.

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

12. Entire Agreement. This Agreement embodies the entire agreement and understanding between the Company and each other party hereto relating to the subject matter hereof and supersedes all prior agreements and understandings relating to such subject matter.

13. Severability. If any provision of this Agreement, or the application of such provisions to any Person or circumstance, shall be held invalid, the remainder of this Agreement, or the application of such provision to Persons or circumstances other than those to which it is held invalid, shall not be affected thereby.

[Signature Page Follows]

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

TAKE-TWO INTERACTIVE SOFTWARE, INC.

By: /s/ Ryan Brant

Name: Ryan Brant

Title: CEO

Address: 575 Broadway
6th Floor
New York, New York 10012
Telephone:
Fax: (212)941-2997
Attn: Ryan A. Brant

With a copy to:

HW Partners, L.P.
1601 Elm Street
4000 Thanksgiving Tower
Dallas, Texas75201
Telephone: (214)720-1600
Fax: (214)720-1662
Attn: Barrett Wissman

INFINITY INVESTORS LIMITED

By: /s/ James E. Martin

Name: James E. Martin

Title: Director

Address: 38 Hertford Street
London, England WIY 7TG
Telephone: 011-44-171-355-4975
Attn: J. A. Loughran

INFINITY EMERGING OPPORTUNITIES LIMITED

By: /s/ James E. Martin

Name: James E. Martin

Title: Director

Address: 38 Hertford Street
London, England WIY 7TG
Telephone: 011-44-171-355-4975

Attn: J. A. Loughran

GLACIER CAPITAL LIMITED

By: /s/ James E. Martin

Name: James E. Martin

Title: President

Address: 38 Hertford Street
London, England WIY 7TG
Telephone: 011-44-171-355-4975
Attn: J. A. Loughran

Acknowledged:

HW PARTNERS, L.P., as Sellers' Representative

By: HW Finance, L.L.C., its general partner

By: /s/ Stuart Chasanoff

Name: Stuart Chasanoff

Title: Vice-President

SECURITY AGREEMENT

SECURITY AGREEMENT dated October 14, 1997 between TAKE-TWO INTERACTIVE SOFTWARE, INC. ("Borrower"), a Delaware corporation, and HW PARTNERS, L.P., as agent for and representative (in such capacity, "Pledgee") of Infinity Investors Limited, Infinity Emerging Opportunities Limited and Glacier Capital Limited ("Lenders") under the Purchase Agreement (as hereinafter defined).

W I T N E S S E T H:

WHEREAS, pursuant to that certain Securities Purchase Agreement dated the date hereof between Borrower and Lenders (as the same may from time to time be amended, modified or supplemented, the "Purchase Agreement"), Borrower has issued to Lenders its Convertible Notes dated the date hereof (the "Notes") in the aggregate principal amount of $4,200,000 payable by Borrower to the order of Lenders; and

WHEREAS, Lenders are willing to purchase the Notes but only upon the condition, among others, that Borrower shall have executed and delivered to Pledgee this Security Agreement.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. Defined Terms. Unless otherwise defined herein, terms defined in the Purchase Agreement are used herein as therein defined, and the following terms shall have the following meanings (such meanings being equally applicable to both the singular and plural forms of the terms defined):

"Account Debtor" shall mean any "account debtor," as such term is defined in Section 9-105 of the UCC.

"Accounts" shall mean any "account," as such term is defined in Section 9-106 of the UCC, now owned or hereafter acquired by Borrower and, in any event, shall include, without limitation, all accounts receivable, book debts and other forms of obligations now owned or hereafter received or acquired by or belonging or owing to Borrower (including, without limitation, under any trade names, styles or divisions thereof) whether arising out of goods sold or services rendered by Borrower or from any other transaction (including, without limitation, any such obligation which might be characterized as an account or contract right under the UCC) and all of Borrower's rights in, to and under all purchase orders or receipts now owned or hereafter acquired by it for goods, and all of Borrower's

rights to any goods represented by any of the foregoing (including, without limitation, unpaid seller's rights of rescission, replevin, reclamation and stoppage in transit and rights to returned, reclaimed or repossessed goods), and all moneys due or to become due to Borrower under the Contracts and all contracts for the sale of goods or the performance of services or both by Borrower (whether or not yet earned by performance on the part of Borrower or in connection with any other transaction), now in existence or hereafter occurring, including, without limitation, the right to receive the proceeds of said purchase orders and contracts, and all collateral security and guarantees of any kind given by any Person with respect to any of the foregoing, to the extent any of the foregoing are related to or arise out of sales or distribution of Products by Borrower.

"Collateral" shall have the meaning assigned to such term in Section 2 of this Security Agreement.

"Contracts" shall mean all contracts, undertakings, or other agreements in or under which Borrower may now or hereafter have any right, title or interest, including, without limitation, with respect to an Account, any agreement relating to the terms of payment or the terms of performance thereof, to the extent any of the foregoing are related to or arise out of sales or distribution of Products by Borrower. As used in this Security Agreement, "Contracts" shall include, without limitation, the Letters of Credit.

"Documents" shall mean any "documents" as such term is defined in Section 9-105 of the UCC, now owned or hereafter acquired by Borrower, to the extent any of the foregoing are related to or arise out of sales or distribution of Products by Borrower.

"General Intangibles" shall mean any "general intangibles," as such term is defined in Section 9-106 of the UCC, now owned or hereafter acquired by Borrower and, in any event, shall include, without limitation, all right, title and interest which Borrower may now or hereafter have in or under any Contract, all customer lists, rights in intellectual property, licenses, permits, copyrights, trade secrets, proprietary or confidential information, inventions (whether patented or patentable or not) and technical information, procedures, designs, knowledge, know-how, software, data bases, data, skill, expertise, experience, processes, models, drawings, materials and records now owned or hereafter acquired by Borrower, goodwill and rights of indemnification, to the extent any of the foregoing are related to or arise out of sales or distribution of Products by Borrower.

"hereby," "herein," "hereof," "hereunder" and words of similar import refer to this Security Agreement as a whole (including, without limitation, any schedules hereto) and not merely to the specific section, paragraph or clause in which the respective word appears.

"Lockbox Account" shall mean any lockbox account established pursuant to Section 3.9 of the Purchase Agreement.

"Letters of Credit" shall mean all letters of credit under which Borrower is a beneficiary, issued in connection with the sale or distribution of Products, now existing or hereafter arising, including without limitation the letters of credit listed on Schedule I hereto, and all amendments, renewals, modifications, restatements and extensions of such letters of credit, in an aggregate amount not to exceed the principal amount due and owing under the Convertible Notes outstanding at any time.

"Permitted Junior Liens" shall mean the security interests granted by Borrower to secure payment of the National Bank of Canada Debt and the Citibank Debt, provided that such security interests have been subordinated to the security interests granted to Pledgee and Lenders under this Security Agreement in a manner reasonably satisfactory to Pledgee.

"Proceeds" shall mean "proceeds," (as such term is defined in Section 9-306 of the UCC) and, in any event, shall include, without limitation, (i) any and all proceeds of any insurance, indemnity, warranty or guaranty payable to Borrower from time to time with respect to any of the Collateral, (ii) any and all payments (in any form whatsoever) made or due

and payable to Borrower from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any part of the Collateral by any governmental body, authority, bureau or agency (or any person acting under color of governmental authority) and (iv) any and all other amounts from time to time paid or payable under or in connection with any of the Collateral.

"Secured Obligations" shall mean (i) all indebtedness, obligations and liabilities of Borrower to Secured Parties under the Purchase Agreement, the Notes and the other Financing Documents, now existing or hereafter arising, whether direct, indirect, related, unrelated, fixed, contingent, liquidated, unliquidated, joint, several or joint and several, (ii) all accrued but unpaid interest on any of the indebtedness described in (i) above, (iii) all obligations of Borrower to Secured Parties under any documents evidencing, securing, governing and/or pertaining to all or any part of the indebtedness described in (i) and (ii) above, (iv) all costs and expenses incurred by Pledgee or Secured Parties in connection with the collection and administration of all or any part of the indebtedness and obligations described in (i), (ii) and (iii) above or the protection or preservation of, or realization upon, the collateral securing all or any part of such indebtedness and obligations, including without limitation all reasonable attorneys' fees and (v) all renewals, extensions, modifications and rearrangements of the indebtedness and obligations described in (i), (ii), (iii) and (iv) above.

"Secured Parties" means each of the Lenders and any subsequent holders of the Notes.

"Security Agreement" shall mean this Security Agreement, as the same may from time to time be amended, modified or supplemented and shall refer to this Security Agreement as in effect of the date such reference becomes operative.

"UCC" shall mean the Uniform Commercial Code as the same may, from time to time, be in effect in the State of New York; provided, however, in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of Lender's security interest in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of New York, the term "UCC" shall mean the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such attachment, perfection or priority and for purposes of definitions related to such provisions.

2. Grant of Security Interest. As collateral security for the prompt and complete payment and performance when due (whether at stated maturity, by acceleration or otherwise) of all the Secured Obligations and to induce Lenders to enter into the Purchase Agreement and to purchase the Notes in accordance with the terms thereof, Borrower hereby assigns, conveys, mortgages, pledges, hypothecates and transfers to Pledgee (on behalf of and as agent for Secured Parties) and Secured Parties, and hereby grants to Pledgee (on behalf of and as agent for Secured Parties) and Secured Parties a security interest in, all of Borrower's right, title and interest in, to and under the following (all of which being hereinafter collectively called the "Collateral"):

(i) all Letters of Credit, including without limitation all Letters of Credit delivered to Lender pursuant to Section 3.9 of the Purchase Agreement;

(ii) all Accounts of Borrower;

(iii) all Contracts of Borrower;

(iv) all Documents of Borrower;

(v) all General Intangibles of Borrower;

(vi) all rights of Borrower in and to the Lockbox Account and all amounts deposited therein; and

(vii) to the extent not otherwise included, all Proceeds of each of the foregoing and all accessions to, substitutions and replacements for, and rents, profits and product of each of the foregoing.

3. Rights of Pledgee; Limitations on Pledgee's Obligations.

(a) It is expressly agreed by Borrower that, anything herein to the contrary notwithstanding, Borrower shall remain liable under each of its Contracts to observe and perform all the conditions and obligations to be observed and performed by it thereunder and Borrower shall perform all of its duties and obligations thereunder, all in accordance with and pursuant to the terms and provisions of each such Contract. Pledgee and Secured Parties shall not have any obligation or liability under any Contract by reason of or arising out of this Security Agreement or the granting to

Pledgee and Secured Parties of a security interest therein or the receipt by Pledgee or any Secured Party of any payment relating to any Contract pursuant hereto, nor shall Pledgee or any Secured Party be required or obligated in any manner to perform or fulfill any of the obligations of Borrower under or pursuant to any Contract, or to make any payment, or to make any inquiry as to the nature or the sufficiency of any payment received by it or the sufficiency of any performance by any party under any Contract, or to present or file any claim, or to take any action to collect or enforce any performance or the payment of any amounts which may have been assigned to it or to which it may be entitled at any time or times.

(b) Pledgee authorizes Borrower to collect its Accounts provided that such collection is performed in a prudent and businesslike manner, and Pledgee may, after the earlier to occur of (x) January 1, 1998 or (y) the occurrence of an Event of Default or Lockbox Event which is continuing, without notice, limit or terminate said authority at any time. After the occurrence of an Event of Default or Lockbox Event, all Proceeds of such collections, when first collected by Borrower, received in payment of any Accounts in which Pledgee and Secured Parties have been granted a security interest herein or on account of any of its Contracts in which Pledgee and Secured Parties have been granted a security interest herein, shall be promptly deposited by Borrower in precisely the form received (with all necessary endorsements) in the Lockbox Account subject to withdrawal by Pledgee only, as hereinafter provided, and until so turned over shall be deemed to be held in trust by Borrower for Pledgee and Secured Parties and shall not be commingled with Borrower's other funds or properties. Such Proceeds, when deposited, shall continue to be collateral security for all of the Secured Obligations and shall not constitute payment thereof until applied as hereinafter provided. Pledgee may at any time apply all or any part of the funds on deposit in the Lockbox Account to the principal of or interest on or both in respect of any of the Secured Obligations in accordance with the provisions of Section 8(d) hereof and any part of such funds which Pledgee elects not so to apply and deemed not required as collateral security for the Secured Obligations shall be paid over from time to time by Pledgee to Borrower.

If an Event of Default has occurred and is continuing, at the request of Pledgee, Borrower shall deliver to Pledgee all original and other documents evidencing and relating to the performance of labor or service which created such Accounts, including, without limitation, all original purchase orders, invoices and shipping receipts; and, prior to the occurrence of an Event of Default, Borrower shall deliver photocopies thereof to Pledgee at its request. Borrower shall maintain the Lockbox Account in effect at all times after its establishment.

(c) Pledgee may at any time, upon the occurrence and during the continuance of any Event of Default, after first notifying Borrower of its intention to do so, notify Account Debtors of Borrower and parties to the Contracts of Borrower that the Accounts and the right, title and interest of Borrower in and under such Contracts have been assigned to Pledgee and that payments shall be made directly to Pledgee. Upon the request of Pledgee, Borrower will so notify such Account Debtors and parties to such Contracts. After the occurrence and during the continuance of an Event of Default, Pledgee may at any time in its own name or in the name of others communicate with such Account Debtors and parties to such Contracts to verify with such Persons to Pledgee's satisfaction the existence, amount and terms of any such Accounts or Contracts.

(d) Upon reasonable prior notice to Borrower (unless an Event of Default has occurred and is continuing, in which case no notice is necessary), Pledgee shall have the right to make test verifications of the Accounts through any medium that it considers advisable, and Borrower agrees to furnish all such assistance and information as Pledgee may reasonably require in connection therewith. Prior to the occurrence and during the continuation of an Event of Default, such verification shall be in Borrower's name. Borrower at its expense will prepare and deliver to Pledgee, upon Pledgee's request made not more often than monthly, the following reports: (i) a reconciliation of all its Accounts, (ii) an aging of all its Accounts, (iii) trial balances, and (iv) a test verification of such Accounts as Pledgee may request.

(e) Pledgee shall at any time (irrespective of the occurrence of any Event of Default) have the exclusive right to draw under the letters of credit listed on Schedule I hereto in accordance with their respective terms. At the request of Pledgee, Borrower shall provide to Pledgee, immediately after the same become available, any and all invoices, packing lists, bills of lading, certificates, instruments and other documents necessary in the sole judgment of Pledgee to permit or facilitate such draws.

4. Representations and Warranties. Borrower hereby represents and warrants that:

(a) Except for the security interest granted to Pledgee pursuant to this Security Agreement and Permitted Junior Liens, Borrower is or will be the sole owner of each item of the Collateral in which it purports to grant a security interest hereunder, having good and marketable title thereto, free and clear of any and all liens, security interests or other encumbrances. No amount payable under or in connection with any of its Accounts or Contracts are evidenced by instruments which have not been delivered to Pledgee.

(b) No effective security agreement, financing statement, equivalent security or lien instrument or continuation agreement covering all or any part of the Collateral is on file or of record in any public office, except such as may have been filed by Borrower in favor of Pledgee pursuant to this Security Agreement or filed in connection with Permitted Junior Liens.

(c) Upon the filing of financing statements in the form of Exhibit A hereto describing the items or types of Collateral as to which security interests may

be perfected by the filing of a financing statement under the UCC in the jurisdictions listed on Schedule II hereto and the delivery to Pledgee of the original letters of credit listed on Schedule I hereto, this Security Agreement shall be effective to create and perfect a valid and continuing lien on and perfected security interest in such Collateral with respect to which a security interest may be perfected by filing or the obtaining of possession of the Collateral pursuant to the UCC in favor of Pledgee, prior to all other security interests (other than the security interests granted to Pledgee under this Security Agreement and Permitted Junior Liens), and is enforceable as such as against creditors of and purchasers from Borrower. All action necessary or desirable to protect and perfect such security interest in each item of the Collateral has been duly taken.

(d) The address of Borrower's principal place of business and the place where its records concerning the Collateral are kept is set forth on Schedule III hereto, and Borrower will not change such principal place of business or remove such records unless it has taken such action as is necessary to cause the security interest of Pledgee in the Collateral to continue to be perfected. Borrower will not change its principal place of business or the place where its records concerning the Collateral is kept without giving 30 days prior written notice thereof to Pledgee.

(e) The amount represented by Borrower to Pledgee from time to time as owing by each Account Debtor or by all Account Debtors in respect of the Accounts will at such time be the correct amount actually and unconditionally owing by such Account Debtors thereunder.

(f) Each of the letters of credit listed on Schedule I hereto constitutes the legal, valid and binding obligation of the issuer thereof, enforceable against it in accordance with its terms. Borrower has taken all actions necessary to provide for the transfer to Pledgee of all its right, title and interest in, to and under the letters of credit listed on Schedule I hereto and Pledgee has the right to draw under such letters of credit in accordance with their respective terms. Such transfers are enforceable against the issuers of such letters of credit and creditors of Borrower.

5. Covenants. Borrower covenants and agrees with Pledgee that from and after the date of this Security Agreement and until the Secured Obligations are fully satisfied:

(a) Further Documentation; Pledge of Instruments. At any time and from time to time, upon the written request of Pledgee, and at the sole expense of Borrower, Borrower will promptly and duly execute and deliver any and all such further instruments and documents and take such further action as Pledgee may reasonably deem necessary to obtain the full benefits of this Security Agreement and of the rights and powers herein granted, including, without limitation, using its best efforts to secure all consents and approvals necessary or appropriate for the assignment to Pledgee of any Contract held by Borrower or in which Borrower has any rights not heretofore assigned, the filing of any financing or continuation statements under the UCC with respect to the liens and security interests granted hereby and transferring Collateral to Pledgee's possession (if a security interest in such Collateral can be perfected by possession). Borrower also hereby authorizes Pledgee to file any such financing or continuation statement without the signature of Borrower to the extent permitted by applicable law. A photocopy of this Security Agreement may be filed as a financing statement. If any amount payable under or in connection with any of the Collateral shall be or become evidenced by any instrument, such instrument shall be immediately pledged to Pledgee hereunder, and shall be duly endorsed in a manner satisfactory to Pledgee and delivered to Pledgee.

(b) Maintenance of Records. Borrower will keep and maintain at its own cost and expense satisfactory and complete records of the Collateral, including, without limitation, a record of all payments received and all credits granted with respect to the Collateral and all other dealings with the Collateral. For Pledgee's further security, Borrower agrees that Pledgee shall have a special property interest in all of Borrower's books and records pertaining to the Collateral and, upon the occurrence and during the continuation of any Event of Default, Borrower shall deliver

and turn over any such books and records to Pledgee or to its representatives at any time on demand of Pledgee. Prior to the occurrence of an Event of Default and upon reasonable notice from Pledgee, Borrower shall permit any representative of Pledgee to inspect such books and records upon reasonable notice and during normal business hours, and will provide photocopies thereof to Pledgee.

(c) Indemnification. In any suit, proceeding or action brought by Pledgee or any Secured Party relating to any Account or Contract for any sum owing thereunder, or to enforce any provision of any Account or Contract, Borrower will save, indemnify and keep Pledgee and Secured Parties harmless from and against all expense, loss or damage suffered by reason of any defense, setoff, counterclaim, recoupment or reduction of liability whatsoever of the obligor thereunder, arising out of a breach by Borrower of any obligation thereunder or arising out of any other agreement, indebtedness or liability at any time owing to, or in favor of, such obligor or its successors from Borrower, and all such obligations of Borrower shall be and remain enforceable against and only against Borrower and shall not be enforceable against Pledgee or any Secured Party.

(d) Compliance with Laws, etc. Borrower will comply, in all material respects, with all acts, rules, regulations, orders, decrees and directions of any governmental authority, applicable to the Collateral or any part thereof or to the operation of Borrower's business; provided, however, that Borrower may contest any act, regulation, order, decree or direction in any reasonable manner which shall not, in the reasonable opinion of Pledgee, adversely affect Pledgee's rights hereunder or adversely affect the first priority of its security interest in the Collateral.

(e) Payment of Obligations. Borrower will pay promptly when due all taxes, assessments and governmental charges or levies imposed upon the Collateral.

(f) Compliance with Terms of Accounts, etc. Borrower will perform and comply with all obligations in respect of Accounts and Contracts and all other agreements to which it is a party or by which it is bound.

(g) Limitation on Liens on Collateral. Borrower will not create, permit or suffer to exist, and will defend the Collateral against and take such other action as is necessary to remove, any lien, security interest or other encumbrance on the Collateral except for Permitted Liens, and will defend the right, title and interest of Pledgee in and to any of Borrower's rights under the Accounts, Contracts, Documents and General Intangibles and to the Proceeds thereof against the claims and demands of all Persons whomsoever.

(h) Limitations on Modifications of Accounts, etc. Upon the occurrence and during the continuation of any Event of Default, Borrower will not, without Pledgee's prior written consent, grant any extension of the time of payment of any of the Accounts, compromise, compound or settle the same for less than the full amount thereof, release, wholly or partly, any Person liable for the payment thereof, or allow any credit or discount whatsoever thereon.

(i) Limitations on Disposition. Borrower will not sell, lease, transfer or otherwise dispose of any of the Collateral except, subject to the provisions of this Agreement, for the performance of Contracts and the collection of its Accounts in the ordinary course of its business.

(j) Further Identification of Collateral. Borrower will if so requested by Pledgee furnish to Pledgee, as often as Pledgee reasonably requests, statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as Pledgee may reasonably request, all in reasonable detail.

(k) Notices. Borrower will advise Pledgee promptly, after it learns of same, in reasonable detail, (i) of any material lien, security interest, encumbrance or claim made or asserted against any of the Collateral other than Permitted Liens, (ii) of any material change in the composition of the Collateral, and (iii) of the occurrence of any other event which would have a material adverse effect on the aggregate value of the Collateral or on the security interests created hereunder.

(l) Right of Inspection. Upon reasonable notice to Borrower (unless an Event Default has occurred and is continuing, in which case no notice is necessary), Pledgee shall at all times have full and free access during normal business hours and upon reasonable notice to all the books and records and correspondence of Borrower, and Pledgee or its representatives may examine the same, take extracts therefrom and make photocopies thereof, and Borrower agrees to render to Pledgee, at Borrower's cost and expense, such clerical and other assistance as may be reasonably requested with regard thereto.

(m) Continuous Perfection. Borrower will not change its name, identity or corporate structure in any manner which might make any financing or continuation statement filed in connection herewith seriously misleading within the meaning of Section 9-402 of the UCC (or any other then applicable provision of the UCC) unless Borrower shall have given Pledgee at least 30 days prior written notice thereof and shall have taken all action (or made arrangements to take such action substantially simultaneously with such change if it is impossible to take such action in advance) necessary or reasonably requested by Pledgee to amend such financing statement or continuation statement so that it is not seriously misleading.

6. Pledgee's Appointment as Attorney-in-Fact.

(a) Borrower hereby irrevocably constitutes and appoints Pledgee and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of Borrower and in the name of Borrower or in its own name, from time to time in Pledgee's reasonable discretion, for the purpose of carrying out the terms of this Security Agreement, to take any and all appropriate action and to execute and deliver any and all documents and instruments which may be necessary or desirable to accomplish the purpose of this Security Agreement and, without limiting the generality of the

foregoing, hereby gives Pledgee the power and right, on behalf of Borrower,

without notice to or assent by Borrower to do the following:

(i) to ask, demand, collect, receive and give acquittances and receipts for any and all moneys due and to become due under any Collateral and, in the name of Borrower or its own name or otherwise, to take possession of and endorse and collect any checks, drafts, notes, acceptances or other Instruments for the payment of monies due under any Collateral, to access all post office boxes maintained by or for Borrower for the collection of any of the Collateral, and to file any claim or to take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by Pledgee for the purpose of collecting any and all such moneys due under any Collateral whenever payable and to file any claim or to take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by Pledgee for the purpose of collecting any and all such moneys due under any Collateral whenever payable;

(ii) to pay or discharge taxes, liens, security interests or other encumbrances levied or placed on or threatened against the Collateral, to effect any repairs or any insurance called for by the terms of this Security Agreement and to pay all or any part of the premiums therefor and the costs thereof; and

(iii)(A) to direct any party liable for any payment under any of the Collateral to make payment of any and all moneys due, and to become due thereunder, directly to Pledgee or as Pledgee shall direct; (B) to receive payment of and receipt for any and all moneys, claims and other amounts due, and to become due at any time, in respect of or arising out of any Collateral; (C) to sign and indorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications and notices in connection with accounts and other Documents constituting or relating to the Collateral; (D) to commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any part thereof and to enforce any other right in respect of any Collateral; (E) to defend any suit, action or proceeding brought against Borrower with respect to any Collateral; (F) to settle, compromise or adjust any suit, action or proceeding described above and, in conjunction therewith, to give such discharges or releases as Pledgee may deem appropriate; (G) generally to sell, transfer, pledge, make any agreement with respect to or otherwise deal with any of the

Collateral as fully and completely as though Pledgee were the absolute owner thereof for all purposes, and to do, at Pledgee's option and Borrower's expense, at any time, or from time to time, all acts and things which Pledgee reasonably deems necessary to protect, preserve or realize upon the Collateral and Pledgee's security interest therein, in order to effect the intent of this Security Agreement, all as fully and effectively as Borrower might do.

(b) Pledgee agrees that, except upon the occurrence and during the continuation of an Event of Default, it will forebear from exercising the power of attorney or any rights granted to Lender pursuant to this Section 6. Borrower hereby ratifies, to the extent permitted by law, all that said attorneys shall lawfully do or cause to be done by virtue hereof. The power of attorney granted

pursuant to this Section 6 is a power coupled with an interest and shall be irrevocable until the Secured Obligations are indefeasibly paid in full.

(c) The powers conferred on Pledgee hereunder are solely to protect Pledgee's interests in the Collateral and shall not impose any duty upon it to exercise any such powers. Pledgee shall be accountable only for amounts that it actually receives as a result of the exercise of such powers and neither it nor any of its officers, directors, employees or agents shall be responsible to Borrower for any act or failure to act, except for its or their own gross negligence or willful misconduct.

(d) Borrower also authorizes Pledgee, at any time and from time to time upon the occurrence and during the continuation any Event of Default, (i) to communicate in its own name with any party to any Contract with regard to the collateral assignment of the right, title and interest of Borrower in and under the Contracts hereunder and other matters relating thereto and (ii) to execute, in connection with the sale provided for in Section 8 hereof, any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral reasonably requested by Pledgee.

7. Performance by Pledgee of Borrower's Obligations. If Borrower fails to perform or comply with any of its agreements contained herein and Pledgee, as provided for by the terms of this Security Agreement, shall itself perform or comply, or otherwise cause performance or compliance, with such agreement, the reasonable expenses of Pledgee or such Secured Party incurred in connection with such performance or compliance, together with interest thereon at the rate then in effect under the Notes, shall be payable by Borrower to Pledgee or such Secured Party on demand and shall constitute Secured Obligations secured hereby.

8. Remedies, Rights Upon Default.

(a) If any or Event of Default shall occur and be continuing, Pledgee may (on behalf of and as agent for Secured Parties) exercise in addition to all other rights and remedies granted to it in this Security Agreement and in any other instrument or agreement securing, evidencing or relating to the Secured Obligations, all rights and remedies of a secured party under

the UCC. Without limiting the generality of the foregoing, Borrower expressly agrees that in any such event Pledgee, without demand of performance or other demand, advertisement or notice of any kind (except the notice specified below of time and place of public or private sale) to or upon Borrower or any other Person (all and each of which demands, advertisements and/or notices are hereby expressly waived to the maximum extent permitted by the UCC and other applicable law), may forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith sell, lease, assign, give an option or options to purchase, or sell or otherwise dispose of and deliver said Collateral (or contract to do so), or any part thereof, in one or more parcels at public or private sale or sales, at any exchange or broker's board or at any of Pledgee's offices or elsewhere at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. Pledgee shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of said Collateral so sold, free of any right or equity of redemption, which equity of redemption Borrower hereby releases. Borrower further agrees, at Pledgee's request, to assemble the Collateral and make it available to Pledgee at places which Pledgee shall reasonably select, whether at Borrower's premises or elsewhere. Pledgee shall apply the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, as provided in Section 8(d) hereof, Borrower remaining liable for any deficiency remaining unpaid after such application, and only after so paying over such net

proceeds and after the payment by Lender of any other amount required by any provision of law, including Section 9-504 of the UCC, need Lender account for the surplus, if any, to Borrower. To the maximum extent permitted by applicable law, Borrower waives all claims, damages, and demands against Pledgee or any Secured Party arising out of the repossession, retention or sale of the Collateral except such as arise out of the gross negligence or willful misconduct of Pledgee. Borrower agrees that the Pledgee need not give more than ten days' notice (which notification shall be deemed given when mailed or delivered on an overnight basis, postage prepaid, addressed to Borrower at its address referred to in Section 12 hereof) of the time and place of any public sale or of the time after which a private sale may take place and that such notice is reasonable notification of such matters. Borrower shall remain liable for any deficiency if the proceeds of any sale or disposition of the Collateral are insufficient to pay all amounts to which Secured Parties are entitled, Borrower also being liable for the reasonable fees of any attorneys employed by Pledgee or any Secured Party to collect such deficiency.

(b) Borrower also agrees to pay all costs of Pledgee and Secured Parties, including, without limitation, reasonable attorneys' fees, incurred in connection with the enforcement of any of its rights and remedies hereunder.

(c) Borrower hereby waives presentment, demand, protest or any notice (to the maximum extent permitted by applicable law) of any kind in connection with this Security Agreement or any Collateral.

(d) The Proceeds of any sale, disposition or other realization upon all or any part of the Collateral shall be distributed by Pledgee in the following order of priorities:

first, to Pledgee in an amount sufficient to pay in full the expenses of Pledgee and Secured Parties in connection with such sale, disposition or other realization, including all reasonable expenses, liabilities and advances incurred or made by Pledgee in connection therewith, including, without limitation, reasonable attorney's fees;

second, to Pledgee or Secured Parties in an amount equal to the then unpaid principal of and accrued interest and prepayment premiums, if any, on the Secured Obligations;

third, to Pledgee or Secured Parties in an amount equal to any other Secured Obligations which are then unpaid; and

finally, upon payment in full of all of the Secured Obligations, to pay to Borrower, or its representatives or as a court of competent jurisdiction may direct, any surplus then remaining from such Proceeds.

9. Limitation on Pledgee's Duty in Respect of Collateral. Pledgee shall use reasonable care with respect to the Collateral in its possession or under its control. Pledgee shall not have any other duty as to any Collateral in its possession or control or in the possession or control of any agent or nominee of it or any income thereon or as to the preservation of rights against prior parties or any other rights pertaining thereto. Upon request of Borrower, Pledgee shall account for any moneys received by it in respect of any foreclosure on or disposition of the Collateral.

10. Reinstatement. This Agreement shall remain in full force and effect and continue to be effective should any petition be filed by or against Borrower for liquidation or reorganization, should Borrower become insolvent or make an assignment for the benefit of creditors or should a receiver or trustee be

appointed for all or any significant part of Borrower's assets, and shall continue to be effective or be reinstated, as the case may be, if at any time payment and performance of the Secured Obligations, or any part thereof, is, pursuant to applicable law, rescinded or reduced in amount, or must otherwise be restored or returned by any obligee of the Secured Obligations, whether as a "voidable preference," "fraudulent conveyance", or otherwise, all as though such payment or performance had not been made. In the event that any payment, or any part thereof, is rescinded, reduced, restored or returned, the Secured Obligations shall be reinstated and deemed reduced only by such amount paid and not so rescinded, reduced, restored or returned.

11. Notices. Except as otherwise provided herein, whenever it is provided herein that any notice, demand, request, consent, approval, declaration or other communication shall or may be given to or served upon any of the parties by any other party, or whenever any of the parties desires to give or serve upon any other communication with respect to this Security Agreement, each such notice, demand, request, consent, approval, declaration or other communication shall be given as set forth in Section 12.1 of the Purchase Agreement. The giving of any notice required hereunder may be waived in writing by the party entitled to receive such notice. Failure or delay in delivering copies of any notice, demand, request, consent, approval, declaration or other communication to the

persons designated above to receive copies shall in no way adversely affect the effectiveness of such notice, demand, request, consent, approval, declaration or other communication.

12. Severability. Any provision of this Security Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

13. No Waiver; Cumulative Remedies. Neither Pledgee nor any Secured Party shall by any act, delay, omission or otherwise be deemed to have waived any of its rights or remedies hereunder, and no waiver shall be valid unless in writing, signed by Pledgee, and then only to the extent therein set forth. A waiver by Pledgee or any Secured Party of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which Pledgee or any Secured Party would otherwise have had on any future occasion. No failure to exercise nor any delay in exercising on the part of Pledgee or any Secured Party, any right, power or privilege hereunder, shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or future exercise thereof or the exercise of any other right, power or privilege. The rights and remedies hereunder provided are cumulative and may be exercised singly or concurrently, and are not exclusive of any rights and remedies provided by law. None of the terms or provisions of this Security Agreement may be waived, altered, modified or amended except by an instrument in writing, duly executed by Pledgee and, where applicable, by Borrower.

14. Successors and Assigns; Governing Law.

(a) This Security Agreement and all obligations of Borrower hereunder shall be binding upon the successors and assigns of Borrower, and shall, together with the rights and remedies of Pledgee and Secured Parties hereunder, inure to the benefit of Pledgee and Secured Parties, all future holders of the Notes and their respective successors and assigns. No sales of participations, other sales, assignments, transfers or other dispositions of any agreement governing or instrument evidencing the Secured Obligations or any portion thereof or

interest therein shall in any manner affect the security interest granted to Pledgee and Secured Parties hereunder.

(b) THIS SECURITY AGREEMENT SHALL BE GOVERNED BY, AND BE CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

15. Further Indemnification. Borrower agrees to pay, and to save Pledgee and Secured Parties harmless from, any and all liabilities with respect to, or resulting from any delay in paying, any and all excise, sales or other similar taxes which may be payable or determined to be payable with respect to any of the Collateral or in connection with any of the transactions contemplated by this Security Agreement.

16. Waiver of Jury Trial. BORROWER HEREBY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS OR REMEDIES HEREUNDER.

17. Termination. Notwithstanding any other provision of any other Financing Document, at such time as (i) the entire unpaid principal balance of the Notes and all accrued interest thereon have been converted in full in accordance with Article III of the Purchase Agreement or indefeasibly paid in full ("Payment or Conversion in Full") and (ii) all other payment obligations under the Notes and the Purchase Agreement due and owing as of the date of such Payment or Conversion in Full have been indefeasibly paid in full, this Agreement and the security interests created hereby shall terminate. Upon termination of this Agreement and Borrower's written request, Pledgee will, at Borrower's sole cost and expense, return to Borrower such of the Collateral as shall not have been sold or otherwise disposed of or applied pursuant to the terms hereof and execute and deliver to Borrower such documents as Borrower shall reasonably request to evidence such termination.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, each of the parties hereto has caused this Security Agreement to be executed and delivered by its duly authorized officer on the date first set forth above.

TAKE-TWO INTERACTIVE SOFTWARE, INC.

By: /s/ Ryan Brant

Name: Ryan Brant

Title: CEO

Acknowledged:

HW PARTNERS, L.P., as Purchasers' Representative

By: HW Finance, L.L.C., its general partner

By: /s/ Stuart Chasanoff
Name: Stuart Chasanoff
Title: Vice-President

SCHEDULE I

LIST OF LETTERS OF CREDIT

Letter of Credit Number	Issuing Bank	Face Amount
30724824	American National Bank and Trust Company of Chicago	$494,274.96
100181521	Bank of New York	$230,160.60
100171405	Bank of New York	$1,381,973.55
AI1078363	Fleet Bank, N.A.	$446,634.00
970917IM1172	Crestar Bank	$460,657.48

SCHEDULE II

FILINGS

DEBTOR	JURISDICTION	FILING OFFICE
Borrower	New York	UCC Filing Office State of New York Department of State 162 Washington Avenue Albany, NY 12231
Borrower	New York	New York City Register Room 202 Surrogate's Court Building 31 Chambers Street New York, New York 10007

SCHEDULE III

LOCATION OF RECORDS

Principal Place of Business and Location of Records

575 Broadway, 6th Floor
New York, New York 10012

EXHIBIT A

Form of Financing Statement

SECURITY AGREEMENT

SECURITY AGREEMENT dated October 14, 1997 between INVENTORY MANAGEMENT SYSTEMS, INC. ("Borrower"), a Delaware corporation, and HW PARTNERS, L.P., as agent for and representative (in such capacity, "Pledgee") of Infinity Investors Limited, Infinity Emerging Opportunities Limited and Glacier Capital Limited ("Lenders") under the Purchase Agreement (as hereinafter defined).

W I T N E S S E T H:

WHEREAS, pursuant to that certain Securities Purchase Agreement dated the date hereof between Take-Two Interactive Software, Inc. ("Take-Two") and Lenders (as the same may from time to time be amended, modified or supplemented, the "Purchase Agreement"), Take-Two has issued to Lenders its Convertible Notes dated the date hereof (the "Notes") in the aggregate principal amount of $4,200,000 payable by Take-Two to the order of Lenders; and

WHEREAS, Lenders are willing to purchase the Notes but only upon the condition, among others, that Borrower, a wholly-owned subsidiary of Take-Two, shall have executed and delivered to Pledgee this Security Agreement.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. Defined Terms. Unless otherwise defined herein, terms defined in the Purchase Agreement are used herein as therein defined, and the following terms shall have the following meanings (such meanings being equally applicable to both the singular and plural forms of the terms defined):

"Account Debtor" shall mean any "account debtor," as such term is defined in Section 9-105 of the UCC.

"Accounts" shall mean any "account," as such term is defined in Section 9-106 of the UCC, now owned or hereafter acquired by Borrower and, in any event, shall include, without limitation, all accounts receivable, book debts and other forms of obligations now owned or hereafter received or acquired by or belonging or owing to Borrower (including, without limitation, under any trade names, styles or divisions thereof) whether arising out of goods sold or services rendered by Borrower or from any other transaction (including, without limitation, any such obligation which might be characterized as an account or contract right under the UCC) and all of Borrower's rights in, to and under all purchase

orders or receipts now owned or hereafter acquired by it for goods, and all of Borrower's rights to any goods represented by any of the foregoing (including, without limitation, unpaid seller's rights of rescission, replevin, reclamation and stoppage in transit and rights to returned, reclaimed or repossessed goods), and all moneys due or to become due to Borrower under the Contracts and all contracts for the sale of goods or the performance of services or both by Borrower (whether or not yet earned by performance on the part of Borrower or in connection with any other transaction), now in existence or hereafter occurring, including, without limitation, the right to receive the proceeds of said purchase orders and contracts, and all collateral security and guarantees of any kind given by any Person with respect to any of the foregoing, to the extent any of the foregoing are related to or arise out of sales or distribution of Products

by Borrower.

"Collateral" shall have the meaning assigned to such term in Section 2 of this Security Agreement.

"Contracts" shall mean all contracts, undertakings, or other agreements in or under which Borrower may now or hereafter have any right, title or interest, including, without limitation, with respect to an Account, any agreement relating to the terms of payment or the terms of performance thereof, to the extent any of the foregoing are related to or arise out of sales or distribution of Products by Borrower. As used in this Security Agreement, "Contracts" shall include, without limitation, the Letters of Credit.

"Documents" shall mean any "documents" as such term is defined in Section 9-105 of the UCC, now owned or hereafter acquired by Borrower, to the extent any of the foregoing are related to or arise out of sales or distribution of Products by Borrower.

"General Intangibles" shall mean any "general intangibles," as such term is defined in Section 9-106 of the UCC, now owned or hereafter acquired by Borrower and, in any event, shall include, without limitation, all right, title and interest which Borrower may now or hereafter have in or under any Contract, all customer lists, rights in intellectual property, licenses, permits, copyrights, trade secrets, proprietary or confidential information, inventions (whether patented or patentable or not) and technical information, procedures, designs, knowledge, know-how, software, data bases, data, skill, expertise, experience, processes, models, drawings, materials and records now owned or hereafter acquired by Borrower, goodwill and rights of indemnification, to the extent any of the foregoing are related to or arise out of sales or distribution of Products by Borrower.

"hereby," "herein," "hereof," "hereunder" and words of similar import refer to this Security Agreement as a whole (including, without limitation, any schedules hereto) and not merely to the specific section, paragraph or clause in which the respective word appears.

"Lockbox Account" shall mean any lockbox account established pursuant to Section 3.9 of the Purchase Agreement.

"Letters of Credit" shall mean all letters of credit under which Borrower is a beneficiary, issued in connection with the sale or distribution of Products, now existing or hereafter arising, including without limitation the letters of credit listed on Schedule I hereto, and all amendments, renewals, modifications, restatements and extensions of such letters of credit, in an aggregate amount not to exceed the principal amount due and owing under the Convertible Notes outstanding at any time.

"Permitted Junior Liens" shall mean the security interests granted by Borrower to secure payment of the Crestar Debt, provided that such security interests have been subordinated to the security interests granted to Pledgee and Lenders under this Security Agreement in a manner reasonably satisfactory to Pledgee.

"Proceeds" shall mean "proceeds," (as such term is defined in Section 9-306 of the UCC) and, in any event, shall include, without limitation, (i) any and all proceeds of any insurance, indemnity, warranty or guaranty payable to Borrower from time to time with respect to any of the Collateral, (ii) any and all payments (in any form whatsoever) made or due

and payable to Borrower from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any part of the Collateral by any governmental body, authority, bureau or agency (or any person acting under color of governmental authority) and (iv) any and all other amounts from time to time paid or payable under or in connection with any of the Collateral.

"Secured Obligations" shall mean (i) all indebtedness, obligations and liabilities of Take-Two to Secured Parties under the Purchase Agreement, the Notes and the other Financing Documents, now existing or hereafter arising, whether direct, indirect, related, unrelated, fixed, contingent, liquidated, unliquidated, joint, several or joint and several, (ii) all accrued but unpaid interest on any of the indebtedness described in (i) above, (iii) all obligations of Borrower or Take-Two to Secured Parties under any documents evidencing, securing, governing and/or pertaining to all or any part of the indebtedness described in (i) and (ii) above, (iv) all costs and expenses incurred by Pledgee or Secured Parties in connection with the collection and administration of all or any part of the indebtedness and obligations described in (i), (ii) and (iii) above or the protection or preservation of, or realization upon, the collateral securing all or any part of such indebtedness and obligations, including without limitation all reasonable attorneys' fees and (v) all renewals, extensions, modifications and rearrangements of the indebtedness and obligations described in (i), (ii), (iii) and (iv) above.

"Secured Parties" means each of the Lenders and any subsequent holders of the Notes.

"Security Agreement" shall mean this Security Agreement, as the same may from time to time be amended, modified or supplemented and shall refer to this Security Agreement as in effect of the date such reference becomes operative.

"UCC" shall mean the Uniform Commercial Code as the same may, from time to time, be in effect in the State of New York; provided, however, in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of Lender's security interest in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of New York, the term "UCC" shall mean the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such attachment, perfection or priority and for purposes of definitions related to such provisions.

2. Grant of Security Interest. As collateral security for the prompt and complete payment and performance when due (whether at stated maturity, by acceleration or otherwise) of all the Secured Obligations and to induce Lenders to enter into the Purchase Agreement and to purchase the Notes in accordance with the terms thereof, Borrower hereby assigns, conveys, mortgages, pledges, hypothecates and transfers to Pledgee (on behalf of and as agent for Secured Parties) and Secured Parties, and hereby grants to Pledgee (on behalf of and as agent for Secured Parties) and Secured Parties a security interest in, all of Borrower's right, title and interest in, to and under the following (all of which being hereinafter collectively called the "Collateral"):

(i) all Letters of Credit, including without limitation all Letters of Credit delivered to Lender pursuant to Section 3.9 of the Purchase Agreement;

(ii) all Accounts of Borrower;

(iii) all Contracts of Borrower;

(iv) all Documents of Borrower;

(v) all General Intangibles of Borrower;

(vi) all rights of Borrower in and to the Lockbox Account and all amounts deposited therein; and

(vii) to the extent not otherwise included, all Proceeds of each of the foregoing and all accessions to, substitutions and replacements for, and rents, profits and product of each of the foregoing.

3. Rights of Pledgee; Limitations on Pledgee's Obligations.

(a) It is expressly agreed by Borrower that, anything herein to the contrary notwithstanding, Borrower shall remain liable under each of its Contracts to observe and perform all the conditions and obligations to be observed and performed by it thereunder and Borrower shall perform all of its duties and obligations thereunder, all in accordance with and pursuant to the terms and provisions of each such Contract. Pledgee and Secured Parties shall not have any obligation or liability under any Contract by reason of or arising out of this Security Agreement or the granting to

Pledgee and Secured Parties of a security interest therein or the receipt by Pledgee or any Secured Party of any payment relating to any Contract pursuant hereto, nor shall Pledgee or any Secured Party be required or obligated in any manner to perform or fulfill any of the obligations of Borrower under or pursuant to any Contract, or to make any payment, or to make any inquiry as to the nature or the sufficiency of any payment received by it or the sufficiency of any performance by any party under any Contract, or to present or file any claim, or to take any action to collect or enforce any performance or the payment of any amounts which may have been assigned to it or to which it may be entitled at any time or times.

(b) Pledgee authorizes Borrower to collect its Accounts provided that such collection is performed in a prudent and businesslike manner, and Pledgee may, after the earlier to occur of (x) January 1, 1998 or (y) the occurrence of an Event of Default or Lockbox Event which is continuing, without notice, limit or terminate said authority at any time. After the occurrence of an Event of Default or Lockbox Event, all Proceeds of such collections, when first collected by Borrower, received in payment of any Accounts in which Pledgee and Secured Parties have been granted a security interest herein or on account of any of its Contracts in which Pledgee and Secured Parties have been granted a security interest herein, shall be promptly deposited by Borrower in precisely the form received (with all necessary endorsements) in the Lockbox Account subject to withdrawal by Pledgee only, as hereinafter provided, and until so turned over shall be deemed to be held in trust by Borrower for Pledgee and Secured Parties and shall not be commingled with Borrower's other funds or properties. Such Proceeds, when deposited, shall continue to be collateral security for all of the Secured Obligations and shall not constitute payment thereof until applied as hereinafter provided. Pledgee may at any time apply all or any part of the funds on deposit in the Lockbox Account to the principal of or interest on or both in respect of any of the Secured Obligations in accordance with the provisions of Section 8(d) hereof and any part of such funds which Pledgee elects not so to apply and deemed not required as collateral security for the Secured Obligations shall be paid over from time to time by Pledgee to Borrower. If an Event of Default has occurred and is continuing, at the request of Pledgee, Borrower shall deliver to Pledgee all original and other documents

evidencing and relating to the performance of labor or service which created such Accounts, including, without limitation, all original purchase orders, invoices and shipping receipts; and, prior to the occurrence of an Event of Default, Borrower shall deliver photocopies thereof to Pledgee at its request. Borrower shall maintain the Lockbox Account in effect at all times after its establishment.

(c) Pledgee may at any time, upon the occurrence and during the continuance of any Event of Default, after first notifying Borrower of its intention to do so, notify Account Debtors of Borrower and parties to the Contracts of Borrower that the Accounts and the right, title and interest of Borrower in and under such Contracts have been assigned to Pledgee and that payments shall be made directly to Pledgee. Upon the request of Pledgee, Borrower will so notify such Account Debtors and parties to such Contracts. After the occurrence and during the continuance of an Event of Default, Pledgee may at any time in its own name or in the name of others communicate with such Account Debtors and parties to such Contracts to verify with such Persons to Pledgee's satisfaction the existence, amount and terms of any such Accounts or Contracts.

(d) Upon reasonable prior notice to Borrower (unless an Event of Default has occurred and is continuing, in which case no notice is necessary), Pledgee shall have the right to make test verifications of the Accounts through any medium that it considers advisable, and Borrower agrees to furnish all such assistance and information as Pledgee may reasonably require in connection therewith. Prior to the occurrence and during the continuation of an Event of Default, such verification shall be in Borrower's name. Borrower at its expense will prepare and deliver to Pledgee, upon Pledgee's request made not more often than monthly, the following reports: (i) a reconciliation of all its Accounts, (ii) an aging of all its Accounts, (iii) trial balances, and (iv) a test verification of such Accounts as Pledgee may request.

(e) Pledgee shall at any time (irrespective of the occurrence of any Event of Default) have the exclusive right to draw under the letters of credit listed on Schedule I hereto in accordance with their respective terms. At the request of Pledgee, Borrower shall provide to Pledgee, immediately after the same become available, any and all invoices, packing lists, bills of lading, certificates, instruments and other documents necessary in the sole judgment of Pledgee to permit or facilitate such draws.

4. Representations and Warranties. Borrower hereby represents and warrants that:

(a) Except for the security interest granted to Pledgee pursuant to this Security Agreement and Permitted Junior Liens, Borrower is or will be the sole owner of each item of the Collateral in which it purports to grant a security interest hereunder, having good and marketable title thereto, free and clear of any and all liens, security interests or other encumbrances. No amount payable under or in connection with any of its Accounts or Contracts are evidenced by instruments which have not been delivered to Pledgee.

(b) No effective security agreement, financing statement, equivalent security or lien instrument or continuation agreement covering all or any part of the Collateral is on file or of record in any public office, except such as may have been filed by Borrower in favor of Pledgee pursuant to this Security Agreement or filed in connection with Permitted Junior Liens.

(c) Upon the filing of financing statements in the form of Exhibit A hereto describing the items or types of Collateral as to which security interests may be perfected by the filing of a financing statement under the UCC in the jurisdictions listed on Schedule II hereto and the delivery to Pledgee of the

original letters of credit listed on Schedule I hereto, this Security Agreement shall be effective to create and perfect a valid and continuing lien on and perfected security interest in such Collateral with respect to which a security interest may be perfected by filing or the obtaining of possession of the Collateral pursuant to the UCC in favor of Pledgee, prior to all other security interests (other than the security interests granted to Pledgee under this Security Agreement and Permitted Junior Liens), and is enforceable as such as against creditors of and purchasers from Borrower. All action necessary or desirable to protect and perfect such security interest in each item of the Collateral has been duly taken.

(d) The address of Borrower's principal place of business and the place where its records concerning the Collateral are kept is set forth on Schedule III hereto, and Borrower will not change such principal place of business or remove such records unless it has taken such action as is necessary to cause the security interest of Pledgee in the Collateral to continue to be perfected. Borrower will not change its principal place of business or the place where its records concerning the Collateral is kept without giving 30 days prior written notice thereof to Pledgee.

(e) The amount represented by Borrower to Pledgee from time to time as owing by each Account Debtor or by all Account Debtors in respect of the Accounts will at such time be the correct amount actually and unconditionally owing by such Account Debtors thereunder.

(f) Each of the letters of credit listed on Schedule I hereto constitutes the legal, valid and binding obligation of the issuer thereof, enforceable against it in accordance with its terms. Borrower has taken all actions necessary to provide for the transfer to Pledgee of all its right, title and interest in, to and under the letters of credit listed on Schedule I hereto and Pledgee has the right to draw under such letters of credit in accordance with their respective terms. Such transfers are enforceable against the issuers of such letters of credit and creditors of Borrower.

5. Covenants. Borrower covenants and agrees with Pledgee that from and after the date of this Security Agreement and until the Secured Obligations are fully satisfied:

(a) Further Documentation; Pledge of Instruments. At any time and from time to time, upon the written request of Pledgee, and at the sole expense of Borrower, Borrower will promptly and duly execute and deliver any and all such further instruments and documents and take such further action as Pledgee may reasonably deem necessary to obtain the full benefits of this Security Agreement and of the rights and powers herein granted, including, without limitation, using its best efforts to secure all consents and approvals necessary or appropriate for the assignment to Pledgee of any Contract held by Borrower or in which Borrower has any rights not heretofore assigned, the filing of any financing or continuation statements under the UCC with respect to the liens and security interests granted hereby and transferring Collateral to Pledgee's possession (if a security interest in such Collateral can be perfected by possession). Borrower also hereby authorizes Pledgee to file any such financing or continuation statement without the signature of Borrower to the extent permitted by applicable law. A photocopy of this Security Agreement may be filed as a financing statement. If any amount payable under or in connection with any of the Collateral shall be or become evidenced by any instrument, such instrument shall be immediately pledged to Pledgee hereunder, and shall be duly endorsed in a manner satisfactory to Pledgee and delivered to Pledgee.

(b) Maintenance of Records. Borrower will keep and maintain at its own cost and expense satisfactory and complete records of the Collateral, including,

without limitation, a record of all payments received and all credits granted with respect to the Collateral and all other dealings with the Collateral. For Pledgee's further security, Borrower agrees that Pledgee shall have a special property interest in all of Borrower's books and records pertaining to the Collateral and, upon the occurrence and during the continuation of any Event of Default, Borrower shall deliver

and turn over any such books and records to Pledgee or to its representatives at any time on demand of Pledgee. Prior to the occurrence of an Event of Default and upon reasonable notice from Pledgee, Borrower shall permit any representative of Pledgee to inspect such books and records upon reasonable notice and during normal business hours, and will provide photocopies thereof to Pledgee.

(c) Indemnification. In any suit, proceeding or action brought by Pledgee or any Secured Party relating to any Account or Contract for any sum owing thereunder, or to enforce any provision of any Account or Contract, Borrower will save, indemnify and keep Pledgee and Secured Parties harmless from and against all expense, loss or damage suffered by reason of any defense, setoff, counterclaim, recoupment or reduction of liability whatsoever of the obligor thereunder, arising out of a breach by Borrower of any obligation thereunder or arising out of any other agreement, indebtedness or liability at any time owing to, or in favor of, such obligor or its successors from Borrower, and all such obligations of Borrower shall be and remain enforceable against and only against Borrower and shall not be enforceable against Pledgee or any Secured Party.

(d) Compliance with Laws, etc. Borrower will comply, in all material respects, with all acts, rules, regulations, orders, decrees and directions of any governmental authority, applicable to the Collateral or any part thereof or to the operation of Borrower's business; provided, however, that Borrower may contest any act, regulation, order, decree or direction in any reasonable manner which shall not, in the reasonable opinion of Pledgee, adversely affect Pledgee's rights hereunder or adversely affect the first priority of its security interest in the Collateral.

(e) Payment of Obligations. Borrower will pay promptly when due all taxes, assessments and governmental charges or levies imposed upon the Collateral.

(f) Compliance with Terms of Accounts, etc. Borrower will perform and comply with all obligations in respect of Accounts and Contracts and all other agreements to which it is a party or by which it is bound.

(g) Limitation on Liens on Collateral. Borrower will not create, permit or suffer to exist, and will defend the Collateral against and take such other action as is necessary to remove, any lien, security interest or other encumbrance on the Collateral except for Permitted Liens, and will defend the right, title and interest of Pledgee in and to any of Borrower's rights under the Accounts, Contracts, Documents and General Intangibles and to the Proceeds thereof against the claims and demands of all Persons whomsoever.

(h) Limitations on Modifications of Accounts, etc. Upon the occurrence and during the continuation of any Event of Default, Borrower will not, without Pledgee's prior written consent, grant any extension of the time of payment of any of the Accounts, compromise, compound or settle the same for less than the full amount thereof, release, wholly or partly, any Person liable for the payment thereof, or allow any credit or discount whatsoever thereon.

(i) Limitations on Disposition. Borrower will not sell, lease, transfer or otherwise dispose of any of the Collateral except, subject to the provisions of this Agreement, for the performance of Contracts and the collection of its Accounts in the ordinary course of its business.

(j) Further Identification of Collateral. Borrower will if so requested by Pledgee furnish to Pledgee, as often as Pledgee reasonably requests, statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as Pledgee may reasonably request, all in reasonable detail.

(k) Notices. Borrower will advise Pledgee promptly, after it learns of same, in reasonable detail, (i) of any material lien, security interest, encumbrance or claim made or asserted against any of the Collateral other than Permitted Liens, (ii) of any material change in the composition of the Collateral, and (iii) of the occurrence of any other event which would have a material adverse effect on the aggregate value of the Collateral or on the security interests created hereunder.

(l) Right of Inspection. Upon reasonable notice to Borrower (unless an Event Default has occurred and is continuing, in which case no notice is necessary), Pledgee shall at all times have full and free access during normal business hours and upon reasonable notice to all the books and records and correspondence of Borrower, and Pledgee or its representatives may examine the same, take extracts therefrom and make photocopies thereof, and Borrower agrees to render to Pledgee, at Borrower's cost and expense, such clerical and other assistance as may be reasonably requested with regard thereto.

(m) Continuous Perfection. Borrower will not change its name, identity or corporate structure in any manner which might make any financing or continuation statement filed in connection herewith seriously misleading within the meaning of Section 9-402 of the UCC (or any other then applicable provision of the UCC) unless Borrower shall have given Pledgee at least 30 days prior written notice thereof and shall have taken all action (or made arrangements to take such action substantially simultaneously with such change if it is impossible to take such action in advance) necessary or reasonably requested by Pledgee to amend such financing statement or continuation statement so that it is not seriously misleading.

6. Pledgee's Appointment as Attorney-in-Fact.

(a) Borrower hereby irrevocably constitutes and appoints Pledgee and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of Borrower and in the name of Borrower or in its own name, from time to time in Pledgee's reasonable discretion, for the purpose of carrying out the terms of this Security Agreement, to take any and all appropriate action and to execute and deliver any and all documents and instruments which may be necessary or desirable to accomplish the purpose of this Security Agreement and, without limiting the generality of the

foregoing, hereby gives Pledgee the power and right, on behalf of Borrower, without notice to or assent by Borrower to do the following:

(i) to ask, demand, collect, receive and give acquittances and

receipts for any and all moneys due and to become due under any Collateral and, in the name of Borrower or its own name or otherwise, to take possession of and endorse and collect any checks, drafts, notes, acceptances or other Instruments for the payment of monies due under any Collateral, to access all post office boxes maintained by or for Borrower for the collection of any of the Collateral, and to file any claim or to take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by Pledgee for the purpose of collecting any and all such moneys due under any Collateral whenever payable and to file any claim or to take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by Pledgee for the purpose of collecting any and all such moneys due under any Collateral whenever payable;

(ii) to pay or discharge taxes, liens, security interests or other encumbrances levied or placed on or threatened against the Collateral, to effect any repairs or any insurance called for by the terms of this Security Agreement and to pay all or any part of the premiums therefor and the costs thereof; and

(iii)(A) to direct any party liable for any payment under any of the Collateral to make payment of any and all moneys due, and to become due thereunder, directly to Pledgee or as Pledgee shall direct; (B) to receive payment of and receipt for any and all moneys, claims and other amounts due, and to become due at any time, in respect of or arising out of any Collateral; (C) to sign and indorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications and notices in connection with accounts and other Documents constituting or relating to the Collateral; (D) to commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any part thereof and to enforce any other right in respect of any Collateral; (E) to defend any suit, action or proceeding brought against Borrower with respect to any Collateral; (F) to settle, compromise or adjust any suit, action or proceeding described above and, in conjunction therewith, to give such discharges or releases as Pledgee may deem appropriate; (G) generally to sell, transfer, pledge, make any agreement with respect to or otherwise deal with any of the

Collateral as fully and completely as though Pledgee were the absolute owner thereof for all purposes, and to do, at Pledgee's option and Borrower's expense, at any time, or from time to time, all acts and things which Pledgee reasonably deems necessary to protect, preserve or realize upon the Collateral and Pledgee's security interest therein, in order to effect the intent of this Security Agreement, all as fully and effectively as Borrower might do.

(b) Pledgee agrees that, except upon the occurrence and during the continuation of an Event of Default, it will forebear from exercising the power of attorney or any rights granted to Lender pursuant to this Section 6. Borrower hereby ratifies, to the extent permitted by law, all that said attorneys shall lawfully do or cause to be done by virtue hereof. The power of attorney granted pursuant to this Section 6 is a power coupled with an interest and shall be irrevocable until the Secured Obligations are indefeasibly paid in full.

(c) The powers conferred on Pledgee hereunder are solely to protect Pledgee's interests in the Collateral and shall not impose any duty upon it to exercise any such powers. Pledgee shall be accountable only for amounts that it actually receives as a result of the exercise of such powers and neither it nor any of its officers, directors, employees or agents shall be responsible to Borrower for any act or failure to act, except for its or their own gross negligence or willful misconduct.

(d) Borrower also authorizes Pledgee, at any time and from time to time upon the occurrence and during the continuation any Event of Default, (i) to communicate in its own name with any party to any Contract with regard to the collateral assignment of the right, title and interest of Borrower in and under the Contracts hereunder and other matters relating thereto and (ii) to execute, in connection with the sale provided for in Section 8 hereof, any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral reasonably requested by Pledgee.

7. Performance by Pledgee of Borrower's Obligations. If Borrower fails to perform or comply with any of its agreements contained herein and Pledgee, as provided for by the terms of this Security Agreement, shall itself perform or comply, or otherwise cause performance or compliance, with such agreement, the reasonable expenses of Pledgee or such Secured Party incurred in connection with such performance or compliance, together with interest thereon at the rate then in effect under the Notes, shall be payable by Borrower to Pledgee or such Secured Party on demand and shall constitute Secured Obligations secured hereby.

8. Remedies, Rights Upon Default.

(a) If any or Event of Default shall occur and be continuing, Pledgee may (on behalf of and as agent for Secured Parties) exercise in addition to all other rights and remedies granted to it in this Security Agreement and in any other instrument or agreement securing, evidencing or relating to the Secured Obligations, all rights and remedies of a secured party under

the UCC. Without limiting the generality of the foregoing, Borrower expressly agrees that in any such event Pledgee, without demand of performance or other demand, advertisement or notice of any kind (except the notice specified below of time and place of public or private sale) to or upon Borrower or any other Person (all and each of which demands, advertisements and/or notices are hereby expressly waived to the maximum extent permitted by the UCC and other applicable law), may forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith sell, lease, assign, give an option or options to purchase, or sell or otherwise dispose of and deliver said Collateral (or contract to do so), or any part thereof, in one or more parcels at public or private sale or sales, at any exchange or broker's board or at any of Pledgee's offices or elsewhere at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. Pledgee shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of said Collateral so sold, free of any right or equity of redemption, which equity of redemption Borrower hereby releases. Borrower further agrees, at Pledgee's request, to assemble the Collateral and make it available to Pledgee at places which Pledgee shall reasonably select, whether at Borrower's premises or elsewhere. Pledgee shall apply the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, as provided in Section 8(d) hereof, Borrower remaining liable for any deficiency remaining unpaid after such application, and only after so paying over such net proceeds and after the payment by Lender of any other amount required by any provision of law, including Section 9-504 of the UCC, need Lender account for the surplus, if any, to Borrower. To the maximum extent permitted by applicable

law, Borrower waives all claims, damages, and demands against Pledgee or any Secured Party arising out of the repossession, retention or sale of the Collateral except such as arise out of the gross negligence or willful misconduct of Pledgee. Borrower agrees that the Pledgee need not give more than ten days' notice (which notification shall be deemed given when mailed or delivered on an overnight basis, postage prepaid, addressed to Borrower at its address referred to in Section 12 hereof) of the time and place of any public sale or of the time after which a private sale may take place and that such notice is reasonable notification of such matters. Borrower shall remain liable for any deficiency if the proceeds of any sale or disposition of the Collateral are insufficient to pay all amounts to which Secured Parties are entitled, Borrower also being liable for the reasonable fees of any attorneys employed by Pledgee or any Secured Party to collect such deficiency.

(b) Borrower also agrees to pay all costs of Pledgee and Secured Parties, including, without limitation, reasonable attorneys' fees, incurred in connection with the enforcement of any of its rights and remedies hereunder.

(c) Borrower hereby waives presentment, demand, protest or any notice (to the maximum extent permitted by applicable law) of any kind in connection with this Security Agreement or any Collateral.

(d) The Proceeds of any sale, disposition or other realization upon all or any part of the Collateral shall be distributed by Pledgee in the following order of priorities:

first, to Pledgee in an amount sufficient to pay in full the expenses of Pledgee and Secured Parties in connection with such sale, disposition or other realization, including all reasonable expenses, liabilities and advances incurred or made by Pledgee in connection therewith, including, without limitation, reasonable attorney's fees;

second, to Pledgee or Secured Parties in an amount equal to the then unpaid principal of and accrued interest and prepayment premiums, if any, on the Secured Obligations;

third, to Pledgee or Secured Parties in an amount equal to any other Secured Obligations which are then unpaid; and

finally, upon payment in full of all of the Secured Obligations, to pay to Borrower, or its representatives or as a court of competent jurisdiction may direct, any surplus then remaining from such Proceeds.

9. Limitation on Pledgee's Duty in Respect of Collateral. Pledgee shall use reasonable care with respect to the Collateral in its possession or under its control. Pledgee shall not have any other duty as to any Collateral in its possession or control or in the possession or control of any agent or nominee of it or any income thereon or as to the preservation of rights against prior parties or any other rights pertaining thereto. Upon request of Borrower, Pledgee shall account for any moneys received by it in respect of any foreclosure on or disposition of the Collateral.

10. Reinstatement. This Agreement shall remain in full force and effect and continue to be effective should any petition be filed by or against Borrower for liquidation or reorganization, should Borrower become insolvent or make an assignment for the benefit of creditors or should a receiver or trustee be appointed for all or any significant part of Borrower's assets, and shall continue to be effective or be reinstated, as the case may be, if at any time payment and performance of the Secured Obligations, or any part thereof, is,

pursuant to applicable law, rescinded or reduced in amount, or must otherwise be restored or returned by any obligee of the Secured Obligations, whether as a "voidable preference," "fraudulent conveyance", or otherwise, all as though such payment or performance had not been made. In the event that any payment, or any part thereof, is rescinded, reduced, restored or returned, the Secured Obligations shall be reinstated and deemed reduced only by such amount paid and not so rescinded, reduced, restored or returned.

11. Notices. Except as otherwise provided herein, whenever it is provided herein that any notice, demand, request, consent, approval, declaration or other communication shall or may be given to or served upon any of the parties by any other party, or whenever any of the parties desires to give or serve upon any other communication with respect to this Security Agreement, each such notice, demand, request, consent, approval, declaration or other communication shall be given as set forth in Section 12.1 of the Purchase Agreement with the address for notices for Take-Two set forth therein being the address for notices for Borrower under this Security Agreement. The giving of any notice required hereunder may be waived in writing by the party entitled to receive such notice. Failure or delay in delivering copies of any notice, demand, request, consent, approval,

declaration or other communication to the persons designated above to receive copies shall in no way adversely affect the effectiveness of such notice, demand, request, consent, approval, declaration or other communication.

12. Severability. Any provision of this Security Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

13. No Waiver; Cumulative Remedies. Neither Pledgee nor any Secured Party shall by any act, delay, omission or otherwise be deemed to have waived any of its rights or remedies hereunder, and no waiver shall be valid unless in writing, signed by Pledgee, and then only to the extent therein set forth. A waiver by Pledgee or any Secured Party of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which Pledgee or any Secured Party would otherwise have had on any future occasion. No failure to exercise nor any delay in exercising on the part of Pledgee or any Secured Party, any right, power or privilege hereunder, shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or future exercise thereof or the exercise of any other right, power or privilege. The rights and remedies hereunder provided are cumulative and may be exercised singly or concurrently, and are not exclusive of any rights and remedies provided by law. None of the terms or provisions of this Security Agreement may be waived, altered, modified or amended except by an instrument in writing, duly executed by Pledgee and, where applicable, by Borrower.

14. Successors and Assigns; Governing Law.

(a) This Security Agreement and all obligations of Borrower hereunder shall be binding upon the successors and assigns of Borrower, and shall, together with the rights and remedies of Pledgee and Secured Parties hereunder, inure to the benefit of Pledgee and Secured Parties, all future holders of the Notes and their respective successors and assigns. No sales of participations, other sales, assignments, transfers or other dispositions of any agreement governing or instrument evidencing the Secured Obligations or any portion thereof or interest therein shall in any manner affect the security interest granted to

Pledgee and Secured Parties hereunder.

(b) THIS SECURITY AGREEMENT SHALL BE GOVERNED BY, AND BE CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

15. Further Indemnification. Borrower agrees to pay, and to save Pledgee and Secured Parties harmless from, any and all liabilities with respect to, or resulting from any delay in paying, any and all excise, sales or other similar taxes which may be payable or determined to be payable with respect to any of the Collateral or in connection with any of the transactions contemplated by this Security Agreement.

16. Waiver of Jury Trial. BORROWER HEREBY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS OR REMEDIES HEREUNDER.

17. Termination. Notwithstanding any other provision of any other Financing Document, at such time as (i) the entire unpaid principal balance of the Notes and all accrued interest thereon have been converted in full in accordance with Article III of the Purchase Agreement or indefeasibly paid in full ("Payment or Conversion in Full") and (ii) all other payment obligations under the Notes and the Purchase Agreement due and owing as of the date of such Payment or Conversion in Full have been indefeasibly paid in full, this Agreement and the security interests created hereby shall terminate. Upon termination of this Agreement and Borrower's written request, Pledgee will, at Borrower's sole cost and expense, return to Borrower such of the Collateral as shall not have been sold or otherwise disposed of or applied pursuant to the terms hereof and execute and deliver to Borrower such documents as Borrower shall reasonably request to evidence such termination.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, each of the parties hereto has caused this Security Agreement to be executed and delivered by its duly authorized officer on the date first set forth above.

INVENTORY MANAGEMENT SYSTEMS, INC.

By: /s/ David P. Clark

Name: David P. Clark

Title: President

Acknowledged:

HW PARTNERS, L.P., as Purchasers' Representative

By: HW Finance, L.L.C., its general partner

By: /s/ Stuart Chasanoff
Name: Stuart Chasanoff
Title: Vice-President

SCHEDULE I

LIST OF LETTERS OF CREDIT

N/A

SCHEDULE II

FILINGS

DEBTOR	JURISDICTION	FILING OFFICE
Borrower	New York	UCC Filing Office State of New York Department of State 162 Washington Avenue Albany, NY 12231
Borrower	New York	New York City Register Room 202 Surrogate's Court Building 31 Chambers Street New York, New York 10007
Borrower	Virginia	State Corporation Commission
Borrower	Virginia	Chesterfield County Clerk of Court

SCHEDULE III

LOCATION OF RECORDS

Principal Place of Business and Location of Records

2900 Polo Parkway
Richmond, Virginia 23113

EXHIBIT A

Form of Financing Statement

TRANSFER AGENT AGREEMENT

THIS TRANSFER AGENT AGREEMENT (this "Agreement"), dated October 14, 1997, between TAKE-TWO INTERACTIVE SOFTWARE, INC., a Delaware corporation (the "Company"), and INFINITY INVESTORS LIMITED, a Nevis, West Indies corporation, INFINITY EMERGING OPPORTUNITIES LIMITED, a Nevis, West Indies corporation, and GLACIER CAPITAL LIMITED, a Nevis, West Indies corporation (being collectively referred to herein as the "Holders") and American Stock Transfer & Trust Company, the transfer agent for the Company's common stock (the "Transfer Agent").

R E C I T A L S:

WHEREAS, pursuant to that certain Securities Purchase Agreement dated the date hereof (the "Purchase Agreement") by and among the Company and the Holders, the Company agreed to issue to the Holders (1) $4,200,000 aggregate principal amount of 10% senior, secured convertible notes (the "Convertible Notes"), which are convertible, at the option of the Holders, into shares of common stock, $.01 par value per share, of the Company (the "Common Stock") (such shares issuable upon such conversion being referred to as the "Shares"); (2) 50,000 shares of Common Stock (the "Grant Shares"); and (3) Common Stock Purchase Warrants (the "Warrants") exercisable for 250,000 additional shares of Common Stock; and

WHEREAS, the Company and the Holders have agreed to enter into this Agreement with the Transfer Agent to (i) facilitate the closing of the Purchase Agreement (the "Closing" or "Closing Date", as applicable), (iii) provide for a system of accounting for the Convertible Notes and (iv) facilitate the conversion of the Convertible Notes and issuance of the Shares associated therewith.

NOW, THEREFORE, in consideration of the foregoing, the parties hereby agree as follows:

1. Closing. The Transfer Agent hereby agrees to act as an escrow agent to facilitate the Closing as follows:

(a) On the Closing Date, the Holders shall wire transfer to an account designated by the Transfer Agent (x) $4,032,000, representing the purchase price applicable to the Convertible Notes (the "Purchase Price"), less (y) $25,000 (minus any portion thereof previously paid) (the "Reimbursement Fee") and the Company shall deliver to the Transfer Agent the Convertible Notes, the Grant Shares and the Warrants to be issued in the names of the Holders and in the amounts as set forth on ---- Schedule I hereto. The Transfer Agent may, at its discretion, confirm the authenticity of the Convertible Notes and the Warrants by transmitting a copy of same in the form received from the Company to HW Partners, L.P., on behalf of the Holders or its counsel, for written or oral verification as to the form thereof.

(b) Immediately following such deliveries the Transfer Agent shall wire transfer to the Company such funds less the Whale Fee, which shall be paid directly to Whale.

(c) Contemporaneous with the transfer of funds as described in Subsection (b) above, the Transfer Agent shall (i) hold the Convertible Notes for the benefit of the respective Holders, as hereafter described and (ii) deliver the Grant Shares and Warrants to the Holders at the address(es) set forth herein.

(d) Notwithstanding the foregoing, by joint written agreement the Holders and the Company may agree to effect the Closing (either partially or entirely) without using the services of the Transfer Agent. In such event, (i) the Holders shall wire the Purchase Price, less the Reimbursement Fee to the Company, (ii) the Company shall deliver the original Grant Shares and Warrants to the Holders or their designee, and (iii) the Company shall deliver the Convertible Notes to the Transfer Agent to be held for the benefit of the Holders pursuant to the terms of this Agreement.

2. Ownership of Convertible Notes. Record and beneficial ownership of the Convertible Notes shall remain in the name of the Holders (unless and until transferred pursuant to the terms thereof, with written notice thereof to the Transfer Agent). Any transfer or purported transfer of the Convertible Notes (a) not made pursuant to the terms of the Convertible Notes and (b) not properly noticed to the Transfer Agent shall be null and void ab initio and shall not be given effect thereto by the Transfer Agent. The Transfer Agent shall not be required to acknowledge any transfer of the Convertible Notes unless accompanied by written confirmation thereof from the Holders. The wire transfer account of each Holder is as set forth on Schedule 2 attached hereto. The address of each Holder is as set forth in Section 8 hereof.

3. Paying Agent. The Transfer Agent shall act as paying agent for the Convertible Notes. Accordingly, all payments of interest or principal amounts required of the Company related to the Convertible Notes shall be made to the Transfer Agent for the account and benefit of the holders of such Convertible Notes as registered on the books of the Transfer Agent (each, a "Registered Holder"). Upon the receipt of any such payment of interest or principal amounts, in cash, the Transfer Agent shall promptly wire transfer such sum to the account of the Registered Holders as reflected on the books of the Transfer Agent. Notwithstanding the foregoing, the Holders may, at their option, authorize the Company to directly pay to the Holders all sums due and owing on the Convertible Notes. If the Holders so elect, the Company shall notify the Transfer Agent (with a copy thereof to the Holders) of the amount of such payment. Upon receipt of such notice, which has been confirmed in writing by the Holders, the Transfer Agent shall make all appropriate entries on the Accounting Ledger (as hereafter defined).

4. Accounting Agent. The Transfer Agent shall act as the accounting agent of the Company and the Registered Holders and shall establish and maintain an accounting ledger for the Convertible Notes (the "Accounting Ledger"). The Transfer Agent shall credit (reduce) the outstanding balance of the Convertible Notes by all (i) payments of principal and interest made by the Company to the Transfer Agent as paying agent as required pursuant to Section 3 above, and (ii) by the appropriate amount upon delivery of Shares to the applicable Registered Holder following receipt of a Notice of Conversion (as defined in Section 5 below). At such time as the

balance of the Convertible Notes, as reflected on the Account Ledger is zero following the procedures described in this Agreement, the Transfer Agent shall return such convertible Notes to the Company marked "paid in full" or "cancelled."

5. Issuance of Converted Shares.

(a) Consistent with each Convertible Note, in order to convert all or a portion of a Convertible Note into Shares, a Registered Holder shall deliver written notice (each, a "Notice of Conversion"), in the form prescribed by the Convertible Notes, to the Transfer Agent for the portion of the Convertible Note that it elects to so convert and a calculation of the number of Shares to be

issued upon such conversion. Upon receipt by the Transfer Agent of any such Notice of Conversion (including receipt via facsimile) from any Registered Holder, the Transfer Agent shall immediately deliver a copy thereof to the Company, via facsimile, requesting the Company to confirm the number of Shares to be issued to Registered Holder in connection therewith. The Company shall, within two (2) Business Days (as defined in the Purchase Agreement) of the receipt thereof, in good faith confirm or dispute the number of Shares to be issued to the Registered Holder, providing written notice (with supporting calculations and related information) thereof via facsimile to the Transfer Agent and the Registered Holder (the "Company Notice"). In any event, the Company shall include in the Company Notice that number of Shares which it believes, in good faith, are in fact issuable upon conversion of the Convertible Note (the "Minimum Number"). In the event the Company confirms the number of Shares to be so issued, it shall, as part of the Company Notice, direct the Transfer Agent to issue such Shares. In the event the Company fails to deliver a Company Notice or disputes the number of Shares to be so issued, the Company and the Registered Holder shall immediately, in good faith, seek to resolve such dispute.

(b) The Transfer Agent shall not be required to issue any shares unless and until receipt (including via facsimile) of (i) written notice from either (x) the Company, confirming the number of Shares to be issued or (y) the Registered Holder and the Company, setting forth the number of Shares to be issued, or (ii) a final nonappealable order of a court of competent jurisdiction directing the Transfer Agent to issue a specified number of Shares. Notwithstanding the foregoing, each Holder expressly reserves all rights and remedies against the Company for the failure of the Company to confirm to the Transfer Agent in any applicable Company Notice the number of Shares issuable as set forth in a properly completed and accurate Notice of Conversion.

(c) Reference is hereby made to that certain Registration Rights Agreement appended to the Purchase Agreement. At such time as the Registration Statement as contemplated therein has been declared effective by the Securities and Exchange Commission covering the resale of the Shares held by a particular Registered Holder, the Company shall cause its legal counsel to deliver to the Transfer Agent an opinion to the effect that Shares may be sold by such Registered Holder pursuant to such Registration Statement with the purchaser thereof receiving share certificates, without restrictive legend, provided the Transfer Agent has received confirmation associated therewith, in a form customarily utilized by the applicable registered broker/dealer substantially to the effect that the prospectus delivery requirements have been satisfied. In the event that, at any time, the Registration Statement ceases to be effective, the Company or its legal counsel shall immediately deliver written notice thereof to the Transfer Agent and the Registered Holders stating that the opinion of the Company's legal counsel may no longer be relied upon by

the Transfer Agent (unless and until an additional or amended, as applicable, Registration Statement is so declared effective with an accompanying opinion from the Company's legal counsel). Upon the receipt of any Notice of Conversion while the Registration Statement is effective, the share certificates representing the Shares described above shall be bear a restrictive legend unless the Registered Holder, either in connection with the delivery of the Notice of Conversion or thereafter, delivers written notice to the Transfer Agent, the Company and its counsel (including notice via telecopy) that the Shares have been sold by the Registered Holder pursuant to such Registration Statement, whereupon the Transfer Agent shall issue share certificates to the purchaser thereof without restrictive legend.

(d) Each time a payment of principal is recorded in the Accounting Ledger (whether by virtue of a cash payment or by virtue of a conversion into Shares),

the Transfer Agent may, at its option, deliver the Convertible Notes to the Company requiring the Company to reissue Convertible Notes in the names of the Registered Holders with new principal balances reflecting such payment.

6. Termination. This Agreement shall terminate promptly upon the earlier to occur of (i) written demand by the Company and all Registered Holders or (ii) no unpaid balance remains with respect to any of the Convertible Notes. Notwithstanding the foregoing, the Transfer Agent may terminate its obligations under this Agreement at such time as the Transfer Agent no longer serves as the Transfer Agent for the Company's Common Stock, by delivery of written notice thereof to the Registered Holders and the Company. Upon delivery of such notice, the Transfer Agent shall deliver the original Convertible Notes to HW Partners, L.P., on behalf of all Registered Holders, together with a copy of the Accounting Ledger (with corresponding copies delivered to the Company). Immediately thereafter, HW Partners, L.P., as representative of the Holders, and the Company shall, in good faith, attempt to establish an agreement similar to this Agreement with the Company's new stock transfer agent.

7. Fees. The Company hereby agrees to pay the Transfer Agent for customary fees charged for all services rendered hereunder.

8. Notices. Any notice or demand to be given or that may be given under this Agreement shall be in writing and shall be (a) delivered by hand, or (b) delivered through or by expedited mail or package service, or (c) transmitted by telecopy, in each case with personal delivery acknowledged, addressed to the parties as follows. Each such notice or demand shall be effective (i) if given by telecopy, when such telecopy is transmitted to the telecopier number specified in this Agreement, (ii) if given by any other means, when delivered at the addressed as specified herein.

As to the Company:	Take-Two Interactive Software, Inc. 575 Broadway, 6th Floor New York, New York 10012 Fax: Attn: Mr. Ryan A. Brant

With a copy to:	HW Partners, L.P. 1601 Elm Street 4000 Thanksgiving Tower Dallas, Texas75201 Fax: 214/720-1662 Attn: Stuart Chasanoff, Esq.
As to the Holders:	At a registered address which the Holders shall provide from time to time.
With a copy to:	HW Partners, L.P. 1601Elm Street 4000 Thanksgiving Tower Dallas, Texas 75201 Telephone: (214) 720-1689 Fax: (214) 720-1662 Attn: Stuart Chasanoff, Esq.
As to the Transfer Agent:	American Stock Transfer & Trust Company 2601 15th Avenue Brooklyn, New York 11219 Fax: 718/331-1852

Attn: Herbert J. Lemmer

9. Noncontravention. The Company agrees that it will not at any time take any action or undertake any activity that would in any way impede, restrict or limit the right and ability of the Registered Holders to convert the Convertible Notes and receive Shares pursuant to the terms and provisions of this Agreement.

10. Indemnification. The Company agrees to indemnify and hold harmless the Transfer Agent, each officer, director, employee and agent of the Transfer Agent, and each person, if any, who controls the Transfer Agent within the meaning of the Securities Act of 1933, as amended (the "Act") or the Securities Exchange Act of 1934, as amended (the "Exchange Act") against any losses, claims, damages, or liabilities, joint or several, to which it, they or any of them, or such controlling person, may become subject, under the Act, the Exchange Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon the performance by the Transfer Agent of its duties pursuant to the Agreement; and will reimburse the Transfer Agent, and each officer, director, employee and agent of the Transfer Agent, and each such controlling person for any reasonable legal or other expenses reasonably incurred by it or any of them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company will not be liable in any case if such loss, claim, damage or liability arises out of or is based upon any action not taken in good faith, or any action or omission that constitutes gross negligence or willful misconduct.

Promptly after receipt by an indemnified party under this Section of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the Company under this Section, notify in writing the Company of the

commencement thereof, and failure so to notify the Company will relieve the Company from any liability under this Section as to the particular item for which indemnification is then being sought but not from any other liability which it may have to any indemnified party. In case any such action is brought against any indemnified party, and it notifies the Company of the commencement thereof, the Company will be entitled to assume the defense thereof, with counsel selected by the Company, who shall be to the reasonable satisfaction of such indemnified party. The Company shall not be liable to any such indemnified party on account of any settlement of any claim of action effected without the consent of the Company.

11. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to conflicts of law rules of such jurisdiction. Any action brought to enforce, or otherwise arising out of, this Agreement, shall be heard and determined in either a federal or state court sitting in the State of New York.

12. Entire Agreement; Amendments. This Agreement, constitutes the full and entire understanding of the parties with respect to the subject matter hereof. Neither this Agreement nor any term hereof may be amended, waived, discharged, or terminated other than by a written instrument signed by the party against whom enforcement of any such amendment, waiver, discharge or termination is sought.

13. Counterparts. This Agreement may be executed in one or more counterparts and by facsimile signature.

[Signature page follows]

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

Take-Two Interactive Software, Inc.

By: /s/ Ryan Brant

Name: Ryan Brant

Title: CEO

Address: 575 Broadway, 6th Floor
New York, New York 10012
Fax: (212) 941-2997

INFINITY INVESTORS LIMITED

By: /s/ James E. Martin

Name: James E. Martin

Title: Director

Address: 38 Hertford Street
London, England WIY 7TG
Telephone: 011-44-171-355-4975
Attention: J. A. Loughran

INFINITY EMERGING OPPORTUNITIES LIMITED

By: /s/ James E. Martin

Name: James E. Martin

Title: Director

Address: 38 Hertford Street
London, England WIY 7TG
11-44-171-355-4975
J. A. Loughran

GLACIER CAPITAL LIMITED

By: /s/ James E. Martin

Name: James E. Martin

Title: President

Address: 38 Hertford Street
London, England WIY 7TG
Fax: 011-44-171-355-4975
Attn: J. A. Loughran

With a copy to: HW Partners, L.P.
1601Elm Street
4000 Thanksgiving Tower
Dallas, Texas 75201
Telephone: (214) 720-1689
Fax: (214) 720-1662
Attn: Stuart Chasanoff, Esq.

AMERICAN STOCK TRANSFER &
TRUST COMPANY

By: /s/ Herbert J. Lemmer

Herbert J. Lemmer
Vice President