

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

BAM ENTERTAINMENT INC

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____.

COMMISSION FILE NUMBER:

BAM! ENTERTAINMENT, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE

(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

77-0553117

(I.R.S. EMPLOYER
IDENTIFICATION NO.)

333 WEST SANTA CLARA STREET, SUITE 716

SAN JOSE, CALIFORNIA 95113

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

(408) 298-7500

(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
Common Stock \$0.001 par value	Nasdaq National Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

THE NUMBER OF SHARES OF COMMON STOCK OUTSTANDING AS OF MAY 13, 2002:
14,582,756



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PART I
FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

BAM! ENTERTAINMENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)
(unaudited)

	<u>March 31,</u> <u>2002</u>	<u>June 30,</u> <u>2001</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 12,333	\$ 2,170
Short-term investments	9,748	–
Accounts receivable, net of allowance of \$2,958 as of March 31, 2002 and \$1,163 as of June 30, 2001	9,087	7,372
Inventories	5,885	1,463
Prepaid royalties, capitalized software costs and licensed assets, net	10,025	5,924
Prepaid expenses and other	1,847	393
	<u> </u>	<u> </u>
Total current assets	48,925	17,322
Prepaid royalties, capitalized software and licensed assets, net of current portion	5,869	1,545
Property and equipment, net	876	395
Long-term receivable, net of allowance of \$1,080 as of March 31, 2002 and \$0 as of June 30, 2001	547	–
Other assets	–	1,730
	<u> </u>	<u> </u>
Total assets	\$ 56,217	\$ 20,992
	<u> </u>	<u> </u>
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK		
AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable – trade	\$ 6,704	\$ 1,489
Short-term borrowings	–	4,164
Royalties payable	277	310
Accrued compensation and related benefits	885	1,026
Accrued software costs	1,849	781
Accrued expenses – other	2,896	562
	<u> </u>	<u> </u>
Total current liabilities	12,611	8,332

Redeemable convertible preferred stock, \$0.001 par value; shares authorized; 10,000,000; shares issued and outstanding: 0 and 1,516,499 as of March 31, 2002 and June 30, 2001, respectively	-	17,329
Stockholders' equity (deficit):		
Common stock \$0.001 par value; shares authorized; 100,000,000; shares issued and outstanding: 14,582,756 and 1,538,710 as of March 31, 2002 and June 30, 2001, respectively	15	1
Additional paid-in capital	63,133	5,375
Deferred stock compensation	(1,113)	(2,096)
Accumulated deficit	(18,442)	(7,945)
Accumulated other comprehensive income (loss)	13	(4)
	<u> </u>	<u> </u>
Total stockholders' equity (deficit)	43,606	(4,669)
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity (deficit)	\$ 56,217	\$ 20,992
	<u> </u>	<u> </u>

See notes to condensed consolidated financial statements

BAM! ENTERTAINMENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2002	2001	2002	2001
Net revenues	\$ 7,017	\$ 6,093	\$ 36,758	\$ 17,305
Costs and expenses:				
Cost of revenues				
Cost of goods sold	5,290	3,558	22,036	9,766
Royalties, software costs, license costs, and project abandonment	3,033	789	7,708	2,028
Total cost of revenues	8,323	4,347	29,744	11,794
Research and development (exclusive of amortization of deferred stock compensation)	692	231	1,633	663
Sales and marketing (exclusive of amortization of deferred stock compensation)	1,831	1,138	8,156	3,234
General and administrative (exclusive of amortization of deferred stock compensation)	1,668	606	4,357	1,218
Amortization of deferred stock compensation*	360	10	1,073	19
Total costs and expenses	12,874	6,332	44,963	16,928
Income (loss) from operations	(5,857)	(239)	(8,205)	377
Interest income	135	36	231	40
Interest expense	(440)	(527)	(2,459)	(992)
Other expense	(15)	-	(8)	-
Loss before income taxes	(6,177)	(730)	(10,441)	(575)
Income taxes	56	-	56	-
Net loss	\$ (6,233)	\$ (730)	\$ (10,497)	\$ (575)
Net loss per share:				
Basic and diluted	\$ (0.43)	\$ (0.50)	\$ (1.34)	\$ (0.39)
Shares used in computation:				
Basic and diluted	14,574	1,470	7,809	1,470
*Amortization of deferred stock compensation:				
Research and development	\$ 55	\$ 8	\$ 169	\$ 15

Sales and marketing	24	2	73	4
General and administrative	281	-	831	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	\$ 360	\$ 10	\$ 1,073	\$ 19
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

See notes to condensed consolidated financial statements

BAM! ENTERTAINMENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine months ended March 31,	
	2002	2001
Cash flows from operating activities:		
Net loss	\$ (10,497)	\$ (575)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	7,267	601
Provision for bad debts, sales returns, price protection and cooperative advertising	8,982	1,299
Consulting services performed in exchange for common stock and options	62	10
Other	17	(4)
Changes in operating assets and liabilities:		
Accounts receivable	(11,244)	(4,667)
Inventories	(4,422)	(712)
Prepaid expenses and other	(1,454)	(331)
Prepaid royalties, capitalized software costs and licensed assets	(13,915)	(3,608)
Accounts payable – trade	5,215	937
Royalties payable	(33)	25
Accrued compensation and related benefits	(141)	722
Accrued software costs	1,068	454
Accrued expenses – other	2,334	38
	_____	_____
Net cash used in operating activities	(16,761)	(5,811)
	_____	_____
Cash flows from investing activities:		
Purchase of property and equipment	(700)	(362)
Purchase of short-term investments	(9,748)	–
Increase in restricted cash	–	(1,014)
Decrease in other assets	1,730	–
	_____	_____
Net cash used in investing activities:	(8,718)	(1,376)
	_____	_____
Cash flows from financing activities:		
Advances under short-term borrowings	17,699	10,847
Repayments of short-term borrowings	(21,863)	(8,165)
Net proceeds from issuance of stock in initial public offering	39,243	–
Net proceeds from exercise of warrants	529	–
Net proceeds from exercise of stock options	9	–
Net proceeds from issuance of stock under employee stock purchase plan	25	–
Net proceeds from issuance of redeemable convertible preferred stock	–	4,837

Net cash provided by financing activities	35,642	7,519
Net increase in cash and cash equivalents	10,163	332
Cash and cash equivalents, beginning of period	2,170	908
Cash and cash equivalents, end of period	\$ 12,333	\$ 1,240

See notes to condensed consolidated financial statements

BAM! ENTERTAINMENT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of presentation

The condensed consolidated financial statements are unaudited. However, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, which, in the opinion of management, are necessary for a fair presentation of the financial position and results of the operations of the interim period, have been included.

These condensed consolidated financial statements include the accounts of Bam! Entertainment, Inc. (“Bam” or “the Company”) and its wholly owned subsidiaries, located in the United Kingdom. All significant intercompany transactions and balances have been eliminated in consolidation. The interim accompanying financial information has been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for annual financial statements.

The results of operations for the three months and nine months ended March 31, 2002 are not necessarily indicative of the results to be expected for the entire fiscal year, which ends on June 30, 2002.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended June 30, 2001, together with management’s discussion and analysis of financial condition and results of operations, contained in Bam’s Registration Statement on Form S-1 (File No. 333-62436), as amended.

2. Income taxes

Bam accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in Bam’s financial statements or tax returns. In estimating future tax consequences, Bam generally considers all expected future events other than enactments of changes in the tax law or rates.

3. Net loss per share

Basic net loss per share is computed using the weighted average number of common stock shares outstanding during the period. Diluted net loss per share is computed using the weighted average number of common stock shares and common stock share equivalents outstanding during the period. Potential common shares consist of warrants, stock options and redeemable convertible preferred stock, using the treasury stock method. Potential common shares are excluded from the computation, if their effect is antidilutive.

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The following table sets forth the computation of basic and diluted loss per share (in thousands, except per share data):

	Three months ended March 31,		Nine months ended March 31,	
	2002	2001	2002	2001
Net loss	\$ (6,233)	\$ (730)	\$ (10,497)	\$ (575)
Calculation of basic loss per share:				
Weighted average number of common stock shares outstanding – basic	14,574	1,470	7,809	1,470
Basic loss per share	\$ (0.43)	\$ (0.50)	\$ (1.34)	\$ (0.39)
Calculation of diluted loss per share:				
Weighted average number of common stock shares outstanding – basic	14,574	1,470	7,809	1,470
Net effect of redeemable convertible preferred stock shares outstanding	–	–	–	–
Net effect of dilutive stock options outstanding	–	–	–	–
Net effect of dilutive warrants outstanding	–	–	–	–
Weighted average number of common stock shares outstanding – diluted	14,574	1,470	7,809	1,470
Diluted loss per share	\$ (0.43)	\$ (0.50)	\$ (1.34)	\$ (0.39)

4. Comprehensive loss

Statement of Financial Accounting Standard No.130, “Reporting Comprehensive Income” (“SFAS No. 130”), requires that all items recognized under accounting standards as components of comprehensive earnings be reported in an annual statement that is displayed with the same prominence as other annual financial statements. SFAS No. 130 also requires that an entity classify items of other comprehensive earnings by their nature in an annual financial statement. Comprehensive loss, as defined, includes all changes in equity during a period from nonowner sources.

The components of comprehensive loss for the three and nine months ended March 31, 2002 and 2001 were as follows (in thousands):

	Three months ended March 31,		Nine months ended March 31,	
	2002	2001	2002	2001
Net loss	\$ (6,233)	\$ (730)	\$ (10,497)	\$ (575)
Change in accumulated translation adjustment	32	(4)	17	(4)

Comprehensive loss	\$ (6,201)	\$ (734)	\$ (10,480)	\$ (579)
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5. Short-term investments

Bam has classified all of its short-term investments as available-for-sale securities, as the sale of such securities may be required prior to maturity to implement management strategies. Bam's short-term securities comprise U.S. Government Securities of \$5.0 million, corporate notes of \$1.1 million and foreign debt securities of \$3.6 million at March 31, 2002, with original maturities ranging between 90 days and two years. Cost, which approximated market value at March 31, 2002, is based on the specific identification method for purposes of computing realized gains or losses.

6. Inventories

Inventories, which consist primarily of finished goods, are stated at the lower of cost (based upon the first-in, first-out method), or market value. Bam estimates the net realizable value of slow moving inventories on a product-by-product basis and charges any excess of cost over net realizable value to cost of revenues.

7. Long-term receivable

On January 22, 2002 Kmart, a customer of Bam, filed voluntary petitions for reorganization under chapter 11 of the U.S. Bankruptcy Code. On January 22, 2002 Bam had an accounts receivable balance from Kmart of \$1.7 million. Bam is an unsecured creditor, and as such is at risk of not recovering in full its accounts receivable balance. Accordingly, Bam has recorded an allowance against the receivable. Kmart has stated that at earliest it will complete its reorganization in 2003. Accordingly, Bam has classified the receivable, net of allowance, as a long-term asset. At March 31, 2002 Bam reevaluated the allowance and believes that the level of the reserves are appropriate. Subsequent to January 22, 2002 Kmart arranged debtor-in-possession financing and Bam has sold product to Kmart under this arrangement. Accounts receivables under this financing are classified in current assets.

8. Short-term borrowings

In February 2002, Bam entered into a two year factoring agreement (the "Agreement") with a finance company, whereby Bam assigns its North American receivables to the finance company. The finance company is responsible for collecting customer receivables, and upon collection, remits the funds to Bam, less a service fee. Under the Agreement, Bam may obtain advances, subject to the finance company's discretion, in the form of cash or as collateral for letters of credits, up to a maximum of 75% of outstanding domestic receivables at any point in time.

Under the terms of the Agreement, Bam pays a service fee on all receivables assigned, with a minimum annual fee of \$150,000, and interest at Prime plus 1% on all cash sums advanced. All fees are included in interest expense. Bam bears the collection risk on its accounts receivable that are assigned, unless the finance company approves the receivable at the time of assignment, in which case the finance company bears the risk.

The finance company has a security interest in Bam's accounts receivable, inventory, fixed assets and intangible assets. As of March 31, 2002, Bam had no advances outstanding under the Agreement.

Prior to entering into the Agreement, Bam had entered into a master purchase order assignment agreement (the "Finance Agreement") with a different finance company, whereby Bam assigned purchase orders entered into with its customers to the finance company and requested the finance company purchase finished goods to fulfill such customer purchase orders.

The Finance Agreement, entered into in February 2000, specified that the finance company's funding commitment with respect to a customer purchase order should not exceed 60% of the retail purchase order price. Under the Finance Agreement the finance company's aggregate outstanding funding (i.e., advance of funds or purchase of finished goods to fulfill customer purchase orders) was limited to \$5.0 million. Bam was responsible for collecting customer receivables, bore the risk of loss on all uncollectible accounts, and was required to remit customer receipts directly to the finance company up to the amounts funded by the finance company. Bam retained collections in excess of the amounts funded by the finance company.

Under the initial terms of the Finance Agreement, Bam was required to pay the finance company's expenses under the contract, a deal fee (consisting of a transaction and initiation fee equal to 5.0% of the face amounts of letters of credit issued or other funds advanced by the finance company), a daily maintenance fee of 0.067%, a materials advance fee at prime rate plus 4.0% and a late payment fee where applicable; all of which are included in interest expense.

In August 2001, Bam amended the Finance Agreement, initially increasing the aggregate outstanding funding amount to \$10.0 million, and then decreasing the transaction and initiation fee to 3% until the earlier of the termination of the agreement or December 31, 2001, if Bam's initial public offering had not occurred by that date.

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Bam completed its initial public offering in November 2001. In connection with this latter amendment and the execution of a \$7.0 million factoring arrangement with an affiliate of the finance company, Bam issued a warrant to the finance company to purchase 100,000 shares at an exercise price equal to the initial public offering price.

Upon the signing of the Finance Agreement, Bam paid the finance company a security deposit of \$90,000. An extension payment of \$50,000 was made when the contract was amended in December 2000, and a further amendment fee of \$120,000 was incurred when the contract was amended in August 2001. These costs were recorded as interest expense.

The Finance Agreement and the factoring line with the affiliate terminated in February 2002, and all outstanding amounts funded were fully repaid. Consequently, the amounts outstanding under the Finance Agreement and the factoring line with the affiliate of the finance company as of March 31, 2002 were zero. The amount outstanding under the Finance Agreement as of June 30, 2001 was \$4.2 million.

Outstanding borrowings under the above Finance Agreement were collateralized by inventories, accounts receivable, fixed assets and intangible assets of Bam.

9. Common stock

In November 2001, Bam completed its initial public offering, selling 5,750,000 common shares at \$8.00 per share. Upon the closing, each outstanding share of the Company's redeemable convertible preferred stock automatically converted into 4.7 shares of the Company's common stock.

As more fully described in Note 12, in April 2001 Bam issued 68,738 shares of common stock pursuant to a license agreement with a production company. Bam capitalized the cost of this issuance at the fair market value of the common stock, equal to \$746,000, and is amortizing this amount to royalties, software costs, license costs and project abandonment over the life of the products after release. During the three and nine month periods ended March 31, 2002 and 2001, \$304,000, \$0, \$517,000 and \$0, respectively, was amortized to royalties, software costs, license costs and project abandonment.

10. Warrants

There were outstanding warrants to purchase a total of 653,450 and 674,450 shares of common stock as of March 31, 2002 and June 30, 2001, respectively, as follows:

Under an agreement (the "Agreement") entered into with a production company during October 2000, Bam obtained the exclusive right of first refusal, for a period of five years, to develop products based on films produced by the production company and to distribute them worldwide. In addition, the production company will provide Bam with free access to any publicity materials it prepares. In exchange for these rights, Bam will have to pay royalties to the production company calculated as a percentage of sales of the developed products. Also, in connection with the Agreement, Bam issued the production company warrants to purchase 470,000 shares of common stock at an exercise price of \$1.06 per share. The warrants expire in September 2006. Under the warrant agreement, 50% of the warrants became vested and exercisable upon execution of the Agreement, while the remaining warrants became vested in equal portions in December 2000, representing the dates on which the production company delivered, in accordance with the Agreement, written notice that a specific film will be available to be exploited by Bam and when Bam exercised its right of first refusal for another film under the Agreement. The fair value of these warrants at the grant date was estimated to be \$708,000, using the Black-Scholes option pricing model with the following assumptions: expected term equal to six years; risk-free interest rate of 5.8%; volatility of 95%; and no dividends during the expected term. Of this amount \$354,000 relates to 50% of the warrants that vested upon execution of the Agreement and will be amortized on a straight-line basis over the five-year term of the Agreement. The fair value of the remaining 50% of the warrants has been estimated at the date of vesting using the Black-Scholes option pricing model with the following assumptions: expected term equal to six years; risk-free interest rate of 5.0%; volatility of 95%; and no dividends during the expected term. In December 2000, when the remaining warrants vested, the fair value of the remaining 50% of the warrants of \$556,000 was capitalized to prepaid royalties, capitalized software costs and licensed assets and will be amortized over the life of the products (generally between three and six

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months) to which it relates when these products are released. During the three and nine month periods ended March 31, 2002 and 2001, \$18,000, \$18,000, \$54,000 and \$31,000, respectively, was amortized to royalties, software costs, license costs, and project abandonment.

In connection with its Series B redeemable convertible preferred stock offering in December 2000, Bam issued warrants to a service provider to purchase 141,000 shares of its common stock at an exercise price of \$3.76 per share. The warrants were exercised in full in December 2001. The fair value of these warrants was estimated at the time of issuance to be \$283,000 using the Black-Scholes option pricing model with the following assumptions: expected term equal to three years; risk-free interest rate of 5.1%; volatility of 95%; and no dividends during the expected term. The fair value was recorded as an issuance cost against the proceeds of the Series B redeemable convertible preferred stock offering. The Series B redeemable convertible preferred stock converted to Common Stock upon the completion of Bam's initial public offering in November 2001.

In connection with the Series C redeemable convertible preferred stock offering in May 2001, the Company issued warrants to a service provider to purchase 16,450 shares of its common stock at an exercise price of \$4.80 per share. The warrants expire in May 2006. The fair value of these warrants was estimated to be \$159,000 using the Black-Scholes option pricing model with the following assumptions: expected term equal to five years; risk-free interest rate of 5.1%; volatility of 95%; and no dividends during the expected term. The fair value was recorded as an issuance cost against the proceeds of the Series C redeemable convertible preferred stock offering. In November 2001, this warrant was amended to increase the exercise price to \$16.50 per share. The Series C redeemable convertible preferred stock converted to Common Stock upon the completion of Bam's initial public offering in November 2001.

In May 2001, in exchange for legal services rendered by a service provider in connection with its proposed initial public offering, Bam issued warrants to purchase 47,000 shares of its common stock at an exercise price of \$4.80 per share. The warrants expire in May 2006. The fair value of these warrants was estimated to be \$456,000 using the Black-Scholes option pricing model with the following assumptions: expected term equal to five years; risk-free interest rate of 5.1%; volatility of 95%; and no dividends during the expected term. The fair value was capitalized to other assets and subsequently recorded as an issuance cost in connection with Bam's initial public offering in November 2001.

In connection with the Finance Agreement, as described in Note 8, Bam issued a warrant in August 2001 to a finance company to purchase 100,000 shares at an exercise price equal to the initial public offering price. The fair value of the warrant was initially estimated to be \$806,000 at the time of issuance of the warrant, then subsequently remeasured at \$485,000 at the time of the initial public offering using the Black-Scholes option pricing model with the following assumptions: expected term equal to three years; risk-free interest rate of 2.9%; volatility of 95%; and no dividends during the expected term. The fair value was capitalized to prepaid expenses and was amortized to interest expense over the term of the Finance Agreement, which ended in February 2002. During the three and nine month periods ended March 31, 2002 and 2001, \$149,000, \$0, \$485,000 and \$0, respectively, was amortized to interest expense.

In connection with an agreement entered into with a production company during January 2002, Bam obtained the exclusive right of first refusal, for a period of five years, to develop products based on certain properties owned by the production company and to distribute them worldwide. In exchange for these rights, Bam will have to pay royalties to the production company calculated as a percentage of sales of the developed products. Also, in connection with the agreement, Bam is required to issue to the production company warrants to purchase up to 50,000 shares of common stock, in pre-determined multiples of either 5,000 or 10,000 shares, upon the occurrence of certain pre-determined events. Warrants are issued at the average closing price of Bam's stock for the five days immediately prior to the date of issue, have a five year term from date of issue, and are fully vested and are immediately exercisable upon issuance. In January 2002, Bam issued warrants to purchase 10,000 shares under this agreement, and in March 2002 Bam issued a further warrant to purchase 10,000 shares under the agreement. The fair value of the warrant to purchase 10,000 shares issued in January was estimated to be \$42,000 at the grant date, using the Black-Scholes option pricing model with the following assumptions: expected term equal to five years; risk-free interest rate of 4.3%; volatility of 95%; and no dividends during the expected term. The fair value of the warrant to purchase 10,000 shares issued in March was estimated to be \$44,000 at the grant date, using the Black-Scholes option pricing model with the following assumptions: expected term equal to five years; risk-free interest

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rate of 4.8%; volatility of 95%; and no dividends during the expected term. The fair values of the warrants was capitalized to prepaid royalties, capitalized software costs and licensed assets and will be amortized over the life of the products (generally between three and six months) to which they relate when these products are released. During the three and nine month periods ended March 31, 2002 and 2001, no amounts capitalized pursuant to this agreement were amortized to royalties, software costs, license costs, and project abandonment.

11. Business segment and geographic information

As defined by the requirements of SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, the Company operates in one reportable segment: the development and publishing of interactive entertainment products.

Financial information by geographical region is summarized below (in thousands):

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2002	2001	2002	2001
Net revenues from unaffiliated customers:				
North America	\$ 4,756	\$ 6,093	\$ 31,983	\$ 17,305
Europe	2,261	—	4,775	—
Consolidated	\$ 7,017	\$ 6,093	\$ 36,758	\$ 17,305
Operating income (loss):				
North America	\$ (3,827)	\$ 60	\$ (5,614)	\$ 790
Europe	(2,030)	(299)	(2,591)	(413)
Consolidated	\$ (5,857)	\$ (239)	\$ (8,205)	\$ 377
			March 31,	June 30,
			2002	2001
Identifiable assets:				
North America		\$ 59,309		\$ 19,741
Europe		22,019		7,789
Intercompany items and eliminations		(25,111)		(6,538)
Total		\$ 56,217		\$ 20,992
Long-Lived assets:				
North America		\$ 4,441		\$ 3,170
Europe		2,851		500
Total		\$ 7,292		\$ 3,670

12. Contingencies

Under an agreement entered into between Bam and a production company, Bam has a first look right to review screenplays acquired by the production company and to develop products based on films produced from those screenplays. In exchange for these rights, Bam will have to pay royalties to the production company calculated as a percentage of sales of the developed products. For each film (up to a total of 10 films) that Bam selects, 68,738 fully vested and non-forfeitable shares of common stock will be issued to the production company following the theatrical release of each film for which Bam has developed a product, up to a maximum of 687,375 shares of common stock. As the shares contingently issuable under this arrangement are dependent upon the theatrical release of the film for which Bam has elected to develop products, Bam will only measure the value of these shares in accordance with EITF 96-18 *Accounting for Equity Instruments That Are Issued To Other Than Employees for*

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Acquiring, or in Conjunction with Selling, Goods or Services if and when this contingency is satisfied. If the software product is released after the release of the film, Bam will amortize the non-cash charge over the life of the product, which is expected to be between three and six months. If the software product is released prior to the release of the film, Bam will at each interim period assess whether it is probable that the value of the shares issued is recoverable through future sales of the product to which it relates. If this is probable, the non-cash charge will be amortized to licensed costs over the life of the product, while Bam will expense the non-cash charge at the time of the issuance of the shares if it is not probable that the value of the shares issued is recoverable through future sales of the product to which these shares relate. Bam cannot estimate the aggregate dollar amount of these future non-cash charges as they are based on Bam's share price at future points in time. As of March 31, 2002 Bam has elected to produce software products for three films pursuant to this agreement. One of these films had its theatrical release during the year ended June 30, 2001 and accordingly Bam issued 68,738 shares of common stock to the production company. Bam is not required to issue stock on the remaining two films until such time as the films are released, the first of which is anticipated to be released in the second half of calendar 2002.

As more fully described in Note 10, in connection with an agreement entered into with a separate production company during January 2002, under which Bam may produce software products based on certain properties owned by the production company, Bam is required to issue to the production company warrants to purchase up to 50,000 shares of common stock, in pre-determined multiples of either 5,000 or 10,000 shares, upon the occurrence of certain pre-determined events. Warrants are issued at the average closing price of Bam's stock for the five days immediately prior to the date of issue, have a five year life from date of issue, and are fully vested and are immediately exercisable. As of March 31, 2002, warrants to issue 20,000 shares have been issued under this agreement. The issuance of warrants on the remaining 30,000 shares is contingent upon certain future events occurring. Bam will measure the value of these warrants in accordance with EITF 96-18 *Accounting for Equity Instruments That Are Issued To Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services* when the warrants are issued. Upon release of the software products on which the warrants are issued, Bam will amortize the non-cash charges over the life of the products, which are expected to be between three and six months. Bam cannot estimate the aggregate dollar amount of these future non-cash charges as they are based on Bam's share price at future points in time.

As of March 31, 2002 and June 30, 2001, Bam had outstanding letters of credit issued of \$3.5 million, and \$2.0 million, respectively. Management does not expect any material losses to result from these off-balance sheet instruments.

13. New accounting pronouncements

In April 2001, the Emerging Issues Task Force issued No. 00-25 ("EITF 00-25"), "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products", which states that consideration from a vendor to a reseller of the vendor's products is presumed to be a reduction of the selling prices of the vendor's products and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's income statement. That presumption is overcome and the consideration can be categorized as a cost incurred if, and to the extent that, a benefit is or will be received from the recipient of the consideration. That benefit must meet certain conditions described in EITF 00-25. The consensus should be applied no later than in annual or interim financial statements for periods beginning after December 15, 2001. We believe the adoption of EITF 00-25 will not have a material impact on our consolidated financial position or results of operations.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included elsewhere in this Form 10-Q and the "Management's discussion and analysis of financial condition and results of operations" set forth in Bam's Registration Statement on Form S-1 (File No. 333-62436), as amended. Risks and uncertainties that could affect the Company's actual results and could cause such results to differ materially from those forward-looking statements made by or on behalf of the Company are included under the "Risk Factors" in Bam's Registration Statement on Form S-1 (File No. 333-62436), as amended.

Future operating results

This Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements with regards to the Company's revenues, earnings, spending, margins, cash flow, orders, inventory, products, actions, plans, strategies and objectives. When used in this Form 10-Q, the words "anticipate," "believe," "estimate," "will," "plan," "intend" and "expect" and similar expressions identify forward-looking statements. Although we believe that our plans, intentions and expectations reflected in those forward-looking statements are reasonable, we cannot assure you that these plans, intentions or expectations will be achieved. Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained in this Form 10-Q. Important factors that could cause actual results to differ materially from our forward-looking statements are set forth in our final prospectus dated November 14, 2001, included under the heading "Risk factors." Our actual results could differ materially from those predicated in these forward-looking statements, and the events anticipated in the forward-looking statements may not actually occur. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth in the above prospectus. Other than as required by federal securities law, we are under no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

OVERVIEW

We develop and publish interactive entertainment software products. We currently publish titles for most of the popular interactive entertainment hardware platforms, such as Sony's PlayStation and PlayStation 2, Nintendo's Gamecube, N64, Game Boy Color and Game Boy Advance, portable handheld devices manufactured by Palm and Handspring, and for personal computers or PCs. We are developing and plan to publish titles for Microsoft's Xbox. We were incorporated in California in October 1999 under the name Bay Area Multimedia, Inc. We reincorporated in Delaware in September 2000 and changed our name to BAM! Entertainment, Inc. in December 2000. We commenced operations in October 1999 and shipped our first products in June 2000.

We license properties from a wide variety of sources, and publish titles based on the motion picture, sports and television properties of our licensors. We have entered into strategic license arrangements with entertainment and media companies that have developed well-known characters and brands and that are producing popular properties that are expected to form the basis of some of our future products. Our agreements with licensors and developers generally require us to make advance royalty payments, and we may be required to spend money on advertising and promotion. We generally pay royalties based on net revenues.

We design and develop our titles internally or through third parties with whom we have established relationships. We believe that the development cycle for new titles is long, typically ranging from 12 to 24 months, except for Nintendo's Game Boy Advance for which the development cycle typically ranges from six to nine months. After development of the initial product, we believe that it may take between six to 12 additional months to develop the product for, or port the product to, a different hardware platform.

We sell our products to mass merchandisers such as Toys "R" Us, Target, Kmart, Wal-Mart and Best Buy, specialty chains such as GameStop, Electronics Boutique and independent distributors. Our products are manufactured exclusively by third parties. We have operations in both the United States and Europe. International operations are

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conducted through our offices in England, where we have an internal product development studio, perform international sales and marketing activities and manage local third-party developers.

In February 2001, we entered into a two-year exclusive license agreement for the distribution of four products with Ubi Soft Entertainment SA, a French distributor of entertainment and educational multimedia. In July 2001 we signed a new distribution agreement with the same distributor establishing it as the exclusive distributor of all of our interactive entertainment software products across all hardware platform formats in France, Germany, Italy, Spain, Belgium, Luxembourg, the Netherlands, Austria, Switzerland and Scandinavia.

During the three months ended March 31, 2002, we released software compatible with four hardware platforms, including our first Nintendo Gamecube product, **Driven**. We anticipate releasing our first Microsoft Xbox title during the Summer of 2002.

Net revenues

We derive our revenues from shipment of finished products to the customer. Under certain conditions, we may allow customers to exchange and return our products and from time to time provide price protection or allow returns on certain unsold merchandise in the form of a credit against amounts due from the customer. Net revenues from product sales are reflected after deducting the estimated cost of allowances for returns and price protection as well as discounts given. These estimates are based upon currently known circumstances and historical results. The calculation of net revenues will be affected by many factors, including pricing strategies, the channels through which products are distributed, product maturity, exchange and return provisions and price protection.

Net revenues are recognized when we have satisfied the following conditions: persuasive evidence of an arrangement exists, delivery has occurred, the price has been fixed or is determinable and collectibility has been reasonably assured.

We expect that substantially all of our net revenues for a particular quarter will be generated by titles released in that quarter or in the immediately prior quarter. The market for interactive entertainment software is characterized by short product life cycles, changing consumer preferences and frequent introduction of new products. The life cycle of a title generally consists of a relatively high level of sales during the first few months after introduction, followed by a decline in sales, with only a small percentage of sales occurring more than six months after release.

We have experienced, and are likely to continue to experience, quarterly fluctuations in net revenues. The interactive entertainment industry is highly seasonal, with net revenues typically significantly higher during the fourth and first calendar quarters, due primarily to the increased demand for titles during the year-end holiday buying season. A failure or inability to introduce products on a timely basis to meet seasonal increases in demand will harm our business and operating results. While we are attempting to reduce the effect of seasonal patterns on our business by distributing our product release dates more evenly throughout the year, we may not be successful in this endeavor.

Cost of revenues

Cost of revenues consists of cost of goods sold and royalties, software costs, license costs and project abandonment.

Cost of goods sold. Cost of goods sold includes manufacturing costs of finished goods, freight, inventory management costs and inventory obsolescence costs. Cost of goods sold will vary depending on the volume of products manufactured and shipped, the mix of products sold and the shipping channel used.

Royalties, software costs, license costs and project abandonment. Royalties, software costs, license costs and project abandonment includes royalties paid to software licensors, software amortization and amortization of non-cash charges related to warrants and rights to acquire our common stock issued to certain production companies. These costs will be affected in particular periods by many factors, including the specific terms or agreements under which royalties are paid to third parties, the commercial acceptance of products, the cost of developing a product and the timing of stock and warrants issued pursuant to the terms of our license agreements as described below.

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Our agreements with licensors and developers generally require us to make advance royalty payments and pay royalties based on product sales, which may have guaranteed minimum payments. Prepaid royalties are amortized commencing upon the product release at the greater of the contractual royalty rate based on actual product sales, or the ratio of current revenues to total projected revenues. We evaluate the future recoverability of prepaid royalties on a quarterly basis and expense costs if and when they are deemed unrecoverable. We cannot assure you that the sales of products for which these royalties are paid or guaranteed payments are made will be sufficient to cover the amount of these required payments.

Commencing upon product release, we amortize capitalized software development costs. We capitalize software development costs subsequent to establishing technological feasibility of a title. Technological feasibility is evaluated on a product-by-product basis. For products where proven game engine technology exists, this may be early in the development cycle. Prior to establishing technological feasibility, software development costs are expensed to research and development, and to cost of revenues subsequent to establishing technological feasibility. The following criteria is used to evaluate recoverability of software development costs: historical performance of comparable products; the commercial acceptance of prior products released on a given hardware platform; orders for a product prior to its release and actual development costs of a product as compared to forward-looking projections. Amortization of software development costs is based on the greater of the proportion of current revenues to total projected revenues or the straight-line method over the estimated product life, generally three to six months. We analyze our capitalized costs quarterly and take write-offs when, based on our estimates, future individual product revenues will not be sufficient to recover our investment.

Pursuant to a license agreement with a production company, we are obligated to issue 68,738 shares of our common stock after the release of any film for which we elect to produce interactive entertainment software products, up to 10 films or 687,375 shares of common stock. To date, we have elected to produce titles for three films and have issued 68,738 shares under this agreement for an aggregate value of \$746,000. We are required to issue these shares when the films are released and will then incur a non-cash charge. If the software product is released after the release of the film, we will amortize the non-cash charge over the life of the product, which is typically between three and six months. If the software product is released prior to the release of the film, we will at each interim period assess whether it is probable that the value of the shares issued is recoverable through future sales of the product to which it relates. If this is probable, the non-cash charge will be amortized to licensed costs over the life of the products. In the alternative, we will expense the non-cash charge at the time of the issuance of the shares if it is not probable that the value of the shares issued is recoverable through future sales of the product to which these shares relate. We cannot estimate the aggregate dollar amount of these future non-cash charges as they are based on its share price at a future point in time, but they may be substantial. Of the non-cash charges on the initial shares issued, \$517,000 had been amortized as of March 31, 2002, and the remainder is expected to be incurred in the fourth quarter of fiscal 2002 and the first fiscal quarter of 2003.

In connection with the issuance of warrants pursuant to a separate license agreement with another production company, we incurred a non-cash charge of \$354,000, which will be amortized on a straight-line basis over five years. This amortization commenced in October 2000. In connection with these warrants, a further non-cash charge of \$556,000 will be amortized over a period which is expected to be between three to six months, commencing on the release of the subject titles, expected to be the first or second fiscal quarter of 2003. Each of these charges will affect our gross margins and profitability.

In addition, in connection with the issuance of warrants pursuant to a separate license agreement with another production company, we incurred a non-cash charge of \$86,000. Under the agreement, additional warrants to purchase up to an additional 30,000 shares may be issued, contingent upon certain future events occurring. Upon issuance of the warrants we will incur an additional non-cash charge. Upon release of the software products on which the warrants are issued, Bam will amortize the non-cash charges over the life of the products, which are expected to be between three and six months. Bam cannot estimate the aggregate dollar amount of these future non-cash charges as they are based on Bam's share price at future points in time.

Research and development

Research and development expenses relate to the design and development of new interactive entertainment software products. Payments made to independent software developers under development agreements are capitalized to

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software development costs once technological feasibility is established or if the development costs have an alternative future use. Prior to establishing technological feasibility, software development costs are expensed to research and development and to cost of revenues subsequent to confirmation of technological feasibility. Internal development costs are capitalized to software development costs once technological feasibility is established. Technological feasibility is evaluated on a product-by-product basis. For products where proven game engine technology exists, this may occur early in the development cycle.

Research and development expenses generally consist of salaries, related expenses for engineering personnel and third-party development costs. We will continue to develop products both internally and through third parties. In absolute dollars we expect to see increases in research and development expense as we expand our product offerings.

Sales and marketing

Sales and marketing expenses consist primarily of salaries and related expenses for our direct sales force and marketing personnel, commissions to independent sales staff, marketing programs and advertising campaigns. In absolute dollars we expect to see increase in sales and marketing expense as revenues increase and we expand our product offerings and international presence.

General and administrative

General and administrative expenses consist primarily of salaries and related expenses for finance and other administrative personnel, facilities and occupancy charges, professional fees and bad debt expense. Exclusive of bad debt provisions, we expect our general and administrative expenses to increase in absolute dollars as we expand our staffing, build our infrastructure, grow the business and incur costs associated with being a public company. As a percentage of revenue, we would expect to see a reduction in general and administrative expenses as revenues increase.

Amortization of deferred stock compensation

Amortization of deferred stock compensation consists of deferred compensation expenses relating to stock option grants to employees. Deferred compensation represents the difference between the deemed fair market value of our Common Stock at the grant date and the exercise price of the related stock options. Deferred compensation is represented as a reduction of stockholders' equity and amortized, using a multiple option award valuation and amortization approach, over the vesting periods of the options, which is generally four years. We expect to amortize \$243,000 during the remainder of fiscal 2002, \$553,000 during fiscal 2003, \$256,000 during fiscal 2004 and \$61,000 during fiscal 2005.

Other expense, net

Other expense, net consists mostly of interest expense net of interest income. Interest expense includes the amortized fair value of warrants issued to a finance company. We anticipate interest expense will reduce in absolute dollar terms during the fourth quarter of fiscal 2002 as we operate for a full quarter under a lower cost short-term financing line implemented during the third quarter of fiscal 2002.

Income taxes

Income taxes consist of state taxes for the current period, and adjustments to prior period estimates. We anticipate income taxes will reduce in absolute dollar terms during the fourth quarter of fiscal 2002.

RESULTS OF OPERATIONS

The following table sets forth the unaudited condensed consolidated results of operations as a percentage of net revenues for the three and nine month periods ended March 31, 2002 and 2001.

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2002	2001	2002	2001
Net revenues	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Cost of revenues				
Cost of goods sold	75.4	58.4	60.0	56.5
Royalties, software costs, license costs, and project abandonment	43.2	12.9	21.0	11.7
Total cost of revenues	118.6	71.3	81.0	68.2
Research and development (exclusive of amortization of deferred stock compensation)	9.9	3.8	4.4	3.8
Sales and marketing (exclusive of amortization of deferred stock compensation)	26.1	18.7	22.2	18.7
General and administrative (exclusive of amortization of deferred stock compensation)	23.7	9.9	11.9	7.0
Amortization of deferred stock compensation	5.1	0.2	2.9	0.1
Total costs and expenses	183.4	103.9	122.4	97.8
Income (loss) from operations	(83.4)	(3.9)	(22.4)	2.2
Interest income	1.9	0.6	0.6	0.2
Interest expense	(6.3)	(8.7)	(6.7)	(5.7)
Other income	(0.2)	–	0.0	–
Loss before income taxes	(88.0)	(12.0)	(28.5)	(3.3)
Income taxes	0.8	–	0.1	–
Net loss	(88.8)%	(12.0)%	(28.6)%	(3.3)%
*Amortization of deferred stock compensation:				
Research and development	0.8 %	0.1 %	0.4 %	0.1 %
Sales and marketing	0.3	0.1	0.2	0.0
General and administrative	4.0	–	2.3	–
	5.1 %	0.2 %	2.9 %	0.1 %

Net revenues

Net revenues were \$7.0 million and \$36.8 million for the three and nine month periods ended March 31, 2002, respectively, compared to \$6.1 million and \$17.3 million for the comparable periods in 2001, respectively. The increase was primarily attributable to the fact that we released six and 17 new products during the three months and nine months ended March 31, 2002 respectively, compared to one new product and nine new products in the comparable periods of 2001, respectively, and sold more units in total in these periods, offset by price protection and product returns, primarily on Nintendo Gameboy Advance product sales.

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In the three months ended March 31, 2002, we released the following titles: **World Rally Championship** and **Savage Skies** for the Sony PlayStation 2, **Driven** for the Nintendo Gamecube, **Wolfenstein 3D** and **Broken Sword** for Nintendo Gameboy Advance, and **Dexter's Laboratory** for the Sony PlayStation.

To date, a substantial portion of our revenues has been derived from sales of a limited number of products. Sales of our **Powerpuff Girls** titles accounted for 24% and 46% of our net revenues for the three and nine months ended March 31, 2002, respectively, compared to 90% and 82%, respectively for the comparable periods in 2001. As we expand our product offerings in different periods, we expect that the percentage attributable to any single license will decrease as our various product offerings increase.

The following table sets forth our net revenues by customer representing more than 10% of each period's net revenues for the three and nine month periods ended March 31, 2002 and 2001 (percentages):

Customer	Three months ended March 31,		Nine months ended March 31,	
	2002	2001	2002	2001
Customer				
Toys "R" Us	24%	19%	25%	20%
Ubisoft	27	—	*	—
Kmart	13	*	12	12
Wal-Mart	*	20	*	16
Target	*	13	*	15
	—	—	—	—
Total net revenues by customer representing more than 10% of the period's net revenues	64%	52%	37%	63%

* = less than 10%

Net revenues to Kmart in the three months ended March 31, 2002 were made under Kmart's debtor-in-possession financing arrangement.

Net revenues by geographical region for the three and nine month periods ended March 31, 2002 and 2001 is summarized below (in thousands):

	Three months ended March 31,		Nine months ended March 31,	
	2002	2001	2002	2001
Net revenues from unaffiliated customers:				
North America	\$ 4,756	\$ 6,093	\$ 31,983	\$ 17,305
Europe	2,261	—	4,775	—
Total net revenues	\$ 7,017	\$ 6,093	\$ 36,758	\$ 17,305

Cost of revenues

Cost of goods sold was \$5.3 million, or 75% of net revenues, for the three month period ended March 31, 2002 as compared to \$3.6 million, or 58% of net revenues, for the comparable period in 2001, and \$22.0 million, or 60% of net revenues, for the nine months ended March 31, 2002 as compared to \$9.8 million, or 56% of net revenues, for the comparable period in 2001. The increase in absolute dollars was due to increased sales of product. The increase in percentage was due to numerous factors, including price protection and product returns reserved against sales, and lowered introductory prices on certain titles.

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Financing costs associated with inventory acquisitions under financing arrangements are recorded as period costs and as such are classified as interest expense.

Royalties, software costs, license costs and project abandonment were \$3.0 million, or 43% of net revenues, for the three months ended March 31, 2002 as compared to \$789,000, or 13% of net revenues, for the comparable period in 2001, and \$7.7 million, or 21% of net revenues, for the nine months ended March 31, 2002 as compared to \$2.0 million, or 12% of net revenues, for the comparable period in 2001. The increase in absolute dollars was due to increased sales of products. The increase in these costs as a percentage of revenues was due to increased software development costs as a result of launching new products for more sophisticated hardware systems, resulting in increased fixed development costs per unit produced, price protection and product returns reserved against sales, and increased licensed asset costs.

Research and development

Research and development expenses were \$692,000, or 10% of net revenues, for the three months ended March 31, 2002, compared to \$231,000, or 4% of net revenues, for the comparable period in 2001, and \$1.6 million, or 4% of net revenues, for the nine months ended March 31, 2002, compared to \$663,000, or 4% of net revenues, for the comparable period in 2001. The increase in absolute dollars was primarily because of the hiring of additional employees in both our San Jose office and our internal development studio in London, England.

Sales and marketing

Sales and marketing expenses were \$1.8 million, or 26% of net revenues, for the three months ended March 31, 2002, compared to \$1.1 million, or 19% of net revenues, for the comparable period in 2001. The increase in absolute dollars was primarily as a result of commencing marketing activities in Europe, along with increased marketing activities in the US.

Sales and marketing expenses were \$8.2 million, or 22% of net revenues, for the nine months ended March 31, 2002, compared to \$3.2 million, or 19% of net revenues, for the comparable period in 2001. The increase in absolute dollars was primarily because of seasonally increased advertising and marketing activities for the 2001 holiday season, expanded marketing activities in Europe, and increased sales commissions due to higher net revenues.

General and administrative

General and administrative expenses were \$1.7 million, or 24% of net revenues, for the three months ended March 31, 2002, compared to \$606,000, or 10% of net revenues, for the comparable period in 2001. The increase in absolute dollars was primarily due to the hiring of additional personnel, increased professional fees and facilities costs, increased travel costs and increased allowance for doubtful accounts receivables.

General and administrative expenses were \$4.4 million, or 12% of net revenues for the nine months ended March 31, 2002, compared to \$1.2 million, or 7% of net revenues, for the comparable period in 2001. The increase in absolute dollars was primarily due to the hiring of additional personnel, increased professional fees and facilities costs, increased travel costs, and increased allowance for doubtful accounts receivables which included an allowance of \$1.1 million against our receivable balance from Kmart.

Amortization of deferred stock compensation

Amortization of deferred stock compensation was \$360,000, or 5% of net revenues, for the three months ended March 31, 2002, compared to \$10,000 for the comparable period in 2001, and \$1.1 million, or 3% of net revenues, for the nine months ended March 31, 2001, compared to \$19,000 for the comparable period in 2001. Amortization of deferred stock compensation resulted from using the accelerated amortization method to account for compensatory stock options granted to employees and directors during the six months ended September 30, 2001.

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Other expense, net

Interest income was \$135,000, or 2% of revenue for the three months ended March 31, 2002, compared to \$36,000, or 1% of revenue for the comparable period in 2001, and \$231,000, or 1% of revenue for the nine months ended March 31, 2002, compared to \$40,000, or 0% of revenue for the comparable period in 2001. Interest income in each period relates to interest earned on funds deposited in money market accounts and increased as a result of the investment of funds raised in our initial public offering completed in November 2001.

Interest expense was \$440,000, or 6% of net revenues, for the three months ended March 31, 2002, compared to \$527,000, or 9% of net revenues, for the comparable period in 2001. Interest expense decreased as a result of our implementation of a new short-term borrowing line in the quarter.

Interest expense was \$2.5 million, or 7% of net revenues, for the nine months ended March 31, 2002, compared to \$992,000, or 6% of net revenues, for the comparable period in 2001. For most of the period we operated under our old short-term borrowing line and the increase in interest expense arose due to increased amounts advanced by the finance company due to the need to fund inventory required for increased sales.

Other expense was \$15,000 for the three months ended March 31, 2002, compared to zero for the comparable period in 2001, and \$8,000 for the nine months ended March 31, 2002, compared to zero for the comparable period in 2001. Other expense comprised exchange losses.

Income taxes were \$56,000 for the three and nine months ended March 31, 2002 compared to zero for the comparable periods in 2001. Income taxes comprised state taxes.

We incurred a net loss of \$6.2 million and \$10.5 million for the three and nine months ended March 31, 2002 respectively, and anticipate incurring a net loss for the three months and fiscal year ending June 30, 2002.

LIQUIDITY AND CAPITAL RESOURCES

In November 2001, we completed our initial public offering, raising \$39.2 million net of expenses. Subsequent to the offering, we have used the proceeds of the initial public offering, cash generated from the sale of products, a product financing arrangement with a finance company, and short-term liabilities to finance our operations. Prior to the initial public offering, we financed our operations primarily through the private sale of equity securities, cash generated from the sale of products, a product financing arrangement with a finance company, the issuance of promissory notes to stockholders, a commercial line of credit and short-term liabilities.

Net cash used in operating activities was \$16.8 million for the nine months ended March 31, 2002, compared to \$5.8 million for the comparable period in 2001. For these periods, net cash used in operating activities was the result of net losses and increases in operating assets, primarily accounts receivable, inventories, prepaid royalties, capitalized software costs and licensed assets, offset by increases in accruals.

Net cash used in investing activities was \$8.7 million for the nine months ended March 31, 2002, compared to \$1.4 million for the comparable period in 2001. Net cash used in investing activities during the nine month period ended March 31, 2002, consisted primarily of the purchase of short-term investments and property and equipment, and for the comparative periods consisted of the purchase of property and equipment.

Net cash provided by financing activities was \$35.6 million for the nine months ended March 31, 2002, compared to \$7.5 million for the comparable period in 2001. Net cash provided by financing activities during the nine month period ended March 31, 2002 comprised mostly net proceeds on the sale of 5.75 million shares of common stock in our initial public offering completed in November 2001, offset by net repayments under a finance agreement with a finance company, and the issuance of common stock arising from the exercise of warrants. For the comparative periods, net cash provided by financing activities was comprised of net proceeds from the Series B redeemable convertible preferred stock offering that was completed in December 2000, and net borrowings under a finance agreement with a finance company.

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In February 2002, we entered into a two year factoring agreement (the "Agreement") with a finance company, whereby we assign our North American receivables to the finance company. The finance company is responsible for collecting customer receivables, and upon collection, remits the funds to us, less a service fee. Under the Agreement, we may obtain advances, subject to the finance company's discretion, in the form of cash or as collateral for letters of credit, up to a maximum of 75% of outstanding domestic receivables at any point in time.

Under the terms of the Agreement, we pay a service fee on all receivables assigned, with a minimum annual fee of \$150,000, and interest at prime plus 1% on all cash sums advanced. All fees are included in interest expense. We bear the collection risk on our accounts receivable that are assigned, unless the finance company approves the receivable at the time of assignment, in which case the finance company bears the risk.

The finance company has a security interest in our accounts receivable, inventory, fixed assets and intangible assets. As of March 31, 2002, we had no advances outstanding under the Agreement.

Prior to entering into the Agreement, we had entered into a Finance Agreement with a different finance company, whereby we assigned purchase orders entered into with its customers to the finance company and requested the finance company purchase finished goods to fulfill such customer purchase orders.

The Finance Agreement, entered into in February 2000, specified that the finance company's funding commitment with respect to a customer purchase order should not exceed 60% of the retail purchase order price. Under the Finance Agreement the finance company's aggregate outstanding funding (i.e., advance of funds or purchase of finished goods to fulfill customer purchase orders) was limited to \$5.0 million. We were responsible for collecting customer receivables, bore the risk of loss on all uncollectible accounts, and we were required to remit customer receipts directly to the finance company up to the amounts funded by the finance company. We retained collections in excess of the amounts funded by the finance company.

Under the initial terms of the Finance Agreement, we were required to pay the finance company's expenses under the contract, a deal fee (consisting of a transaction and initiation fee equal to 5.0% of the face amounts of letters of credit issued or other funds advanced by the finance company), a daily maintenance fee of 0.067%, a materials advance fee at prime rate plus 4.0% and a late payment fee where applicable; all of which are included in interest expense.

In August 2001, we amended the Finance Agreement, initially increasing the aggregate outstanding funding amount to \$10.0 million, and then decreasing the transaction and initiation fee to 3% until the earlier of the termination of the agreement or December 31, 2001, if our initial public offering had not occurred by that date. We completed our initial public offering in November 2001. In connection with this latter amendment and the execution of a \$7.0 million factoring arrangement with an affiliate of the finance company, we issued a warrant to the finance company to purchase 100,000 shares at an exercise price of \$8.00.

Upon the signing of the Finance Agreement, we paid the finance company a security deposit of \$90,000. An extension payment of \$50,000 was made when the contract was amended in December 2000, and a further amendment fee of \$120,000 was incurred when the contract was amended in August 2001. These costs were recorded as interest expense.

Outstanding borrowings under the above Finance Agreement were collateralized by inventories, accounts receivable, fixed assets and intangible assets of Bam.

The Finance Agreement and the factoring line with the affiliate terminated in February 2002, and all outstanding amounts funded were fully repaid. Consequently, the amounts outstanding under the Finance Agreement and the factoring line with the affiliate of the finance company as of March 31, 2001 were zero. The amount outstanding under the Finance Agreement as of June 30, 2001 was \$4.2 million.

As of March 31, 2002 and June 30, 2001, we had outstanding letters of credit issued of \$3.5 million, and \$2.0 million, respectively. We do not expect any material losses to result from these off-balance sheet instruments.

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In November 2000, we entered into an agreement with our bankers whereby they would provide us with a \$1.0 million commercial line of credit, repayable on demand. The interest rate on amounts drawn down was at the bank's prime interest rate plus 3% and was payable monthly. The line of credit was secured by restricted cash being held in a money market account with the same bank. In May 2001, all sums borrowed were repaid and the line of credit was terminated.

As of March 31, 2002 we had cash and cash equivalents of \$12.3 million and short-term investments of \$9.7 million. As of June 30, 2001, we had cash and cash equivalents of \$2.2 million and no short-term investments.

We believe that our current cash and cash equivalents, together with cash generated by operations, will be sufficient to meet our anticipated cash requirements through at least 2002. If our cash needs exceed our current expectations we may need to raise additional capital through public or private equity offerings or debt financings. If cash generated from operations is insufficient to satisfy our liquidity requirements and we cannot raise needed funds on acceptable terms or at all, we may not be able to develop or enhance our products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements. A material shortage of capital may require us to take drastic steps such as reducing our level of operations, disposing of selected assets or seeking an acquisition partner.

Capital expenditures were \$233,000 and \$700,000 for the three and nine months ended March 31, 2002, respectively, and \$69,000 and \$362,000 for the comparative prior year periods, respectively. We did not have any material commitments for capital expenditures at any of those dates.

Our principal commitments at March 31, 2002 comprised of operating leases, guaranteed royalty payments and contractual marketing commitments. At March 31, 2002, we had commitments to spend \$1.2 million under operating leases, prepay \$1.8 million for royalties under agreements with various content providers and spend \$3.2 million in advertising on the networks and websites of these content providers. Of these amounts, \$3.4 million must be paid no later than March 31, 2003. Guaranteed royalty payments will be applied against any royalties that may become payable to the content providers.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks, including changes in foreign exchange rates and interest rates. Market risk is the potential loss arising from changes in market rates and prices.

Foreign currency exchange rate risk

In the three months ended March 31, 2002, approximately 70% of net revenues and 85% of cost of revenues and operating expenses were denominated in U.S. dollars. We anticipate that in the remainder of the fiscal year these percentages will both continue to exceed 70%. Remaining expenses were mostly denominated in British pounds or the Euro and consequently we are currently exposed to fluctuations in the U.S. dollar to British pound and Euro exchange rates. We estimate that a 10% change in foreign exchange rates would impact reported annual operating results by less than \$250,000. Accordingly, we have not entered into any hedging arrangements. As we expand our international operations, revenues will be generated and more operating expenses will be incurred in currencies other than the US dollar, which will increase potential exchange rate risk. We anticipate that it will enter into customary hedging arrangements to reduce this risk.

Interest rate risk

We do not consider our cash and cash equivalents to be subject to interest rate risk due to the short maturities of the instruments in which we have invested. We are exposed to interest rate risk on our product financing arrangement with a finance company. We do not enter into derivatives or other financial instruments for trading or speculative purposes. We estimate that a 10% increase in interest rates would impact our results of operations by \$20,000 and \$210,000 for the three and nine month periods ended March 31, 2002, respectively, and \$50,000 and \$100,000 for the each of the comparative prior year periods, respectively.

Inflation

Inflation has not had a material adverse effect on our results of operations; however, our results of operations may be materially and adversely affected by inflation in the future.

PART II OTHER INFORMATION

Item 2. Change in Securities and Use of Proceeds.

In November 2001 we completed our initial public offering, selling 5,750,000 common stock shares at \$8.00 per share. Upon the closing, each outstanding share of our redeemable convertible preferred stock automatically converted into 4.7 shares of our common stock.

As of March 31, 2002, there were 14,582,756 shares of our common stock issued and outstanding, and no shares of our preferred stock issued and outstanding.

Our authorized capital stock consists of 100,000,000 shares of common stock, par value \$0.001 per share and 10,000,000 shares of authorized preferred stock, par value \$0.001 per share.

Net proceeds from the offering, after deducting underwriting discounts and commission and offering expenses, were \$39.2 million. Of these proceeds, \$22.1 million was unused as of March 31, 2002, and was held as either cash, cash equivalents or short-term investments. The following summarizes the use of the remaining \$17.1 million:

\$9.1 million for product development

\$5.0 million for expansion of sales and marketing activities

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\$3.0 million for additional working capital, including payment of \$400,000 of accrued salaries owed retroactively to members of the Company's executive management.

Item 5. Other Information.

Bernard Stolar was appointed as President and Chief Operating Officer on January 22, 2002.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

- | | |
|-------|--|
| 10.2 | First Amendment to Office Lease dated March 29, 2002 between the Registrant and Macanan Investments. |
| 10.3* | License and Option Agreement dated January 14, 2002 between the Registrant, BAM! Entertainment Limited and Aardman Animations Limited. |
| 10.4 | Factoring Agreement dated February 25, 2002 between the Registrant and Century Business Credit Corporation. |
| 10.5 | Letter of Credit and Security Agreement dated February 25, 2002 between the Registrant and Century Business Credit Corporation. |
| 10.6 | Trademark Collateral Security Agreement dated February 25, 2002 between the Registrant and Century Business Credit Corporation. |
| 10.7 | Supplement to Factoring or Security Agreement dated February 25, 2002 between the Registrant and Century Business Credit Corporation. |

* The Registrant has applied with the Secretary of the Securities and Exchange Commission for confidential treatment of certain information pursuant to Rule 24b-2 of the Securities Exchange Act of 1934. The Registrant has filed separately with its application a copy of the exhibit including all confidential portions, which may be made available for public inspection pending the Securities and Exchange Commission's review of the application in accordance with Rule 24b-2.

(b) Reports on Form 8-K.

There were no reports on Form 8-K filed during the period.

SIGNATURES

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

BAM! ENTERTAINMENT, INC.

Date: May 14, 2002

By: /S/ RAYMOND C. MUSCI

Raymond C. Musci
Chief Executive Officer

Date: May 14, 2002

By: /S/ STEPHEN M. AMBLER

Stephen M. Ambler
Chief Financial Officer and Vice President of Finance

FIRST AMENDMENT TO LEASE

THIS FIRST AMENDMENT TO LEASE is effective as of May 1, 2002 by and between MACANAN INVESTMENTS, a California limited partnership ("Landlord") and BAM! Entertainment, Inc., a Delaware corporation ("Tenant").

RECITALS

A. Pursuant to that certain Office Space Lease dated May 3, 2001, relating to approximately four thousand, eight hundred fifty-five (4,855) feet of rentable area, known as suite 716, in those certain premises located at 333 West Santa Clara Street, San Jose, California, more particularly described therein, and herein referred to as the "Original Leased Premises".

B. The parties hereto now desire to amend the Lease to extend the Lease Term to April 30, 2005, and to increase the gross leasable square footage contained in the Leased Premises by four thousand, six hundred seventy-eight (4,678) square feet of gross leasable area including four thousand, two hundred seventy-one (4,271) square feet of useable area known as suite 708 on the seventh floor of the Comerica Bank Building. The portion of the Leased Premises being added is shown on Exhibit B-2 together with the Original Leased Premises, as shown on Exhibit B-1 attached hereto and incorporated herein by this reference. The parties also desire to reduce the Base Monthly Rent of the Original Leased Premises as of May 1, 2002 to the same per square foot cost per month as that which will be paid for the additional leased premises. The parties agree that the

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previous personal lease guarantee, which is now in effect, will be voided by Landlord upon signing First Amendment.

NOW, THEREFORE, in consideration for the terms, covenants and conditions contained herein, the parties hereto agree as follows:

1. The description of the Leased Premises referred to herein as the Original Leased Premises and shown on Exhibit B-1 to the Lease is hereby expanded to include Exhibit B-2. Page 2 of Exhibit B-2 shows the relationship of space in Exhibit B-1 and Exhibit B-2.
2. The parties agree that all references in the Lease to the "Leased Premises" shall refer to the Increased Leased Premises, as herein defined. All other words and phrases defined in the Lease shall have the same meaning when used herein and therein.
3. Various other changes involving lease term, tenants allocated

share, operating expense base year, real property base tax year, prepaid rent, security deposit, construction and delivery of tenant improvements, early occupancy, new rent commencement date, base monthly rent and periodic increase in monthly rent are changed.

4. Paragraph 1.1 of the Lease is hereby modified to read as follows:

1.1 Rent Commencement Date. The term "Rent Commencement Date" shall mean as of May 1, 2002.

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5. Paragraph 1.2 of the Lease is hereby modified to read as follows:

1.2 Lease Term. The Lease Term is extended to April 30, 2005 unless this Lease is sooner terminated according to its term or by mutual written agreement.

6. Paragraph 1.5 of the Lease is hereby modified to read as follows:

1.5 Leased Premises. The term "Leased Premises" shall mean those certain premises which are a portion of, and located within, the Building as shown by the floor plan attached hereto as Exhibit B-1 and Exhibit B-2 containing approximately nine thousand, five hundred thirty-three (9,533) square feet of gross leasable area ("Tenant's Gross Leasable Area") including approximately eight thousand, seven hundred three (8,703) square feet of usable area ("Tenant's Net Leasable Area").

7. Paragraph 1.6 of the Lease is hereby modified to read as follows:

1.6 Tenant's Allocated Share. The term "Tenant's Share" shall mean the percentage obtained by dividing Tenant's Gross Leasable Area by the Building Gross Leasable Area, which as of May 1, 2002, is agreed to be four and forty-seven hundredths (4.47%).

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8. Paragraph 1.7 of the Lease is hereby modified to read as follows:

1.7 Prepaid Rent. The term "Prepaid Rent" shall mean the sum of twenty-nine thousand, five hundred fifty-two dollars (\$29,552.00).

9. Paragraph 1.8 of the Lease is hereby modified to read as follows:

1.8 Security Deposit. The term "Security Deposit" shall mean an additional amount of ten thousand, one hundred thirty-two dollars (\$10,132.00) shall be added to that security deposit already on deposit for suite 716 for a total amount of twenty-nine thousand, five hundred fifty-two (\$29,552.00) dollars.

10. Paragraph 1.11 of this Lease is hereby modified to read as follows:

1.11 Operating Expense Base Year. Effective May 1, 2002, the term "Operating Expense Base Year" shall mean the calendar year of 2002 for suite 708 and shall remain unchanged for suite 716.

11. Paragraph 1.12 of the Lease is hereby modified to read as follows:

1.12 Real Property Base Tax Year. The term "Real Property Base Tax Year" shall mean the fiscal year 2001/2002 commencing July 1, 2001 and ending June 30, 2002 for the entire leased premises.

12. Paragraph 2.2 of the Lease is hereby modified to read as follows:

2.2 Construction of Tenant Improvements. Prior to the Rent Commencement Date, Landlord shall construct certain

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improvements as shown on RMW Drawing #21227.00 dated 3/14/02, which has been approved by Tenant and Landlord. Any delays, including change orders, caused by Tenant which delays the completion of the tenant improvements by Landlord will offset the completion of work, on a day for day basis, but in no event abate the rent or change the rent commencement date.

13. Paragraph 2.3 of the Lease is hereby modified to read as follows:

2.3 Delivery and Acceptance of Possession. Landlord will complete work required of Landlord pursuant to Paragraph 2.2 by April 30, 2002 providing Tenant has approved said plans by April 1, 2002.

14. Paragraph 2.4 of the Lease is hereby modified to read as follows:

2.4 Early Occupancy. Tenant may enter or permit its contractors to enter the Leased Premises prior to the Rent Commencement Date by April 15, 2002, it shall do so upon all of the terms of this Lease (including its obligations regarding indemnity and insurance) except those regarding the obligation to pay rent, which shall commence on the Rent Commencement Date.

15. Paragraph 3.1 of the Lease is hereby modified to read as follows:

3.1 Base Monthly Rent. Commencing on May 1, 2002 and continuing throughout the remainder of the Lease Term,

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Tenant shall pay to Landlord a monthly rent (the "Base Monthly Rent"), which shall be \$29,552.00.

16. Paragraph 3.7 is hereby added to the Lease to read as follows:

3.7 Periodic Increase in Base Monthly Rent. On May 1, 2002 ("Rent Commencement Date") and continuing until adjusted pursuant to this paragraph, Tenant shall pay to Landlord Base Monthly Rent in the initial amount set forth in paragraph 3.1 above. However, the amount of the Base Monthly Rent shall be redetermined in accordance with the following formula as of and effective on each calendar anniversary of the lease (the "Rent Adjustment Date") to reflect any increase or decrease in the "Consumer Price Index" (as that term is defined in paragraph 15.12) that has occurred since the Rent Commencement Date. The Base Monthly Rent commencing May 1, 2003 and May 1, 2004 determined by multiplying (i) the amount of the Base Monthly Rent immediately preceding the adjustment by (ii) a fraction whose numerator is the Consumer Price Index published nearest and preceding the relevant Rent Adjustment Date and whose denominator is the Consumer Price published nearest and preceding the Rent Commencement Date. However, in no event shall the Base Monthly Rent adjustment be (i) an amount greater than 3% per

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year, or (ii) an amount less than the Base Monthly Rent immediately preceding the adjustment.

17. Paragraph 4.5 of the Lease is hereby modified to read as follows:

4.5 Parking. Parking in the Building garage will be available up to 40 spaces on month-to-month leases at the initial rates of \$90.00 per space per month for unreserved covered parking and \$60.00 per space per month for unreserved uncovered parking if available (on the fourth (4th) floor of the parking garage only). Landlord may adjust parking rates to market during lease term or any extension thereof. If Tenant elects to lease parking spaces on the fourth (4th) floor of the parking garage, Tenant will be issued a parking card for each space leased which will permit the user to enter and exit the fourth (4th) floor in addition to the ground floor entrance and exit of the parking garage. If, after electing to lease parking spaces on the fourth (4th) floor of the parking garage, Tenant or its employees park on any floor other than the fourth (4th) floor, Tenant's parking card will be automatically cancelled and Tenant will be required to contact the Building Manager to reactivate the cancelled parking card. Tenant will be charged an additional \$30.00 per month for each card that must be reactivated due to improper use.

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Tenant shall not at any time use or permit its employees or invitees to use more parking spaces than the number so allocated to Tenant. Except as may be herein provided, Tenant shall not have the exclusive right to use any specific parking space. In the event Landlord elects or is required by any Law to limit or control parking in the Property, whether by validation of parking tickets or any other method, Tenant, subject to its right to the non-exclusive use of the number of parking spaces above specified, agrees to participate in such validation or other program under such reasonable rules and regulations as are from time to time established by Landlord.

18. Any breach or default under any provisions of this First Amendment shall be a breach or default under the Lease, and any breach or default under the Lease shall be a breach or default under this First Amendment. To the extent there may be any inconsistencies between the terms of this Amendment and any terms of the Lease, the terms of this Amendment shall prevail. In all other respects, the Lease shall remain in full force and effect. All capitalized terms not defined herein shall have the meaning set forth in the Lease.
19. The Lease Guarantee signed on behalf of Bay Area Multimedia (now BAM! Entertainment, Inc.) by Guarantor, Ray Musci (Individual) on

May 3, 2002, in favor of Macanan Investments, is hereby deleted and has no further force or effect.

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IN WITNESS WHEREOF, the parties hereto have executed this First Amendment to Lease on the respective dates set forth below to be effective as of May 1, 2002.

LANDLORD:
MACANAN INVESTMENTS,
A California limited partnership

By: MACANAN FINANCIAL CORPORATION,
A California corporation,
Its general partner

Dated: 3/29/02 By: /s/ DONALD MACMILLAN

Donald MacMillan
President

Dated: 3/29/02 By: /s/ W. JOHN BUCHANAN

W. John Buchanan
Secretary

TENANT:
BAM! Entertainment, Inc.
A Delaware corporation

Dated: 29 March 2002 By: /s/ S M Ambler

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Exhibit B-1

[DIAGRAM]

A-1

[DIAGRAM]

A-2

Exhibit B-2

[DIAGRAM]

A-3

[CONFIDENTIAL PORTIONS OMITTED]

DATED 14 JANUARY 2002

AARDMAN ANIMATIONS LIMITED (1)

- AND -

BAM ENTERTAINMENT LIMITED (2)

- AND -

BAM ENTERTAINMENT, INC. (3)

LICENCE AND OPTION
AGREEMENT

WEDLAKE BELL

16 BEDFORD STREET
COVENT GARDEN
LONDON WC2E 9HF

DIRECT TEL: 020 7395 3122
DIRECT FAX: 020 7240 7316

DIRECT E-MAIL: JCORNTHTHWAITE@WEDLAKEBELL.COM
REF: JXC/62787/WB1-58187-1

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THIS AGREEMENT is made this 14th day of January 2002

BETWEEN:

1. AARDMAN ANIMATIONS LIMITED a limited company incorporated under the laws of England and Wales under company number 2050843 the address of whose registered office is Gas Ferry Road, Bristol BS1 6UN, United Kingdom ("Licensor") of the first part; and
2. BAM ENTERTAINMENT LIMITED a limited company incorporated under the laws of England and Wales under company number 04112030 the address of whose registered office is 17 Burlington Street, Bath, Avon & Somerset BA1 2SB United Kingdom ("Licensee") of the second part; and
3. BAM ENTERTAINMENT, INC., a corporation incorporated under the laws of the State of Delaware whose principal office is located at 333 West Santa Clara Street, Suite 930, San Jose, California CA 95113, United States of America ("Grantor") of the third part.

WHEREAS

- (A) Licensor owns intellectual property rights in creative properties, characters and story boards.

- (B) Licensee and Grantor publish entertainment software products.
- (C) Licensee is a wholly-owned subsidiary of Grantor.
- (D) On or about 9 November 2001 Licensor and Licensee signed a written agreement whereby Licensor granted to Licensee a licence in some, and an option over other, Interactive Entertainment Rights ("the Initial Agreement").
- (E) The Initial Agreement recited that Licensor and Licensee intended that it be superseded by a more detailed agreement between Licensor, Licensee and Grantor.
- (F) The parties have agreed that the Initial Agreement be superseded by this Agreement.

OPERATIVE PROVISIONS:-

1. DEFINITIONS AND INTERPRETATION

1.1 The following terms shall have the following respective meanings when used in the Agreement unless the context otherwise requires:-

"AGREEMENT": this Agreement including its recitals and schedules;

"ADVANCE": as defined in Clause 5.1;.

"AFFILIATE": any entity which (i) a party Controls or (ii) Controls a party or (iii) is under common Control with a party;

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"BETA": a version of a Program which is "99% final" in the sole opinion of Licensee, with: all base languages implemented; all game elements implemented; all Intellectual Property and legal messages in place; and no material Errors;

"CLAIM": as defined in Clause 13;

"CLEARANCE SALE": the sale of any Product by Licensee or any of its Affiliates at a wholesale price less than its Cost of Manufacture in any part of the Territory with the intention of discontinuing its Exploitation in that part;

"COMMENCEMENT DATE": 9 November 2001;

"COMMERCIAL CHARACTERS": as defined in Clause 3.2;

"COMMERCIAL RELEASE": the time when a Product is first made available by a retailer or otherwise for purchase by end-users in any country or jurisdiction within the Territory;

"CONTRIBUTOR": a programmer, director, producer, actor, performer, musician, singer, designer, technician or any other person employed or contracted on whatever basis to provide materials, services or performances in connection with the creation or development of any Licensed Property;

"CONTROL": as defined in section 840 of the Income and Corporation Taxes Act 1988;

"COST OF MANUFACTURE": all reasonable costs paid by Licensee and/or any of its Affiliates to any third party (which shall exclude payment from one of its Affiliates to another) for designing, manufacturing and/or delivering any Product to its point of Exploitation, including the cost of duplication, printing, raw materials, manufacture, handling, packing, shipping, transportation, insurance, import duties, labour costs, and any applicable taxes, duties, levies and assessments whether local, national, supranational or otherwise howsoever;

"CURRENCY": United States dollars;

"DREAMWORKS": DreamWorks LLC a limited liability corporation incorporated under the laws of the State of Delaware whose principal place of business is situated at 1000 Flower Street, Glendale, California, CA 91201, United States of America and/or any of its Affiliates;

"EXPLOITATION": production, reproduction, performance, promotion, publicity, development, publication, manufacture, marketing, advertisement, distribution, licensing, sub-licensing, importation, exportation, translation, Merchandising, localisation, display, rental, lease, lending, sale and any other form of commercial exploitation, and the authorisation of any third party to do any of the foregoing;

"EXPLOIT" shall be interpreted accordingly; and "Merchandising" shall be interpreted to the effect that Licensee shall be entitled to merchandise Products save that nothing herein shall grant or be deemed to grant to Licensee any other merchandising rights in relation to any Property;

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"FEATURE FILM": a Property which is a single film (as defined in Part I of the Copyright Designs and Patents Act 1988) whose duration is no less than 70 (seventy) minutes;

"FORCE MAJEURE": as defined in Clause 20.1;

"FORMAT": any of the following, whether operating in stand-alone or networked configuration, regardless of storage media, whether hand-held or otherwise, and whether now in existence or hereafter invented: personal computers; domestic electronic games consoles; personal mobile gaming platforms (including mobile telephones); personal digital assistants; set-top boxes; and the internet;

"FRONTIER": Frontier Developments Limited a limited company incorporated under the laws of England and Wales under company number 2892559 the address of whose registered office is Saxon Farm, Long Meadow, Lode, Cambridge, CB5 9HA, United Kingdom;

"INFORMATION": as defined in Clause 15.1.1;

"INITIAL AGREEMENT": as defined in Recital (D);

"INITIAL TERM": the period from the Commencement Date to the 5th (fifth) anniversary of the Signature Date;

"INSOLVENCY": any of the following in relation to any party: the appointment of or the application to a court for the appointment of a liquidator, administrator, manager, administrative receiver or receiver; any proposal by the party for or the entering into of a scheme of arrangement or composition with or for the benefit of creditors; any reorganisation, moratorium or other administration involving its creditors; a resolution or proposed resolution to wind it up; where the value of its assets is less than the amounts of its liabilities including any contingent or prospective liabilities; becoming unable to pay its debts as and when they fall due; where execution or other process issued on a judgment, decree or order of any court in favour of any creditor of the party in respect of a liability of the same is returned unsatisfied in whole or in part; ceasing to carry on business; or undergoing any procedure comparable or analogous to any of the foregoing under the laws of any competent jurisdiction; and "Insolvent" shall be construed accordingly;

"INTELLECTUAL PROPERTY": all intellectual property rights throughout the Territory whether currently in existence or otherwise and whether vested or contingent, including copyright, rights in the nature of copyright, moral rights, database right, trade marks, designs, design rights, patents, utility models, logos, trade secrets, know-how, confidential processes and information, inventions, discoveries and improvements, trading and business names, moral rights, get-up, rights in internet domain names and any rights in the nature of intellectual property rights (in each case whether registered or not and including applications for registration thereof) and all rights or forms of protection of a similar or analogous nature or having equivalent or similar effect or any other matters which may subsist in any part of the Territory;

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"INTERACTIVE ENTERTAINMENT RIGHTS": the rights to Exploit Products in any Format, including the rights to use on or in connection with such Products (a) any Licensor Trade Marks and other Intellectual Property owned or controlled by Licensor properly associated with the respective Properties from which any Product derives and (b) (subject only to Licensee's obligations under Clause 9.6) the names, likenesses, biographies, photographs and recorded voices of all persons or characters appearing in or properly associated with the respective Properties from which any product derives;

"IP ACTION": as defined in Clause 14.2.2;

"IP CLAIM": as defined in Clause 14.1;

"KEY EXECUTIVES": Peter Lord of 9 St Helena Road, Westbury Park, Bristol BS6 7NR and Nick Park of Sundon Cottage, Percival Road, Clifton, Bristol BS8 3LN;

"LICENCE": as defined in Clause 2.1;

"LICENSED PROPERTY": any Property that is the subject of the Licence and/or any Option Licence. The Wallace and Gromit Properties and any derivatives from, and sequels to, them shall together be deemed to be a single Licensed Property for the purposes of this Agreement. Further, any derivatives from, and sequels to, a Property shall together with the

original Property be deemed to be a single Licensed Property;

"LICENSED RIGHT": any Interactive Entertainment Right or other right licensed by Licensor to Licensee hereunder;

"LICENSEE": as defined above;

"LICENSOR": as defined above;

"LICENSOR'S AGENT": Marjacq Micro Limited, a limited company incorporated under the laws of England and Wales under company number 34508500 the address of whose registered office is 25 Montpelier Rise, Wembley, Middlesex HA9 8RG;

"LICENSOR TRADE MARKS": those trade marks, logos, names and other signs (registered or unregistered) belonging to Licensor, of which those in existence as at the Commencement Date are specified in Schedule VII;

"MANUFACTURER": (in respect of the video game platform on which any Product is to be playable) the manufacturer of the hardware for that platform;

"NET RECEIPTS": 100% of the actual monies credited to or received in the Territory by Licensee or any of its Affiliates directly and identifiably from any Exploitation of any Interactive Entertainment Right less (a) any credits, returns, mark-downs, rebates and trade and other discounts actually given or allowed to any re-seller or distributor and (b) any royalties paid or payable to any Manufacturer in relation to the Exploitation of any Product;

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"NON-WALLACE AND GROMIT PRIOR LICENCES": those licences of Properties other than Wallace and Gromit Properties granted by Licensor to third parties prior to the Commencement Date as further particularised in Part B of Schedule IV.

"NOTICE OF AVAILABILITY": as defined in Clause 4.2;

"OPTION": as defined in Clause 3.1;

"OPTION LICENCE": as defined in Clause 4.4;

"OPTION LICENCE TERM": as defined in Clause 4.4;

"OPTION NOTICE": as defined in Clause 4.3;

"PRIOR LICENCES ": Wallace and Gromit Prior Licences and Non-Wallace and Gromit Prior Licences;

"PRODUCT": an interactive computer software game for consumer use based on any Property and/or featuring any of a Property's characters or situations;

"PROGRAM": (in respect of any Product) the computer program upon which the Product is based, including all object codes, security devices, listings and graphics;

"PROMPTLY": as soon as practicable and in any event within 5 (five) Working Days after the relevant event provided that where the approval of Licensor is required and has been requested, such period shall be extended by such period of time as Licensor takes in order to approve or reject the matter in respect of which its approval has been sought;

"PROPERTY": any creative work material invention character or storyboard created, designed or developed by or on behalf of Licensor prior to or during the Term, including literary works, dramatic works, musical works, artistic works, sound recordings, films, broadcasts, cable programmes (as the foregoing are defined in Chapter I of the Copyright, Designs and Patents Act 1988), audiovisual works, televisual works and internet works;

"QUARTER": (a) each 3 (three)-month period in the Term ending on a Quarter Day, and (b) the period from the Operative Date to the next Quarter Day, and (c) the period from the last Quarter Day of the Term to the Termination Date;

"QUARTER DAYS": 31 March, 30 June, 30 September and 31 December;

"ROYALTY STATEMENT": as defined in Clause 7.1;

"ROYALTIES": as defined in Clause 6.1;

"SHORT FILM": a Property which constitutes (a) a film (as defined in Chapter I of the Copyright Designs and Patents Act 1988) of less than 70 (seventy) minutes duration or (b) a series of films (as defined as aforesaid) whose individual episodes are less than 70 (seventy) minutes in duration in aggregate;

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"SIGNATURE DATE": the date when the Agreement is signed by the parties or (if they sign it on different dates) the latest of such dates;

"TERM": the period from the Commencement Date to the Termination Date inclusive;

"TERRITORY": the world;

"TERMINATION DATE": the date of expiry or termination (howsoever caused) of the Agreement;

"WALLACE AND GROMIT PRIOR LICENCES": those licences of Wallace and Gromit Properties granted by Licensor to third parties prior to the Commencement Date as further particularised in Part A of Schedule IV;

"WALLACE AND GROMIT PROPERTIES": all Properties featuring or incorporating the characters "Wallace" and/or "Gromit", of which those originated by or on behalf of Licensor in existence as at the Commencement Date are specified in Schedule I;

"WARRANT": warrant granting the right to purchase 1 (one) share of the common stock of Grantor at the valuation specified in Schedule V;

"WORKING DAY": any day other than: a Saturday or a Sunday or any public holiday in England and Wales.

- 1.2 In this Agreement (except where the context otherwise requires):-
- 1.2.1 any reference to a Recital, Clause or Schedule is to the relevant recital, clause or schedule of or to the Agreement, and any reference to a sub-clause or paragraph is to the relevant sub-clause or paragraph of the Clause or Schedule in which it appears;
- 1.2.2 the Schedules are integral parts of the Agreement. In the event of any conflict between a term of a Schedule and a term elsewhere in the Agreement the latter shall prevail;
- 1.2.3 the headings of indices clauses and Schedules are included for convenience only and shall not affect the interpretation of the Agreement;
- 1.2.4 references to the "parties" or a "party" are references respectively to (a) Licensor of the one part and (b) Licensee and Grantor of the other part, and any obligation hereunder of the party of the second part shall be deemed to have been performed if performed by Licensee and/or Grantor;
- 1.2.5 the expressions "Licensor", "Licensee" and "Grantor" shall include (where appropriate) their respective successors in title and permitted assigns;
- 1.2.6 Licensor shall not unreasonably withhold or delay the giving of any consent or approval which Licensee and/or Grantor is required hereunder to seek from it;

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- 1.2.7 unless the context otherwise requires: words denoting the singular shall include the plural and vice versa; references to a gender shall include all other gender; references to persons shall include bodies corporate, unincorporated associations, firms and partnerships in each case whether or not having a separate legal personality; and references to the word "include" or "including" are to be construed without limitation; and
- 1.2.8 any reference to a statute, statutory provision or subordinate legislation ("legislation") shall (except where the context otherwise requires) be construed as referring to such legislation as amended and in force from time to time and to any legislation which enacts or consolidates (with or without modification) any such legislation.

2. LICENCE

- 2.1 Subject only to Clause 2.2 Licensor hereby grants to Licensee a sole and exclusive licence throughout the Territory during the Initial Term of the Interactive Entertainment Rights in the Wallace and Gromit Properties on the terms hereof ("the Licence").
- 2.2 The Licence shall exclude any Interactive Entertainment Right that is the subject of any Wallace and Gromit Prior Licence, but only for the duration of the latter.

3. OPTION: SCOPE

- 3.1 Licensor hereby grants to Licensee a sole and exclusive option ("the Option") (the procedure for whose operation is specified in Clause 4)

during the Initial Term throughout the Territory in respect of the following Interactive Entertainment Rights:

- 3.1.1 Interactive Entertainment Rights in any Property constituting a Feature Film except (a) those Properties subject to Licensor's written agreements dated 24 May 1999 and 30 May 1999 with DreamWorks as further particularized in Schedule II as at the Commencement Date (save that for the avoidance of doubt any such Properties constituting Wallace and Gromit Properties shall, notwithstanding the foregoing, be included in the Licence), and (b) those Properties featuring substantially the same characters as any Short Film included in the Option during the Initial Term that Licensee has declined to option;
- 3.1.2 (subject to Clause 3.2) Interactive Entertainment Rights (a) in any Property in which Licensor retains any such Rights (and to the extent that Licensor retains them) at the Commencement Date (as further particularized in Schedule III as at the Commencement Date), or (b) in any Short Film made by or on behalf of Licensor during the Initial Term; and
- 3.1.3 (save only to the extent (if at all) expressly excluded therefrom by the Agreement) the Interactive Entertainment Rights in all other Properties in existence as at the Commencement Date or coming into existence during the Initial Term.

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- 3.2 The Option shall not extend to work commissioned from and/or created by Licensor specifically for any advertising campaign on behalf of any of its commercial clients ("Commercial Characters"). However to the extent that Licensor owns or controls any Interactive Entertainment Right in any Commercial Character and Licensee wishes to Exploit any such Interactive Entertainment Right with the agreement of Licensor's commercial clients or otherwise, Licensor shall Promptly introduce Licensee to the relevant commercial client and make reasonable endeavours to procure that such Right is licensed to Licensee before offering any such Right to another interactive game publisher (in connection with which Licensor shall follow the procedure, mutatis mutandis, stipulated in sub-clauses (a), (b) and (c) of Clause 5.4).
- 3.3 The Option shall not extend to any Interactive Entertainment Right which is the subject of any non-Wallace and Gromit Prior Licence, but only for the duration of the latter. Notwithstanding the foregoing the existence of a Non-Wallace and Gromit Prior Licence shall not prevent Licensee from exercising the Option in respect of other Interactive Entertainment Rights in the Property that is the subject of the said Prior Licence.
4. OPTION: PROCEDURE
 - 4.1 During the Initial Term Licensor shall not offer any Interactive Entertainment Rights that are included within the scope of the Option to any third party unless Licensee has declined to exercise the Option over them in accordance with this Clause 4.
 - 4.2 During the Initial Term Licensor shall Promptly notify to Licensee details of all its TV, film and internet projects and of all other Properties to which the Option applies, and serve on Licensee prior to the commencement of principal photography thereof a copy of the script or storyboard or character designs, film or other creative material for

any said Property, and copies of all other relevant material in Licensor's possession (including chain-of-title documentation and proposed schedule for release) together with a notice stating that the Property is available for the exercise of the Option ("Notice of Availability"). Notices of Availability for Properties existing or in production at the Commencement Date shall be served on Licensee on or before the Signature Date and Licensor shall use best endeavours to Promptly serve on Licensee further details of such Properties upon request. For the avoidance of doubt this Clause 4.2 shall not apply in respect of any Property developed by or on behalf of Licensor as referred to in Clause 3.1.1(a) with a view to offering it to DreamWorks as a Feature Film until either a) DreamWorks has rejected such a Property or b) Licensor has decided not to offer the Property to DreamWorks.

- 4.3 Licensee may exercise its Option on each Property at any time up to 90 (ninety) days after the date of service on it of the applicable Notice of Availability by serving notice on Licensor ("Option Notice"). Licensee may expressly decline the Option on any Property by serving notice on Licensor. In the event that Licensee does not serve an Option Notice on Licensor within the said 90 (ninety)-day period the Option on that Property shall be deemed declined.

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- 4.4 If Licensee exercises the Option on any Property pursuant to Clause 4.3, it shall automatically be granted by Licensor with effect from the date of the applicable Option Notice until the 5th (fifth) anniversary thereof ("Option Licence Term") a sole and exclusive licence throughout the Territory of the Interactive Entertainment Rights therein (subject only to such derogations, if any, as are applicable by virtue of Clause 3 provided that such derogations were specified in the Notice of Availability) upon the terms hereof ("Option Licence").
- 4.5 Licensor covenants that at the request of Licensee it shall Promptly and unconditionally do or procure that there shall be done or such acts and execute or procure that there shall be executed all such documents as may be reasonably necessary or desirable in Licensee's opinion to secure the confirmation or perfection of the grant to Licensee of any Option Licence.
- 4.6 If the Option has been declined (or deemed declined pursuant to Clause 4.3 by Licensee in respect of any Property Licensor shall be entitled to offer the Interactive Entertainment Rights in that Property to any third party.

5. CONSIDERATION

- 5.1 In consideration of the grant of the Licence Licensee shall (subject always to Licensor's material compliance with its obligations and warranties hereunder) pay to Licensor in the following instalments the sum of US\$ [*] ("the Advance") in advance of and recoupable from Royalties, which shall be payable as follows and which shall (without prejudice to any claim by Licensee against Licensor for damages in the event of breach of the Agreement by Licensor) be non-returnable:
- 5.1.1 US\$ [*] on the Commencement Date (receipt of which the Licensor acknowledges);

- 5.1.2 US\$ [*] on the Signature Date;
- 5.1.3 US\$ [*] within 60 (sixty) days after the Signature Date;
- 5.1.4 US\$ [*] on the date of notification to Licensee of Licensor's concept approval (as such term is understood in the interactive entertainment industry) of the Product based on any Wallace and Gromit Property produced by or on behalf of Licensee for the Nintendo GameBoy Advance format;
- 5.1.5 US\$ [*] on the date of notification to Licensee of Manufacturer's or Licensor's approval of the first Product based on any Wallace and Gromit Property produced by or on behalf of Licensee for any platform other than Nintendo GameBoy Advance;
- 5.1.6 US\$ [*] on the shipment by Licensee or any of its Affiliates or any sub-licensee of Licensee of the first 128-bit Product (or more advanced console Product, if earlier) produced by or on behalf of Licensee based upon any Wallace and Gromit Property.

[*] Confidential portion omitted and filed separately with the Commission.

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- 5.2 In consideration of the grant of the Licence and of any Option Licence Grantor shall grant to Licensor up to [*] Warrants as set out below:
 - 5.2.1 [*] Warrants on the Signature Date;
 - 5.2.2 [*] Warrants within 60 (sixty) days after the Signature Date;
 - 5.2.3 [*] Warrants within 7 (seven) Working Days after the earlier of the following dates: (a) the date of service on Grantor by Licensor of a copy of the greenlight notice (as such term is understood in the film industry) by DreamWorks for any Feature Film based on or featuring the characters of Wallace and Gromit or (b) the date of service on Grantor of notification that principal photography of the said Feature Film has commenced;
 - 5.2.4 [*] Warrants on the service by Licensee of an Option Notice for any Short Film or other Property not being a Wallace and Gromit Property; and
 - 5.2.5 [*] Warrants (or the balance of [*], if fewer) on the service on Licensor by Licensee of an Option Notice for a Feature Film.
- 5.3 The valuation of each Warrant shall be calculated pursuant to Schedule V.
- 5.4 In the event that Licensee wishes to exercise the Option in respect of one, two, three or four Properties during the Term no advance or option fee or other consideration shall be payable by Licensee to Licensor in respect thereof over and above what is specified in Clause 5.2. In the event that Licensee wishes to exercise the Option in respect of any Property in excess of four Properties during the Term, the parties shall attempt in good faith to agree an option fee or advance for such Property, failing which Licensor may offer to license the Interactive

Entertainment Rights in such Property to any third party save that Licensor undertakes (a) Promptly to notify to Licensee full details of any bid for any such licence received by Licensor from any third party and (b) to provide to Licensee no less than 15 (fifteen) days in which to match any such bid and (c) (if Licensee matches the said bid within the said period) forthwith to grant to it an Option Licence in respect of the said Property.

- 5.5 Except as may be agreed between the parties in writing as provided in Clause 5.4 or otherwise no advances shall be payable or recoupable in respect of Properties optioned by Licensee pursuant to Clauses 5.2.4 or 5.2.5 other than the grant of Warrants as specified therein. The value of Warrants shall not be recoupable from Royalties.
- 5.6 Licensor acknowledges and agrees that the consideration payable to it hereunder takes into account and includes a payment in respect of rental and lending rights and that such payment constitutes equitable and adequate consideration therefor and constitutes and satisfies in full any and all rights which Licensor has, or may at any time during the Term have, to receive equitable, adequate or other remuneration for the exercise by or behalf of Licensee of the said rights in respect of any Licensed Property.

[*] Confidential portion omitted and filed separately with the Commission.

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6. ROYALTIES

- 6.1 Subject always to Licensor's material compliance with its obligations and warranties hereunder Licensee shall pay to Licensor in the Currency royalties based on Net Receipts less Cost of Manufacture in respect of all Products Exploited by Licensee or any of its Affiliates in the Territory during the Term at the rates specified in Schedule VI ("Royalties").
- 6.2 Notwithstanding anything herein to the contrary Licensee shall be unconditionally entitled to recoup all instalments of the Advance paid by it to Licensor pursuant to Clause 5.1 against the Royalties (if any) payable by Licensee to Licensor pursuant to Clause 6.1 in respect of Exploitation of Wallace and Gromit Properties. For the avoidance of doubt, advances paid in respect of a specific Property shall not be recoupable from Royalties due in relation to a different Property.
- 6.3 Licensee shall be entitled to recoup all Advances paid to Licensor hereunder against the Royalties (if any) payable to Licensor hereunder as specified in Clause 6.1. For the avoidance of doubt Licensee shall not be entitled to recoup any Advance more than once.
- 6.4 Notwithstanding anything herein to the contrary, Licensee shall not be obliged to pay any Royalties to Licensor in respect of Products (a) used free of charge for bona fide promotional purposes, or (b) furnished free to the trade, press or for public relations use, or (c) sold as a Clearance Sale Devices, or (d) lost, stolen, damaged or destroyed.
- 6.5 Licensee shall pay to Licensor in accordance with Clause 7(a) [*] of any advance of or on account of royalties or any good or valuable

consideration credited to or received by Licensee or any of its Affiliates for the grant of a sublicense in whole or in part of any Interactive Entertainment Right, and (b) sublicense royalties calculated in accordance with Clause 6.6.

6.6 Sublicense royalties shall be calculated on the basis of sublicensees' reports to or receipts by Licensee or its Affiliates, Exploitation reported by sublicensees being treated as Net Receipts for this purpose (whether or not actually received by Licensee). In the event that the value or quantity of units Exploited cannot be determined from such sublicensees' reports, it shall be assumed for the purpose of royalty calculations that the Net Receipts attributable to the Exploitation of a Product are equal to the mean of that (excluding returns) reported by Licensee for sales of Product of that format by Licensee or any of its Affiliates in the most recent prior period in which such Exploitation has taken place and Licensee's royalty statement shall (where applicable) state what assumption has been made.

6.7 Licensee may recoup the amount of any portion of a sublicense advance paid to Licensor pursuant to Clause 6.5 from sublicense royalties due to Licensor under Clause 6.5 pursuant to that sublicense and/or in respect of the Property or Product to which the sub-licence relates but not otherwise.

6.8 Notwithstanding anything herein to the contrary:-

[*] Confidential portion omitted and filed separately with the Commission.

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6.8.1 no consideration for its grant of the rights granted hereunder to Licensee and Grantor shall be payable to Licensor hereunder other than the Advances and (to the extent applicable) the Warrants and the Royalties , which Licensor acknowledges shall constitute a full and final discharge of Licensee's obligations to it hereunder;

6.8.2 Except by way of cross-collateralisation of Royalties and Advances between different Licensed Properties Licensee shall be entitled to pay any Advance, Royalty or other sum payable to Licensor hereunder subject to any set-off, deduction or counter-claim by Licensee and/or Grantor against Licensor under the Agreement; and

6.8.3 in the event of any material breach of the Agreement or Insolvency by Licensor Licensee and Grantor shall be entitled without liability and without prejudice to their other remedies hereunder to suspend the payment to Licensor of any Advance and/or Royalty and the grant to Licensor of any Warrant that would otherwise have been payable or grantable (as the case may be) to Licensor provided that any such suspension shall be effective only for so long as Licensor's breach has not been remedied.

6.9 Licensee shall have the right to establish reserves (not to exceed [*] of Net Receipts) for returns and defective Products. Unused reserves shall be liquidated within 12 (twelve) months of being established if not applied to returns and defective Products.

6.10 To the extent that Licensee receives Net Receipts in a currency other

than the Currency, such Receipts shall for the purpose of calculating Royalties be converted to the Currency at the rate prevailing for the purchase of the Currency with such other currency as designated by Licensee's bankers on the date when the Receipt is first received by the Licensee.

7. ROYALTY ACCOUNTING

7.1 Licensee shall within 30 (thirty) days after each Quarter Day during the Term serve on Licensor and Licensor's Agent a full and complete statement containing the following information in respect of the Exploitation of the Properties and the Products by Licensee and its Affiliates during the preceding Quarter ("Royalty Statement"): all (if any) moneys owing to Licensor, the numbers of Products manufactured and sold, details of all deductions including reserves, returns and damaged copies and Costs of Manufacture, and details of sublicenses (including copies of sublicensees statements to Licensee in the period) under the Agreement.

7.2 Royalties shall (subject to the terms and conditions hereof) be paid by Licensee to Licensor simultaneously with the service of the relevant Royalty Statement, provided that for each Licensed Property the advance (if any) and sub-licence advances (if any) shall be set-off against and deducted from Royalties accruing in relation to that Licensed Property.

7.3 Licensee shall during the Term keep full and proper books of account relating to the Exploitation of its rights under the Agreement and Licensor or its

[*] Confidential portion omitted and filed separately with the Commission.

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representative shall during the Term and for a period of 3 (three) years afterwards have the right during normal business hours and on not less than 15 (fifteen) days' notice to examine and take copies of such books of account no more frequently than once per calendar year at the premises where Licensee normally keeps them and subject always to Licensor's confidentiality obligations under Clause 15. In the event that such audit or inspection reveals any deficiency in moneys paid to Licensor under this Agreement then Licensee shall pay the same to Licensor together with interest from the date first due calculated with monthly rests at a rate of 2% (two per centum) above the prime or base rate from time to time charged to Licensor by its bankers and if such underpayment is in excess of [*] of sums due to Licensor Licensee shall pay all reasonable costs incurred by Licensor directly as a result of such inspection. Licensee shall reimburse to Licensor any such deficiency and pay to Licensor any such costs within 30 (thirty) days after the date of service on it by Licensor of documentary evidence thereof. Save as aforesaid any exercise by Licensor of its rights under this Clause 7.3 shall be at its own cost and expense.

7.4 If Licensor has any objection to a Royalty Statement, it shall notify full details thereof to Licensee within 3 (three) years after the date of service on Licensor of the said Statement. Each Royalty Statement will become conclusively and irrevocably binding on Licensor (save where

facts are subsequently discovered by audit or otherwise that are inconsistent with it) at the end of the said period and (save as aforesaid) Licensor will have no right to institute any action against Licensee in connection with any Royalty accounting relating to such Statement, or to institute an action against Licensee for Royalties relating to such Statement in connection with any Exploitation of Products, unless the action is commenced within the said time period.

7.5 All Advances, Royalties and other sums payable to Licensor hereunder are exclusive of any value added, sales or other tax which may be applicable in any part of the Territory.

7.6 If Licensee is required by law to withhold any tax or any other sum from any Advances, Royalties or any other sums payable to Licensor hereunder the Licensee shall use its reasonable endeavours to serve on Licensor (a) evidence as to Licensee's obligations to make such withholding, and (if it is the case) that the said withholding has been made, and (b) such documentation and information as Licensor may reasonably require for the purpose of the Licensor obtaining any available tax credit in the United Kingdom.

7.7 Payments due to Licensor hereunder shall be paid via

7.7.1 US dollar cheque drawn on a United States bank made out to 'Aardman Animations Limited' and sent to the following address:

Aardman Animations Ltd
PO Box 8500-50415
Philadelphia
PA 19178-50415
USA

[*] Confidential portion omitted and filed separately with the Commission.

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7.8 If exchange control or other restrictions prevent or threaten to prevent the remittance to Licensor of any money payable under the Agreement, Licensee shall (save to the extent that it is prohibited from so doing by any applicable law, regulation or standard) Promptly advise the Licensor in writing and follow Licensor's instructions in respect of the money to be remitted including if required depositing the same with any bank or other person designated by the Licensor at such location as may be designated by Licensor.

8. ATTRIBUTION

8.1 All Products shall be marketed under (inter alia) such of the Licensor Trade Marks as (a) Licensor shall have notified to Licensee with sufficient advance notice and (b) are practicable to be included in connection with the said marketing. The packaging of the Products shall show that they are published by Licensee under licence.

8.2 The covers, sleeves and/or jackets of all Products, and all publicity, promotional and advertising material relating thereto, shall bear such credits, copyright and trade mark notices as (a) Licensor shall have

notified to Licensee with sufficient advance notice and (b) are practicable to be included thereon.

9. EXPLOITATION

- 9.1 Licensee shall have no obligation hereunder to Exploit any Interactive Entertainment Right licensed to it hereunder and, without prejudice to the generality of the foregoing, disclaims any warranty to Licensor that any level of sales of the Products will be achieved by it.
- 9.2 Notwithstanding anything to the contrary herein and save for the Prior Licences and Properties excluded under Clause 3.1.1 and Clause 3.2 Licensor shall not in the Territory Exploit any Product or exercise any rights granted to Licensee and/or Grantor hereunder or authorise any third party to do any of the foregoing.
- 9.3 Except as otherwise expressly provided herein Licensee shall be solely and exclusively entitled at its sole discretion to determine the manner and method in which the Products are Exploited.
- 9.4 Licensor shall comply with any reasonable request from Licensee to support the promotion, publicity, marketing and advertising of the Products by or on behalf of Licensee. Licensee shall reimburse Licensor's reasonable and documented costs and expenses of so doing within 30 (thirty) days of having been notified of them.
- 9.5 The parties acknowledge that publishing is a speculative venture, and Licensee makes no warranty to Licensor that any, or any particular, level of sales of the Products shall be achieved.
- 9.6 Licensee shall be responsible for the cost of obtaining clearances of any relevant rights in respect of the names, likenesses, biographies, photographs and recorded voices of performers and other real persons appearing in any of the Properties for

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use in the Products. Licensor shall give all reasonable assistance to Licensee in obtaining such clearances.

10. LICENSOR'S APPROVAL RIGHTS

- 10.1 Licensor shall have prior approval at its sole discretion of character models, packaging and sleeves, themes, and gameplay and final approval of Beta. Licensor shall have approval (not to be unreasonably withheld or delayed) of any developer including the Licensee or any of its Affiliates used by Licensee for a Property (in connection with which Licensor irrevocably and unconditionally approves Frontier as the Developer of the Programme entitled Wallace & Gromit 1: Zoo Game). Licensor shall have approval of sub-licences (not to be unreasonably withheld or delayed), and shall have approval (not to be unreasonably withheld or delayed) of marketing plans and concepts and of all marketing and of all marketing methods and channels in which Licensee wishes to make use of any Licensor Trade Marks and approval of all marketing, publicity and advertising materials. Except where Licensor's approval is requested for fundamental changes in either game or marketing concepts, approval for the inclusion of any element within a particular game or marketing plan shall not be withdrawn or varied by

Licensor once granted.

10.2 Subject to events of Force Majeure and to compliance by Licensor with its material obligations hereunder Licensee undertakes that it shall prior to 31 March 2002 serve on Licensor approval scripts and a demo for a Game Boy Advance game, and shall use its best endeavours to do so on or before the Signature Date. For the avoidance of doubt the payment by BAM to Aardman of the instalment of the Advance specified in Clause 5.1.4 shall fall due on 31 March 2002 or the date of the approval of said presentation by Aardman (whichever earlier).

11. LICENSOR'S WARRANTIES

Licensor warrants represents and undertakes to Licensee that:-

11.1 it has the full, unconditional and irrevocable right and authority to enter into the Agreement and to fully perform all of its obligations hereunder and (without prejudice to the generality of the foregoing) has (subject only to Clause 9.6) obtained all consents relating to the content of all Licensed Properties required under the Copyright, Designs and Patents Act 1988 and all other legislation which may be required for the Exploitation of the Products by or on behalf of Licensee;

11.2 it is and will be during the Term the sole and exclusive owner throughout the Territory of all rights (including Intellectual Property rights) in and to all Licensed Properties and Licensed Rights and Licensor Trade Marks, and has not done or permitted and will not do or permit any act or omission which would impair or diminish the validity or duration of any such right;

11.3 it is solvent and not subject to or threatened by any Insolvency;

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11.4 the Key Executives and all other Contributors employed or engaged by or on behalf of Licensor or any of its Affiliates are qualifying persons within the meaning of the Copyright, Designs and Patents Act 1988;

11.5 neither the performance of its obligations hereunder nor its agreement so to do is or shall be in breach of or prevented or restricted by or conditional on any express or implied obligation binding upon it or a breach, violation or infringement of any laws, rights or regulations, civil or criminal or otherwise, in any part of the world or give rise to any third party claim for compensation pursuant to any legal entitlement anywhere in the Territory (whether in force as at the Signature Date or at any time thereafter);

11.6 all Licensed Properties will during the Term:-

11.6.1 be (a) wholly-owned original works of authorship developed by it or its employees or (b) works in respect of which Licensor enjoys all such licences and authorisations necessary to enable Licensee to Exploit them as if they were works falling within Clause 11.6.1 (a) without any further cost or expense and

11.6.2 be free and clear of any and all claims, liens, charges or encumbrances which may adversely affect any Licensed Right and

11.6.3 contain nothing which infringes any right of publicity, privacy or

personality or which is obscene and/or libellous or which breaches any duty of confidence or constitutes any contempt of court anywhere in the Territory;

- 11.7 the exercise of the Licensed Rights by or on behalf of Licensee in accordance with the terms hereof will not (a) infringe any Intellectual Property or other proprietary right of any person anywhere in the Territory or (b) breach, violate or infringe any laws or regulations, civil or criminal or otherwise, in any part of the Territory or give rise to any third party claim for compensation pursuant to any legal entitlement anywhere in the Territory (whether in force at the Signature Date or at any time thereafter) or (c) oblige Licensee or any of its Affiliates or any licensee of the foregoing to make any payment to any person other than as specified herein and as referred to in the definition of "Cost of Manufacture";
- 11.8 save as disclosed hereunder it has not entered into and will not during the Term enter into any agreement, arrangement or understanding (whether legally enforceable or not) (a) for the assignment, transfer or licensing or otherwise permitting the Exploitation of any Licensed Right or (b) which prevents, restricts or otherwise inhibits Licensee's freedom to Exploit any Licensed Right in accordance with the terms hereof or (c) which may conflict with any obligation of Licensor or any right of Licensee or Grantor hereunder;
- 11.9 to the best of its knowledge and belief:-
- 11.9.1 no Licensed Right is currently being infringed, misused or used without authorisation by any third party or has been so infringed, misused or used without authorisation prior to the Signature Date;

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- 11.9.2 no third party has threatened any such infringement, misuse or unauthorised use; and
- 11.9.3 there is no present or prospective IP Claim in respect of any Licensed Right;
- 11.10 it has neither by any act or omission caused or permitted anything to be done, nor has knowingly withheld from Licensee knowledge of any circumstances, that might endanger the validity of any Licensed Right or the ability of Licensee to enforce or Exploit it in accordance with the terms hereof;
- 11.11 the Licensed Rights shall provide to Licensee any and all rights of Licensor to Exploit the Licensed Properties throughout the Territory in interactive entertainment software format.

12. LICENSEE'S WARRANTIES

Licensee warrants represents and undertakes to Licensor that:-

- 12.1 it has the full, unconditional and irrevocable right and authority to enter into the Agreement and to fully perform all of its obligations hereunder;
- 12.2 it is solvent and not subject to or threatened by any Insolvency;

- 12.3 it will ensure that the Products carry all proper copyright notices and credits as notified to it by Licensor;
- 12.4 (without prejudice to Licensor's warranties in Clause 11) the Products shall be manufactured, sold and distributed in accordance with all applicable laws and standards and shall not be accompanied by any defamatory, malicious, false, licentious or blasphemous material or any actual firearms, tobacco, alcohol or drugs or so as to bring Licensor into disrepute;
- 12.5 (without prejudice to Licensor's warranties in Clause 11) it shall (as between the parties) be responsible for obtaining all certifications, registrations and approvals from statutory or regulatory authorities for release and distribution of the Products in the Territory (but for the avoidance of doubt excluding certifications, negotiations and approvals relating to Licensor Trade Marks and other Intellectual Property owned or controlled by Licensor);
- 12.6 (subject to Clause 9.6) it shall ensure that it has obtained and paid for all licences, clearances and authorisations from third parties to produce the Products;
- 12.7 it shall not do or omit to do or permit there to be done any act which may render invalid the Property or any right of copyright or other rights licensed under the Agreement;
- 12.8 it shall during the Term maintain at its own expense product liability insurance (which shall name Licensor as co-insured and co-payee) in the amount of US\$3,000,000 (three million US dollars) or sterling equivalent in the aggregate and for each claim to protect Licensee and Licensor against any and all claims actions losses or damages arising out of any actual or alleged defects in the

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Product such product liability insurance being from a reputable recognised insurance company and prior to manufacturing the Products Licensee shall supply for Licensor's retention a copy of all policy documentation relating thereto. In addition the policy shall be Promptly endorsed so that cancellation or material alteration shall not take place without the written consent of Licensor;

- 12.9 Licensee shall not knowingly manufacture or distribute any defective or sub-standard Products or publicity material relating thereto and shall ensure that at its own expense all products and said publicity material are of the highest standards used in the industry and (without prejudice to Licensor's warranties in Clause 11) shall conform with all applicable laws and standards.

13. INDEMNITIES

Each party ("the First Party") hereby agrees at all times (both during and after the Term) fully and effectively to indemnify the other party ("the Other Party") and to keep it so indemnified from and against any and all losses, costs, expenses, damages and liabilities (including any damages or compensation paid by the Other Party on the advice of its legal advisers to compromise or settle any Claim and any legal costs or expenses incurred by the Other Party) which it or any of its directors officers employees or agents may sustain or incur arising directly or

indirectly from any action, claim, suit or proceeding (together "Claim") brought, made or threatened by any third party against any of the foregoing persons resulting from any actual or alleged breach by or on behalf of the First Party of any of its warranties expressed or implied herein PROVIDED ALWAYS that (notwithstanding anything to the contrary herein):-

- 13.1 the First Party shall be exclusively entitled to contest, defend or settle any Claim;
- 13.2 the Other Party shall Promptly notify to the First Party details of any Claim (whether actual, suspected or threatened) that comes to its attention;
- 13.3 the Other Party shall at the request and expense of the First Party provide to the First Party all reasonable assistance for the purpose of contesting defending or settling any Claim;
- 13.4 the Other Party shall not (by any act or omission) admit liability or otherwise prejudice or jeopardise the First Party's actual or potential defence to any Claim; and
- 13.5 the said indemnity is subject to the Other Party's duty to mitigate all of its said losses, costs, expenses, damages and liabilities.

14. INTELLECTUAL PROPERTY

- 14.1 In the event of any actual, threatened or suspected claim by any third party against Licensee and/or Licensor in any part of the Territory (whether or not in the form of or accompanied by legal proceedings) that the actual or intended Exploitation of any Product infringes the Intellectual Property rights or any other rights of the said third party anywhere in the Territory ("IP Claim"):-

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- 14.1.1 Licensor shall Promptly notify to Licensee all details of the IP Claim of which it is or becomes aware;
- 14.1.2 Licensor shall at Licensee's request Promptly and unconditionally provide to Licensee all reasonable assistance for the purpose of contesting, defending or settling the IP Claim, including modifying any part of the Property in suit in order to remove it from the scope of the IP Claim;
- 14.1.3 Licensor shall not (by any act or omission) admit liability or otherwise prejudice or jeopardise the actual or potential defence of either party to any IP Claim;
- 14.1.4 Licensee shall be entitled to retain any costs awarded against or paid by said third party and to recoup any of its unreimbursed expenses from any damages or other compensation paid or awarded in respect of the IP Claim, after which the balance (if any) of such damages or other compensation shall be considered Net Receipts; and
- 14.1.5 nothing in this Clause 14.1 shall prejudice any of Licensee's rights against Licensor under Clauses 11 or 13 in connection with any IP Claim.
- 14.2 In the event of any actual, threatened or suspected infringement by any

third party in the Territory of the Intellectual Property in any Licensed Right:-

- 14.2.1 Licensor shall Promptly notify to Licensee all details of any such infringement of which it is or becomes aware;
- 14.2.2 Licensee shall (subject only to the service of prior notice on Licensor) be entitled to take such action in any part of the Territory against the third party on behalf of itself or on behalf of itself and Licensor (whether or not in the form of legal proceedings) as it deems appropriate ("IP Action"). The said entitlement shall be sole and exclusive save where (a) Licensee fails to take such action after a reasonable period of time has elapsed after having been requested so to do by Licensor, and/or (b) where the infringement extends to Intellectual Property Rights in a Licensed Property in addition to Interactive Entertainment Rights, in either of which cases the said entitlement shall be non-exclusive;
- 14.2.3 Licensor shall at Licensee's request and reasonable expense Promptly and unconditionally provide to Licensee all reasonable assistance in connection with any IP Action; and
- 14.2.4 Licensee shall be entitled to retain any costs, expenses, damages or other compensation awarded against or paid by the said third party in connection with the resolution or settlement of any IP Action.
- 14.3 In respect of the grant of the Licence and of all Option Licences, and without prejudice to Clause 8 or Clauses 12 and 13 , Licensor hereby irrevocably and unconditionally waives in favour of Licensee and its Affiliates and licensees and the successors and assigns of the foregoing all moral rights within the meaning of Chapter IV of Part I of the Copyright, Designs and Patents Act 1988 and of all legislation or laws anywhere in the Territory of similar or equivalent effect and

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warrants that it has procured all persons referred to in Clause 11.4 so to waive the same.

15. CONFIDENTIAL INFORMATION

- 15.1 Save as may be required by operation of law or the rules of The Stock Exchange or by any governmental, regulatory or judicial authority of competent jurisdiction each party ("the First Party"):
 - 15.1.1 shall keep strictly confidential information of a confidential, proprietary or sensitive nature received, obtained or learned from the other party before or since the Operative Date pursuant to or in preparation or contemplation of its performance of the Agreement relating to the other party ("the Other Party") or any of its Affiliates or to any of the officers, servants, agents, customers or suppliers of any of the foregoing persons or to the business of any of the foregoing persons or to any Product or Property, and whether or not expressly designated confidential and/or in tangible format ("Information");
 - 15.1.2 shall not without the Other Party's prior written consent use or permit or cause any Information to be used save for the direct purposes of the Agreement; and

- 15.1.3 shall not without the Other Party's prior written consent disclose or permit or cause any Information to be disclosed to any person other than to those of its officers, directors, contractors, employees or professional advisers (a) who need to be informed thereof to enable the First Party to perform its obligations hereunder or to take advice thereon and (b) who have been informed of the Information's confidentiality and directed to keep it confidential and (c) who are under an enforceable obligation of confidentiality to the First Party.
- 15.2 For the purpose of this Clause 15 the terms of the Agreement shall be deemed to be Information received by one party from the other.
- 15.3 The First Party shall forthwith notify to the Other Party any actual, suspected or threatened use or disclosure of the Other Party's Information in contravention of this Clause 15 of which it becomes aware and shall render such assistance to restrain such use as the Other Party may request.
- 15.4 Each Party shall all use reasonable endeavours to procure that none of its officers, directors, servants or agents is responsible for any act or omission which (if it were responsible for it) would constitute a breach of any of the provisions of this Clause 15.
- 15.5 Each Party further acknowledges and agrees that, in the event of a breach or threatened breach of this Clause 15, the other party may have no adequate remedy in money or damages and, accordingly may be entitled to preliminary, permanent and other injunctive relief.
- 15.6 Notwithstanding the foregoing the First Party will have no obligation in connection with specific Information to the extent, but only to the extent that:-

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- 15.6.1 is in the public domain at the time that it is received, obtained or learned by the First Party;
- 15.6.2 it subsequently becomes part of the public domain through no wrongful act of the First Party, or
- 15.6.3 it is received by the First Party from a third party who is lawfully authorised to disclose the same without breach of the Agreement and/or of any obligation to the Other Party.

16. KEY EXECUTIVES

Licensee shall be entitled to terminate (at its discretion) the Agreement or the Option in the event that either Key Executive should cease to be either employed by or an active creative consultant for Licensor ("Cessation"). Licensor shall Promptly notify Licensee of any Cessation in respect of either Key Executive and Licensee shall have 30 (thirty) days from the date of service thereof to exercise its said entitlement. If Licensee fails to notify Licensor of its intention to do so during the said 30-day period or declines to terminate the Option Licensee shall not be entitled to terminate the Option upon the provisions of this clause save in the event of a Cessation in respect of the other Key Executive.

17. CONSULTATION AND COOPERATION

- 17.1 Licensor and Licensee shall consult each other in good faith in concerning the creation, development and marketing of the Properties and of any Products developed pursuant to the Agreement. Without prejudice to the generality of the foregoing, Licensor shall inform Licensee of the status of pre-production, production and post-production of each Licensed Property no less frequently than monthly, and shall serve on Licensee regular production status reports during the period of principal photography and post-production of each Licensed Property.
- 17.2 Each party ("the first party") shall make reasonable efforts to procure that the other party has access in advance to the marketing plans and advertising materials prepared by or on behalf of the first party in connection with Exploitation of the Properties or any Products. Without prejudice to the generality of the foregoing Licensor shall use all reasonable endeavours to provide to Licensee free access to all publicity and advertising materials prepared by or on behalf of Licensor in connection with the theatrical or televisual release of any Licensed Property, and agrees that Licensee may use such materials free of charge to Exploit any Products developed in connection with such Licensed Property.
- 17.3 Neither party shall make any press or public announcement concerning the Agreement without consulting the other in advance.
- 17.4 Licensee shall during the Term and for 3 (three) years thereafter keep full and proper chain-of-title documentation for each Licensed Property and Licensee or its representative shall during the Term and for 3 (three) years thereafter have the right during normal business hours and on not less than 15 (fifteen) days' notice to examine and take copies of such documentation at the premises where

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Licensor normally keeps them, and subject always to Licensee's confidentiality obligations under Clause 15.

18. TERM AND TERMINATION

- 18.1 This Agreement shall come into force on the Commencement Date and, subject to premature termination as specified herein, shall expire on the latest of the following dates:-
- 18.1.1 (if no Option Licence has been granted to Licensee) the date of expiry of the Initial Term, or
- 18.1.2 (if any Option Licences have been granted to Licensee) the date of expiry of the Option Licence Term of the last Option Licence to have been granted to Licensee.
- 18.2 Each party shall be entitled to terminate the Agreement summarily by the service of notice on the other if:-
- 18.2.1 the other commits any breach of any of its obligations or warranties hereunder and, in the case of a breach capable of remedy, has failed to remedy the same within 30 (thirty) days after the service on it by the first-mentioned party of notice particularising the breach and requiring its remedy and containing a warning of such party's intention to terminate; or

- 18.2.2 the other becomes Insolvent.
- 18.3 Licensee shall be entitled to terminate the Agreement summarily by the service of notice on Licensor if Licensor undergoes or announces its intention to undergo any change of Control which results in a majority of the ordinary voting shares in Licensor being transferred to a person who is a publisher of interactive entertainment software.
- 18.4 For the purpose of this Clause 18 a breach shall be considered capable of remedy if the party in breach can perform the obligation in question in all respects other than as to time of performance (provided that time of performance is not of the essence). For the avoidance of doubt the dates for the performance of the obligations of Licensee and Grantor under the Agreement shall not be of the essence unless agreed in writing to the contrary between the parties.
- 18.5 The rights to terminate the Agreement given by this Clause 18 shall be without prejudice to any other right or remedy of either party in respect of the breach concerned (if any) or any other breach.
19. CONSEQUENCES OF TERMINATION
- 19.1 In the event of termination of the Option by Licensee pursuant to Clause 16 the Agreement shall continue in force save that subject to accrued rights and liabilities of the parties (if any) Clauses 3, 4, 5.2, 5.3 and 5.4 shall cease to have effect.

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- 19.2 On expiry of the Initial Term all rights licensed to Licensee under the Licence shall immediately revert to Licensor, provided that if expiry takes place subsequent to Commercial Release of any Product for which all relevant approvals have been obtained, Licensee shall have the right to sell units of the Product in stock or already irrevocably ordered from manufacturers for a period of 12 (twelve) months after the date of expiry of the Initial Term, provided that it shall continue to account for Royalties in accordance with the Agreement.
- 19.3 On the expiry of the Initial Term or (if earlier) termination of the Option by Licensee pursuant to Clause 16 the right to exercise the Option under the Agreement shall immediately revert to Licensor, but without prejudice to the entitlement of Licensee to exercise in accordance with the terms hereof for the remainder of its Option Licence Term any Option Licence granted to Licensee during the Initial Term.
- 19.4 On expiry or termination of the Agreement for whatever cause:
- 19.4.1 all rights licensed to Licensee under the Agreement shall immediately revert to Licensor, provided that if termination takes place subsequent to Commercial Release of any Product for which all relevant approvals have been obtained, Licensee shall have the right to sell units of the Product in stock or already irrevocably ordered from manufacturers for a period of 12 (twelve) months after the Termination Date, provided it shall continue to account for Royalties in accordance with the Agreement;
- 19.4.2 expiry or termination shall be without prejudice any rights accrued in favour of either party in respect of any breach committed prior to the

Termination Date by the other party including (without limitation) any breach giving rise to termination hereof.

19.5 Clauses 1, 7, 13, 15, 17.4, 19, 22, 23, 24 and 25 and any other provision of this Agreement whose terms or context require its survival shall survive the expiry or termination of this Agreement.

20. FORCE MAJEURE

20.1 Neither party shall be under any liability to the other party in any way whatsoever for destruction, damage or delay arising from circumstances beyond its reasonable control, including war, rebellion, civil commotion, strikes, lock-outs and industrial disputes, fire, theft, explosion, earthquake, act of God, flood, drought or bad weather, the unavailability of deliveries, supplies, products, disks or other media or the requisitioning or other act or order by any government department, council or other constituted body (together "Force Majeure"). Notwithstanding the forgoing, each party shall use all reasonable endeavours to continue to perform, or resume performance of, such obligations hereunder for the duration of such Force Majeure.

20.2 If either party is affected by Force Majeure, it shall promptly notify the other in writing of the nature and extent of the circumstances in question, and the length of time for which it is estimated such circumstances shall subsist.

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20.3 In the event that either party is affected by Force Majeure for a period of more than 30 (thirty) days the other party may terminate the Agreement summarily upon notice to the first party.

21. ASSIGNMENT

21.1 Subject to Clause 21.2 neither party may without the prior written consent of the other (not to be unreasonably withheld or delayed) give, bargain, sell, assign, transfer, charge, sub-contract, delegate or otherwise dispose of any of its rights or obligations hereunder.

21.2 It shall be unreasonable for Licensor to withhold or delay its consent to any gift, bargain, sale, assignment, transfer, charge, sub-contracting, delegation or other disposal of any of the rights or obligations of Licensee or Grantor hereunder to an Affiliate of either of the foregoing who (in the case of a gift, bargain, sale, assignment or transfer) agrees in writing to assume all of the assignor's obligations hereunder.

21.3 Any sub-contracting or delegation by either party of any of its obligations hereunder shall not relieve it of those obligations, for which it will at all times remain primarily responsible and liable to the other party for the conduct of its sub-contractors.

22. LIABILITY

22.1 Subject only to Clause 22.2, and notwithstanding anything herein to the contrary, neither Licensee nor Grantor shall be under any liability hereunder or otherwise to Licensor for any loss (whether direct or indirect) of profits, time, business, goodwill or anticipated savings or for any incidental, indirect, special, consequential or punitive loss or

damage whether foreseeable or unforeseeable whatsoever or howsoever caused.

- 22.2 Neither Licensee nor Grantor excludes or restricts liability for death or personal injury resulting from its own negligence.
- 22.3 Licensor acknowledges that the Licensed Rights are of a special, unique, unusual, extraordinary and intellectual character giving them a peculiar value, the loss of which cannot be reasonably or adequately compensated in damages in an action at law, and that a breach hereof by Licensor will or may inflict irreparable injury and damage on Licensee and/or Grantor who may thereby be entitled to injunctive and other equitable relief to restrain the same.

23. NOTICES

- 23.1 All notices, demands, claims, requests, invoices, consents, approvals, reports, recommendations or other communications (collectively referred to herein as "notices") given or made by one party to or on the other hereunder shall (unless expressed to the contrary herein) be in writing (which shall include email).
- 23.2 Unless expressed to the contrary herein all notices served by one party on the other shall be delivered by hand or sent by pre-paid first class post or by facsimile

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transmission or by e-mail transmission at or to the other's address given at the head hereof or to the other's fax number given in Clause 23.5 or to the other's e-mail address given in Clause 23.6 or at or to such other address or number as the other may notify to the serving party with a copy to Licensor's Agent.

- 23.3 If either party changes its address for service or its fax number or its e-mail address it may serve notice thereof on the other, but notwithstanding anything herein to the contrary no such notice shall take effect until or unless actually received by the other party.
- 23.4 The date of service of notices served hereunder shall be:
 - 23.4.1 (for notices served by hand) the day of delivery or (if the same is not a Working Day) the next Working Day thereafter;
 - 23.4.2 (for notices served by pre-paid post) 2 (two) days after the date of posting; and
 - 23.4.3 (for notices served by facsimile or e-mail transmission) the day of transmission or (if the same is not a Working Day and/or if transmission takes place after 17:00 hours) the next Working Day thereafter, provided that a confirmation copy thereof is sent by registered post to the other party at its said address within 24 (twenty-four) hours after transmission.
- 23.5 The respective fax numbers of the parties and Licensor's Agent are as follows:-
 - 23.5.1 Licensee and Grantor: 01225 329241

- 23.5.2 Licensor: 0117 908 6677
- 23.5.3 Licensor's Agent: 020 7935 9115
- 23.6 The respective e-mail addresses of the parties and Licensor's Agent are as follows:-
 - 23.6.1 Licensee and Grantor: jbooth@bam4fun.com
 - 23.6.2 Licensor: sean.clarke@aardman.com
 - 23.6.3 Licensor's Agent: jacqui@marjacq.com
- 23.7 Neither party shall prevent or delay the service on it of a notice hereunder or attempt to do so.
- 24. GENERAL
 - 24.1.1 All rights in any Property neither expressly granted to Licensee herein nor expressly subject to the Options granted to Licensee herein are reserved to the Licensor.
 - 24.2 This Agreement shall operate to the entire exclusion of the Initial Agreement and any other agreements and understandings of any kind made or given by the parties before the Commencement Date relating to the subject matter hereof

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which are hereby superseded and of no further legal effect, and shall constitute the entire contract between the parties concerning the subject matter hereof.

- 24.3 No variation of the Agreement shall be effective unless set forth in writing and signed by a duly authorised representative of each party.
- 24.4 Except as expressly provided herein all conditions, warranties, representations,, indemnities, guarantees and other terms implied by statute or common law are hereby excluded to the fullest extent permitted by law. No party has entered into the Agreement in reliance upon any representation, warranty or undertaking of the other party which is not expressly set out or referred to herein. Nothing in this Clause 24.4 shall exclude any liability for fraud or fraudulent misrepresentation.
- 24.5 No forbearance, delay or indulgence by either party in enforcing the provisions of the Agreement shall prejudice or restrict its rights, nor shall any waiver by either party of a breach hereof by the other party operate as a waiver of any subsequent breach of the same or any other provisions hereof. No such waiver shall be effective unless it is writing and has been signed by the party against whom it is asserted.
- 24.6 No right, power or remedy herein conferred upon or reserved for either party is exclusive of any other right, power or remedy available to it and each such right, power or remedy shall be cumulative.
- 24.7 The parties are not partners or joint venturers or in a relationship of employer and employee or in a relationship of principal and agent. Save as expressly authorised hereby (if at all) neither party has any right

or authority to act on behalf of the other party or to make any representation on its behalf and will not represent that it has such right or authority.

- 24.8 Each of the terms of the Agreement shall be construed as independent of every other such term to the effect that if any such term shall be determined by any judicial, arbitral, regulatory or other public authority of competent jurisdiction to be invalid, unlawful, void, voidable or unenforceable such term shall be severed from the remaining terms hereof without effect thereon which such remaining terms shall continue to be valid, lawful and enforceable to the fullest extent permitted by law.
- 24.9 The provisions of the Agreement are personal to the parties and are not intended to confer any rights of enforcement on any third party. The Contracts (Rights of Third Parties) Act 1999 shall not apply to this Agreement or any of its provisions.
- 24.10 Each party shall bear its own costs and expenses in relation to the preparation, execution and carrying into effect of this Agreement.

25. LAW AND JURISDICTION

The construction, validity and performance of this Agreement shall be governed in all respects by English law and the parties hereby agree to submit to the exclusive jurisdiction of the courts of England and Wales.

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SCHEDULE I: THE WALLACE & GROMIT PROPERTIES IN EXISTENCE
AS AT THE COMMENCEMENT DATE

The Short Films:

A GRAND DAY OUT,

THE WRONG TROUSERS, and

A CLOSE SHAVE

all directed by Nick Park

together with derivative products in print media based on them.

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SCHEDULE II: PROPERTIES REFERRED TO IN CLAUSE 3.1.1(a)

Chicken Run

Hare and Tortoise

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SCHEDULE III: PROPERTIES REFERRED TO IN CLAUSE 3.1.2(a)

Morph

Wallace and Gromit

Rabbits

Rex the Runt

Deadline

Blobs

Angry Kid

Creature Comforts

Heat Electric characters

Pib and Pog

Wat's Pig

Stagefright

Hum Drum

My baby Just Cares for Me

War Story

Going Equipped

Next

Adam

Ident

Loves me love me not

Not without my handbag

Minotaur and Little Nerkin

Al Dente

Owzat

Pop

Babylon

On Probation

Sales Pitch

Palmy Days

Early Bird

Late Edition

Confessions of a Foyer Girl

Down and Out

Happiness Bear

Get me Outta Here

Chump

Mr. Nobody

Shaun the Sheep

SCHEDULE IV: THE PRIOR LICENCES

PART A: WALLACE & GROMIT PRIOR LICENCES

<TABLE>

<CAPTION>

PROPERTY	PRODUCT	LICENSEE	EXPIRY DATE
<S> Wallace & Gromit	<C> Funpack (CD-ROM)	<C> BBC Worldwide	<C> 30/10/2004
Wallace & Gromit	ClipArt (CD-ROM)	BBC Worldwide	30/10/2004
Wallace & Gromit	Print-o-matic (CD-ROM)	BBC Worldwide	30/06/2004
Wallace & Gromit	Cracking Animator (CD-ROM)	BBC Worldwide	30/06/2004

</TABLE>

PART B: NON-WALLACE & GROMIT PRIOR LICENCES

<TABLE>

<CAPTION>

PROPERTY	PRODUCT	LICENSEE	DURATION
<S> SMart Morph	<C> CD-ROM	<C> BBC	<C> 30/9/2005
Angry Kid Online Game	Choirboy	Aardman	Perpetuity
Angry Kid Online Game	Bored Game	Aardman	Perpetuity

SCHEDULE V: STOCK VALUATION

Common stock of Grantor in respect of which Warrants are granted to Licensor hereunder shall for the purposes of the Agreement be priced as the average of the closing sales price of Grantor's common stock as reported on the Nasdaq National Market System (or such other exchange as Grantor's common stock is then quoted on the United States of America) for the 5 (five) -- day trading period immediately preceding the date of grant.

SCHEDULE VI: ROYALTY RATES

1. WALLACE AND GROMIT PROPERTIES

1.1 non-hand-held platforms

0 - 250,000 units [*]%

250,001 - 500,000 units [*]%

Above 500,000 units [*]%

The rates shall be applied in tranches, and shall be cumulative across all non-hand-held platforms and every Wallace and Gromit Product.

1.2 hand-held platforms (other than mobile phones): [*]% to 250,000 units sold and [*]% thereafter.

1.3 sequels to Products referred to in paragraphs 1.1 and 1.2: [*].

1.4 mobile telephones (and sequels thereto): to be negotiated in good faith.

2. Short Films and any other Properties (other than Feature Films and excluding Properties distributed on national US television channels) over which the Option is exercised:

2.1 non-hand-hand platforms: 0 - 250,000 units [*]% 251,000 - 500,000 units [*]% Above 500,000 units [*]% The rates shall be applied in tranches, and shall be cumulative across all non hand-held platforms for each separate Property.

2.2 hand-held platforms (other than mobile telephones): [*]% to 250,000 units sold and [*]% thereafter.

2.3 sequels to Products referred to in paragraphs 2.1 and 2.2: [*].

2.4 mobile telephones (and sequels thereto): to be negotiated in good faith.

3. Feature Films (and any other Properties distributed on national US television channels) over which the Option is exercised.
- 3.1 non-hand-held platforms: 0 - 250,000 units [*]% 250,000 - 500,000 units [*]% Above 500,000 units [*]% The rates shall be applied in tranches, and shall be to be cumulative across all non hand-held platforms for each separate Property.
- 3.2 hand-held platforms (other than mobile telephones): [*]% to 250,000 units sold and [*]% thereafter.
- 3.3 sequels to Products referred to in paragraphs 3.1 and 3.2: [*]%.
3.4 mobile telephones (and sequels thereto): to be negotiated in good faith.

[*] Confidential portion omitted and filed separately with the Commission.

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SCHEDULE VII: LICENSOR TRADE MARKS

TRADEMARKS SUMMARY

REX THE RUNT - WORD MARK & DEVICE MARKS AS FOLLOWS

[RUNT LOGO]

[REX THE RUNT LOGO]

Main characters -- Rex, Bad Bob, Wendy, Vince

WALLACE & GROMIT

[WALLACE & GROMIT LOGO]

WORD MARK

Main characters -- Wallace, Gromit, Feathers McGraw, Shaun, Wendolene, Preston
Films: A Grand Day Out, The Wrong Trousers, A Close Shave

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Occupation: PA to Sean Clarke

SIGNED by) -----
) /s/ Ray Musci
duly authorised for and on behalf of) Ray Musci
BAM ENTERTAINMENT) Director
LIMITED)

Witness signature: /s/ S M Ambler

Witness name: Stephen Ambler

Address: 3660 Jackson Oaks Court
Morgan Hill, CA 95037
USA

Occupation: Chartered Accountant

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SIGNED by) /s/ Ray Musci
) -----
duly authorised for and on behalf of) Ray Musci
BAM ENTERTAINMENT, INC.) President

Witness signature: /s/ S M Ambler

Witness name: Stephen Ambler

Address: 3660 Jackson Oaks Court
Morgan Hill, CA 95037
USA

Occupation: Chartered Accountant

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FACTORING AGREEMENT

THIS FACTORING AGREEMENT ("Agreement") made and executed this 25th day of February, 2002 by and between BAM! ENTERTAINMENT, INC., Delaware corporation ("Client") and CENTURY BUSINESS CREDIT CORPORATION ("Factor")

1. PURCHASE OF ACCOUNTS RECEIVABLE :

1 .1. Appointment as Factor. Client hereby appoints Factor to act as its sole factor. Client hereby agrees to assign and sell, and does hereby assign and sell, to Factor, and Factor hereby agrees to purchase all of Client's Receivables whether now existing or hereafter arising without any further act or instrument. For all purposes hereof, the term "Receivables" shall mean and include all accounts, contract rights, general intangibles, chattel papers, instruments, documents and all forms of obligations owing to Client arising from or out of the sale of merchandise and/or the rendition of services, all proceeds thereof, all Client's: a) rights to merchandise represented thereby; b) rights under insurance policies covering merchandise or services; c) rights against carriers of said merchandise; and d) right, title, security interests and guarantees with respect to each Receivable, including all rights of replevin and reclamation and stoppage in transit and all other rights of an unpaid seller of merchandise or services.

1 .2. Written Credit Approval. Client shall submit to Factor the principal terms of each customers' orders for written credit approval. Factor may, in its discretion, approve in writing all or a portion of Client's customers' orders either by establishing a credit line limited to a specific amount for a specific customer, or by approving all or a portion of a proposed purchase order submitted by Client ("Approved Receivables"). No credit approval shall be effective unless in writing and unless the goods are shipped or the services rendered within the time specified in the written credit approval or within 30 days after the approval is given, if no time is specified. No written credit approval or terms of sale shall be changed without Factor's written approval. Factor shall have the right to withdraw its credit approval or withdraw or adjust a credit line at any time before delivery of merchandise or rendition of services. Factor shall not be liable to any person or in any manner for refusing to approve the credit of any customer.

1 .3. Written Schedules. Client shall execute and deliver to Factor written schedules of all Receivables sold or assigned hereunder in form satisfactory to Factor, together with copies of customer's invoices or the equivalent and upon Factor's request, conclusive

evidence of delivery for all goods sold or rendition of services and all other information or documents Factor may require. Client's failure to execute and deliver such schedule of Receivables shall not affect the assignment of such

Receivables hereunder.

1.4. Remittances. All customers' invoices shall be marked indicating that the Receivable evidenced by the invoice is owned by and payable to Factor in a manner satisfactory to Factor. All remittances, checks, bills and other proceeds of sales shall be property of Factor and Client authorizes Factor to endorse its name on any and all checks or other forms of remittances received in payment of Receivables whenever such endorsement is deemed to be necessary by Factor to effect collection thereof. If any remittances are made directly to Client, Client shall hold the same in trust for the benefit of Factor and will immediately deliver to Factor the identical checks, documents, instruments or moneys received in the same form as received by Client. Client has been advised that Factor may employ a lockbox account for the deposit of remittances received in payment of Receivables, and Client consents thereto.

1.5. Credit Limits. Factor may limit its purchase of Receivables arising from sales to any one customer, and in such event, and in any instance in which Factor does not approve the credit standing of that customer or the terms of sale, Factor nevertheless agrees to purchase such Receivables from Client and Client shall sell and assign the same to Factor hereunder, but with full recourse to Client in the event of nonpayment thereof for any reason whatsoever ("Non-Approved Receivables").

1.6. Minimum Amounts. All sample sales or invoices in the amount of \$100 or less shall be with full recourse to Client in the event of nonpayment thereof for any reason whatsoever regardless of whether or not the same was approved as to credit. As to Non- Approved Receivables, Factor shall have the right to charge the same back at any time, together with interest, if any.

2. REPRESENTATIONS AND WARRANTIES.

2.1. Receivables. Client represents and warrants that each and every Receivable now or hereafter assigned to Factor: a) represents a bona fide sale and delivery of merchandise or rendition of services to customers in the ordinary course of its business; b) represents merchandise or services which have been received and accepted by Client's customers without dispute or claim of any kind and shall be free and clear of any offset, deduction, counterclaim, lien, encumbrance or any other claim or dispute (real or claimed), including, without limitation, claims or disputes as to price, terms, delivery, quantity or quality and claims of release from liability or because of any act of God, or a public enemy, or war, or because of the requirements of law or of rules, orders or regulations having the force of law; c) will be for an

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amount certain payable in United States funds in accordance with the terms of the invoice covering said sale, which shall not be changed without Factor's written approval; d) except for Factor's security interest therein and except for the security interest of Transcap Financial therein which is to be

terminated concurrently with the effective date hereof, there are no security interests, liens or encumbrances thereon and it will at all times be kept free and clear of same except in Factor's favor; e) Client has title thereto and Client has the legal rights to sell, assign, transfer and set over the same to Factor; f) all documents to be delivered to Factor in connection therewith will be genuine and be enforceable. Client agrees to indemnify Factor against any liability, loss or expense caused by or arising out of the rejection of merchandise or services or claims or deductions of every kind and nature by Client's customers, other than those resulting from the financial inability of Client's customer, whose credit standing Factor has approved, to make payment.

2.2. Chargebacks. In the event of Client's breach of any of the foregoing representations and/or warranties, Factor shall have, in addition to all other rights under this Agreement, the right to chargeback to Client immediately the full amount of the Receivables affected thereby together with interest, but such chargeback shall not be deemed a reassignment thereof, and Factor shall retain a security interest in such Receivable and in the merchandise represented thereby until such Receivable is fully paid, settled or discharged and all Client's Obligations (as hereinafter defined) to Factor are fully satisfied. Factor shall not, however, have the right to chargeback to Client any Approved Receivable which is unpaid solely because of such customer's financial inability to pay.

3. PURCHASE PRICE

3.1. Calculation of Purchase Price. The purchase price ("Purchase Price") of Receivables sold and assigned hereunder shall be the net amount thereof, as herein defined, less the amount of Factor's commission on the purchase of such Receivables as provided in Section 4 hereof. As used herein, the term "net amount" of Receivables shall mean the gross amount of Receivables less returns, allowances and discounts to, or taken by, customers upon shortest or longest selling terms, as Factor may elect. Such Purchase Price, less: a) any reserves which Factor may have established; b) any sums advanced, remitted or otherwise paid to Client or for Client's account or debited to Client's account; and c) any other charges authorized hereunder, shall be payable by Factor to Client five (5) business days after collection of the Receivables (the "Payable Date"). However, if any Approved Receivable as to which Factor has approved the credit standing of the customer shall not be paid by reason of the customer's bankruptcy or insolvency, Factor will pay Client the Purchase Price thereof on the earlier to occur of: (i) the first business day of the month following such customer's bankruptcy, or (ii) after 120 days past

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the payment due date of such Approved Receivable provided nonpayment of such Approved Receivable is not as a result of a dispute.

3.2. Advances. Factor may, at Client's request but in Factor's sole discretion, make advance payments to Client with respect to the Purchase Price

of Receivables prior to the aforesaid time or times of Factor's obligation to make payment thereof in an amount up to 75% of the net amount thereof. Such advance payments, which shall be debited by Factor to Client's account with Factor, shall bear interest at the Contract Rate (as that term is defined in Section 4.4 hereof) from the date of such advance until the Payable Date.

3.3. Reserves. Factor may reserve out of the Purchase Price of all Receivables sold and assigned an amount which, in Factor's judgment, is sufficient to protect it against possible returns, claims, allowances, expenses and recourse to Client on Receivables sold and assigned to Factor and against other contingencies for which Client may be chargeable hereunder.

3.4. Overadvances. From time to time Client may request advances from Factor in excess of the advance formula set forth in Section 3.2 hereof, or as from time to time adjusted by Factor. Factor may in its sole discretion make such advances (hereinafter called "Overadvances"). Interest on Overadvances shall be at a rate of 1.0% per annum in excess of the Contract Rate of interest as calculated pursuant to the provisions of Section 4 hereof. All Overadvances are discretionary by Factor, may be terminated at any time, and are payable on demand. Nothing herein shall limit or restrict Factor's right to adjust advance formulas upward or downward based upon Factor's lending criteria and collateral evaluations which are established in Factor's sole discretion.

4. COMMISSIONS AND INTEREST

4.1. Factoring Commission. For its services hereunder, (a) Factor shall receive a Commission equal to the following applicable amount: (i) one (1.0%) percent of the gross amount of Receivables purchased Annually (as defined hereinbelow) hereunder if such gross amount is Ten Million Dollars (\$10,000,000) or less, (ii) three-quarters of one percent (0.75%) of the gross amount of Receivables purchased Annually hereunder if such gross amount is in excess of Ten Million Dollars (\$10,000,000) but less than Fifty Million Dollars (\$50,000,000), or (iii) one-half of one percent (0.50%) of the gross amount of Receivables purchased Annually hereunder if such gross amount is in excess of Fifty Million Dollars (\$50,000,000); and (b) in the case of any Receivables from a customer who is a debtor-in-possession, Factor shall receive an additional commission equal to no less than one (1%) percent for 15 day selling

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terms and two (2%) percent for 30 day selling terms, of the gross invoice amount of each Receivable, which commission shall be due and payable as of the date a Receivable arises, and shall then be chargeable to Client's account. The minimum factoring commission on each invoice in respect of any Receivable shall be \$4.50 however, invoices transmitted electronically to Factor, in a manner satisfactory to Factor, will not be subject to such minimum factoring commission but will otherwise remain subject to any other factoring commissions. As used herein, "Annually" means each and every yearly period commencing with the effective date hereof, with the effective date occurring on the date that this Agreement is

executed by both Client and Factor.

4.2. Extended Terms. The commission specified in Section 4.1 hereof is based upon maximum selling terms of ninety (90) days, and no more extended terms or additional dating shall be granted by Client to any customer without Factor's prior written approval. If such approval is given by Factor, Factor's commission with respect to the Receivables covered thereby shall be increased by an additional one-quarter of one (1/4%) percent for each additional thirty (30) days or portion thereof of extended terms or additional dating.

4.3. Minimum Commissions. The minimum aggregate factoring commissions payable under this Agreement for each contract year hereof shall be \$150,000, which, to the extent of any deficiency (after giving effect to commissions payable under subparagraph (a)), shall be chargeable to Client's account with Factor yearly.

4.4. Monthly Statement and Calculation of Interest. Factor will send Client a monthly account current as of the end of each month. Unless Factor receives a written objection to any account current rendered by Factor within thirty (30) days after the mailing of such account current, it shall be deemed accepted by Client and shall become conclusive and binding upon Client. All debit balances shall be payable to Factor on demand and shall bear interest at the rate of interest then in effect as hereinafter provided (herein called the "Contract Rate"); such interest is payable daily but shall be charged to Client's account monthly as a cash advance. The Contract Rate of interest hereunder shall be equal to the Prime Rate (as hereinafter defined) plus 1.0% per annum. Such Contract Rate is based upon the highest announced prime, base or reference rate charged by Wells Fargo Bank, N. A. to substantial and responsible corporate commercial borrowers ("Prime Rate") which is now 4.75% per annum, and is neither tied to any external rate of interest or index, nor does it necessarily reflect the lowest rate of interest actually charged to any particular class or category of customers by such Bank. Such Contract Rate shall be increased or decreased as the case may be, as such Prime Rate is increased or decreased and to the extent thereof; each such change to be effective as at the first of the month following the month the related change in such Prime Rate occurs; but

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in no event shall the Contract Rate of interest hereunder be less than 4% per annum nor in excess of the maximum rate Factor is permitted to charge by law.

4.5. Credit Balances. On the last day of each month, Factor shall credit Client's account with interest on the average daily balance of matured funds and cash collateral in Client's account, if any, at the Prime rate minus 2 1/2% per annum.

5. SECURITY INTEREST

5.1. Grant of Security Interest. As security for all "Obligations" (as herein defined), Client hereby grants to Factor a continuing security interest in, a general lien upon and/or a right of setoff of, all of Client's presently existing and hereafter created assets, including, without limitation: (i) the Receivables; (ii) present and future accounts, contract rights, chattel paper, documents, instruments, notes, drafts, acceptances, deposit accounts and all other debts, obligations and liabilities in whatever form owing to Client from any person, firm, corporation or other legal entity whether now existing or hereafter arising or acquired (the "Accounts"); all Client's right, title and interest, and all of Debtor's rights, remedies, guarantees, security and liens, in, to and in respect of the Accounts, including, without limitation, rights of stoppage in transit, replevin, repossession and reclamation and other rights and remedies of an unpaid vendor, lienor or secured party, guaranties or other contracts of suretyship with respect to the Accounts, deposits or other security for the obligation of any account debtor, rights to the proceeds of letters of credit, all tort claims and credit and other insurance; all Client's right, title and interest in, to and in respect to all merchandise which is represented by or evidenced by any Account, and all returned, rejected, reclaimed or repossessed goods; all books, records, ledger cards and other property and general intangibles at any time evidencing or relating to the Accounts; (iii) now owned or hereafter acquired and wherever located merchandise inventory and other personal property held for sale or lease or to be furnished under contracts of service or held as raw materials, work in process or finished goods and supplies or materials used or consumed in the Client's business or used in connection with the manufacture or furnishing of such goods acquired under or as a result of purchase guaranties issued by Factor or letters of credit or guarantees issued by banks or third parties or under Factor's responsibility at Factor's request for the benefit of the Client and all wrapping, packaging, advertising and shipping materials and all documents relating thereto, (the "Inventory"); and all books, records, ledger sheets and other records, property and general intangibles at any time relating to the inventory; (iv) all machinery, equipment, spare parts, vehicles, furniture and fixtures, including, without limitation, dies, tools, jigs and molds, all warranties by third parties relating thereto, and all attachments, accessions and equipment now or hereafter affixed thereto or used in connection therewith, and all substitutions and replacements thereof, wherever located, whether now

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owned or hereafter acquired (the "Equipment"); and all books, records and other property and general intangibles at any time relating to the Equipment; (v) general intangibles, whether now owned or hereafter acquired, whether now existing or hereafter arising, including, without limitation, all trademarks, patents, copyrights, service marks, brand names, trade names, trade styles, together with the goodwill of the business represented thereby, all computer programs and computer software, all licenses and permits; all claims for moneys due, including, but not limited to, that arising from policies and certificates of insurance, securities, choses in action as well as tax refunds from any federal, state or municipal government, agency or subdivision thereof or taxing

authority, and all credit balances with Factor and all Client's claims against Factor (whether now or hereafter existing and whether arising under this Agreement or otherwise) and all excess pension funds and all books, records and other property at any time relating to all the foregoing, including, without limitation, all rights to royalties and other rights under license and franchise agreements; (vi) all Client's property of every kind and description, tangible or intangible, at any time in Factor's possession or subject to Factor's control, whether now or hereafter existing or now owned or hereafter acquired and wherever located; (vii) all products and proceeds of all of the foregoing, in any form, including, without limitation, any claim against third parties for loss or damage to or destruction of any or all of the foregoing. As used herein, the term "Obligations" means and includes all loans, advances, indebtedness, liabilities, obligations, debit balances, covenants and duties owing by Client or any of Client's subsidiaries or affiliates to Factor or Factor's parent, subsidiary or affiliate of every kind and description (whether now or hereafter existing and whether arising under this Agreement or otherwise), direct or indirect, absolute or contingent, due or to become due, including, without limitation, any indebtedness, liabilities or obligations owing by Client to others which Factor has acquired by assignment, participation or otherwise, and further including, without limitation, all interest, fees, charges, expenses and attorneys' fees for which Client may be obligated hereunder. Amounts owing to Factor in respect of Client's purchases from other persons, firms or corporations factored by Factor or its parent, subsidiary or affiliate are to be considered Obligations and as advances against Client's account and may be charged by Factor to Client's account at any time whether before or after the maturity of such amounts.

5.2. Cooperation. Client agrees to execute such further instruments and financing statements as may be required by any law in connection with the transactions contemplated hereby and to cooperate with Factor in the filing or recording and renewal thereof, and Client hereby authorizes Factor (and appoints any person whom Factor designates as its attorney with power) to sign Client's name on any such instrument and on financing statements under the Uniform Commercial Code. Client hereby authorizes Factor to file financing statements containing the following collateral description: "All of Debtor's Assets now owned or hereafter acquired" or such lesser amount of assets as Factor may determine. Recourse to security shall

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not be required and Client shall at all times remain liable for the repayment on demand of all Obligations.

6. CUSTOMER DISPUTES AND CLAIMS: RETURNED GOODS

6.1. Disputes and Claims. Client shall immediately notify Factor in each instance of the return, rejection, loss of or damage to merchandise represented by any Receivable, of any request for extension of time to pay or request for credit or adjustment, or of any merchandise dispute or other dispute

or claim relating to any Receivable or to the merchandise or services covered thereby or tending in any way to diminish the sum certain payable thereon. If any such dispute, controversy or claim is not promptly settled by Client, Factor may, if it so elects, settle, compromise, adjust or otherwise enforce or dispose of by litigation or otherwise, any such dispute, controversy or claim, at Client's expense, and upon such terms and conditions as Factor in its sole discretion shall deem proper, but Factor shall have no obligation to do so. Client shall not grant any allowances, credits or adjustments to customers, nor accept any return of merchandise, without Factor's prior written consent in each instance

6.2. Returned Merchandise. If advances under Section 3.2 hereof have been made and are outstanding and if any merchandise shall be returned by or recovered from the customer or held subject to bill and hold invoices, Client shall forthwith pay Factor the full amount of such Receivable, either in cash or by the assignment of new Receivables hereunder, and until such payment or assignment, such merchandise shall be held by Client in trust for the benefit of Factor, shall be segregated and identified by Client as property held in trust for benefit of Factor, and upon Factor's request Client shall, at its expense, deliver the same to Factor or for Factor's account or upon its order to such place or places as Factor may designate. Factor may sell or cause the sale of any such merchandise, at such prices and upon such terms as it may deem proper, and in the event of any public sale thereof, Factor may be the purchaser. The proceeds of any such sale or sales shall first be charged with the costs and expenses of any incident to such sale, and the balance, if any, shall be credited to Client's account.

6.3. Credit Memoranda. Copies of all credit memoranda to be issued to any customer shall be furnished by Client to Factor and only the customer shall be entitled to the benefit thereof. Factor may charge \$4.50 to Client's account for each invoice in respect of any credit memoranda or change of terms.

7. FEES AND EXPENSES

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7.1. Monitoring Fees and Other Expenses. Upon Factor's performance of any collateral monitoring function, any field examination, or other business analysis, ("Monitoring") there shall be charged to Client's account, an amount equal to \$750 per day, per person, for each person employed to perform such Monitoring together with all costs, disbursements and expenses incurred by Factor during such Monitoring provided, that in the absence of an Event of Default, the aggregate fees, costs, disbursements and expenses for such Monitoring shall be limited to \$10,000 per year, with the first yearly period commencing on the effective date of this Agreement. In addition, Client shall pay to Factor all costs, expenses and liabilities incurred, in connection with: (a) the execution and delivery of this Agreement and any agreement, instrument or document delivered pursuant hereto or in connection herewith (collectively, the "Other Agreements"), including (i) a reasonable allowance for attorneys'

fees and (ii) a documentation fee in the amount of \$1,000; (b) any waiver, amendment, supplement, consent or modification hereof or thereof; and (c) the filing or perfecting of any security interest in any collateral securing the Obligations or any guaranty therefor. Factor shall also be entitled to charge Client's account for all costs and expenses incurred (including reasonable attorneys fees) in connection with: (i) obtaining or enforcing payment of any Obligation; (ii) the prosecution or defense of any action or proceeding concerning any matter arising out of or connected with this Agreement, any Other Agreement, or any of the Receivables assigned hereunder, including, without limitation, effecting collection of Receivables whether by adjustments, litigation or otherwise, and realization upon recovered or returned merchandise and defending successfully in whole or in part any and all actions or proceedings brought by Client; (iii) obtaining performance of the Obligations under this Agreement or any Other Agreement, including, but not limited to, the enforcement or defense of Factor's security interests, assignments of rights and liens as valid perfected security interests; (iii) any attempt to inspect, verify, protect, collect, sell, liquidate or otherwise dispose of any collateral for the Obligations; (iv) any appraisals or re-appraisals of any property (real or personal) pledged to Factor as collateral for the Obligations; and (v) any consultations in connection with any of the foregoing. In addition to the foregoing, Factor shall charge Client's account with fees relating to telecopying, wire transfers, special or additional reports and other services at such rates as shall be charged by Factor to its clients from time to time. All such costs and expenses together with all filing, recording and search fees, taxes and interest payable by Client to Factor shall be payable on demand may be charged to Client's account and shall constitute Obligations hereunder and shall be secured by the collateral therefor.

8. INDEMNITIES

8.1. Indemnification. Client hereby indemnifies and holds Factor and its affiliates, and their respective employees, attorneys and agents (each, an "Indemnified Person"), harmless from and against any and all suits, actions, proceedings, claims, damages, losses, liabilities and

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expenses of any kind or nature whatsoever (including attorneys' fees and disbursements and other costs of investigation or defense, including those incurred upon any appeal) which may be instituted or asserted against or incurred by any such Indemnified Person as the result of any financial accommodation having been extended, suspended or terminated under this Agreement or any Other Agreement or with respect to the execution, delivery, enforcement, performance and administration of, or in any other way arising out of or relating to, this Agreement or any Other Agreement, and any actions or failures to act with respect to any of the foregoing, except to the extent that any such indemnified liability is finally determined by a court of competent jurisdiction to have resulted solely from such Indemnified Person's gross negligence or willful misconduct. NO INDEMNIFIED PERSON SHALL BE RESPONSIBLE OR LIABLE TO

CLIENT OR TO ANY OTHER PARTY FOR INDIRECT, PUNITIVE, EXEMPLARY OR CONSEQUENTIAL DAMAGES WHICH MAY BE ALLEGED AS A RESULT OF ANY FINANCIAL ACCOMMODATION HAVING BEEN EXTENDED, SUSPENDED OR TERMINATED UNDER THIS AGREEMENT OR ANY OTHER AGREEMENT OR AS A RESULT OF ANY OTHER TRANSACTION CONTEMPLATED HEREUNDER OR THEREUNDER.

8.2. Taxes. If any tax by any governmental authority (other than income and franchise taxes) is or may be imposed on or as a result of any transaction between Client and Factor, or in respect to sales or the merchandise affected by such sales, which Factor is or may be required to withhold or pay, Client agrees to indemnify and hold Factor harmless in respect of such taxes, and Client will repay Factor the amount of any such taxes, which shall be charged to Client's account, and until Client shall furnish Factor with indemnity therefor (or supply Factor with evidence satisfactory to Factor that due provision for the payment thereof has been made), Factor may hold without interest any balance standing to Client's credit and Factor shall retain its security interest in any and all collateral held by Factor.

9. TERMINATION AND DEFAULT

9.1. Term. The term of this Agreement shall begin as of the effective date hereof and continue until the last day of the twenty-fourth month hereafter (as such date may be renewed from time to time pursuant to the terms hereof, the "Maturity Date") and thereafter shall be automatically renewed from year to year unless terminated on such last day of such month or any anniversary thereof by Client giving Factor at least sixty (60) days prior written notice by registered or certified mail, return receipt requested. Factor shall have the right to terminate this Agreement at any time by giving Client sixty (60) days prior written notice. Notwithstanding the foregoing, Client shall be allowed to terminate this Agreement prior to the Maturity Date: (1) for any reason, with a minimum of ninety (90) days prior written notice,

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provided that Client pay Factor an early termination fee in an amount equal to the Minimum Commissions that would have accrued, pursuant to Section 4.3 hereof, through the Maturity Date; and (2) at any time, without an early termination fee, if such termination is in connection with Client's obtaining of replacement financing from Wells Fargo Bank, N.A.

9.2. Defaults. Notwithstanding the foregoing, Factor may terminate this Agreement without notice and all Obligations shall, unless and to the extent that Factor otherwise elects, become immediately due and payable without notice or demand upon the occurrence and during the continuance of any one or more of the following events (each an "Event of Default"): a) Client fails to pay any Obligation when due; b) Client commits any breach of or default in the performance of its representations, warranties or covenants whether contained herein or in any instrument or document delivered pursuant hereto or in any other Agreement, instrument, or document under which it is obligated to Factor;

c) Client or any Guarantor, surety or other party liable upon any Obligation (i) makes any false or untrue representation to Factor in connection with this Agreement or any transaction relating thereto; (ii) become(s) unable to pay its debts as they mature; (iii) make(s) a general assignment for the benefit of creditors, suspend(s) the transaction of Client's or any Guarantor's usual business, convene(s) or cause(s) to be convened a meeting of Client or any Guarantor's creditors or principal creditors or take(s) advantage of the insolvency laws of any State, or a case is commenced or a petition in bankruptcy or for an arrangement or reorganization under the Federal Bankruptcy Code is filed by or against Client or any such other party or a custodian or receiver (or other court designee performing the functions of a receiver) is appointed for or takes possession of Client's or any such other party's assets or affairs or an order for relief in a case commenced under the Federal Bankruptcy Code is entered; or d) any Guarantor, surety or other party liable upon any Obligations shall die; e) Client shall be dissolved; f) there shall be issued or filed against Client, any Guarantor, surety or other party liable upon any Obligations, any tax lien; g) any Guarantor challenges the effectiveness of or seeks or purports to terminate the effectiveness of the applicable Guaranty; h) any Guarantor fails to comply with the provisions of the applicable Guaranty; (i) or there shall be issued or filed against Client any attachment, injunction, execution, or judgment which is not removed within thirty (30) days after same was issued or filed.

9.3. Continuing Obligations. Notwithstanding any termination of this Agreement Client shall continue to deliver Receivables information to Factor and turn over all collections to Factor as herein provided until all Obligations shall have been fully paid and satisfied, and until then this Agreement shall remain in full force and effect as to and be binding upon Client, and Factor shall be entitled to retain its security interest in all existing and future Receivables and other security and collateral.

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9.4. Remedies. Upon the occurrence of any of the Events of Default specified in Section 9.2 hereof, Factor shall have all the rights and remedies of a secured party under the Uniform Commercial Code and other applicable laws with respect to all collateral in which it has a security interest, such rights and remedies being in addition to all of its other rights and remedies provided for herein. Factor may sell or cause to be sold any or all of such collateral, in one or more sales or parcels, at such prices and upon such terms as it may deem best, and for cash or on credit or for future delivery, without its assumption of any credit risk, and at a public or private sale as it may deem appropriate. Unless the collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, Factor will give Client reasonable notice of the time and place of any public sale thereof or of the time after which any private sale or any other intended disposition thereof is to be made. At any such sale, Factor may disclaim warranties of title, possession, quiet enjoyment and the like and any such disclaimer shall not effect the commercial reasonableness of the sale. The

requirements of reasonable notice shall be met if any such notice is mailed, postage prepaid, to Client's address shown herein, at least five (5) days before the time of the sale or disposition thereof. Factor may invoice any such sale in Factor's name or in Client's name, as Factor may elect, as the seller, and in such latter event such invoice shall be marked payable to Factor as provided in Section 1.4 hereof. Factor may be the purchaser at any such public sale and thereafter hold the property so sold at public sale, absolutely, free from any claim or right of any kind, including any equity of redemption. The proceeds of sale shall be applied first to all costs and expenses of, and incident to, such sale, (including attorneys' fees), and then to the payment (in such order as Factor may elect) of all Obligations. Factor will return any excess to Client and Client shall remain liable for any deficiency.

10. MISCELLANEOUS

10.1. No Pledge of Credit. Client shall not be entitled to pledge Factor's credit for any purpose whatsoever.

10.2. Waivers. Client waives presentment and protest of any instruments and all notices thereof, notice of default and all other notices to which it might otherwise be entitled. Client shall maintain, at its expense, proper books of account.

10.3 Right of Inspection. Factor shall have the right to inspect and make extracts from such books and all files, records and correspondence at all reasonable times.

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10.4 No Pledge or Sale of Receivables. During the term of this Agreement Client shall not sell or assign, negotiate, pledge or grant any security interest in any Receivables or Goods (as said term is defined in Article 9 of the Uniform Commercial Code) to any one other than Factor.

10.5. Organization and Locations. Client certifies that its address as set forth in this Agreement is its mailing address, its chief place of business, and the office at which its records relating to Receivables are kept. Client further certifies that its state of incorporation or organization is the State of Delaware and it shall not change its state of incorporation or organization without Factor's written consent. Client shall not effect any change of its mailing address, its chief place of business, or the office in which its records relating to Receivables are kept, without first giving Factor thirty days prior written notice thereof. Client shall provide to Factor, upon request, a Certificate of Good Standing from the Secretary of State of the state of incorporation or organization of the undersigned and from every state where the undersigned is qualified to do business.

10.6. Financial Statements. Client shall furnish to Factor, and Client shall cause all, corporate guarantors of the Obligations, if any, to

furnish monthly internally prepared financial statements within 30 days after the end of each calendar month, quarterly financial statements within 60 days after the end of each of its fiscal quarters, and annual financial statements within 90 days after the end of each of its fiscal years, all in form and substance acceptable to Factor and reviewed, in the case of quarterly statements, and audited, in the case of annual statements, by an independent certified public accountant acceptable to Factor. Client shall cause all individual guarantors of the Obligations, if any, to furnish to Factor his/her personal financial statement in form and substance acceptable to Factor within 30 days after each anniversary of the date on which he/she furnishes to Factor the first such statement.

10.7 Solvency; Governing Law; Jurisdiction. Client warrants that it is solvent, knows of no present or pending situation which could render it insolvent and it will remain solvent during the term of this Agreement. The validity of this Agreement, its construction, interpretation, and enforcement and the rights of the parties hereto shall be determined under, governed by, and construed in accordance with the laws of the State of California; provided, however, that the laws of the state in which the collateral is located shall govern with respect to (a) the creation of liens on collateral located in such state and (b) the method, manner and procedure for foreclosure of Factor's lien upon any portion of the collateral located in such state and the enforcement in such state of Factor's other remedies with respect to the collateral located in such state.

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The parties agree that all actions or proceedings, arising in connection with this Agreement shall be tried and litigated only in the state courts located in the County of Los Angeles, State of California, the federal courts whose venue includes the County of Los Angeles, State of California, or, at Factor's sole option, in any other court in which Factor shall initiate legal or equitable proceedings and which has subject matter jurisdiction over the matter in controversy, including any jurisdiction in which any of the collateral is located. The parties expressly submit and consent in advance to such jurisdiction in any action or proceeding commenced in any such court, and the parties hereby waive any objection which either may have based upon the lack of personal jurisdiction and hereby consent to the granting of such legal or equitable relief as is deemed appropriate by any such court. Furthermore, Client waives, to the extent permitted under applicable law, any right Client may have to assert the doctrine of "forum non conveniens" or to object to venue to the extent any proceedings are brought in accordance with the paragraph.

Each of the parties to this Agreement hereby waives personal service of any summons or complaint or other process or papers to be issued in any action or proceeding involving any such controversy and hereby agrees that service of such summons or complaint or process may be made by registered or certified mail to the other party at the address appearing herein; failure on

the part of either party to appear or answer within thirty (30) days after such mailing of such summons, complaint or process shall constitute a default entitling the other party to enter a judgment or order as demanded or prayed for therein to the extent that said Court or duly authorized officer thereof may authorize or permit.

10.8. Waiver of Jury Trial. FACTOR AND CLIENT DO HEREBY WAIVE ANY AND ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING OF ANY KIND ARISING ON, OUT OF, BY REASON OF, OR RELATING IN WAY TO, THIS AGREEMENT OR THE INTERPRETATION OR ENFORCEMENT THEREOF OR TO ANY TRANSACTIONS THEREUNDER. IN THE EVENT FACTOR COMMENCES ANY ACTION OR PROCEEDING AGAINST CLIENT, CLIENT WILL NOT ASSERT ANY OFFSET OR COUNTERCLAIM, OF WHATEVER NATURE OR DESCRIPTION, IN ANY SUCH ACTION OR PROCEEDING .

10.9. No Waiver of Rights. No failure or delay by Factor in exercising any of its powers or rights hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such power or right preclude other or further exercise thereof or the exercise of any other right or power. Factor's rights, remedies and benefits hereunder are cumulative and

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not exclusive of any other rights, remedies or benefits which Factor may have. This Agreement may only be modified in writing and no waiver by Factor will be effective unless in writing and then only to the extent specifically stated.

10.10. Notices. All notices and other communications by either party hereto shall be in writing and shall be sent to the other party at the address specified herein.

10.11. Assignment. Factor shall have the right to assign this Agreement and all of Client's rights hereunder shall inure to the benefit of Factor's successors and assigns; and this Agreement shall inure to the benefit of and shall bind Client's respective successors and assigns.

11. COVENANTS

11.1. Minimum Liquidity. Client shall at all times maintain minimum Liquidity (as defined below) of at least Fifteen Million Dollars (\$15,000,000). "Liquidity" shall mean, for any time period, the sum of Client's unrestricted cash located in the United States plus the amount of cash collateral deposited by Client with Factor pursuant to Section 2.3 of that certain Letter of Credit and Security Agreement, entered into concurrently herewith, plus the amount of advance payments with respect to the Purchase Price of Receivables that remain unutilized and available pursuant to the terms of Section 3.2 hereof.

11.2. Intercompany Distributions. Client covenants that it shall not upstream, sidestream or downstream any funds advanced by Factor to an entity

affiliated with it including, without limitation, to Client's subsidiary in England.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

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BAM! ENTERTAINMENT, INC.,
A Delaware corporation

By: /s/ RAYMOND MUSCI

Title: C.E.O.

Address: 333 W. Santa Clara Street, #716
San Jose, California 95113

CENTURY BUSINESS CREDIT
CORPORATION

By: /s/ ILLEGIBLE

Title: President

Address: 333 South Grand Avenue,
Suite 4150
Los Angeles, California 90071

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LETTER OF CREDIT AND SECURITY AGREEMENT

Supplement to Factoring Agreement/Security Agreement (Accounts Receivable-Financing)

THIS SUPPLEMENT ("Supplement") made and executed this 25th day of February, 2002 by and between BAM! ENTERTAINMENT, INC. a Delaware corporation ("Client") and CENTURY BUSINESS CREDIT CORPORATION ("Factor").

1. SUPPLEMENT TO AGREEMENT

1.1. Supplement. This Supplement shall constitute a supplement to the Factoring Agreement, Security Agreement (Accounts Receivable - Financing), or both, entered into between Factor and Client and any other agreements documents amendments or supplements executed in connection therewith (collectively, the "Agreement".) All of the terms and conditions of the Agreement which are not inconsistent with the terms and conditions of this Supplement shall apply with full force and effect to all Transactions covered by this Supplement.

2. TRANSACTIONS

2.1. Letter of Credit. From time to time, upon Client's request but subject, in each instance, to Factor's approval thereof, Factor will guarantee payment by Client to banks under letters of credit to be opened by Client in a bank designated by Factor, in Client's name and for Client's account, and any drafts thereunder, for the purchase of merchandise required by Client in the regular course of Client's business (a "Letter of Credit"). In each such instance Client will execute an application for credit on the form of such bank requesting Factor to deliver same to the bank and to cause it to issue an irrevocable Letter of Credit in conformity with the application.

2.2. Scope. The term "Transaction", whenever used in this Supplement, shall mean and include any such Letter of Credit which may be made or issued by Factor hereunder, or any drafts thereunder, any air release, steamship guaranty or other indemnity issued in connection with any Letter of Credit, all merchandise which may be the subject of any Letter of Credit so guaranteed and all documents and instruments of every kind relating thereto, including, without limitation, all documents of title, transport, indebtedness and payment, or evidencing any thereof.

2.3. Terms. Each Transaction hereunder shall be in such form and shall contain such terms, conditions and provisions as Factor, in Factor's sole discretion, may elect. The aggregate amount of each Transaction shall be reserved against advances which would otherwise be available under Section 3.2 of the Agreement (the "Advance Reserve"). In the event insufficient advance availability exists

under Section 3.2 of the Agreement to institute the Advance Reserve, prior to and for each Transaction, Client shall deposit with Factor sufficient cash collateral so that the amount of such Transaction has been fully reserved for through a combination of an Advance Reserve and cash collateral. For each Transaction, Factor agrees to release 50% of the Advance Reserve and/or cash collateral applicable to such Transaction, upon the presentment of a valid purchase order for the purchase of the merchandise involved in such Transaction, with such purchase order to be approved by Factor in its sole discretion. The release of the Advance Reserve and/or cash collateral will be effectuated by such means as determined by Factor in its sole and absolute discretion.

2.4. Limitations. The total amount of Transactions hereunder which may be outstanding at any time may be limited by Factor, in Factor's sole and absolute discretion. Nothing herein contained shall be deemed or construed to grant to Client any right, power or authority to pledge Factor's credit in any manner or to any extent whatever.

2.5. Issuance. All Letters of Credit guaranteed by Factor hereunder shall be issued in Client's name.

3. CLIENT'S OBLIGATIONS; REPRESENTATIONS AND WARRANTIES

3.1. Payment. Client shall promptly pay, satisfy and discharge, in full, as and when due, all debts, liabilities and obligations of any kind incurred by Client in connection with each and every Transaction, including, without limitation, all fees and charges of any bank; and Client shall pay to Factor, forthwith upon demand and in full, any and all moneys which Factor may pay or be obligated to pay on, under, in connection with, or by reason of, any Transaction, including all communication expenses and attorney's fees.

3.2. Indemnities. Client shall indemnify Factor and any bank which may issue any Letter of Credit guaranteed by Factor hereunder or any air release, steamship guarantee or other indemnity and any correspondent of any such bank which may have any connection with any Transaction or any drafts thereunder or any air release, steamship guarantee or other indemnity, and hold Factor and them harmless against any and all claims, losses, liabilities, expense, demands and causes of action which may be made, asserted, or brought against Factor, or any of them, arising on, under, in connection with, or by reason of, any Transaction.

3.3. Additional Documents. Client shall, upon Factor's request, execute and deliver to Client any trust receipts which Factor may require in connection with the release to Client of any merchandise or documents and any financing statements that Factor may, from time to time, require.

3.4. Insurance. Client shall cause all merchandise which may be the subject of

any Transaction to be fully insured under an all risk United States dollar policy, at Client's sole cost, but for Factor's account and benefit as Factor's interest may appear, in amounts and by insurance companies satisfactory to Factor; and shall deliver to Factor forthwith proof of full payment of all premiums thereon. Upon Client's failure or refusal, for any reason, to deliver any such prepaid policies to Factor, Factor shall have the right, but not the obligation, to procure such policies and to pay the premiums thereon for Client's account; and Client shall pay to Factor, forthwith, the amount of such premiums so paid by Factor with interest thereon computed as provided in Section 8.2 hereof. Client's liability to Factor hereunder shall not be affected, impaired, released, or discharged, in whole or in part, by reason of any loss, theft, or destruction of, or depreciation or damage to, any merchandise which is not fully covered by the proceeds of insurance thereon actually received by Factor, regardless of the cause of any such loss, theft, destruction, depreciation or damage, or absence or nonreceipt of insurance proceeds and whether such nonreceipt of insurance proceeds is caused by the failure of the insurer to pay claims or otherwise.

3.5. Importation. Client agrees that any necessary import, export or other licenses or certificates for the import or handling of the Collateral (as defined in Section 5.1 hereof) will have been promptly procured; all foreign and domestic governmental laws and regulations in regard to the shipment and importation of the Collateral, or the financing thereof will have been promptly and fully complied with; and any certificates in that regard that Factor may at any time request will be promptly furnished. In this connection, Client warrants and represents that all shipments made under any such Letters of Credit are in accordance with the governmental laws and regulations of the countries in which the shipments originate and terminate, and are not prohibited by any such laws and regulations.

3.6. Taxes and Duties. Client assumes all risk, liability and responsibility for, and agrees to pay and discharge, all present and future local, state, federal or foreign taxes, duties, or levies. Any embargo, restriction, law, custom or regulation of any country, state, city, or other political subdivision, where the Collateral is or may be located, or wherein payments are to be made, or wherein drafts may be drawn, negotiated, accepted, or paid, shall be solely Client's risk, liability and responsibility.

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3.7. Solvency. Client is and will continue to be solvent.

3.8. Genuineness. Each Letter of Credit Client presents to Factor naming Client as beneficiary shall be genuine, correct and complete and will not have been drawn against except to the extent stated to Client in writing at the time of such presentation; and all invoices, receipts and other documents and instruments of every kind which Client presents, displays, or delivers to Factor for any purpose will be genuine, correct and complete.

4. POWER OF ATTORNEY

4.1. Scope. In connection with all Transactions, Client hereby appoints each officer of Factor's corporation as Client's attorney-in-fact, with full power and authority in each of them (i) to sign and endorse Client's name upon all Title Documents; (ii) in Client's name or Factor's, to complete any Transaction, to obtain, execute and deliver all necessary or proper documents in connection therewith and to collect the proceeds thereof; (iii) upon any default under the Agreement, or this Supplement, or in any Transaction, to cancel, rescind, terminate, modify, amend, or adjust in any other way, in whole or in part, any pending Transaction; and (iv) upon Client's refusal to do so following Factor's request, in Client's name and for Client's account, to do any and all other acts and things which may be necessary or proper in connection with this Supplement or any Transaction, or both, or to enable Factor to obtain payment of any monies owed to Factor, or for which Client may thereafter become liable to Factor, in any Transaction or otherwise hereunder. The said power and authority is coupled with an interest and shall be irrevocable until all Transactions shall have been fully consummated and all monies owed to Factor have been paid in full.

5. SECURITY

5.1. Collateral. As collateral security for the full payment, performance and discharge of any and all of Client's debts, obligations and liabilities to Factor, whether arising under the Agreement, or hereunder, or otherwise, whether direct or indirect, liquidated or not, absolute or contingent, due or not due, now existing or hereafter arising, Client hereby pledges to Factor and grants to Factor a general lien upon and continuing security interest in and a right to set-off against, all now existing and hereafter arising Documents of Title, and goods and inventory, together with all credit balances, equities other property, tangible or intangible, now or hereafter existing in any of Client's accounts with Factor, including, but not limited to, Client's account with Factor hereunder and under the Agreement and all property and securities of every kind and nature which have been or at

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any time hereafter may be delivered to or otherwise come into Factor's possession, custody or control, as collateral security, or for safekeeping, or for any other or different purpose of any kind or which shall be in transit to Factor or set apart for Factor by anyone for Factor, in any way, by Client or for Client's account, or in which Client may have any interest, whether Factor shall accept the same for the purpose for which delivered or not, and any and all proceeds of said property and securities and every part thereof ("Collateral"); with the right to Factor, in Factor's discretion, to resort first to any part of said security and to apply any proceeds thereof to Client's Obligations in such order and amounts as Factor may elect. Recourse to security shall not be required.

5.2. Additional Security. As further security for the payment of all of Client's

debts, obligations and liabilities hereunder, Client shall, in connection with each Transaction, assign to Factor the purchase order, selling order, letter of credit in Client's favor and all other instruments which Factor may require; and all of the same shall be deemed to have been automatically assigned to Factor and shall become Factor's property immediately upon the occurrence of each Transaction and without any formal assignment thereof. All invoices, cash, checks, drafts, notes, documents, bills of lading, warehouse, shipping and dock receipts, and other title, payment, or other instruments pertaining to each Transaction (collectively, "Title Documents") and the merchandise relating thereto shall be deemed to be Factor's sole property and in furtherance thereof, Client shall instruct all suppliers, shippers, carriers, forwarders, warehouses, banks and other persons holding or receiving any of such Title Documents or merchandise to deliver the same to Factor or upon Factor's order. If any of the Title Documents shall come into Client's possession, Client shall hold same in trust for Factor and shall forthwith deliver the same to Factor in their original form. Unless Factor instructs otherwise, Client may dispose of merchandise imported by Client in connection with Transactions in the ordinary course of Client's business

5.3. Additional Rights. Any rights, remedies, duties or obligations granted or undertaken by Client to any bank in any application for Letters of Credit, or any standing agreement relating to Letters of Credit or otherwise, shall be deemed to have been granted to Factor and apply in all respects to Factor and shall be in addition to any rights, remedies, duties or obligations contained herein

6. STEAMSHIP GUARANTIES AND AIRWAY RELEASES

6.1. Guaranties and Releases. From time to time, merchandise purchased by Client under Letters of Credit may arrive at a designated location before receipt and availability of the Documents of Title that would permit Client to obtain possession of the merchandise. Upon Client's request but subject, in each instance, to Factor's approval

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thereof, Factor will cause Factor's banks to issue air releases, steamship guarantees or other such indemnities on Client's behalf in respect of Letters of Credit opened through such banks to induce carriers to release to Client shipments of merchandise without presentation of the original bills of lading or other evidence of shipment properly endorsed. Upon issuance of such air way releases, steamship guarantees or other indemnities, Client irrevocably and unconditionally waives any and all discrepancies, mistakes, defects or omissions in any of the documents presented or to be presented to Factor's banks for negotiation or acceptance in connection therewith and Client hereby agrees to indemnify Factor and hold Factor harmless from and against any and all consequences which may result from the issuance of such air releases, steamship guaranties or other indemnities. Upon issuance of an airway release, steamship guarantee or other indemnity, Factor shall have the right prior to presentation, negotiation or acceptance of documents at Factor's banks under the relative

Letters of Credit to charge to Client's account the face amount of such outstanding airway releases, steamship guarantees or indemnities.

7. FACTOR'S RESPONSIBILITY

7.1. Limitation of Liability. Factor shall not be liable or responsible, in any manner or to any extent, for any error, act or omission by Factor, or by any bank or any other party, in following Client's instructions or those contained in any Letter of Credit in connection with or relating to any Transaction or waivers of discrepancies issued hereunder and any drafts under any such Transaction, or any Documents of Title, transport, payment, or indebtedness or any other instruments or documents, whether or not transferred to Factor hereunder, or the completion of execution of any Transaction; or for any loss or depreciation of, or damage to, any merchandise, Documents of Title, transport, payment, or indebtedness of any other documents or instruments, regardless of the cause of any thereof. All Transactions hereunder shall be entirely without recourse against Factor in any event.

7.2. Reliance. Factor and any bank shall have the right to rely upon any oral, telecopy or other facsimile instruction or communication received from Client in connection with any proposed modifications, deviations, extensions or other actions affecting a Transaction, including, without limitation, waivers of discrepancies. Factor retains Factor's independent right to refuse any documents presented containing discrepancies despite the fact that Factor has contacted Client and Client has accepted such discrepancies.

7.3. Waiver of Discrepancies. Factor reserves the sole right, in Factor's sole discretion, to waive any discrepancies, defects or mistakes in any of the documents presented to Factor or Factor's banks for negotiation or acceptance

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8. FEES

8.1. Compensation. In addition to any commissions, discount, interest, charges, fees or expenses charged to Factor for Client's account by any bank, or by Factor under Schedule 1 hereto, in connection with any Transaction (all of which will be charged to Client's account and when made by the bank shall be conclusive on Client), Client shall pay to Factor, as compensation for the issuance of Letters of Credit by Factor hereunder and for all services which Factor may render hereunder, the following:

a) As to Letters of Credit:

(i) an issuance (opening) charge equal to 1/4 of 1% of the full face amount of each Letter of Credit; plus

(ii) 1/4 of 1% of the amount of each increase of any such Letter of Credit; plus

(iii) 1/4 of 1% of the full face amount of each Letter of Credit for each 30 day period or part thereof from such date of issuance to the expiration date and 1/4 of 1% of the then outstanding face amount thereof for each 30 day extension or part thereof in excess of such expiration date; plus

(iv) a charge equal to not less than 1/4 of 1% on each negotiation under each Letter of Credit.

8.2. Interest. In addition to the foregoing, interest, shall be computed at a rate to be fixed as provided in the Agreement, on all funds actually paid by Factor to any bank, supplier, or other party on, under, by reason of, or in connection with any Letter of Credit issued by Factor hereunder or any Transaction covered thereby.

8.3. Commission. Notwithstanding the termination of the Agreement or this Supplement, Client shall pay a fee to Factor equal to the factoring commission under the Agreement on any sales that would have been created arising from inventory purchased by Client directly or indirectly with the proceeds of Letters of Credit opened by Factor.

8.4. Standard Charges. Attached hereto as Schedule 1 are the standard commissions, charges, fees and expenses of our banks (including our standard processing charge per item) as of the date hereof, which Schedule may be amended from time to time upon written notice to you.

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8.5. Costs. Client shall reimburse Factor for all reasonable out-of-pocket costs and expenses (including legal fees and disbursements) incurred by Factor in connection with the execution and delivery of this Supplement and perfection of Factor's security interest in the Collateral, or to obtain or enforce payment of any of Client's Obligations to Factor hereunder.

9. FACTOR'S REMEDIES

9.1. Remedies. In the event of any default by Client under the Agreement or hereunder, Factor shall have the right to sell, at public or private sale, all Collateral and documents relating thereto which Factor may hold as security and shall generally have all of the rights and remedies of a secured party under the Uniform Commercial Code. Factor may become the purchaser at any public sale, free of any claim or equity of redemption. Factor shall give Client reasonable notice of the time and place of any public sale thereof or of the time after which any private sale thereof is to be made. The requirement of reasonable notice shall be met if such notice is mailed, postage prepaid, to Client at Client's last known address at least five days before the time of any such sale. Net proceeds of any such sale or sales, after deduction of all expenses of every kind relating thereto (including reasonable attorneys fees), shall be applied to

payment of all of Client's Obligations to Client, whether arising out of this Supplement or otherwise, in such order of application as Factor may elect. Any surplus which may result shall be paid to Client or as otherwise required by law. and Client shall continue liable for any deficit.

10. MISCELLANEOUS

10.1. Term. The term of this Supplement shall commence on the date hereof and shall continue until the term of the Agreement ends under the provisions thereof.

10.2. Waiver. Client waives presentment, demand, protest, notice of nonpayment and notice of protest as to all instruments, as well as any and all other notices to which Client might otherwise be entitled. Factor's failure to enforce any right or remedy hereunder or Factor's waiver of any default hereunder shall not constitute a waiver of any such right of remedy or of any subsequent default. This Supplement shall be binding upon and inure to the benefit of Client's and Factor's respective successors and assigns.

10.3. Recapture. To the extent Factor, or any beneficiary of a Transaction to whom Factor may owe an obligation receives payment on account of the Obligations herein described, which payment is thereafter set aside or required to be repaid by Factor in whole or in part, then, to the extent of any sum not finally retained by Factor or such beneficiary (regardless of whether such sum is recovered from Factor by Client, Client's

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estate or trustee or any party acting for, on behalf of or through Client or as Client's representative), Client's obligations to Factor shall be reinstated and the security interests created hereby shall remain in full force and effect (or be reinstated) until Client shall have made payment to Factor, which payment shall be due on demand.

10.4. Entire Agreement. This Supplement contains Factor's sole and entire understanding and agreement with respect to its entire subject matter, and all prior negotiations, disclaimers, commitments, agreements and understandings heretofore had between Factor and Client with respect thereto are hereby merged herein. This Supplement cannot be changed or terminated orally.

10.5. Governing Law. This Supplement is executed and delivered in the State of California and shall be governed, construed and interpreted, as to validity, enforcement and in all other respects, in accordance with the law of the State of California. Termination of this Agreement shall not affect Obligations on Transactions having their inception prior thereto.

10.6. Waiver of Jury Trial. EACH OF CLIENT AND FACTOR HEREBY WAIVES TRIAL BY JURY AND THE RIGHT THERETO IN ANY ACTION OR PROCEEDING OF ANY KIND ARISING ON, OUT OF, OR BY REASON OF, OR RELATING IN ANY WAY TO THIS SUPPLEMENT OR THE INTERPRETATION OR ENFORCEMENT THEREOF, OR TO ANY TRANSACTIONS HEREUNDER .

IN WITNESS WHEREOF, the parties hereto have executed this Supplement as of the day and year first above written.

CENTURY BUSINESS CREDIT CORPORATION

By: /s/ ILLEGIBLE

Title: President

BAM! ENTERTAINMENT, INC., a Delaware corporation

By: /s/ RAYMOND MUSCI

Title: C.E.O.

AUTHORIZED SIGNATURES OF BAM! ENTERTAINMENT, INC.

February 25, 2002

Century Business Credit Corporation 333 South Grand Avenue, Suite 4150 Los Angeles, California 90017

Gentlemen:

The names of the persons authorized, to make, sign and deliver on behalf of this Corporation, Letters of Credit and amendments to Letters of Credit, authorize the waiver of discrepancies, and authorize the issuance of air releases and/or steamship indemnities, relative to Factor's Factoring Contract or Security Agreement - Accounts Receivable - Financing, and any Supplement thereto, with Century Business Credit Corporation, are as follows:

NAME (PRINT)

SIGNATURE

Raymond Musci

/s/ RAYMOND MUSCI

Stephen Ambler

/s/ SM AMBLER

Lynnie Nojadera

/s/ LYNNIE NOJADERA

Very truly yours,

BAM! ENTERTAINMENT, INC.,
a Delaware corporation

By: /s/ RAYMOND MUSCI

Title: C.E.O.

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SCHEDULE 1
IMPORT LETTER OF CREDIT AGREEMENT
BANK FEE SCHEDULE
AS OF FEBRUARY __, 2002

Issuance (Opening)	\$100 Flat
Cable Notification	\$ 25 Per Page
Amendment Fee	\$ 75 Flat (1-3) \$100 Flat (After 3)
Negotiation Commission	Refer to L/C Supplement Agreement/\$100 Minimum
Processing Fee	\$100 Per Invoice Negotiated
Discrepancy Fee	\$150 Per Discrepancy
Document Against Payment	1/2% Flat \$100 Minimum
Expiration Commission	1/4% Flat/\$100 Minimum
Authorization to Pay/ Reinstatement of Expired Letter of Credit	1/4% Flat/\$100 Minimum
Letter of Indemnity	\$100 Flat to Issue and

(Steamship Guarantee)
Outstanding

\$ 50 Flat for Each 30 Days

Air Release

\$100 Flat

TRADEMARK COLLATERAL SECURITY AGREEMENT

THIS AGREEMENT is made on the 25th day of February, 2002, by and between BAM! ENTERTAINMENT, INC., a Delaware corporation, formerly known as Bay Area Multimedia, Inc., a Delaware corporation, having a mailing address at 333 W. Santa Clara Street, #716, San Jose, California 95113 ("Borrower") and CENTURY BUSINESS CREDIT CORPORATION, having a mailing address at 333 South Grand Avenue, Suite 4150, Los Angeles, California 90071 ("Lender").

BACKGROUND

Borrower and Lender have entered into a Factoring Agreement of even date herewith (as amended and supplemented from time to time, the "Factoring Agreement"). In order to induce Lender to execute and deliver the Factoring Agreement, Borrower agreed to execute and deliver to Lender this Trademark Collateral Security Agreement ("Security Agreement"). This Security Agreement, covering Trademarks (as hereinafter defined), is being executed contemporaneously with the Factoring Agreement under which Lender is granted a lien on and security interest in, inter alia, machinery, equipment formulations, manufacturing procedures, quality control procedures and product specifications ("Other Assets") relating to products sold under the Trademarks, whereby Lender shall have the right to foreclose simultaneously on the Trademarks and the Other Assets in the event of the occurrence and continuance of a default hereunder or an event of default under the Factoring Agreement.

NOW, THEREFORE, in consideration of the premises, Borrower and Lender hereby agree as follows:

1. Defined Terms. Unless otherwise defined herein, terms defined in the Factoring Agreement shall have their defined meanings when used herein and the following terms shall have the following meanings, unless the context otherwise requires:

"Account" shall have the meaning assigned to it under the Code;

"Code" shall mean the Uniform Commercial Code as the same may from time to time be in effect in the State of California.

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

"Event of Default" shall mean an event of default under the Factoring Agreement.

"General Intangibles" shall have the meaning assigned to it under the Code.

"Licenses" shall mean the trademark license agreements of Borrower designated on Schedule I hereto, as any of the same may from time to time be amended or supplemented.

"Obligations" shall have the meaning assigned to it in the Factoring Agreement.

"Proceeds" shall have the meaning assigned to it under the Code, and in any event, shall include, but not be limited to, (i) any and all proceeds of any insurance, indemnity, warranty or guarantee 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 (iii) any and all other amounts from time to time paid or payable under or in connection with any of the Collateral.

"Receivables" shall have the meaning assigned to it in the Factoring Agreement.

"Security Agreement" shall mean this Security Agreement, as the same may from time to time be amended or supplemented.

"Trademarks" shall mean the U.S. registered trademarks and pending applications shown in the attached Schedule A, and those trademarks which are hereafter adopted or acquired by Borrower, and all right, title and interest therein and thereto, and all registrations, applications, and recordings thereof, including, without limitation, applications, registrations and recordings in the United States Patent and Trademark Office or in any similar office or agency of the United States, and any State thereof, all whether now owned or hereafter acquired by Borrower.

2. Grant of Security Interest. As collateral security for the prompt payment of the Obligations, Borrower hereby grants and conveys to Lender a security interest in and to (a) the entire right, title and interest of Borrower in and to the Trademarks, including the registrations and applications appurtenant thereto, listed in Schedule A hereto (as the same may be amended pursuant hereto from time to time), and in and to any and all trademarks, and registrations and applications appurtenant thereto, hereafter acquired or filed by Borrower, including without limitation all renewals thereof, all proceeds of infringement suits, the rights to sue for past, present and future infringements and all rights corresponding thereto in the United States and the goodwill of the business to which each of the Trademarks relates and (b) all of Borrower's right, title and interest in, to and under the following:

- (i) all Licenses;

(ii) all Receivables, contract rights and General Intangibles arising under or relating to each and every License (including, without limitation, (A) all moneys due and to become due under any License, (B) any damages arising out of or for breach or default in respect of any such License, (C) all other amounts from time to time paid or payable under or in connection with any such License, and (D) the right of Borrower to terminate any such License or to perform and to exercise all remedies thereunder); and,

(iii) to the extent not otherwise included, all Proceeds and products of any or all of the foregoing. All of the property referred to in this paragraph 2 is hereinafter collectively called the "Collateral."

3. Representations and Warranties. Borrower covenants and warrants that as of the date of this Security Agreement:

(a) The Trademarks are subsisting and have not been adjudged invalid or unenforceable;

(b) To the best of Borrower's knowledge, each of the Trademarks is valid and enforceable;

(c) There is no outstanding claim that the use of any of the Trademarks violates the rights of any third person;

(d) Borrower is the sole and exclusive owner of the entire and unencumbered right, title and interest in and to each of the Trademarks, free and clear of any liens, charges and encumbrances, (including without limitation pledges, assignments, licenses, registered user agreements and covenants by Borrower not to sue third persons), except for the Licenses referred to in Schedule I attached hereto;

(e) Borrower has the right to enter into this Security Agreement and perform its terms;

(f) Borrower has used, and will continue to use for the duration of this Security Agreement, proper statutory notice, where appropriate, in connection with its use of the Trademarks; and

(g) Borrower has used, and will continue to use for the duration of this Security Agreement, consistent standards of quality in its manufacture of products sold under the Trademarks.

4. Right of Inspection. Borrower hereby grants to Lender and its employees and agents the right to visit Borrower's plants and facilities which manufacture, inspect or store products sold under any of the Trademarks, and to inspect the products and quality control relating thereto at reasonable times during regular business hours. Borrower shall use its best efforts to do any and all acts required by Lender to ensure Borrower's compliance with paragraph 3(g)

above.

5. New Trademarks. (a) If, before the Obligations shall have been paid in full, Borrower shall obtain rights to any new trademarks, the provisions of paragraph 2 shall automatically apply thereto and Borrower shall give Lender prompt written notice thereof. (b) Borrower grants Lender a power-of-attorney, irrevocable so long as the Factoring Agreement is in existence, to modify this Security Agreement by amending Schedule A to include any future trademarks, including trademark registrations or applications appurtenant thereto covered by this Security Agreement.

6. Covenants. Borrower covenants and agrees with Lender that from and after the date of this Security Agreement and until the Obligations are fully satisfied:

(a) Further Documentation; Pledge of Instruments. At any time and from time to time, upon the written request of Lender, Borrower will promptly and duly execute and deliver any and all such further instruments and documents and take such further action as Lender may reasonably deem desirable in obtaining the full benefits of this Security Agreement and of the rights and powers herein granted, including, without limitation, the filing of any financing or continuation statements under the Code with respect to the liens and security interests granted hereby. Borrower also hereby authorizes Lender to file any such financing or continuation statement without the signature of Borrower to the extent permitted by applicable law. If any amount payable under or in connection with any of the Collateral shall be or become evidenced by any promissory note or other instrument, such note or instrument shall be immediately pledged to Lender hereunder, duly endorsed in a manner satisfactory to Lender.

(b) Maintenance of Trademarks. Borrower will not do any act, or omit to do any act, whereby the Trademarks or any registration or application appurtenant thereto, may become abandoned, invalidated, unenforceable, avoided, avoidable, or will otherwise diminish in value, and shall notify Lender immediately if it knows of any reason or has reason to know of any ground under which this result may occur. Borrower shall take appropriate action at its expense to halt the infringement of the Trademarks and shall properly exercise its duty to control the nature and quality of the goods offered by any licensees in connection with the Licenses set forth in Schedule I.

(c) Indemnification. (A) Borrower assumes all responsibility and liability arising from the use of the Trademarks, and Borrower hereby indemnifies and holds Lender harmless from and against any claim, suit, loss, damage or expense (including reasonable attorneys' fees) arising out of Borrower's operations of its business from the use of the

Trademarks. (B) In any suit, proceeding or action brought by Lender under any License for any sum owing thereunder, or to enforce any provisions of such

License, Borrower will indemnify and keep Lender harmless from and against all expense, loss or damage suffered by reason of any defense, set off, counterclaim, recoupment or reduction or liability whatsoever of the obligee thereunder, arising out of a breach of 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 obligee 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 Lender.

(d) Limitation of 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, encumbrance, claim or right, in or to the Collateral, and will defend the right, title and interest of Lender in and to any of Borrower's rights under the Licenses and to the Proceeds thereof against the claims and demands of all persons whomever.

(e) Limitations on Modifications of Licenses. Borrower will not (i) amend, modify, terminate or waive any provision of any License in any manner which might materially adversely affect the value of such License or the Trademarks as Collateral, without the written consent of Lender, (ii) fail to exercise promptly and diligently each and every material right which it may have under each License (other than any right of termination), without the prior written consent of Lender, or (iii) fail to deliver to Lender a copy of each material demand, notice or document sent or received by it relating in any way to any License or Trademark.

(f) Notices. Borrower will advise Lender promptly, in reasonable detail, (i) of any lien or claim made or asserted against any of the Collateral, (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 value of any of the Collateral or on the security interests created hereunder.

(g) Limitation on Further Uses of Trademarks. Borrower will not assign, sell, mortgage, lease, transfer, pledge, hypothecate, grant a security interest in or lien upon, encumber, grant an exclusive or non-exclusive license, or otherwise dispose of any of the Collateral, without prior written consent of Lender.

7. Lender's Appointment as Attorney-in-Fact.

(a) Borrower hereby irrevocably constitutes and appoints Lender 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 Lender's discretion, for the purposes of carrying out the terms of this Security Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to

accomplish the purposes of this Security Agreement and, without limiting the generality of the foregoing, hereby gives Lender the power and right, on behalf of Borrower, to do the following:

(i) Upon the occurrence and continuance of an Event of Default, to ask, demand, collect, receive and give acquittances and receipts for any and all moneys due and to become due under any License 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 moneys due under any License 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 Lender for the purpose of collecting any and all such moneys due under any License 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) Upon the occurrence and continuance of an Event of Default, (A) to direct any party liable for any payment under any of the Licenses to make payment of any and all moneys due and to become due thereunder directly to Lender or as Lender 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 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; (D) to defend any suit, action or proceeding brought against Borrower with respect to any Collateral; (E) to settle, compromise, or adjust any suit, action or proceeding described above and, in connection therewith, to give such discharges or releases as Lender may deem appropriate; and (F) 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 Lender were the absolute owner thereof for all purposes, and to do, at Lender's option all acts and things which Lender deems necessary to protect, preserve or realize upon the Collateral and Lender's security interest therein, in order to effect the intent of this Security Agreement, all as fully and effectively as Borrower might do.

This power of attorney is a power coupled with an interest and shall be irrevocable. Notwithstanding the foregoing, Borrower further agrees to execute any additional documents which Lender may require in order to confirm this power of attorney, or which Lender may deem necessary to enforce any of its rights contained in this Security Agreement.

(b) The powers conferred on Lender hereunder are solely to protect its interests in the Collateral and shall not impose any duty upon it to exercise any such powers. Lender 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 own gross negligence or willful misconduct.

(c) Borrower also authorizes Lender to execute, in connection with the sale provided for in paragraph 10(b) of this Security Agreement, any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral.

8. Execution of Power of Attorney. Concurrently with the execution and delivery hereof, Borrower is executing and delivering to Lender, in the form of Schedule II hereto, ten (10) originals of a Power of Attorney for the implementation of the assignment, sale or other disposal of the Trademarks pursuant to paragraph 7 hereof.

9. Performance by Lender of Borrower's Obligations. If Borrower fails to perform or comply with any of its agreements contained herein and Lender, 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 expenses of Lender incurred in connection with such performance or compliance shall be payable by Borrower to Lender on demand and shall constitute Obligations secured hereby.

10. Remedies, Rights Upon Event of Default.

(a) If an Event of Default shall occur and be continuing:

(i) All payments received by Borrower under or in connection with any of the Collateral shall be held by Borrower in trust for Lender, shall be segregated from other funds of Borrower and shall forthwith upon receipt by Borrower, be turned over to Lender, in the same form as received by Borrower (duly endorsed by Borrower to Lender, if required); and

(ii) Any and all such payments so received by Lender (whether from Borrower or otherwise) may, in the sole discretion of Lender, be held by Lender as collateral security for, and/or then or at any time thereafter applied in whole or in part by Lender against all or any part of the Obligations in such order as Lender shall elect. Any balance of such payments held by Lender and remaining after payment in full of all the Obligations shall be paid over to Borrower or to whomsoever may be lawfully entitled to receive the same.

(b) If any Event of Default shall occur and be continuing, Lender may 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 Obligations, all rights and remedies of a secured party under the Uniform Commercial Code. 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 Lender is entitled. Borrower shall also be liable for the reasonable fees of any attorneys employed by Lender to collect any such deficiency and also as to any reasonable attorney's fees incurred by Lender with respect to the collection of any of the Obligations and the enforcement of any of Lender's respective rights hereunder.

11. Termination. At such time as Borrower shall completely pay in full all of the Obligations and the Factoring Agreement is terminated, this Security Agreement shall terminate and Lender shall execute and deliver to Borrower all such releases, deeds, assignments and other instruments as may be necessary or proper to re-vest in Borrower full title to the Trademarks, subject to any disposition thereof which may have been made by Lender pursuant hereto.

12. Notices. Any notice to Lender shall be deemed to have been duly given when deposited in the mail, first class, postage prepaid, addressed to Lender at 333 South Grand Avenue, Suite 4150, Los Angeles, California 90071, Attention: Account Manager/BAM! Entertainment, Inc. Any notice to Borrower hereunder shall be deemed to have been duly given when deposited in the mail, first class postage prepaid, addressed to BAM! Entertainment, Inc. at 333 W. Santa Clara Street, #716, San Jose, California 95113 Attention: President.

13. No Waiver. No course of dealing between Borrower and Lender, nor any failure to exercise, nor any delay in exercising, on the part of Lender, any right, power or privilege hereunder or under the Factoring Agreement shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder or thereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

14. Cumulative Remedies. All of Lender's rights and remedies with respect to the Collateral, whether established hereby or by the Factoring Agreement, or by any other agreements or by law, shall be cumulative and may be exercised singularly or concurrently.

15. Severability. The provisions of this Security Agreement are severable, and if any clause or provision shall be held invalid and unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such clause or provision, or part thereof, in such jurisdiction, and shall not in any manner affect such clause or provision in any other jurisdiction, or any other clause or provision of this Agreement in any jurisdiction.

16. No Modification Except in Writing. This Security Agreement is subject to modification only by a writing signed by the parties, except as provided in paragraphs 5 and 7.

17. Successors and Assigns. The benefits and burdens of this Security Agreement shall inure to the benefit of and be binding upon the respective successors and permitted assigns of the parties.

18. Governing Law. The validity and interpretation of this Security Agreement and the rights and obligations of the parties shall be governed by the laws of the State of California.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement under seal as of the day and year first above written.

WITNESS: BAM! ENTERTAINMENT, INC.,
a Delaware corporation,
formerly known as Bay Area Multimedia, Inc., a
Delaware corporation

By: /s/ RAYMOND MUSCI

Its: C.E.O.

WITNESS: CENTURY BUSINESS CREDIT
CORPORATION

/s/ ILLEGIBLE

By: /s/ ILLEGIBLE

Its: President

SCHEDULE A

Schedule A to a Trademark Collateral Security Agreement dated February 25, 2002, by and between BAM! ENTERTAINMENT, INC., a Delaware corporation, formerly known as Bay Area Multimedia, Inc., a Delaware corporation, and CENTURY BUSINESS CREDIT CORPORATION.

<TABLE>

<CAPTION>

Reg. No. or Application No.	Mark	Country	Reg. or Filing Date
76-354,534	STONE MONKEYS	U.S.A.	12/27/01
76-353,024	BAM!	U.S.A.	12/26/01
76-031,629	BAM !		

	ENTERTAINMENT	U.S.A.	04/20/00
76-030,209	BAY AREA MULTIMEDIA	U.S.A.	04/18/00
76-030,008	BAM 4	U.S.A.	04/18/00
76,030,007	BAM ! ENTERTAINMENT	U.S.A.	04/18/00
75-981,425	BAM ! ENTERTAINMENT	U.S.A.	04/20/00
75-981,004	BAM ! ENTERTAINMENT	U.S.A.	04/18/00
75-981,003	BAM 4	U.S.A.	04/18/00

</TABLE>

STATE OF CALIFORNIA)
: ss.:
COUNTY OF SANTA CLARA)

Before me, the undersigned, on this 6 day of February, 2002, personally appeared, Raymond C. Musci, to me known personally, and who being by me duly sworn, deposes and says that he is the CEO of BAM! Entertainment, Inc., and that said instrument was signed on behalf of said corporation by authority of its Board of Directors, and he acknowledged said instrument to be the free act and deed of said corporation.

[STAMP OF NOTARY PUBLIC]

/s/ MARTIN ECKSTEIN

Notary Public

My Commission Expires:

STATE OF NEW YORK)
: ss.:
COUNTY OF NEW YORK)

Before me, the undersigned, on this 27th day of February, 2002, personally appeared Thomas V. Pizzo, to me known personally, and who being by me duly sworn, deposes and says that he is the President of Century Business Credit Corporation, and that said instrument was signed on behalf of said corporation by authority of its Board of Directors, and he acknowledged said instrument to be the free act and deed of said corporation.

[STAMP OF NOTARY PUBLIC]

/s/ JUNE S. CHENG

SCHEDULE I

<TABLE>

<CAPTION>

Reg. No. or Application No. -----	Mark -----	Country -----	Reg. or Filing Date -----
<S>	<C>	<C>	<C>

</TABLE>

SCHEDULE II

SPECIAL POWER OF ATTORNEY

STATE OF CALIFORNIA)
 : ss.:
COUNTY OF SANTA CLARA)

KNOW ALL MEN BY THESE PRESENTS, that BAM! ENTERTAINMENT, INC., a corporation formed under the laws of Delaware, formerly known as Bay Area Multimedia, Inc., a corporation formed under the laws of Delaware, with its principal office at 333 W. Santa Clara Street, #716, San Jose, California 95113 (hereafter called "Borrower"), pursuant to a Trademark Collateral Security Agreement, dated the date hereof (the "Security Agreement"), hereby appoints and constitutes CENTURY BUSINESS CREDIT CORPORATION, a New York corporation, with offices at 333 South Grand Avenue, Suite 4150, Los Angeles, California 95113 (hereafter called the "Lender"), its true and lawful attorney, with full power of substitution, and with full power and authority to perform the following acts on behalf of Borrower:

1. Assigning, selling or otherwise disposing of all right, title and interest of Borrower in and to the Trademarks listed on Schedule A of the Security Agreement, and including those trademarks which are added to the same subsequent hereto, and all registrations and recordings thereof, and all pending applications therefor, and for the purpose of the recording, registering and filing of, or accomplishing any other formality with respect to the foregoing, and to execute and deliver any and all agreements, documents, instruments of assignment or other papers necessary or advisable to effect such purpose;
2. To execute any and all documents, statements, certificates or other papers necessary or advisable in order to obtain the

purposes described above as Lender may in its sole discretion determine.

This power of attorney is made pursuant to the Security Agreement, dated the date hereof, between Borrower and Lender and may not be revoked until the payment in full of all Obligations as defined in such Security Agreement.

BAM ENTERTAINMENT, INC.,
a Delaware corporation,
formerly known as
Bay Area Multimedia, Inc.,
a Delaware corporation

By: /s/ RAYMOND MUSCI

Title: C.E.O.

STATE OF CALIFORNIA)
 : ss.:
COUNTY OF SANTA CLARA)

On this 6 day of February, 2002, before me personally came Raymond C. Musci, to me known, who, being by me duly sworn, did depose and say that he is the CEO of BAM! Entertainment, Inc., the corporation described in and which executed the foregoing instrument; and that he signed his name thereto by order of the Board of Directors of said corporation.

[STAMP OF NOTARY PUBLIC]

/s/ MARTIN ECKSTEIN

Notary Public

SUPPLEMENT TO FACTORING OR SECURITY AGREEMENT

SECURITY INTEREST IN INVENTORY UNDER UNIFORM COMMERCIAL CODE

Century Business Credit Corporation
333 South Grand Avenue, Suite 4150
Los Angeles, California 90071

RE: BAM! ENTERTAINMENT, INC.

Gentlemen:

This is a supplement to our Factoring or Security Agreement (Accounts Receivable-Financing) or both, as the case may be, with you effective the date hereof (the "Agreement"). It is hereby incorporated therein, shall have a term concurrent therewith and is a part thereof.

1. In addition to your other security, we hereby grant you a continuing security interest in all Inventory now and hereafter owned by us wherever located, all contract rights with respect thereto and all documents representing the same (all herein referred to as "Collateral") and all proceeds of the Collateral. The term "Inventory" means and includes all goods intended for sale or lease by us, or to be furnished by us under contracts of service and all raw materials, goods in process, finished goods, materials and supplies of every nature used or useable in connection with the manufacture, packing, shipping, advertising, selling, leasing or furnishing of such goods.

2. Your security interest in the Inventory shall continue through all stages of manufacture and shall, without further act, attach to raw materials, to goods in process, to the finished goods, to the Receivables (as defined in the Agreement) or other proceeds resulting from the sale or other disposition thereof and to all such Inventory as may be held for us by agents or processors. We represent, warrant and covenant that all Inventory is and will be owned by us, free of all other liens and encumbrances, shall be kept by us at the location identified on Schedule 1 hereto and that we shall not (without your prior written approval) remove the Inventory therefrom except for the purposes of sale in the regular course of business.

3. The collateral and all proceeds thereof shall be security for all obligations owing to you including but not limited to loans and advances to the undersigned under the Agreement, as originally existing and as hereby and at any time heretofore or hereafter supplemented or amended as well as for all other loans and advances to us or for our account by you or your parent or your subsidiaries and for all commissions, obligations, indebtedness, interest, charges and expenses chargeable to our account or due from us from time to time, however arising, and whether or not evidenced by notes or other instruments. Until all obligations have been fully satisfied, your security interest in the Collateral and all proceeds thereof shall continue in full force and effect and you will at all times have the right to take physical possession of the Inventory and to maintain such possession on our premises or to remove the Inventory or any part thereof to such other places as you may desire. If you exercise your right to take possession of the Inventory, we shall, upon your demand, assemble the Inventory and make it available to you at a place reasonably convenient to you. In addition, with respect to all Collateral and

proceeds, as well as all Receivables and other security, you shall have all of the rights and remedies set forth in the Agreement and all the rights and remedies provided in the Uniform Commercial Code.

4. Upon our request you may make loans or advances to us prior to our sale of Inventory. Any such loans or advances will be made at your sole discretion, will be charged by you to our account and will bear interest payable in the manner and at the rate specified in the Agreement and shall in all respects be governed thereby. All such loans or advances shall be payable on demand and recourse to any security held therefor shall not be required. The amounts of any such loans or advances and their relation to the Inventory shall be determined by you in your sole discretion.

5. Except for sales made in the regular course of our business, we shall not sell, encumber, grant a security interest in or dispose of or permit the sale, encumbrance or disposal of any Collateral without your prior written consent. If sales are made for cash, we shall immediately deliver to you the identical checks, cash or other forms of payment which we receive. As sales are made in the regular course of business, we shall, in accordance with the provisions of the Agreement, immediately execute and deliver to you schedules and assignments of all Receivable created thereby. All payments received by you on account of Receivables or other proceeds or on account of cash sales of Inventory will be credited to our account in accordance with the provisions of the Agreement.

6. We shall perform any and all steps requested by you to perfect your security interest in the Collateral, such as leasing warehouses to you or your designee, placing and maintaining signs, appointing custodians, executing and filing financing or continuation statements in form and substance satisfactory to you, maintaining stock records and transferring Inventory to warehouses. If any Inventory is in the possession or control of any of our agents or processors, we shall notify such agents or processors of your security interest therein, and upon request instruct them to hold all such Inventory for your account and subject to your instructions. You shall have the right (but shall not be obligated) to complete any Inventory in order to dispose of same or otherwise enforce your rights upon our default hereunder, including the right to pay and to charge to our account at any time any dyeing, finishing, processing or warehousing charges, landlord's bills or other claims against or liens upon the Inventory or any of the Collateral, whether before or after our default. A physical listing of all Inventory, wherever located, shall be taken by us at least every three months and whenever requested by you, and a copy of each such physical listing shall be supplied to you. You may examine and inspect the Inventory at any time. All excise, floor, sales and any other taxes that may be assessed upon or paid by you with respect to any of the Inventory shall be charged to and paid by us, and we agree to indemnify you against loss by reason of any such taxes.

7. We shall insure the Inventory in your name against loss or damage by

fire, theft, burglary, pilferage, loss in transit and such other hazards as you shall specify, in amounts and under policies by insurers acceptable to you, and all premiums thereon shall be paid by us and the policies delivered to you. If we fail to do so, you may procure such insurance and charge the cost to our account.

Very truly yours,

BAM! ENTERTAINMENT, INC.

By: /s/ RAYMOND MUSCI

Title: C.E.O.

Accepted at Los Angeles, California
on February 25, 2002

CENTURY BUSINESS CREDIT CORPORATION

By: /s/ ILLEGIBLE

Title: President

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SCHEDULE 1

333 W. Santa Clara Street, #716, San Jose, California 95113

3335 Arden Road, Hayward, California 94545

909 Whitaker Road, Suite A, Plainfield, Indiana 46168

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INVENTORY CERTIFICATE

To: Century Business Credit Corporation
333 South Grand Avenue, Suite 4150
Los Angeles, California 90071

Certificate No.: _____
Certificate Date: _____
Based on Inventory As of: _____

BAM! ENTERTAINMENT, INC.
333 W. Santa Clara Street, #716, San Jose, California 95113

<TABLE>
<CAPTION>

	<C>	Dollar Value -----	Percentage Presold -----
<S>	<C>	<C>	<C>
INVENTORY			
1. Eligible Finished Inventory			
a) Finished Goods in approved locations Current-90 Days*	\$		%
	-----		-----
b) In transit finished goods where documents are in control of Century or drawn to its order*			
c) Total finished goods in Bond in approved locations*			

(i) Landed Cost			

(ii) Unpaid Duty			
	-----		-----
TOTAL ELIGIBLE FINISHED INVENTORY		\$ =====	
d) LESS FINISHED GOODS			
(i) Prior season finished goods			
	-----		-----
(a) 91-180 days*			
	-----		-----
(b) 181 + days*			
	-----		-----
(ii) Not readily marketable			
	-----		-----
(iii) Not Located at approved locations			
	-----		-----
(iv) Other ineligibles			
	-----		-----
(v) Unpaid Duty			
	-----		-----
TOTAL INELIGIBLE FINISHED INVENTORY ITEMS		(\$) -----	
NET ELIGIBLE FINISHED INVENTORY		\$ -----	
2. Ineligible Inventory			
a) Piece Goods (list each location separately)			

b) WIP (list each location separately)			

c) Piece Goods under undrawn L/C's			

TOTAL INELIGIBLE ITEMS		\$ -----	
3. Letter of Credit Inventory			
a) Finished Goods under undrawn L/C's*			%
	-----		-----
TOTAL LETTER OF CREDIT INVENTORY			%

</TABLE>

If Inventory is purchased on open account or under documents against acceptance

(a) Payable Balance	\$	_____
(b) D/A Balance	\$	_____

If Licensed Inventory, the undersigned represents and warrants that:

- a) The undersigned is not in breach of the terms and conditions of the License Agreement.
- b) The Licensor has executed and delivered to Century a Licensor Waiver Agreement.

Value is determined at the lower of cost or market on a first-in, first out basis. The undersigned represents and warrants that the foregoing information is true, complete and correct, and is in accordance with the Factoring Agreement between the undersigned and Century Business Credit Corporation, dated February __, 2002, and any supplements and amendments, thereto.

Borrower: BAM! Entertainment, Inc.

Authorized Signature: _____
Title

Date: _____

*Break out category by Regular Goods, Licensed Inventory (list by each license) and Private Label Goods.