

SECURITIES AND EXCHANGE COMMISSION

FORM 10KSB

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]

Filing Date: **2001-04-17** | Period of Report: **2000-12-31**
SEC Accession No. **0001019687-01-000573**

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FILER

GENIUS PRODUCTS INC

CIK: **1098016** | IRS No.: **330852923** | State of Incorporation: **NV** | Fiscal Year End: **1231**
Type: **10KSB** | Act: **34** | File No.: **000-27915** | Film No.: **1604848**
SIC: **5099** Durable goods, nec

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

(Mark One)

(X) Annual Report Under Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2000

or

() Transition Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

Commission file number 000-27915

GENIUS PRODUCTS, INC.
A NEVADA CORPORATION
(Exact name of registrant as specified in its charter)

Nevada 33-0852923
(State or Other Jurisdiction (I.R.S. Employer Identification No.)
of Incorporation or Organization)

11250 EL CAMINO REAL #100, SAN DIEGO, CALIFORNIA 92130
(Address of principal executive offices) (Zip Code)

(858) 793-8840
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class so registered: Name of each exchange on which
each class is registered:

NONE

NONE

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, PAR VALUE \$0.001
(Title of Class)

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 X No ___

Indicate by check mark if disclosure of delinquent filers pursuant to
Item 405 of Regulation S-K is not contained herein, and will not be contained,
to the best of registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-KSB or any
amendment to this Form 10-KSB. |__|

Revenues for fiscal year 2000 were \$1,344,016.

The aggregate market value of voting stock held by non-affiliates of
the registrant was \$5,960,855 as of April 10, 2001 (computed by reference to
the last sale price of a share of the registrant's common stock on that date as
reported by the OTC Bulletin Board).

There were 4,513,018 shares outstanding of the registrant's Common
Stock as of April 10, 2001.

Transitional small business disclosure format (check one):
Yes [] No [X]

PART I

ITEM 1. DESCRIPTION OF BUSINESS

OVERVIEW

We are a producer, publisher and distributor of classical, instrumental and vocal compact disks ("CDs"), cassettes and videos for children under the Baby Genius brand name, which sell at retail outlets nationwide, and at numerous e-commerce retail web sites on the Internet. We currently produce 24 CD and cassette titles, and three video titles. The trademark Baby Genius is registered, allowed or pending in the United States across a wide range of baby and child product categories. We publish the Baby Genius web site at www.BabyGenius.com where visitors can buy Baby Genius products and obtain free information on pregnancy, childcare, parenting and other matters related to child development.

Our corporate mission is to develop Baby Genius, Kid Genius and other "Genius" names into premiere brand names across a broad range of baby and child product categories. We plan to develop and publish additional music and other educational and entertaining CDs, cassettes and videos under the Baby Genius name. We also plan to publish CD-ROMs, DVDs and other interactive media for babies and children under these brand names. We have licensed the Baby Genius name to a number of third-party companies that will produce toys, books, apparel and other products which are scheduled for release at various times from July 2001 through the second quarter of 2002. We intend to continue to seek manufacturers of top quality baby and child products who are interested in licensing the Baby Genius and Kid Genius names. We intend to develop our web site into a premiere parent partner/child-care site to provide content, products and services on the three areas we believe to be of greatest concern to parents: the health and well-being, education, and financial security of their children. Our plans to further develop our Internet site include entering into strategic partnerships with major corporations to provide content, goods, and services, and to engage in cross-marketing programs with our partners.

Our business model projects revenues from three sources: retail sales of our music CDs, cassettes and videos; licensing revenues from the licensing and merchandising of products under the Baby Genius and other "Genius" brand names; and revenues from our Internet site.

We were incorporated in the State of Nevada on January 6, 1996, under the name Salutations, Inc. ("Salutations"). In September 1997, Salutations acquired all of the outstanding shares of a company called International Trade and Manufacturing Corporation ("ITM"), a Nevada corporation founded in 1992 by Klaus Moeller, our current Chairman and Chief Executive Officer, and Gerald Edick. At the time of the acquisition, Salutations was a public company with shares quoted on the Over the Counter ("OTC") Bulletin Board. Immediately after the acquisition, Salutations assumed all of the operations and businesses of ITM and changed its name to International Trading and Manufacturing Corporation ("ITMC"). In October 1999, we changed our name again from International Trading and Manufacturing Corporation to Genius Products, Inc., to reflect our new business.

The original business of ITM/ITMC involved the design, development and distribution of semi-precious and precious gemstone and costume jewelry. Since 1997, however, the jewelry business has experienced increased competition, erosion of profit margins and a decline in sales. While we continue to sell our jewelry products, jewelry sales in 2000 represented less than 40% of our revenues and contributed a gross margin of 13%. We have, as a result, shifted our focus and resources to lines of business involving the Baby Genius product line discussed below, which we believe have greater potential for profitability.

BABY GENIUS PRODUCTS

In September 1998, we commenced development of a line of classical music CDs and cassettes for children under the Baby Genius brand name. This was inspired by a proclamation by the Governor of Georgia, Zell Miller, which stated that all newborn children should receive a free classical CD or cassette as a gift from the state, to enhance the child's intellectual development and well-being. This was inspired by certain published reports indicating that

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classical music could play an important role in a child's mental development. We were also attracted by the gross margins associated with CDs, cassettes and videos. We now publish, distribute and license a line of musical CDs, cassettes and videos for children under the Baby Genius brand name, and publish a web site at www.BabyGenius.com.

The Baby Genius CDs and cassettes come in three series: Classical, Instrumental/Relaxation and Vocal. The 12 titles in the Classical Series are Bedtime Beethoven, Best of ... The IQ Builder, Brain Power, Breakfast With Bach, Classics for Intelligence, Classical Vitamins, It's a Boy!, It's a Girl!, Learn with Vivaldi, Magic Mozart, Night-Night Classics and one sampler title. Each

CD/cassette has over 50 minutes of baroque and classical music played by top orchestras, ensembles and soloists.

The five titles in the Instrumental Series are Lulla-Drive for the Car, Nature Experience, Sweet Dreams Lullabies, Sleepytime and one sampler title. The three titles in the Vocal Series are Children's Songs, Favorite Nursery Rhymes, and Sing, Dance, Play. Two Christmas titles were released in December 1999, Classical Christmas and Christmas Sleighride.

We produce three Baby Genius videos: Mozart & Friends and Mozart & Friends Sleepytime which are currently being produced and Baby Genius The Four Seasons, scheduled for release in late April 2001. The videos contain real-life and animated images accompanied by classical music.

We are currently negotiating with the San Diego Zoo and San Diego Wild Animal Park to produce a series of Baby Genius videos, which introduce infants and children to animals from around the globe. The negotiations contemplate that a major portion of the videos will be filmed at and feature parts of the San Diego Zoo and San Diego Wild Animal Park. Approximately 5 million people visit the parks each year, and the San Diego Zoo distributes its Zoo-News publication to approximately 250,000 households monthly. While we are actively pursuing this agreement, there can be no assurances that will we succeed on favorable terms or at all.

In November 2000, we entered into a production agreement to produce a non-classical range of music including a Kid Genius "Hip Hop" series. These CDs are currently in production, and we anticipate release beginning in the third quarter of this year.

OTHER PRODUCTS

We also have released four CD/cassette titles under the Pet Tunes brand name, containing classical and instrumental music to soothe pets when separated from their owners. The four titles are Calming Kitty, Delighted Doggy, Blissful Birdy and Happy Horsy.

We continue to produce a line of Jade Jewelry that is sold over the Home Shopping Network under our Sanuk brand. We plan to sell the jewelry business during the year 2001.

ENDORSEMENTS AND AWARDS

The Baby Genius product line was endorsed by Public Radio Music Source and Minnesota Public Radio ("MPR"), a subsidiary of Minnesota Communications Group ("MCG"). MCG funded a portion of the Baby Genius development costs and has been instrumental in assisting us to obtain classical music licenses. MPR and MCG are both shareholders of the Company.

The quality of our products and our success has been recognized. In March 1999, CBS This Morning chose the Baby Genius line of CDs as one of the "Best Products for Mother's Day." In September 1999, the Baby Genius CD Nature Experience received the 1999 National Parenting Publications Gold Award. All three videos have won the Film Advisory Board's Award of Excellence. The video titles Mozart & Friends and Mozart & Friends Sleepytime are approved by Kid First! for the Coalition for Quality Children's Media. The titles Favorite Nursery Rhymes and Night Night Classics received a Parents' Choice Award from the Parents' Choice Foundation.

DISTRIBUTION

Our Baby Genius product line is distributed through our own distribution center in Iowa and also through several national distributors.

We have been approached by a number of distributors wishing to distribute Baby Genius products in overseas markets including Canada (where we already have sales), Mexico, Europe, Australia, New Zealand, Singapore, Central America, Middle East, and South Africa. We have entered into distribution agreements with companies located in the Philippines, Argentina and Chile, and with the Australian Broadcasting Corporation in Australia and New Zealand. While we hope to enter into relationships with international distributors, there can be no assurance that any such relationships will be entered into or, if we enter into any such relationships, that it will result in profitable or any international sales.

Baby Genius products are currently available at retail outlets nationwide, including mass retail stores such as Sams, Shopko, Pamida and Meijers; children's toy stores such as Toys R Us, Babies R Us and Zany Brainy; music and video stores such as Blockbuster, Hollywood Video and Musicland/Sam Goody

stores; book stores such as Borders and Barnes & Noble and other non-traditional outlets. Baby Genius products are also sold on numerous Internet web sites including leading music, book and toy sites, such as Amazon.com, Borders.com and KBTtoys.com.

MARKETS, MARKETING AND SALES

Our Baby Genius line of products is designed to appeal to mothers and parents of newborn children as well as their immediate and extended family and friends. According to the US Census Bureau, approximately 3.9 million babies were born in the United States in each of the last five years. With respect to our future product lines, our targeted markets are the parents, family and friends of all children from birth through the age of 12 and beyond.

Our marketing and sales strategies are designed to build up the Baby Genius brand name for the retail, Internet and licensing components of our business. We use what we consider to be innovative and relatively low-cost marketing techniques, including public relations, in-store advertising programs, and cross-marketing to customers of our strategic partners. We also exhibit at major toy fairs and industry trade shows.

In 2000, we retained a design consultant, Melanie Paykos Designs, to redesign the Baby Genius image and establish Baby Genius as a national brand. The design work has resulted in the production of a style guide, which includes our logo, a range of Baby Genius characters and updated CD and video sleeves.

Retail sales were also promoted through our participation in programs to secure prime shelf space and fixtures, including listening stations and displays at the end of aisles. We also actively market and position Baby Genius products on counter and floor displays, blister packs, and interactive kiosks where customers can listen to our music. In addition, we participate in co-op advertising campaigns with many of our retailers in which Baby Genius products are featured items.

We exhibit the Baby Genius product line at national shows and exhibitions. Trade shows at which we exhibited include the Juvenile Products Manufacturers Association in Dallas, the California Gift Show in Los Angeles, the International Toy Fair in New York City, the Video Software Dealers Association ("VSDA") in Las Vegas and the Book Expo Association ("BEA") in Chicago.

THIRD PARTY LICENSES

We license our classical music from Naxos of America, Inc. The license agreements terminate upon the expiration of the copyright of the music, which is held by Naxos, or upon our discontinuation of the product line.

COPYRIGHTS, TRADEMARKS AND LICENSES

We own the copyright to all of the music used in our Baby Genius Instrumental Relaxation Series and Vocal Series. We have applied for trademarks under the Baby Genius, Kid Genius and other Genius names across a range of product categories. As of April 9, 2001, the status of our applications for Baby Genius and Kid Genius are as listed below.

	REGISTERED -----	ALLOWED -----	PENDING -----
Baby Genius	Music Clothing Toys Books	Baby food Bed clothing Cartoon characters Infant cradles and furniture Potties and baths School book bags Childrens' car seats Baby bottles	
Kid Genius	-	-	Books Clothing Music Toys
Child Genius	Books Clothing Music Toys		

Little Genius Books
Clothing
Music
Toys

Parent Genius Books
Clothing
Toys

Got Baby Advertising

Genius Gear Clothing

Pet Tunes Music

Motor City Music Music

Genius Products Services
General Merchandise

We have applied for registration of the Baby Genius name in Canada, Mexico and the countries of the European Union for product categories covering music videos, books, clothing, music and toys.

We believe that the brand names Baby Genius, Kid Genius and other related family of Genius names and marks we have listed, have significant licensing potential across a broad range of products. In June 2000, we entered into a master licensing representation agreement with Global Icons, LLC. Through representation by Global Icons, we have entered into license agreements with the following companies:

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LICENSEE	PRODUCT	ROYALTY %	EXPIRATION DATE	TERRITORY
Jakks Pacific, Inc	Master Toy	7 escalating	6/30/04	Worldwide
Catton Apparel Group	Apparel	6-8	5/31/04	North America
J.Wasson & Associates	Diaper Bags	8	12/31/03	North America

In addition, we have signed a letter of intent for a license agreement with Penguin/Putnam to publish a series of twelve Baby Genius books over a three-year period, with American Marketing Enterprises for the manufacture of sleepwear, and with NYCE Kids for infant care products. While we will actively pursue these agreements, no assurance can be made that we will succeed on favorable terms or at all.

We intend to exhibit the Baby Genius brand with Global Icons, LLC at the Licensing International 2001 show in New York City in June 2001.

SUPPLIERS AND COMPLIANCE WITH ENVIRONMENTAL LAWS

We are able to obtain our CDs, cassettes and videos from a variety of suppliers. These items are readily available and we would not expect our production to be seriously affected by failure of any one supplier.

We are not aware of any environmental laws that affect our business.

OTHER PRODUCTS

Our original business involved distributing and marketing semi-precious and precious gemstone and costume jewelry. Due to a decline in jewelry sales towards the end of 1998 and the beginning of 1999, and as a result of the growth in the Baby Genius product line, we believe it will be in our best interests to phase out or sell the jewelry business. Although we continue to receive and fulfill orders for our line of Burmese Jade Jewelry from our sole jewelry retailer, Home Shopping Network, in order to focus on the Baby Genius business we do not intend to continue the jewelry business and we hope to sell it by the end of 2001. No formal plan, however, to divest or wind up the jewelry business has yet been adopted by management.

INTERNET BUSINESS

In March 2000, we reformatted and re-launched our web site

www.BabyGenius.com. Visitors to the web site can obtain free content and information on a range of child-related matters, including pregnancy and child-care issues. In addition visitors can purchase the full range of Baby Genius products and select co-branded grocery coupons. The Healthwise Knowledgebase and MedCall services are provided by Unicare Life & Health Insurance Company, an operating affiliate of WellPoint Health Networks Inc., one of the nation's largest publicly-traded managed care companies serving the health care needs of seven million medical and over 30 million specialty products members. The objective of our web site is to develop a vertical portal in the baby sector that provides to our visitors and members of the Baby Genius CLUB a comprehensive range of content, products and services in the three areas we believe to be of most concern to parents: the health and well-being, education and financial security of their children.

In addition to generating Internet revenues from sales of our own products, we intend to generate sales from the receipt of referral fees from the recommendations of third-party products, the receipt of commissions from procuring sales of third party products and the sale of banner ads and other web-based advertising. Since inception of our web site, in September 1999, we have generated over \$240,000 in Internet sales of our products.

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Our current web site customer database holds over 71,000 names, addresses, e-mail addresses and credit card numbers of the visitors who responded to our TV promotional offers or who bought Baby Genius products from our web site.

COMPETITION

The retail and Internet markets for baby development, educational and entertainment products, including CDs, cassettes and videos, are highly competitive. We face significant competition with respect to the number of products currently available, as well as in securing distribution and retail outlets. The costs of entry into the retail and Internet markets for products competitive to our Baby Genius products are low, and there are no significant barriers to entry. There are many companies who could introduce directly competitive products in the short term that have established brand names, are better funded, have established distribution channels, and have greater resources than us. These established companies include Disney, Fox, Paramount, Sony and Time-Warner.

Within the category of classical music CDs and cassettes for children, established competitors include:

- Bach & Baby: Playtime by Bach & Baby
- Baby Bach by Baby Einstein
- Baby Beethoven by Baby Einstein
- Baby Tunes series by Baby Tunes
- Classical Kid by The Children's Group
- Mozart for Mothers-to-Be
- Smart Music: Classical Music series
- The Classical Child series by Metromusic, Inc.
- The Mozart Effect Vols. 1-3 by Classical Productions for Children Ltd./The Children's Group Inc., and BMG
- The Kid Collection of Greatest Classics

Baby Genius classical music CDs and cassettes also compete with other non-classical titles for children such as:

- Baby, It's You: Giggles & Gurgles by Sony
- Baby Sounds by various artists
- Baby Tunes series
- Teletubbies series
- KidRhino series
- Music for Little People series

Within the category of classical music videos for children, established competitors include:

- The Baby Einstein series by Baby Einstein
- So Smart

Baby Genius classical music videos also compete with other non-classical titles for children such as:

- Barney series by Lyrick Studios
- Dr. Seuss series by Fox Home Entertainment
- Little Bear series by Paramount Home Video

- Madeleine, The Jungle Book, The Little Mermaid, Winnie-the-Pooh by Disney Home Video
- Paddington Bear series by Time-Life
- Sesame Street series by Sony Wonder
- Teletubbies series by PBS HomeVideo/Warner

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With respect to Internet websites, there are numerous websites that are devoted exclusively to the delivery of content, products, services and features within the baby sector, including Babycenter.com, IBaby.com, Babyserv.com, Babystyle.com and Parenthoodweb.com. These websites have a competitive advantage over our website to the extent they are now established as the leading websites with the highest traffic in the baby/parent Internet sector. In addition, the companies operating these websites have greater financial resources which can be used exclusively for the development of their e-commerce business.

There are also a number of companies that offer jewelry products similar to the ones that our companies manufacture at similar price-points to the Home Shopping Network.

RISKS RELATED TO OUR BUSINESS

FORWARD-LOOKING STATEMENTS. Some of the information in this registration statement contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate," "plan," "intend," and "continue" or similar words. You should read statements that contain these words carefully because they:

- discuss our future expectations;
- contain projections of our future results of operations or of our financial condition; and
- state other "forward-looking" information.

We believe it is important to communicate our expectations. There may be events in the future, however, that we are not able to accurately predict or over which we have no control. The risk factors listed in this section, as well as any cautionary language in this annual report, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. You should be aware that the occurrence of the events described in these risk factors and elsewhere in this registration statement could have an adverse effect on our business, results of operations and financial condition.

DEPENDENCE ON SHORT-TERM FINANCING. We are dependent on obtaining short-term financing to sustain operations. We are currently operating at a loss and have negative cash flow. The credit terms we extend to our customers are more favorable than those we have with our vendors and service providers, and we have insufficient cash balances to sustain losses. Accordingly, we have to finance our working capital requirements by selling shares of our common stock for cash or in consideration of services rendered. Failure to obtain financing will have a material adverse effect on our business, operations and financial condition and could jeopardize our ability to continue operations.

DEPENDENCE ON LONG-TERM FINANCING. Our ability to implement our business plan and grow the company is dependent on raising a significant amount of capital.

NEED FOR STRONG BRAND IDENTITY. We believe that continuing to strengthen the Baby Genius brand name will be critical to achieve widespread acceptance of our products. Favorable public perception of our branded products will depend largely on our ability to continue providing users with high quality products and the success of our marketing efforts. We plan to increase our marketing expenditures to create and maintain brand recognition. However, brand promotion activities may not yield increased revenues and, even if they do, any increased revenues may not offset the expenses we incur in building our brand.

DEPENDENCE ON KEY PERSONNEL. We are dependent on our executive officers, the loss of any one of whom would have an adverse effect on us. While we have employment agreements with our executive officers, unforeseen circumstances could cause these persons to no longer be able to render their services to us. We are currently negotiating the extension of the employment agreements of our senior executives.

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CHANGE OF CONTROL PAYMENTS. We have entered into Change of Control Executive Employment Agreements ("Change of Control Agreements") with several of our executive officers and key employees. These agreements provide that if any executive officer or key employee is terminated after a change of control of the Company occurring on or before December 31, 2001, the terminated officer or employee may receive, among other things, a lump sum payment equal to ten times the highest annual compensation paid by the Company to that officer or employee in the preceding three years. If a change of control of the Company occurs on or before December 31, 2001, and any executive officer or key employee is terminated, we may incur substantial expenditures to satisfy the payments due under the Change of Control Agreements. These potential expenditures could adversely affect our financial results and potentially discourage any hostile buyer from making an unsolicited offer to purchase the Company. We are currently negotiating the extension of the Change of Control Agreements of our senior executives.

COSTS OF REPURCHASING CERTAIN SHARES. During the period 1997 through 1999, we issued shares in Arizona, Pennsylvania and Washington, for which no share registration filings were made under the securities laws of those states and for which exemptions from registration appear to be unavailable. In order to comply with the laws of those states, we need to offer to repurchase all such shares from investors who originally acquired them from us, who were residents in those states at the time of purchase, and who continue to hold such shares at the time the offer is made. We will have to pay to each shareholder who accepts the offer the price per share they originally paid, plus interest, where applicable, accrued from the date of initial purchase to the date of repurchase. The total number of shares subject to repurchase is 76,888 (adjusted for reverse stock split of April 10, 2001), and the potential cost to us is approximately \$420,323, plus accrued interest of approximately \$53,537, as of December 31, 2000. The costs of repurchasing shares subject to the offer would be paid out of company funds, but we have not had, and do not have, sufficient cash to repurchase all such shares, and even a low number of repurchases would have a material adverse impact on our operations and financial condition if we are unable to raise funds to pay for such costs. If we are unable to repurchase shares for lack of funds, the selling shareholders may seek to exercise certain rights as creditors or seek to enforce claims for breach of contract. Additionally, such investors may file complaints with the applicable security regulatory body of these states and such governmental bodies could take various actions against us requiring us to conduct these repurchase offers. In addition, interest would continue to accrue on the outstanding amounts owed to shareholders in Pennsylvania and Washington at annual rates of 6% and 8%, respectively. If, at the time a repurchase offer is made, the market price of our shares is higher than the repurchase price, we do not believe that all affected shareholders would accept the repurchase offer. No assurance can be made, however, that shareholders will decline any repurchase offer, and we may be obligated to repurchase all shares subject to the offers. Repurchase offers in Pennsylvania and Washington have to be approved by the regulatory authorities of those states, and the authorities in Washington will not approve our repurchase offers until proceedings between the Company and the state's Department of Financial Institutions, Securities Division, regarding the State's request for us to cease and desist from violations of RCW 21.20.140, 21.20.040, and 21.20.010 of the Securities Act of Washington have been concluded. These alleged violations include the offer to sell shares that were not registered in the state or otherwise qualified for an exemption from registration. To date, approval to extend repurchase offers to the affected shareholders in Washington is dependent on our providing certain additional information to the Washington Securities Division, which is being prepared by us. Those proceedings are described in the section on "Legal Proceedings" below. Delays in obtaining regulatory approval would also cause increases in the amount of interest payable pursuant to repurchase offers. We believe that because the price of our common stock is significantly lower than this price, affected shareholders would be more likely than not to accept repurchase offers. Our current cash shortages preclude us from honoring any acceptances. We therefore believe it is in the best interests of the Company and the shareholders, especially the affected shareholders, that we first raise sufficient capital to pay affected shareholders who may accept repurchase offers, prior to making the repurchase offers. If we were forced to make repurchase offers at this time and a significant number of shareholders requested repurchase, we would not be able to complete such repurchases and our ability to continue our operations would be jeopardized.

DEPENDENCE ON NEW PRODUCTS. Our future growth will be dependent on our ability to identify and develop Genius-branded products which can be sold at acceptable margins through wholesale and retail outlets, as well as on the Internet, and on our ability to acquire the necessary rights to market and distribute such products and to enter into arrangements with third-party manufacturers and distributors to produce and distribute such products. There

can be no assurance that we will be successful in identifying and developing quality products that may be successfully marketed through these channels or in entering into relationships with third-party manufacturers and distributors. A failure to identify and develop new products would have a detrimental impact on our future performance.

INDUSTRY TRENDS. Our recent growth in sales has been based in part on both the evolution of consumer tastes and preferences towards educational products for babies and children. We believe it is also based on publicity on the effect of classical music on child development. There are differences of opinion, however, in the scientific community regarding the efficacy of classical music on child development. A change in consumer tastes and preferences regarding our products may have an adverse effect on our results of operations. There can be no assurance that consumer tastes and preferences will continue to favor our products and marketing segments.

ACCEPTANCE AND EFFECTIVENESS OF INTERNET ELECTRONIC COMMERCE. Our success in establishing an e-commerce business through our Baby Genius web site will be dependent on consumer acceptance of e-retailing and an increase in the use of the Internet for e-commerce. If the markets for e-commerce do not develop or develop more slowly than we expect, our e-commerce business may be harmed. If Internet usage does not grow, we may not be able to increase revenues from Internet advertising and sponsorships which also may harm both our retail and e-commerce business. Internet use by consumers is in an early stage of development, and market acceptance of the Internet as a medium for content, advertising and e-commerce is uncertain. A number of factors may inhibit the growth of Internet usage, including inadequate network infrastructure, security concerns, inconsistent quality of service, and limited availability of cost-effective, high-speed access. If these or any other factors cause use of the Internet to slow or decline, our results of operations could be adversely affected. To date, we have not received significant revenue from our Internet sales.

COMPETITION. Increased competition could result in reduced margins or loss of market share, any of which could harm both our retail and e-commerce businesses. Competition is likely to increase significantly as new companies enter the market and current competitors expand their services. Many of our present and potential competitors are likely to enjoy substantial competitive advantages, including larger numbers of users, more fully-developed e-commerce opportunities, larger technical, production and editorial staffs, and substantially greater financial, marketing, technical and other resources. If we do not compete effectively or if we experience any pricing pressures, reduced margins or loss of market share resulting from increased competition, our business could be adversely affected.

TECHNOLOGICAL CHANGE. The market for CDs, cassettes and video technology is subject to change. There can be no assurance that over time these technologies will not be affected by competition from another form of information storage and retrieval technology, such as on-line information services. A further strong advance in the technology surrounding cable and satellite that would give consumers access to information and entertainment may limit the expansion of the market for applications based on CDs, cassettes and video. In addition, existing CD technology may also be replaced by new CD technologies such as digital video disc technology. The replacement of CD technology by another information storage and retrieval technology, or the replacement of existing CD technology by a new technology at a pace too rapid for production adjustments, may also have a material adverse effect on our business, financial condition and results of operations.

TRADEMARK INFRINGEMENT CLAIMS. We may be held liable for copyright or trademark infringement if the content or packaging of our CDs, cassettes, videos or other products infringes upon the copyrights or trademarks of others. Such claims of infringement, if brought, could materially adversely affect our

business or financial condition. In addition, it has come to our attention that certain third parties may be infringing upon the Baby Genius trademarks in certain product categories. We are consulting with our counsel and will defend as we deem necessary any such infringements. Defending our intellectual property rights may be costly in terms of legal fees and management time. Expenditure of significant legal fees could have a material adverse effect on our financial condition and no assurance can be made that we would prevail in any litigation defending our intellectual property rights. Failure to take necessary defensive legal action for lack of cash could result in compromising our rights to our intellectual property, which would have a material adverse effect on our business, our financial position and the value of our intellectual property.

INABILITY TO UTILIZE NET OPERATING LOSS. In 1997, 1998, 1999 and 2000, we incurred losses resulting in a net operating loss carryforward as of December

31, 2000, of \$6,943,000 and \$3,472,000 for federal and state income tax purposes, respectively. The federal and state net operating losses begin to expire in 2012 and 2002 respectively. Because we anticipate significant expenditures with respect to implementing our business plan, including our Internet e-commerce business, there is a risk that we will be unable to make enough profits, if any, during the net operating loss carryforward period to realize the deferred income tax asset.

INABILITY TO QUALIFY FOR OR MAINTAIN A LISTING ON THE NASDAQ MARKET. Our shares of common stock are currently traded on the OTC Bulletin Board. We intend to apply for the listing of our shares of common stock on the Nasdaq SmallCap Market ("Nasdaq") at such time, if ever, as we qualify for such listing. We believe a listing on Nasdaq will improve the market liquidity of our shares of common stock by eliminating the delay of buy/sell transactions and the wide spread between the bid/ask quotation which are commonly experienced on the OTC Bulletin Board, and by creating greater coverage of our company by the news media and security analysts. There can be no assurance that we will be able to achieve the minimum financial requirements and other criteria to be listed on Nasdaq. If we become listed on Nasdaq, we will have to maintain the financial requirements and other criteria required for continued listing on Nasdaq. Our failure to maintain these requirements would result in our shares being delisted from Nasdaq. If we are delisted from Nasdaq, our shares will once again trade on the OTC Bulletin Board.

RISK OF LOW-PRICE STOCKS. Our common stock is subject to Rule 15g-1 through 15g-9 under the Securities Exchange Act of 1934, as amended, which imposes certain sales practice requirements on broker-dealers which sell our common stock to persons other than established customers and "accredited investors" (generally, individuals with net worths in excess of \$1,000,000 or annual incomes exceeding \$200,000 (or \$300,000 together with their spouses)). For transactions covered by this rule, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to the sale. This rule adversely affects the ability of broker-dealers to sell our common stock and purchasers of our common stock to sell their shares of such common stock. Additionally, our common stock is subject to the Securities and Exchange Commission regulations for "penny stock." Penny stock includes any non-Nasdaq equity security that has a market price of less than \$5.00 per share, subject to certain exceptions. The regulations require that prior to any non-exempt buy/sell transaction in a penny stock, a disclosure schedule set forth by the Securities and Exchange Commission relating to the penny stock market must be delivered to the purchaser of such penny stock. This disclosure must include the amount of commissions payable to both the broker-dealer and the registered representative and current price quotations for the common stock. The regulations also require that monthly statements be sent to holders of penny stock which disclose recent price information for the penny stock and information of the limited market for penny stocks. These requirements adversely affect the market liquidity of our common stock.

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UNRELIABILITY OF INTERNET INFRASTRUCTURE. If the Internet continues to experience increased numbers of users, frequency of use or increased bandwidth requirements, the Internet infrastructure may not be able to support these increased demands or perform reliably. The Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure, and could face additional outages and delays in the future. These outages and delays could reduce the level of Internet usage and traffic on our website. In addition, the Internet could lose its viability due to delays in the development or adoption of new standards and protocols to handle increased levels of activity. If the Internet infrastructure is not adequately developed or maintained, use of our website may be reduced. Even if the Internet infrastructure is adequately developed, and maintained, we may incur substantial expenditures in order to adapt our services and products to changing Internet technologies. Such additional expenses could severely harm our financial results.

TRANSACTIONAL SECURITY CONCERNS. A significant barrier to Internet e-commerce is the secure transmission of confidential information over public networks. Any breach in our security could cause interruptions in the operation of our website and have an adverse effect on our business.

GOVERNMENTAL REGULATION OF THE INTERNET. There are currently few laws that specifically regulate communications or commerce on the Internet. Laws and regulations may be adopted in the future, however, that address issues including user privacy, pricing, taxation and the characteristics and quality of products and services sold over the Internet. An increase in regulation or the application of existing laws to the Internet could significantly increase our costs of operations and harm our business.

EMPLOYEES

We currently have nine full-time employees and one part-time employee. None of our employees are represented by an organized labor union. We believe our relationship with our employees is very good, and we have never experienced an employee-related work stoppage. We will need to hire and retain highly-qualified management personnel in order to execute our business plan. No assurance can be given that we will be able to locate and hire such personnel, or that, if hired, we will continue to be able to pay the higher salaries necessary to retain such skilled employees.

ITEM 2. DESCRIPTION OF PROPERTY

In September 1998, we entered into a sublease agreement for a 3,928 square foot facility located in San Diego, California, which we use as our principal executive offices. The sublease has a five year term which commenced in December 1998. Our monthly rent for this space is as follows:

MONTH OF TERM -----	AMOUNT -----
1-12.....	\$9,034.40
13-24.....	\$9,230.80
25-36.....	\$9,427.20
37-48.....	\$9,623.60
49-60.....	\$9,820.00

In addition, we have an informal sub-lease arrangement under which we rent a portion of a warehouse facility (approximately 1,500 square feet) in Atlantic, Iowa, for a monthly rent of \$500, from which we distribute Baby Genius products to certain customers. We believe that these facilities are adequate for the immediate future.

ITEM 3. LEGAL PROCEEDINGS

On September 23, 1999, the Securities Administrator of the State of Washington filed a Summary Order to Cease and Desist with the State of Washington Department of Financial Institutions Securities Division against us, the Martin Consulting Group, Martin H. Engelman, their employees and agents. The relief sought is that the respondents cease and desist from violations of RCW 21.20.140, 21.20.040, and 21.20.010 of the Securities Act of Washington. The Summary Order alleges, among other things, that Engelman and the Company offered to sell shares of the Company that were not registered in the state or otherwise qualified for an exemption from registration. Engelman was hired by us to represent us at the Third Annual Seattle Money Show and provide information to interested parties about the Company and its products. We are in discussions with the Securities Administrator regarding entering into an administrative order and although no terms of an order have yet been proposed by the Securities Administrator, the purpose of entering an order would be to resolve all claims based on the allegations set forth in the Summary Order to Cease and Desist. A total of approximately \$251,240 of our securities were sold in Washington, and we anticipate that any resolution of this matter with the Securities Administrator would include the repurchase of these securities that amount, plus interest thereon from the date of purchase. Until we receive a draft order from the Securities Administrator, we are unable to determine the ultimate effects or consequences of such an order. We have been requested to provide the Securities Administrator with certain information before a draft order will be prepared, and we are compiling such information. If we determine that the terms of a proposed order are not acceptable, we would likely contest the Summary Order at a hearing. The potential costs of a hearing and the uncertainty of the outcome leads us to believe, however, that entering into an administrative order on acceptable terms is in our best interests. Entering into an administrative order may affect our business or our ability to raise capital in the State of Washington and those states where having an outstanding administrative order may result in the loss of certain available exemptions from registration of securities.

All sales of our shares in the State of Washington were made pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act").

We are not a party to any other legal or administrative proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

On November 9, 1999, following our name change to Genius Products, Inc., our stock symbol changed from ITMH to GNUS. Following our reverse stock split on April 10, 2001, our stock symbol changed to GNPI. The market represented by the OTC Bulletin Board is extremely limited and the price for our common stock quoted on the OTC Bulletin Board is not necessarily a reliable indication of the value of our common stock. The following table sets forth the high and low bid prices for shares of our common stock for the periods noted, as reported on the OTC Bulletin Board. Quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. The prices reflect the reverse stock split which occurred on April 10, 2001.

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YEAR ----	PERIOD -----	HIGH ----	LOW ---
Fiscal Year 1999	First Quarter	18.000	6.000
	Second Quarter	17.500	8.000
	Third Quarter	25.000	7.000
	Fourth Quarter	6.500	2.248
Fiscal Year 2000	First Quarter	12.248	2.248
	Second Quarter	5.248	1.500
	Third Quarter	4.248	1.500
	Fourth Quarter	1.872	0.624

Our common stock is subject to Rule 15g-1 through 15g-9 under the Securities Exchange Act of 1934, as amended, which imposes certain sales practice requirements on broker-dealers which sell our common stock to persons other than established customers and "accredited investors" (generally, individuals with net worths in excess of \$1,000,000 or annual incomes exceeding \$200,000 (or \$300,000 together with their spouses)). For transactions covered by this rule, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to the sale.

As of April 10, 2001, we had approximately 4,513,018 shares of common stock issued and outstanding which were held by approximately 960 shareholders of record, including the holders that have their shares held in a depository trust in "street" name. The transfer agent for our common stock is Interwest Transfer Company, 1981 East 4800 South, Salt Lake City, Utah 84117.

DIVIDEND POLICY

We have never declared or paid cash dividends on our common stock. We currently anticipate that we will retain all future earnings for use in the operation and expansion of our business, and we do not anticipate paying any cash dividends in the foreseeable future.

SALES OF UNREGISTERED SECURITIES

Reference is made to information contained under the heading "Recent Sales of Unregistered Securities" in our Form 10-SB, Amendment No. 2, filed with the Securities and Exchange Commission on January 14, 2000 and Form 10-KSB, Amendment No.2, filed with the Securities and Exchange Commission on May 1, 2000, which information is incorporated herein. The number of shares and share prices disclosed below reflect the reverse stock split which occurred on April 10, 2001.

In May 2000, we completed a private placement of shares of our common stock pursuant to Section 506 of Regulation D under the Securities Act. Pursuant to the offering, we issued 435,000 shares at a price of \$2.00 per share, and raised cash proceeds of \$815,100, net of legal costs and shares issued in payment of a company loan of \$52,400 owed to an investor in the private placement. In addition we issued 36,667 shares in finders' fees. All shares issued in the private placement and as finders' fees were unregistered and restricted within the meaning of Rule 144 of the Securities Act.

In October 2000, we commenced a private placement of shares of our common stock pursuant to Section 506 of Regulation D under the Securities Act. Pursuant to the offering, between October 1, 2000, and March 6, 2001, we issued 319,200 shares at a price of \$1.00 per share and raised cash proceeds of \$298,050.

Between January 1, 2000, and March 6, 2001, we issued an aggregate of 168,469 unregistered shares pursuant to a number of agreements with third-party consultants and service providers. All such shares were issued under Section 4(2) of the Securities Act. During this same time period, we also issued 185,625 S-8 shares for the exercise of options and received \$350,250. Additionally, 744,803 shares were issued for the conversion of short-term debt and related interest of \$699,526.

In the fourth quarter of 2000, we issued two convertible debentures to an individual investor totaling \$191,250. The debentures bear interest at 7%, with principal and interest due December 31, 2001. These debentures can be converted into common shares of our common stock at a conversion price of \$1.00 per share.

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ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Financial Statements and the related notes. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors," "Business" and elsewhere in this document. See "Forward-Looking Statements."

In 2000, we redesigned the Baby Genius corporate identity to reinforce its strong branding and image in the market place. During 2000 we signed, and are currently negotiating, with several licensees to manufacture a variety of products with the Baby Genius identity (For details see our Copyrights, Trademarks and Licenses section). We believe that our new identity will result in stronger product sales in 2001 and attract more licenses resulting in significant licensing revenues by the fourth quarter 2001. As a result of producing a new graphic image for our Baby Genius product, we have received returns of our old style product sold and paid for by a significant customer in 1999, which have decreased our 2000 net sales. Cash constraints in 2000 have limited our marketing and advertising efforts. Jewelry sales declined in 2000 as a result of reduced marketing effort.

RESULTS OF OPERATIONS 2000 COMPARED TO 1999

Revenues consist of music (Baby Genius) product sales to wholesale customers and via the Internet to retail customers, and charges to customers for shipping and handling, net of product returns and discounts. Commencing the quarter ended June 30, 2000, we recognized royalty revenue related to licensing the Baby Genius trademark. Revenues also comprise sales of jewelry products, net of returns.

Total revenues decreased by 42% (\$957,999) to \$1,344,016 for the twelve months ended December 31, 2000 from \$2,302,015 for the twelve months ended December 31, 1999.

Music sales decreased by 37% (\$454,485) to \$766,971 for the twelve months ended December 31, 2000 from \$1,221,456 for the twelve months ended December 31, 1999. At December 31, 1999, our provision for sales returns was based on a percentage of related receivables at that date. During 2000, we received a return of \$127,000 from a customer for sales paid for in 1999 and not provided for in our 1999 provision. Adjusting for this item, music sales decreased by 18% (\$200,485) to \$893,971 for the twelve months ended December 31, 2000 from \$1,094,456 for the twelve months ended December 31, 2000. In addition to returns, the decrease is a result of reduced marketing effort due to a shortage of funds. Sales from our web site increased by 26% (\$28,248) to \$135,644 for the twelve months ended December 31, 2000 from \$107,396 for the twelve months ended December 31, 1999. These sales were primarily a result of promotional activities in the third quarter of 1999 and first and second quarters of 2000. In the twelve months ended December 31, 2000 the company recognized licensing revenues of \$40,984 relating to the granting of a master toy license and foreign licenses under our Baby Genius licensing program.

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Jewelry and other sales decreased 50% (\$544,498) to \$536,061 for the twelve months ended December 31, 2000 from \$1,080,559 for the twelve months

ended December 31, 1999. The reduction in sales was a result of reduced marketing efforts as management focused on developing the music business.

Cost of sales consists primarily of the cost of products sold to customers, packaging and shipping costs, commissions relating to licensing revenues and provisions for obsolescence of inventory. Cost of sales for music products was 43% of music sales (\$328,993) for the twelve months ended December 31, 2000 compared to 24% for the same period in 1999. The resulting decrease in profit margin to 57% for the twelve months ended December 31, 2000 from 76% for the twelve months ended December 31, 1999, was due to special promotional offers to customers purchasing from our web site and the lowering of our retail sales price in September, which affected seasonal fourth quarter sales. Cost of sales for jewelry products and other sales was 87% (\$467,613) of related sales compared to 93% (\$1,008,902) for the same period in 1999. For the twelve months ended December 31, 2000, we made provision for inventory obsolescence of \$235,000. Of this provision, \$207,000 relates to the Wunder Boner product line and \$28,000 to Baby Genius products made obsolete by the introduction of new packaging graphics.

Sales and marketing expenses consist of costs for consultants, marketing personnel and promotional activities. Sales and marketing expenses decreased by 47% (\$503,140) to \$566,805 for the twelve months ended December 31, 2000 from \$1,069,945 for the twelve months ended December 31, 1999. These decreases are as a result of our declining to renew our contract with our spokesperson, and in addition conserving funds by not retaining consultants engaged in prior periods.

Infomercial expenses of \$53,750 incurred in the twelve months ended December 31, 1999 related to costs for the Astrology Network product line. In March 1999, management decided not to develop this product line.

Product and web development expenses consist of personnel, consultants and services in the development of the Baby Genius web site and product line. Product and web development costs increased by 118% (\$282,749) to \$522,804 for the twelve months ended December 31, 2000 from \$240,055 for the twelve months ended December 31, 1999. The increase was primarily due to expenses in the development of the Baby Genius web site and product line costs including the introduction of new packaging graphics.

General and administrative expenses consist of payroll and related costs for executive and administrative personnel, professional services and other general corporate expenses. General and administrative expenses increased by 10% (\$163,728) to \$1,818,083 for the twelve months ended December 31, 2000 from \$1,654,355 for the twelve months ended December 31, 1999. This increase was due to a rise in personnel costs and audit, accounting, legal and professional fees related to audited financial statements for 1999, preparation and filing of our Forms 10-SB, 10-KSB and other filings with the Securities and Exchange Commission, and services related to fund raising activities. The cost of these expenses was partially offset by our conserving funds in the area of office administrative and other general corporate expenses.

Interest expense consists of costs related to debentures, short-term loans and stock subject to rescission. Interest expense decreased by 60% (\$38,245) to \$25,230 for the twelve months ended December 31, 2000 from \$63,475 for the twelve months ended December 31, 1999. This decrease reflects a reduction in loans in 2000 compared with the prior year. In addition \$14,750 of interest expense was accrued in 2000 in respect of redeemable common stock compared with \$38,787 in 1999.

Our net loss increased \$553,894 to \$2,633,292 in 2000 from \$2,079,398 in 1999. As a result of this loss and the losses incurred since 1997, we accrued a net operating loss carryforward as of December 31, 2000, of \$6,943,000 and \$3,472,000 for federal and state income tax purposes, respectively. The federal and state net operating losses begin to expire in 2012 and 2002, respectively. Because we anticipate significant expenditures with respect to implementing our business plan, including our Internet e-commerce business, it is uncertain that we will be sufficiently profitable, if at all, during the net operating loss carryforward period to realize the deferred income tax asset. These factors, among others as discussed in Note 10 to the financial statements, raise substantial doubt about our ability to continue as a going concern.

LIQUIDITY AND CAPITAL RESOURCES

Since 1997, we have incurred significant losses. Our primary source of cash is the sale of shares of our common stock. We hold no significant cash balances. We issue shares in private placements at a discount to the then-current market price (as resales of privately-placed shares are restricted under the Securities Act, which reduces their liquidity and accordingly their value as compared to freely-trading shares on the open market). The number of

shares and share prices disclosed below reflect the reverse stock split which occurred on April 10, 2001.

In 2000, we received cash from accredited investors in two private placement offerings under Regulation D of the Securities Act. These funds were used for accounts payable and other working capital requirements. In May 2000, we completed a private placement under which we issued 471,667 shares at a price of \$2.00 per share, and raised \$815,100 net of finders' fees, legal costs and shares issued in payment of a Company loan of \$52,400 owed to an investor in the private placement. In October 2000, we commenced a private placement offering under which we issued 304,200 shares at a price of \$1.00 per share and raised \$304,200 net of finders' fees and legal costs. In addition, we received \$191,250 from the issuance of convertible debentures, \$211,600 net from loans from officers and shareholders and \$174,250 from the exercise of options net of costs and subscriptions receivable. Our liquidity is further constrained by the fact that \$420,323 of proceeds from sales of securities is subject to possible repayment. We project that on an adjusted basis we will be cash-flow positive from operations in the fourth quarter of 2001. Such projections do not, however, take into account the possible repayment of the \$420,323 plus accrued interest of \$53,537, that we may be obligated to pay in connection with certain repurchases, as described in detail in the section under "Risk Factors" headed "Costs of Repurchasing Certain Shares". If our sales decline or we are unable to sell shares to fund operations and obligatory share repurchases, we would reduce our overhead expenses and take other appropriate cost-cutting measures.

In March 2001, we commenced a private placement of shares under Regulation D of the Securities Act and raised net proceeds of \$283,500 to provide financing for the production of new video and music products and other working capital requirements. We have also retained a consultant to help us raise funds through private placements of our common shares on a "best efforts" basis over the short and medium term, as well as to provide investor relations services. No assurance can be made that the consultant will succeed in raising further cash in a timely manner or at all. The retention is on a non-exclusive basis and we are actively seeking funds from other sources. A further potential source of short-term financing which we are exploring is the selling of our accounts receivable (factoring) although the costs of such financing are expensive.

In March 1999, we entered into an Investment Agreement with MCG which grants MCG the right to purchase up to 375,000 shares of our common stock at a purchase price of \$4.00 per share, of which 150,000 shares had been purchased by MCG by April 1999. In December 2000, we terminated the Investment Agreements with MCG, in consideration of which we issued MCG 6,250 shares of common stock.

Net cash used in operating activities was \$1,613,656 and \$1,570,056 for the twelve months ended December 31, 2000 and December 31, 1999 respectively. Net operating cash flows for the twelve months ended December 31, 2000 were primarily attributable to operating losses of \$2,633,292 partially offset by a decrease in accounts receivable of \$238,124, increases in accounts payable of \$114,358 and accrued expenses of \$103,781, and non-cash charges for depreciation and amortization and stock and options issued for services. Net operating cash flows for the twelve months ended December 31, 1999 were primarily attributable to operating losses of \$2,079,398 and an increase in accounts receivable of \$319,442 partially offset by non-cash charges for stock issued for services.

Net cash used in investing activities was \$94,599 and \$444,893 for the twelve months ended December 31, 2000 and December 31, 1999 respectively. Net cash used in investing activities for the twelve months ended December 31, 2000 was attributable to the development of production masters (\$88,205) and the purchase of property and equipment (\$6,394). Net cash used in investing activities for the twelve months ended December 31, 1999 of \$350,502 was attributable to the production of music masters and other one-time production costs related to the Baby Genius catalogue of twenty music and two video titles. Additionally \$94,391 was utilized in the purchase of equipment, primarily computer hardware and software.

Net cash provided by financing activities was \$1,717,550 and \$1,929,425 for the twelve months ended December 31, 2000 and December 31, 1999 respectively. For both periods cash provided by financing activities was primarily attributable to proceeds from the issuance of common stock through private placement offerings and was used in product development and marketing of the Baby Genius product line and to provide additional working capital.

ITEM 7. FINANCIAL STATEMENTS

GENIUS PRODUCTS, INC. AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS

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Consolidated Statements of Stockholders' Deficit	II-4
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Notes to Consolidated Financial Statements	II-6

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Genius Products, Inc.

We have audited the accompanying consolidated balance sheet of Genius Products, Inc. and Subsidiaries as of December 31, 2000 and the related consolidated statements of operations, stockholders' deficit and cash flows for each of the years in the two-year period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Genius Products, Inc. and Subsidiaries as of December 31, 2000, and the results of their operations and cash flows for each of the years in the two-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 10 to the financial statements, the Company has incurred significant net losses the last three years and requires additional capital to fund its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 10. The consolidated financial statements do not include any adjustments that may result from the outcome of this uncertainty.

/s/ CACCIAMATTA ACCOUNTANCY CORPORATION

Irvine, California
March 20, 2001

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<TABLE>

GENIUS PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

<CAPTION>

December 31, 2000

<S>

<C>

ASSETS

Current assets:

Cash and equivalents	\$	54,928
----------------------	----	--------

Accounts receivable, net of allowance for doubtful accounts and sales returns of \$217,237	334,269
Inventories	118,869

Total current assets	508,066
Property and equipment, net	86,241
Production masters, net of accumulated amortization of \$203,641	235,066
Patents and trademarks, net of accumulated amortization of \$7,598	26,706
Deposits and other	60,929

	\$ 917,008
	=====

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:

Convertible debentures	\$ 191,250
Accounts payable	668,860
Accrued payroll and related expenses	85,270
Other accrued expenses	146,314
Loans from shareholders	46,667

Total current liabilities 1,138,361

Redeemable common stock 473,860

Commitments and contingencies -

Stockholders' deficit:

Common stock, \$.001 par value; 25,000,000 shares authorized; 3,979,444 shares outstanding	3,979
Additional paid-in capital	6,980,211
Stock subscription receivable	(106,000)
Accumulated deficit	(7,573,403)

Total stockholders' deficit (695,213)

\$ 917,008

=====

</TABLE>

The accompanying notes are an integral part of these consolidated
financial statements.

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GENIUS PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2000	1999
	-----	-----
Revenues:		
Music	\$ 766,971	\$ 1,221,456
Jewelry	536,061	1,080,559
Licensing	40,984	-
	-----	-----
Total revenues	1,344,016	2,302,015
	-----	-----
Costs and expenses:		
Cost of sales:		
Music	328,993	290,131
Jewelry	467,613	1,008,902
Licensing	11,250	-
Inventory writedown	235,000	-
Sales and marketing	566,805	1,069,945
Infomercial	-	53,750
Product and Web development	522,804	240,055
General and administrative	1,818,083	1,654,355

Total costs and expenses	3,950,548	4,317,138
Loss from operations	(2,606,532)	(2,015,123)
Interest expense	(25,160)	(63,475)
Loss before provision for income taxes	(2,631,692)	(2,078,598)
Provision for income taxes	(1,600)	(800)
Net loss	\$ (2,633,292)	\$ (2,079,398)
Basic and diluted loss per common share:		
Net loss per share	\$ (0.80)	\$ (0.88)
Basic and diluted weighted average shares	3,304,868	2,382,800

The accompanying notes are an integral part of these consolidated financial statements.

II-3

<TABLE>

GENIUS PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

<CAPTION>

	Common stock		Additional	Stock	Accumulated	Total
	Shares	Amount	Paid-in Capital	Subscription Receivable	Deficit	Stockholders' Deficit
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 1998	2,077,266	\$ 2,077	\$ 2,705,641	\$ -	\$ (2,860,713)	\$ (152,995)
Shares issued under investment agreement	150,000	150	599,850	-	-	600,000
Shares issued in private placement, net of offering costs	128,475	128	551,600	-	-	551,728
Shares issued in private placement, net of offering costs	138,029	138	677,492	-	-	677,630
Less proceeds from sale of shares subject to redemption	-	-	(261,323)	-	-	(261,323)
Shares issued for services	93,761	94	493,711	-	-	493,805
Shares issued upon conversion of debentures	100,000	100	199,900	-	-	200,000
Net loss	-	-	-	-	(2,079,398)	(2,079,398)
Balance, December 31, 1999	2,687,531	2,687	4,966,871	-	(4,940,111)	29,447
Shares issued in private placement, net of offering costs	471,667	472	814,628	-	-	815,100
Shares issued in private placement, net of offering costs	304,200	304	303,896	-	-	304,200
Shares issued for services	65,421	65	160,843	-	-	160,908
Shares issued upon conversion of loans from shareholders	265,000	265	264,735	-	-	265,000
Exercise of stock options	185,625	186	350,064	-	-	350,250
Stock option costs	-	-	119,174	-	-	119,174
Stock subscription receivable	-	-	-	(106,000)	-	(106,000)
Net loss	-	-	-	-	(2,633,292)	(2,633,292)
Balance, December 31, 2000	3,979,444	\$ 3,979	\$ 6,980,211	\$ (106,000)	\$ (7,573,403)	\$ (695,213)

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

<TABLE>

GENIUS PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<CAPTION>

	Year Ended December 31,	
	2000	1999
<S>	<C>	<C>
Cash flows from operating activities:		
Net loss	\$ (2,633,292)	\$ (2,079,398)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	166,992	87,819
Interest expense on redeemable stock	14,750	38,787
Bad debt expense	13,179	75,004
Common stock issued for services	160,908	493,805
Stock options granted to non-employees for services	119,174	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	224,945	(319,442)
Inventories	56,278	(38,251)
Other assets	8,390	42,747
Increase (decrease) in:		
Accounts payable	114,358	44,319
Accrued expenses	103,781	94,889
Net cash used by operating activities	(1,650,537)	(1,559,721)
Cash flows from investing activities:		
Development of production masters	(88,205)	(350,502)
Additions to patents and trademarks	(11,969)	(10,335)
Purchase of property and equipment	(6,394)	(94,391)
Net cash used in investing activities	(106,568)	(455,228)
Cash flows from financing activities:		
Proceeds from issuance of convertible debentures	191,250	-
Loans from shareholders	265,000	100,067
Proceeds from exercise of options	244,250	-
Proceeds from issuance of common stock	1,119,300	1,829,358
Repayment of loans from shareholders	(53,400)	-
Net cash provided by financing activities	1,766,400	1,929,425
Net increase (decrease) in cash and equivalents	9,295	(85,524)
Cash and equivalents, beginning of year	45,633	131,157
Cash and equivalents, end of year	\$ 54,928	\$ 45,633
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$ 4,345	\$ -
Income taxes paid	\$ 800	\$ 800
Debentures converted into common stock	\$ 265,000	\$ 200,000

</TABLE>

The accompanying notes are an integral part of these consolidated
financial statements.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of business

Genius Products, Inc. and Subsidiaries (the "Company"), is a producer, publisher and distributor of classical, instrumental and vocal compact disks, cassettes and videos for children under the BABY GENIUS brand name, which sell at retail outlets nationwide, and at numerous e-commerce retail web sites on the Internet. The Company has developed a website to serve as an e-commerce retail and information site with an intended focus on parents, parents-to-be and children.

The Company also sells, on a wholesale basis, fine and costume jewelry. The Company's major jewelry customer is a U.S. television shopping network. The Company designs its jewelry products and uses independent foreign manufacturing facilities to produce them to the Company's specifications.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of Genius Products, Inc. and its three wholly-owned subsidiaries which are virtually inactive. All significant intercompany transactions and accounts have been eliminated.

Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and equivalents

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

Accounts receivable

The allowance for doubtful accounts and sales returns includes management's estimate of the amount expected to be lost on specific accounts and for losses on other as yet unidentified accounts included in accounts receivable. In estimating the allowance component for unidentified losses and returns, management relies on historical experience. The amounts the Company will ultimately realize could differ materially in the near term from the amounts assumed in arriving at the allowance for doubtful accounts and sales returns in the accompanying financial statements.

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GENIUS PRODUCTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Concentrations of credit risk

In 2000, the largest jewelry and music customer accounted for 93% and 29% of jewelry and music sales, respectively. In 1999, the largest jewelry and music customer accounted for 65% and 34% of jewelry and music sales, respectively. At December 31, 2000, these two customers accounted for 72% of accounts receivable.

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of temporary cash investments and trade receivables. The Company restricts investment of temporary cash investments to financial institutions with investment grade credit ratings. Credit risk on trade receivables is minimized as a result of the large and diverse nature of the Company's customer base.

Inventories

Inventory consists of finished goods and is valued at the lower of cost or market. Cost is determined on a first-in-first-out method of valuation. The Company regularly monitors inventory for excess or obsolete items and makes any valuation corrections when such adjustments are needed. In 2000, the Company recorded inventory writedowns of \$235,000; \$207,000 related to the Wunder Boner product line which the Company decided not to pursue, and \$28,000 related to obsolete Baby Genius packaging.

Long-lived assets

Depreciation and amortization of property and equipment are provided over the estimated useful lives of the assets using the straight-line method.

Production masters are stated at cost net of accumulated amortization. Costs incurred for production masters, including licenses to use certain classical compositions, royalties, recording and design costs, are capitalized and amortized over a three year period from the time a title is initially released, consistent with the estimated timing of revenue for a title. Amortization expense was \$136,066 in 2000 and \$ 67,575 in 1999.

Patents and trademarks covering a number of the Company's products are being amortized on a straight line basis over 5 years. Amortization expense was \$5,560 in 2000 and \$2,038 in 1999.

Long-lived assets are reviewed annually for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. Impairment is necessary when the undiscounted cash flows estimated to be generated by the asset are less than the carrying amount of the asset.

Fair value of financial instruments

The carrying amounts of cash and equivalents, accounts receivable, convertible debentures, loans from shareholders, accounts payable, and accrued expenses approximate fair value.

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GENIUS PRODUCTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Stock-based compensation

The Company has elected to adopt the disclosure provisions only of SFAS 123 and continues to measure compensation cost related to stock and stock options issued to employees using the intrinsic method of accounting prescribed by Accounting Principles Board Opinion No. 25 ("APB25"), "Accounting for Stock Issued to Employees," and related interpretations.

Revenue recognition

Revenues, the related cost of sales, and an allowance for returned goods are recorded upon the shipment of goods.

Advertising and infomercial costs

Advertising costs including infomercial costs are expensed as incurred. Advertising costs were \$80,034 and \$103,920, in 2000 and 1999, respectively.

Income taxes

Deferred taxes are accounted for using an asset and liability approach, whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Loss per share

Basic EPS is calculated using income available to common stockholders divided by the weighted average of common shares outstanding during the year. Diluted EPS is similar to Basic EPS except that the weighted average of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares, such as options, had been issued. The treasury stock method is used to calculate dilutive shares which reduces the gross number of dilutive shares by the number of shares purchasable from the proceeds of the options assumed to be exercised.

Reclassifications

Certain items in the 1999 financial statements have been reclassified to conform with the 2000 presentation.

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GENIUS PRODUCTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

<TABLE>

2. PROPERTY AND EQUIPMENT

<CAPTION>

	2000	Useful lives
<S>	<C>	<C>
Computers and equipment	\$ 89,406	3 - 5 years
Furniture and fixtures	27,961	3 - 7 years
Leasehold improvements	25,134	Lesser of lease term or useful life.

	142,501	
Accumulated depreciation and amortization	(56,260)	

	\$ 86,241	
	=====	

</TABLE>

Depreciation expense was \$25,366 in 2000 and \$18,206 in 1999.

3. DEBT

Convertible Debentures

In the fourth quarter of 2000, the Company issued two convertible debentures to an individual investor totaling \$191,250. The debentures bear interest at 7%, principal and interest due December 31, 2001. These debentures can be converted into common shares of the Company's common stock at a conversion price of \$1.00 per share.

During 1998, the Company issued two convertible debentures to individual investors totaling \$200,000. The debentures were converted into 100,000 shares of the Company's common stock on December 31, 1999, at a conversion price of \$2.00 per share. The embedded interest of the conversion feature was estimated to be \$200,000, and additional paid-in capital and interest expense of \$200,000 were recorded in 1998. In connection with the issuance of these debentures, the Company paid a fee of \$20,000 to an individual as a commission. The prepaid loan fee was amortized to interest expense using the effective interest method and was fully expensed by December 31, 1999.

Loans from Shareholders

During 2000, the Company borrowed \$265,000 from two shareholders and converted the debt into 265,000 shares of common stock.

In the fourth quarter of 1999, the Company borrowed a total of \$100,067 from two of its shareholders. The notes are due on demand and accrue interest at a rate of 7% per year. The accrued interest is not due until demand for payment is made by the shareholders. One note totaling \$53,400 was repaid, and the other note of \$46,667 remains outstanding at December 31, 2000. Interest expense in 2000 was \$3,294 and in 1999 was \$850.

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GENIUS PRODUCTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. COMMON STOCK

During 2000, the Company sold 471,667 shares of its common stock at \$2.00, pursuant to a private placement, less commissions and offering costs, for net proceeds of \$815,100.

During 2000, the Company sold 304,200 shares of its common stock at \$1.00, pursuant to a private placement, less commissions and offering costs, for net proceeds of \$304,200.

During 2000, the Company issued 65,421 shares of common stock for services valued at \$160,908.

During 2000, \$265,000 of debt was converted into 265,000 common shares.

During 2000, options were converted into 185,625 common shares for net proceeds of \$350,250.

In March 1999, the Company entered into an investment agreement with Minnesota Communications Group ("MCG"), an affiliate of Minnesota Public Radio, giving MCG the right to purchase up to 375,000 shares of the Company's common stock at \$4.00 per share. During 1999, MCG purchased 150,000 common shares for net proceeds of \$600,000. In December 2000, MCG released the Company from the investment agreement.

During 1999, the Company sold 128,475 shares of its common stock at \$5.00, pursuant to a private placement, less commissions and offering costs, for net proceeds of \$551,728.

During 1999, the Company sold 138,029 shares of its common stock at \$5.80, pursuant to a private placement, less commissions and offering costs, for net proceeds of \$677,630.

During 1999, the Company issued 93,761 shares of common stock for services valued at \$493,805.

Redeemable common stock

During 1999, the Company reviewed certain aspects of its issuances of common stock and determined that during 1997, 1998 and through September 1999, it sold common stock in private placement transactions which may be subject to redemption. The total number of shares subject to redemption at December 31, 2000 was 76,888. Accordingly, additional paid in capital has been reduced by \$420,323 to reflect the cumulative amounts subject to redemption. In addition, accrued interest of \$53,537 is included in the caption redeemable common stock in the accompanying balance sheet.

Reverse stock split

On April 10, 2001, the Board of Directors approved a 1 for 4 reverse stock split of common stock to stockholders of record on that date. Per-share amounts in the accompanying financial statements have been adjusted for the split.

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5. STOCK OPTIONS

 Employees

During 2000, the Company granted options to its employees to purchase a total of 953,750 shares of its common stock at exercise prices of \$.80 to \$5.12 per share, which exceeded fair market value at the time the options were granted.

During 1999, the Company granted options to its employees to purchase a total of 357,500 shares of its common stock at exercise prices of \$9.00 to \$10.52 per share, which exceeded fair market value.

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its plans. Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant dates for awards under this plan consistent with the method of FASB Statement No. 123, the Company's net loss and loss per common share would have been increased to the pro forma amounts indicated below:

	2000	1999
	-----	-----
Net loss		
As reported	\$ (2,633,292)	\$ (2,079,398)
Pro forma	\$ (3,664,292)	\$ (3,835,398)
Basic and diluted loss per share:		
As reported	\$ (0.80)	\$ (0.88)
Pro forma	\$ (1.12)	\$ (1.60)

The pro forma compensation cost was recognized for the fair value of the stock options granted, which was estimated using the Black-Scholes model with the following weighted-average assumptions for 2000 and 1999, respectively: expected volatility of 50% and 150%, respectively, and risk-free interest of 6.50% and 6.50%, respectively, expected life of 1 to 10 years and no expected dividends for both years. The estimated weighted-average fair value of stock options granted in 2000 and 1999 was \$.22 and \$1.28, respectively.

Nonemployees

In 2000, the Company granted options to individuals for services rendered, to purchase a total of 233,135 shares of its common stock at exercise prices from \$.80 to \$5.00 per share, resulting in the recognition of \$119,174 of expense.

During 1999, the Company granted options to five individuals, for services rendered, to purchase a total of 3,750 shares of its common stock at an exercise price between \$9.00 and \$10.00 per share.

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5. STOCK OPTIONS (CONTINUED)

 <TABLE>

A summary of stock option activity follows:

<CAPTION>

	Number	Weighted Average Exercise price	Exercisable	Weighted Average Exercise price
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
December 31, 1998	631,250	\$5.52	37,500	\$13.60
Granted	361,250	\$9.60		
Exercised	-	-		

Canceled	-	-	-	-
December 31, 1999	992,500	\$7.04	672,375	\$5.80
Granted	1,186,885	\$2.24		
Exercised	(148,125)	\$2.08		
Canceled	-	-	-	-
December 31, 2000	2,031,260	\$3.48	1,916,260	\$3.44

</TABLE>

<TABLE>

The following information applies to all options outstanding at December 31, 2000:

<CAPTION>

Exercise Price	Options Outstanding	Average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$0.80 - 1.28	498,750	1	\$ 0.84	498,750	\$ 0.84
\$2.16 - 2.44	488,760	9	\$ 2.16	476,260	\$ 2.16
\$3.92 - 4.36	23,750	3	\$ 4.12	23,750	\$ 4.12
\$5.00	958,750	9	\$ 5.00	856,250	\$ 5.00
\$9.00 - 10.52	23,750	9	\$ 9.80	23,750	\$ 9.80
\$13.60	37,500	8	\$13.60	37,500	\$13.60
	2,031,260			1,916,260	

</TABLE>

In February 2000, 337,500 employee options with exercise prices ranging from \$9.00-\$10.52 were re-priced to \$5.00, which exceeded the then current market price.

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GENIUS PRODUCTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. COMMITMENTS AND CONTINGENCIES

Operating leases

The Company leases certain facilities and automobiles under noncancelable operating leases. Rental expense for 2000 and 1999 was \$155,248 and \$149,335, respectively.

As of December 31, 2000, the future minimum rental commitments required under existing noncancelable operating leases are as follows:

2001	\$ 126,000
2002	121,000
2003	118,000
2004	-
	\$ 365,000

Executive employment agreements

The Company has entered into employment agreements with seven of its executive officers and key employees. The agreements provide for a lump sum payment equal to ten times the employee's annual compensation in the event of the employee's termination due to a change in control of the Company occurring on or before December 31, 2001.

Agreements with former officer

In October 1999, the Company entered into a severance letter agreement

with its former president, Gerald Edick, for a cash bonus totaling \$200,000 to be paid in equal installments over one year. On March 1, 2000 the Company entered into a consulting agreement to amend the severance letter agreement. Edick revoked his rights to the cash bonus, and instead was to be paid \$14,500 per month through September 30, 2000 in consideration for investor relations and fund raising services.

Letter of credit

In September 1998, the Company entered into a letter of credit agreement with its bank. The letter of credit is for \$10,000 and is used to satisfy the reserve requirement of the Company's merchant account for processing credit card purchases of the Company's products. The letter of credit is collateralized by a \$10,000 certificate of deposit and expired August 21, 2000.

GENIUS PRODUCTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. RELATED PARTY TRANSACTION

Included in deposits and other assets is \$21,555 of advances made to two officers of the Company.

8. INCOME TAXES

The provision for income taxes in 2000 and 1999 consists of California income taxes of \$800.

Reasons for differences between income tax expense and the amount computed by applying the federal statutory income tax rate to income (loss) before income taxes are as follows:

The Company has net operating loss (NOL) carryforwards that can be utilized to offset future taxable income. At December 31, 2000, federal NOL carryforwards totaled approximately \$6,943,000. The federal carryforwards expire in various years ending September 30 as follows:

2011	\$	238,000
2012		435,000
2018		1,558,000
2019		2,079,000
2020		2,633,000

	\$	6,943,000
		=====

In addition the Company has approximately \$3,472,000 of state NOL carryforwards that expire in various years through 2005.

Deferred income taxes at December 31, 2000 and 1999 relate to net operating losses and allowance accounts. A valuation allowance has been established to reduce deferred tax assets to amounts which management believes are more likely than not to be realized.

	2000	1999
	-----	-----
NOL carryforwards	\$ 2,360,000	\$ 1,465,000
Allowance accounts	(154,000)	(74,000)
	-----	-----
Deferred tax assets	2,206,000	1,391,000
Less valuation allowance	(2,206,000)	(1,391,000)
	-----	-----
Net deferred tax asset	\$ -	\$ -
	=====	=====

The valuation allowance increased by \$815,000 in 2000 and \$560,000 in 1999.

GENIUS PRODUCTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE

	2000	1999
Numerator		

Net loss	\$ (2,633,292)	\$ (2,079,398)
	=====	=====
Denominator		

Basic and diluted weighted average number of common shares outstanding during the period	3,304,868	2,382,800
	=====	=====
Basic and diluted net loss per share	\$ (0.80)	\$ (0.88)
	=====	=====

The effect of the potentially dilutive securities listed below were not included in the computation of diluted loss per share, since to do so would have been anti-dilutive.

Employee stock options	1,901,875	951,250
Non-employee stock options	129,385	41,250
Convertible debentures	191,250	-

10. MANAGEMENT'S PLANS

The Company has incurred significant losses from operations in each of the last three years, and needs substantial capital to implement its business plan. In addition, as discussed in Note 4, 76,888 shares of common stock issued in private placements is subject to redemption and the Company may be obligated to pay cash of up to \$473,860 to these investors.

The Company has retained a consultant to help raise funds through private placements of common shares on a "best efforts" basis, as well as to provide investor relations services. In March 2001, the Company commenced a private placement of shares under Regulation D of the 1933 Securities Act, to provide financing for the production of new video and music products and other working capital requirements. In addition, the Company has the ability to factor its trade receivables. No assurance can be made that the Company will succeed in raising any funds. Failure to obtain financing will have a material adverse effect on operations and financial condition.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF EXCHANGE ACT

EXECUTIVE OFFICERS

The executive officers who are not also directors of the Company are as follows:

NAME	AGE	POSITION
----	---	-----
Klaus Moeller	41	Chairman of the Board and Chief Executive Officer
Deborah L. Cross	46	Director
Michael Meader	36	Executive Vice President
Larry Balaban	38	Senior Vice President
Howard Balaban	41	Senior Vice President

Klaus Moeller has served as the Chief Executive Officer and as a director of the Company since we acquired ITM in October 1997. Prior to the acquisition, Mr. Moeller had been the Chairman of the Board and Chief Executive Officer of ITM since its inception in 1992. Mr. Moeller has a background in marketing, advertising, real estate and auditing.

Deborah Law Cross was appointed to the Company's board of directors on March 14, 2000. Since 1999, Ms. Cross has been the Director of Contract Services at HearPO, a division of Sonus Corp. which owns and operates 99 hearing care centers in the United States and Western Canada. As Director of Contract Services, Ms. Cross designs, negotiates and implements managed care contracts. >From 1996 to 1999, Ms. Cross was an area manager for Sonus, during which she managed 21 audiology clinics. From 1983 to 1996, Ms. Cross was the owner and president of Hearing Dynamics, Inc. which owned and operated four audiology clinics. Ms. Cross sold Hearing Dynamics to Sonus in 1996.

Michael Meader was appointed our Executive Vice President in April of 1998. Mr. Meader worked as an outside consultant to the Company for a number of years prior to him joining the Company. His expertise encompasses distribution, category management and service for programs designed for mass-market retailers. >From 1994 to 1998, Mr. Meader served as Vice President of Specialty Products at ARAMARK Corporation. While at ARAMARK, he controlled all corporate operations related to ARAMARK's Music Division.

Larry Balaban was appointed Senior Vice President of Marketing and Production in January 1999 after having rendered consulting services to the Company for just over six months. Prior to his appointment, Mr. Balaban was president of Mr. B Productions, a non-traditional marketing firm based in New York City, specializing in TV production, target marketing and membership programs. From 1994-1997 Mr. Balaban was President of Virtual Reality Productions, where he specialized in marketing, and coordinated specialized audio productions for licensed products including Star Trek(TM), The Simpsons, and the X-Files.

Howard Balaban was appointed Senior Vice President of Sales in January 1999 after having rendered consulting services to the Company for just over six months. Prior to his appointment, Mr. Balaban was a sales and marketing consultant to various companies. From 1994-1997, Mr. Balaban was Senior Vice President of Business Development for Future Call, Inc., a prepaid telephone card company that he co-founded with William Shatner, and which held the rights to all Star Trek(TM) properties associated with prepaid phone cards. From 1991-1995, he was the chief executive officer of 3B Telecommunications, a company he founded and which acted as a master agent for telecom networks reselling phone time and telecom services. Howard and Larry Balaban are brothers.

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Alison Elliott was hired as Treasurer and Controller on February 1, 2000. Prior to her appointment, Ms. Elliott was employed as an accountant for various companies both in San Diego and the U.K. Her most recent appointment was as CFO for a subsidiary of The Quarto Group, Inc. in San Diego. While in the U.K., Ms. Elliott worked for E.F. Hutton, Inc. for three years and Fluor Daniel, Inc. for four years and qualified as a member of the Chartered Association of Certified Accountants in 1984.

COMPLIANCE WITH SECTION 16(a) OF EXCHANGE ACT

Form 3 filings for Klaus Moeller, Dorian Lowell and Michael Meader due on January 3, 2000, were filed on March 17, 2000. Minnesota Communications Group and Gerald Edick have not yet filed a Form 3, due on January 3, 2000. No other person, who, at any time during the year ended December 31, 2000, was a director, officer or beneficial owner of more than 10 percent of any class of equity securities of the Company registered pursuant to Section 12 of the Exchange Act failed to file on a timely basis, as disclosed in Form 3 filings, reports required by Section 16(a) of the Exchange Act during the year ended December 31, 2000, or any prior years ended December 31. The foregoing is based solely upon a review of Form 3 filings furnished to the Company during the year ended December 31, 2000, certain written representations and shareholders who, to the best of our knowledge, hold 10% or more of Company shares.

ITEM 10. EXECUTIVE COMPENSATION

The compensation and benefits program of the Company is designed to attract, retain and motivate employees to operate and manage the Company for the best interests of its constituents.

Executive compensation is designed to provide incentives for those senior members of management who bear responsibility for the Company's goals and achievements. The compensation philosophy is based on a base salary, with opportunity for significant bonuses to reward outstanding performance, and a stock option program.

DIRECTOR COMPENSATION*

Directors receive no cash compensation for their services to the Company as directors, but are reimbursed for expenses actually incurred in connection with attending meetings of the Board of Directors. On March 14, 2000, Deborah Cross was granted 7,500 options to purchase shares of our common stock at an exercise price of \$4.40. The market price of our shares on the date of grant was \$3.50. The rights to exercise the options vest in full on July 14, 2000, and the options expire as of March 14, 2010.

* The number of shares and share prices disclosed reflect the reverse stock split which occurred on April 10, 2001.

EXECUTIVE OFFICER COMPENSATION

The following table sets forth compensation information for services rendered to the Company by certain executive officers in all capacities during each of the prior three fiscal years. Other than as set forth below, no executive officer's salary and bonus exceeded \$100,000 in any of the applicable years. The following information includes the dollar value of base salaries, bonus awards, the number of stock options granted and certain other compensation, if any, whether paid or deferred.

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<TABLE>

SUMMARY COMPENSATION TABLE*

<CAPTION>

Name and Position	Year	Annual Compensation			Long Term Compensation			
		Salary \$	Bonus \$	Other Annual Compensation \$	Awards		Payouts	
					Restricted Stock Awards \$	Securities Underlying Options/SARs #	LTP Payouts \$	All Other Compensation \$
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Klaus Moeller CEO	2000	150,000/(1)/	0	0	0	137,500	0	0
	1999	146,000	0	0	0	0	0	0
	1998	102,000	0	0	0	0	0	0
Dorian Lowell President	2000	150,000	0	0	0	87,500	0	0
	1999	63,249	0	0	0	187,500	0	0
	1998	0	0	0	0	0	0	0
Michael Meader Executive VP	2000	150,000/(1)/	0	0	0	137,500	0	0
	1999	146,000	0	0	0	0	0	0
	1998	102,000	0	0	0	0	0	0
Larry Balaban Senior VP	2000	110,000	0	0	0	237,500	0	0
	1999	107,874	0	0	0	75,000	0	0
	1998	0	0	0	0	12,500	0	0
Howard Balaban Senior VP	2000	110,000	0	0	0	237,500	0	0
	1999	113,892	0	0	0	75,000	0	0
	1998	0	0	0	0	12,500	0	0

</TABLE>

* The number of shares and share prices disclosed reflect the reverse stock split which occurred on April 10, 2001.

(1) During 2000, in response to the Company's limited cash flow, Mr. Moeller and Mr. Meader each agreed to accept approximately \$12,000 of their salaries in the form of shares of common stock based upon the closing price of the common stock as of January 2, 2001, which was \$0.80. Pursuant to these agreements, each of Mr. Moeller and Mr. Meader shall be issued 14,583 shares of common stock.

The following table sets forth the options granted, if any, to the

persons named in the "Summary Compensation Table" during the Company's fiscal year ended December 31, 2000.

OPTION/SAR GRANTS IN LAST FISCAL YEAR
(INCLUDES OPTIONS REPRICED IN LAST FISCAL YEAR)*

INDIVIDUAL GRANTS

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS/SARS GRANTED (#)	PERCENT OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR(%)	EXERCISE OR BASE PRICE (\$/SH)	EXPIRATION DATE
Klaus Moeller	87,500 (1)	10%	0.80	05/25/10
	50,000	5%	0.80	11/18/10
Dorian Lowell	87,500 (1)	10%	0.80	05/25/10
Michael Meader	87,500 (1)	10%	0.80	05/25/10
	50,000	5%	0.80	11/18/10
Larry Balaban	87,500 (1)	10%	0.80	05/25/10
	150,000	16%	0.80	11/18/10
Howard Balaban	87,500 (1)	10%	0.80	05/25/10
	150,000	16%	0.80	11/18/10

* The number of shares and share prices disclosed reflect the reverse stock split which occurred on April 10, 2001.

(1) Repriced on November 30, 2000, from an original exercise price of \$2.16.

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<TABLE>

The following table sets forth information concerning the exercise of stock options by each person named in the "Summary Compensation Table" during the Company's fiscal year ended December 31, 2000, and the value of all exercisable and unexercisable options at December 31, 2000.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND
FISCAL YEAR-END OPTION VALUES*

<CAPTION>

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FY-END (#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FY-END (\$) (1)	
	(\$)	(\$)	Exercisable	Unexercisable	Exercisable	Unexercisable
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Klaus Moeller	338	994	324,375	0	0	0
Dorian Lowell	338	994	275,800	0	0	0
Michael Meader	338	994	324,375	0	0	0
Larry Balaban	338	994	324,375	0	0	0
Howard Balaban	338	994	324,375	0	0	0

</TABLE>

* The number of shares and share prices disclosed reflect the reverse stock split which occurred on April 10, 2001.

(1) Based on the closing price for our common stock at the close of market on December 31, 2000. On December 31, 1999, the price of our common stock was \$0.80. The lowest exercise price of any outstanding option was \$0.80.

On February 28, 2000, by a unanimous consent of the board of directors and the committee appointed by the board to manage our non-qualified stock option plan, the board resolved to:

- reprice 12,500 options previously granted to Larry Balaban on December 1, 1998, from an original exercise price of \$10.00 to \$5.00;

2. reprice 75,000 options previously granted to Larry Balaban on January 6, 1999, from an original exercise price of \$10.00 to \$5.00;
3. reprice 12,500 options previously granted to Howard Balaban on December 1, 1998, from an original exercise price of \$10.00 to \$5.00;
4. reprice 75,000 options previously granted to Howard Balaban on January 6, 1999, from an original exercise price of \$10.00 to \$5.00;
5. reprice 37,500 options previously granted to Dorian Lowell on August 24, 1999, from an original exercise price of \$10.52 to \$5.00, and bring forward the date on which the rights to exercise such options became fully vested from March 1, 2000, to January 31, 2000;
6. reprice 37,500 options previously granted to Dorian Lowell on August 24, 1999, from an original exercise price of \$10.52 to \$5.00, and bring forward the date on which the rights to exercise such options became fully vested from July 1, 2000, to January 31, 2000; and
7. reprice 112,500 options previously granted to Dorian Lowell on September 30, 1999, from an original exercise price of \$9.00 to \$5.00.

On October 16, 2000, by a unanimous consent of the board of directors and the committee appointed by the board to manage our non-qualified stock option plan, the board resolved to:

1. reprice 187,500 options granted to Klaus Moeller in previous years from a price of \$5.00 to \$2.75;
2. reprice 187,500 options granted to Michael Meader in previous years from a price of \$5.00 to \$2.75;
3. reprice 187,500 options granted to Dorian Lowell in previous years from a price of \$5.00 to \$2.75;
4. reprice 87,500 options granted to Larry Balaban in previous years from a price of \$5.00 to \$2.75; and

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5. reprice 87,500 options granted to Howard Balaban in previous years from a price of \$5.00 to \$2.75.

On November 30, 2000, by a unanimous consent of the board of directors and the committee appointed by the board to manage our non-qualified stock option plan, the board resolved to:

1. reprice 187,500 options granted to Klaus Moeller in previous years from a price of \$2.75 to \$0.80;
2. reprice 187,500 options granted to Michael Meader in previous years from a price of \$2.75 to \$0.80;
3. reprice 187,500 options granted to Dorian Lowell in previous years from a price of \$2.75 to \$0.80;
4. reprice 87,500 options granted to Larry Balaban in previous years from a price of \$2.75 to \$0.80; and
5. reprice 87,500 options granted to Howard Balaban in previous years from a price of \$2.75 to \$0.80.

The closing price of the shares of our common stock on April 5, 2001 was \$0.6248 (adjusted for the reverse stock split of April 10, 2001). Since the original dates of grant, the price of our shares steadily declined. We believe that we will only retain executives of caliber and experience if they are offered competitive compensation packages. Because we cannot afford to pay high cash salaries, the granting of options is a critical component of the overall compensation paid to our officers. We believe it is uncompetitive and a disincentive to set the exercise price of options at unreasonable premiums over the market price of the shares on the date of grant. Similarly, a decline in the price of the shares over a period when our executives have made significant contributions which is not offset by a reduction in the exercise price, is, we believe, unfair to those executives. A decline in our share price results in an effective increase in the premium of the exercise price over the market price which penalizes the executives, and is potentially harmful to the Company if the executive then takes the view that his or her overall compensation package is

becoming uncompetitive. We will continue to review the exercise prices and vesting dates of options granted to our employees and may reprice and/or change vesting dates as we deem appropriate based on the prevailing price of our shares and our business operations and prospects.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT*

The following table sets forth certain information known to the Company with respect to the beneficial ownership of common stock as of April 6, 2001 by (i) each person who is known by the Company to own beneficially more than 5% of common stock, (ii) each of the Company's directors and executive officers, and (iii) all officers and directors of the Company as a group. Except as otherwise listed below, the address of each person is c/o Genius Products, Inc. 11250 El Camino Real, #100, San Diego, California 92130.

<TABLE>
<CAPTION>

NAME AND ADDRESS OF OWNER -----	SHARES BENEFICIALLY OWNED(1)	
	Number -----	Percent (2) -----
<S>	<C>	<C>
Klaus Moeller, Director	369,375	6.01% (3) (4) (5)
Deborah L. Cross, Director	0	0%
Dorian Lowell, President	275,800	4.49%
Michael Meader, Executive Vice President	411,875	6.70% (6)
Larry Balaban, Senior Vice President	326,313	5.31%
Howard Balaban, Senior Vice President	326,250	5.31%
Alison Elliott, Treasurer and Controller	28,750	0.47%
All officers and directors as a group (7 persons)	1,738,363	28.29%

</TABLE>

* The number of shares and share prices reflect the reverse stock split which occurred on April 10, 2001.

- (1) Beneficial Ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of Common Stock subject to options warrants currently exercisable or convertible, or exercisable or convertible within 60 days of April 9, 2001 are deemed outstanding for computing the percentage of the person holding such option or warrant but are not deemed outstanding for computing the percentage of any other person. Except as pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock beneficially owned.
- (2) Does not include 12,500 shares of Common Stock issuable upon exercise of outstanding warrants.
- (3) Includes 90,000 shares held by Shelly Moeller (as her sole property), who is the wife of Klaus Moeller. Mr. Moeller disclaims all beneficial ownership of such shares, including all voting, transfer and investment powers relating thereto.
- (4) Includes 37,500 shares held by Dorian Lowell as custodian for Tia Moeller, who is the daughter of Klaus Moeller. Mr. Moeller disclaims all beneficial ownership of such shares, including all voting, transfer and investment powers relating thereto.
- (5) Includes 37,500 shares held by Dorian Lowell as custodian for Hayden Moeller, who is the son of Klaus Moeller. Mr. Moeller disclaims all beneficial ownership of such shares, including all voting, transfer and investment powers relating thereto.
- (6) Includes 25,000 shares held by Suzanne Meader, who is the wife of Michael Meader.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The number of shares and share prices disclosed below reflect the

reverse stock split which occurred on April 10, 2001.

In September 1999, Gerald Edick, a co-founder of ITM, left the Company and resigned as President and as a member of the Company's Board of Directors. In consideration of his services, we entered into a severance letter agreement on October 26, 1999 with Mr. Edick under which we agreed to pay him a severance of \$200,000 in equal installments over one year, and continue his medical benefits until September 30, 2000, unless he independently secured medical benefits before that date. We also agreed to allow Mr. Edick to retain all of his options to purchase 187,500 shares of our common stock which were granted to him on December 7, 1997, and which fully vested on January 1, 1999.

On March 1, 2000, we entered into a Consulting Agreement with Gerald Edick to revise the terms on which we entered into the severance letter of October 26, 1999. Pursuant to the Consulting Agreement, Mr. Edick has irrevocably revoked his rights to the cash bonus and other benefits under the severance letter. Mr. Edick will, however, retain his options to purchase 187,500 shares of our common stock as set forth in the severance letter. Under the Consulting Agreement, Mr. Edick was to be paid \$14,500 per month from March 1 through September 30, 2000, in consideration for investor relations and fundraising services to be performed by Mr. Edick.

On December 31, 2000, Dorian Lowell left the Company and resigned as President. Mr. Lowell will retain his options to purchase 275,800 shares of our common stock.

We currently have employment and change of control agreements in effect for our senior executives. We are presently negotiating extensions of these Agreements.

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ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS REQUIRED BY ITEM 601 OF REGULATION S-B

Exhibit No. -----	Description -----
2.1	Agreement and Plan of Reorganization with Salutations, Inc., and related exhibits and consents*
3.1	Articles of Incorporation, as amended*
3.2.1	Bylaws, as amended*
3.2.2	Bylaws, as amended on April 20, 2000****
4.2	Shareholders Agreement with Minnesota Communications Group, and related exhibits and schedules*
4.3	Convertible Debenture with Russ Karlen*
4.4	Convertible Debenture with Steve Livingston*
4.5	Option Agreement to Purchase Common Stock with Kevin Harrington Enterprises, Inc.*
4.6	Option agreement to Purchase Common Stock with Tim Harrington*
4.7	Form of Stock Option Agreement with Employees*
4.8	Specimen Certificate for Common Stock***
10.1	License Agreement with Minnesota Communications Group*
10.2	License Agreement with Minnesota Public Radio*
10.3	Spokesperson Agreement for Deidre Hall with Panache, Inc., and related exhibits and addendum thereto*
10.4	Sublease with Torrey Hills Corporate Center, and related exhibits*
10.5	Fulfillment Services Agreement with Professional Marketing Associates, Inc.*
10.6	Letter Agreement with Lido Group*
10.7	International Marketing and Distribution Agreement with HSND, and amendment and addendum thereto*
10.8	Non-Qualified Stock Option Plan*
10.9	Senior Executive Employment Agreement with Klaus Moeller*
10.10	Change of Control Executive Employment Agreement with Klaus Moeller*
10.11	Senior Executive Employment Agreement with Dorian Lowell*
10.12	Change of Control of Executive Employment Agreement with Dorian Lowell*
10.13	Senior Executive Employment Agreement with Michael Meader*
10.14	Change of Control of Executive Employment Agreement with Michael Meader*
10.15	Executive Employment Agreement with Larry Balaban*
10.16	Change of Control of Executive Employment Agreement with Larry Balaban*
10.17	Executive Employment Agreement with Howard Balaban*

10.18 Change of Control of Executive Employment Agreement with Howard Balaban*

10.19 Executive Employment Agreement with Vinko Kovac*

10.20 Change of Control of Executive Employment Agreement with Vinko Kovac*

10.21 License Agreement with Sasha St. Clair*

10.22 Letter Agreement with Gerald Edick*

10.23 Form of License Agreement with Naxos of America, Inc.*

10.24 Financial Public Relations Letter of Agreement with Porter, LeVay & Rose, Inc.**

10.25 License Agreement with Boomerang Marketing, Inc/*

10.26 Service(s) Agreement with Cost Care, Inc. (dba Unicare Managed Care Services)**

10.27 Executive Employment Agreement with Alison Elliott***

10.28 Change of Control Agreement with Alison Elliott***

10.29 Consulting Agreement with Gerald Edick***

10.30 Production Agreement with Richard Perry*****

10.31 Representation Agreement with Global Icons*****

10.32 Consulting Agreement with Johnny Drummond+

10.33 Stock Option Agreement with Klaus Moeller+

10.34 Stock Option Agreement with Dorian Lowell+

10.35 Stock Option Agreement with Michael Meader+

10.36 Stock Option Agreement with Larry Balaban+

10.37 Stock Option Agreement with Howard Balaban+

10.38 Stock Option Agreement with Alison Elliott+

10.39 License Agreement with Jakks Pacific, Inc.

10.40 License Agreement with Catton Apparel Group

10.41 License Agreement with J. Wasson Enterprises, Inc.

10.42 Settlement Agreement (Investment Agreement) with American Public Media Group(formerly known as Minnesota Communications Group)

10.43 Settlement Agreement (Shareholders Agreement) with American Public Media Group(formerly known as Minnesota Communications Group)

10.44 Production Agreement with James Sommers

23.1 Consent of independent auditors

* Incorporated by reference from the exhibits included with the Company's Registration Statement (No. 000-27915) on Form 10-SB filed with the SEC on November 2, 1999.

** Incorporated by reference from the exhibits included with the Company's Registration Statement (No. 000-27915), Amendment No. 1, on Form 10-SB filed with the SEC on December 17, 1999.

*** Incorporated by reference from the exhibits included with the Company's Form 10-KSB (No. 000-27915) filed with the SEC on April 14, 2000.

**** Incorporated by reference from the exhibits included with the Company's Form 10-KSB (No. 000-27915), Amendment No. 1, filed with the SEC on May 1, 2000.

***** Incorporated by reference from the exhibits included with the Company's Form 10-QSB (No. 000-27915), Amendment No. 1, filed with the SEC on May 18, 2000.

+ Incorporated by reference from the exhibits included with the Company's Form 10-QSB (No. 000-27915), filed with the SEC on August 14, 2000.

(b) REPORTS ON FORM 8-K

No reports on Form 8-K were filed by the Company during the last quarter of fiscal 2000.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GENIUS PRODUCTS, INC.,
a Nevada Corporation

April 17, 2001

By: /s/ Klaus Moeller

Klaus Moeller, Chief Executive Officer,
Chairman of the Board and Interim CFO

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Klaus Moeller Chief Executive Officer, Chairman of April 17, 2001

Klaus Moeller the Board and Interim CFO

/s/ Deborah L. Cross Director April 17, 2001

Deborah L. Cross

LICENSE AGREEMENT

THIS EXCLUSIVE LICENSE AGREEMENT ("AGREEMENT") dated as of December 8, 2000, is by and between GENIUS PRODUCTS, INC., a California Corporation ("LICENSOR"), c/o of its licensing agent Global Icons, LLC ("GLOBAL"), JAKKS PACIFIC, INC., a Delaware corporation ("LICENSEE").

WHEREAS, LICENSOR owns or otherwise has the rights to license the copyrights and trademarks listed in SCHEDULE A (the "PROPERTY"); and

WHEREAS, LICENSEE is a manufacturer, marketer and distributor of products which would benefit from use of the Property; and

WHEREAS, LICENSEE recognizes the value of the goodwill associated with the Property, and recognizes that the Property and associate goodwill are of value to LICENSOR; and

WHEREAS, LICENSOR has appointed GLOBAL as its master licensing agent to represent LICENSOR in its licensing program and under this Agreement; and

WHEREAS, LICENSOR desires to grant and LICENSEE desires to acquire a license to manufacture, distribute and/or sell various products (as specified below) utilizing the Property under the terms and conditions as set forth below;

NOW THEREFORE, in consideration of the mutual covenants set forth herein and for other consideration the sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

1. GRANT OF LICENSE; TERM; LIMITATIONS

- (a) LICENSE. Subject to the terms and conditions of this Agreement, including but not limited to the rights reserved in Paragraph 1(b), 1(c), 1(d) and 1(e), LICENSOR grants to LICENSEE an exclusive, non-transferable right and license to use the Property in the manufacture, distribution and sale of the Licensed Product (as defined in Paragraph 1(c)) in the Territory (as defined in Paragraph 1(d)) and in the Channels of Distribution (as defined in Paragraph 1(d)) (the "LICENSE"). Other than as set forth herein, LICENSEE agrees not to use the Property, directly or indirectly in any Excludable Territory (as defined in Paragraph 1(d)) or on any goods other than the Licensed Products, and agrees not to sell any Licensed Products with the actual knowledge of LICENSEE's senior officers that the purchaser intends to re-sell the Licensed Product in any Excludable Territory. Upon LICENSEE's senior officers' actual knowledge of such intended or actual unauthorized sale, LICENSEE shall immediately advise LICENSOR

of all details of such sales and shall immediately cease all sales to such third party.

- (b) **LIMITATIONS ON LICENSE:** No license is granted hereunder for the use of the Property for any purpose other than on or in connection with the Licensed Products. No license is granted hereunder for the manufacture, sale or distribution of Licensed Products to be used for the purpose of increasing the sale of another item; promoting or publicizing any product or service; fund-raising or as giveaways; or to motivate a sales force, merchant, consumer, or any other person to perform a specific act. LICENSEE's right to manufacture, sell or distribute any Licensed Products for the purpose of increasing sale of another item; promoting or publicizing any product or service; fund-raising or as giveaways; or to motivate a sales force, merchant, consumer, or any other person to perform a specific act, shall be conditional on obtaining the prior written consent of LICENSOR which shall not be unreasonably withheld. Consent shall be deemed given if LICENSOR fails to respond within 10 days of receiving a request for consent from LICENSEE.
- (c) **LICENSED PRODUCTS.** The "LICENSED PRODUCTS" are defined as delineated and categorized in SCHEDULE 1(C) attached hereto and incorporated herein, manufactured by LICENSEE, approved as to quality by LICENSOR prior to public exposure as provided by Paragraph 5, and that bear the LICENSOR's trademarks on the said products and any labels, in accordance with the provisions of Paragraph 1(f). With respect to any Licensed Product not sold in the United States through a Channel of Distribution on or prior to December 31, 2002, the License to such Licensed Product shall terminate with immediate effect without further action required on the part of LICENSOR.
- (d) **TERRITORY; CHANNELS OF DISTRIBUTION.** The License granted in Paragraph 1(a) above is for all countries world-wide (the "Territory"), except for those countries in which LICENSEE has not sold any Licensed Product through a Channel of Distribution by June 30, 2003 (any such country, an "Excludable Territory"), provided however, that if any Excludable Territory is a country other than Australia, Canada, Japan or one in the European Union, LICENSEE shall have a right of first refusal with respect to the grant of a license for any Licensed Product to any new licensee. LICENSEE shall make sales of Licensed Products through the Channels of Distribution defined in Schedule 1(d) attached hereto.

- (e) OWNERSHIP AND RESERVED RIGHTS. LICENSOR reserves and retains the right, title and interest in the Property, and reserves and retains the right to:
- (i) license, design, manufacture, distribute and sell at wholesale, retail or otherwise (1) any products other than the Licensed Products, in the Territory and (2) any Licensed Products in any Excludable Territory, in each case, including home furnishing products that include gift packs containing rack toys usually sold in the juvenile aisle in retail outlets; and
 - (ii) design and manufacture within the Territory, Licensed Products for distribution and sale in any Excludable Territory.

LICENSEE may not use the Property in any manner other than as expressly licensed under this Agreement. LICENSEE shall not claim any right, title or interest in the Property or goodwill associated therewith other than pursuant to the limited license granted in this Agreement and hereby waives any right it otherwise might acquire as a licensee, distributor or holder of a business opportunity.

- (f) PROPERTY USE AND MARKING. LICENSEE shall use the Property in a manner that does not derogate LICENSOR's rights therein or in any manner detract from or damage the goodwill associated therewith. When the Property is used in text, it shall be distinguished from the surrounding text. When LICENSEE uses the any trademark on Licensed Products, labels, hang tags, packaging, or in advertisements or other promotional material, the trademark shall be designated as such by use of the "TM" notation or the "(R)" symbol, as directed by LICENSOR, as a superscript to the mark. LICENSEE agrees that the trademark will appear on each Licensed Product and its packaging, if any. LICENSEE shall use only those tags, labels and packaging materials which have been previously approved in writing by LICENSOR. On all Licensed Products, LICENSEE shall affix such legends, markings and notices as reasonably required by LICENSOR and the law. LICENSEE shall not cause any Licensed Product to be out of production for a period of more than six (6) consecutive months except with LICENSOR's prior written consent.
- (g) LICENSE TERM. Subject to earlier termination as otherwise provided in this Agreement, the term of the License hereunder shall commence on the date hereof, and will continue until June 30, 2004 (the "LICENSE TERM").

(h) NO SUBLICENSE OR ASSIGNMENT.

(i) LICENSEE has no right to, and shall not, transfer or assign, or grant any sublicense, concession, right or privilege relating to, the Property or the Licensed Products either directly, indirectly or by operation of law. A change of ownership, as defined in Paragraph 9(c)(1) shall constitute an assignment.

(ii) LICENSEE shall contract for the manufacture of the Licensed Products by a third party only pursuant to a written agreement with such third party approved in writing by LICENSOR.

2. MANUFACTURING, MARKETING AND PROMOTION

(a) MANUFACTURE. LICENSEE agrees that the Licensed Product shall equal or exceed all industry and government standards established in respect of safety and fitness for use. All applicable government standards of the Territory shall be followed, whether federal, state or local. If the Territory is the U.S. or is inclusive of the U.S., such standards shall include, but not be limited to, the Consumer Product Safety Act and all appropriate sections of the Code of Federal Regulations, and to the extent applicable, the Products shall equal or exceed the standards set forth in the Hazardous Substances Act, the Flammable Fabrics Act, the Child Safety Protection Act and the Toy Manufacturers of America Safety Standards as contained in ASTM F963 and comparable industry standards. Prior to commencing shipment of each Licensed Product and on a regular basis thereafter but no less frequently than annually, or as otherwise requested by LICENSOR, LICENSEE agrees to provide to LICENSOR at LICENSEE's expense a certificate of an approved independent testing laboratory certifying that the Products comply with such standards and regulations. Each certificate that is provided must specifically describe the Products that are covered by the certificate, including the manufacturing source of the Products being tested.

(b) MARKETING AND PROMOTION. LICENSEE shall use its best efforts to exploit the License throughout the Territory, including but not limited to, selling commercial quantities of a representative sampling of the Licensed Products of the various styles as approved by LICENSOR; offering for sale the Licensed Products so that they may be sold to the consumer on a timely basis; and maintaining a sales force sufficient to

provide effective distribution throughout the Territory; and cooperating at LICENSEE's expense with LICENSOR's and any of its other licensees' marketing, merchandising, sales and anti-counterfeiting programs. Failure of LICENSEE to commence marketing the Licensed Products within twelve (12) months of the date of this Agreement shall be a material breach of this Agreement.

- (c) ADVERTISING AND PROMOTION; APPROVAL. All advertising and promotion of the Licensed Products must be consistent with the high quality, image and standards of LICENSOR and shall be subject to the prior express written approval of LICENSOR. No advertising or promotional material shall refer to LICENSOR's name without LICENSOR's prior written approval.
- (d) THIRD PARTIES. No manufacturer engaged by LICENSEE may sell or ship Licensed Products to any party except LICENSEE, and LICENSEE shall not contract for the manufacture and/or sale of the Licensed Products by a third party without the prior express written approval of LICENSOR which will not be unreasonably withheld and then only pursuant to a written agreement with such third party approved by LICENSOR, unless LICENSOR expressly waives such requirement. The written agreement shall obligate the third party to the applicable obligations of the LICENSEE under this Agreement such as, for example, the quality standards, protection and use of the Property, Confidential Information, right of inspection of premises, books and records, and prevention of resale of seconds.
- (e) STYLE GUIDE. LICENSEE, at LICENSOR's request, will contribute to the development and production of the art and materials for a style guide for the Property, to be made available to all other licensees of the Property. LICENSEE acknowledges that LICENSOR has already engaged other parties to develop a style

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guide for the Property and that LICENSEE's involvement in developing such guide will be collaborative and in co-operation with such parties. All out-of-pocket expenses incurred by LICENSOR in the development and production thereof will be for the account of LICENSOR and may be recouped by LICENSEE from Royalties otherwise payable hereunder. Any report rendered under Paragraph 4(a) shall set forth in reasonable detail such out-of-pocket expenses.

3. ROYALTIES.

- (a) GUARANTEE AND ADVANCE. LICENSEE hereby guarantees Royalties (as defined in Paragraph 3(c)) of not less than \$75,000 (the "GUARANTEE"). Upon execution of this Agreement, LICENSEE shall pay a non-refundable sum of \$37,500 (the "ADVANCE"), to GLOBAL on behalf of LICENSOR. The Advance shall serve as an advance against the Royalties payable by LICENSEE hereunder. Once Royalties owed to LICENSOR surpass the amount of the Advance, LICENSEE shall make quarterly Royalty payments as set forth herein. The balance of Guarantee, less the Advance, shall be paid in full not later than December 31, 2002. Furthermore, if LICENSEE fails to feature five (5) Licensed Products at the New York Toy Fair within the first year of the Term of this Agreement, LICENSEE shall be required to pay an additional Fifty Thousand Dollars (\$50,000) recoupable additional advance fee within thirty (30) days upon the expiration of the first year of the Term of this Agreement.
- (b) NET SALES. For purposes of calculating any Royalty (as defined in Paragraph 3(c)), "NET SALES" shall mean the full wholesale prices in U.S. dollars of Licensed Products, billed, invoiced or shipped per each calendar quarter, whichever is first to occur, by LICENSEE to its customers within the Territory during the "ROYALTY PERIOD" (defined in Paragraph 3(c)), less actual discounts and defective allowances and less defective merchandise returns actually received by LICENSEE. Returns on account of defective merchandise shall not exceed an aggregate of five percent (5%) of Net Sales. If such returns do exceed the five percent (5%) threshold, it shall be considered a material breach of this Agreement by LICENSEE.
- (c) PERCENTAGES FOR SALES TO U.S. BASED CUSTOMERS. LICENSEE agrees to pay a royalty to GLOBAL on behalf of LICENSOR at rates equal to the percentages of LICENSEE's Net Sales, as set forth below (the "ROYALTY"), in each calendar quarter within thirty (30) days after the end of each calendar quarter for the sales of the Licensed Products sold during such calendar quarter. For the duration of the License Term. Each such quarterly period is referred to as a "ROYALTY PERIOD":

ROYALTY RATE	NET SALES
-----	-----
7%	US\$0 to US\$10,000,000
8%	US\$10,000,000 to US\$15,000,000
10%	US\$15,000,000 and over

Notwithstanding the foregoing, the above-defined Royalty Rates shall decrease by 2% in the event that a Licensed Product is (i) advertised on television with a minimum of \$1,000,000 advertising expenditure by LICENSEE and that (ii) such Licensed Product is invented by a third party other than

LICENSEE.

- (d) Percentages for International Sales: LICENSEE agrees to pay the following Royalty Rates based on LICENSEE's international Net Sales in each Royalty Period:

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ROYALTY RATE	NET SALES
-----	-----
3.5%	\$0-\$10,000,000 during the year 2001
5%	US\$10,000,000 during the year 2001
5%	Of Net Sales during the year 2002
6%	Of Net Sales during the year 2003

- (e) TIME OF PAYMENTS OF ROYALTY. Within thirty (30) days after the end of each Royalty Period during the Term, LICENSEE shall pay GLOBAL on behalf of LICENSOR, in U.S. Dollars by check or in any other manner designated by LICENSOR in writing, the Royalty (applicable for the prior Royalty Period) less the non-refundable Advance not otherwise credited.
- (f) LIQUIDATED DAMAGES, LATE PAYMENTS. LICENSEE acknowledges that late payment of any sums due to LICENSOR will cause LICENSOR to incur costs not contemplated by this Agreement and that the exact amount of such costs are extremely difficult and impractical to fix. If any payment is not received by LICENSOR within ten (10) days of the due date, LICENSEE shall pay to GLOBAL on behalf of LICENSOR a late charge on all overdue payments calculated at an annualized rate of fourteen percent (14%) of such overdue sum. This late charge represents a fair and reasonable estimate of the costs that LICENSOR will incur by reason of late payment by LICENSEE.
- (g) INDEPENDENT COVENANT. The obligation of LICENSEE to pay royalties is absolute notwithstanding any claim which LICENSEE may assert against LICENSOR, and LICENSEE shall not have the right to set-off, compensate against or make any deduction from Royalties for any reason whatsoever. Notwithstanding the foregoing, LICENSEE may set-off or make deductions from Royalties amounts due LICENSEE with respect to (i) overpayments of Royalties and (ii) out-of-pocket expenses incurred with LICENSOR's prior written consent.

4. DEPOSITS; BOOKS AND RECORDS

- (a) REPORT. At the time each Royalty payment is due, LICENSEE agrees to deliver to LICENSOR and GLOBAL a report setting

forth: Net Sales and Royalty payable for the Royalty Period covered by the report, as well as any out-of-pocket expenses under Paragraph 2(e) or Advance credited against such Royalty, the form of which first shall be approved by LICENSOR and amended as requested by LICENSOR.

- (b) SEPARATE BOOKS AND RECORDS. LICENSEE shall maintain separate and appropriate books of account and records sufficient to reconcile the number of units manufactured that are Licensed Products with the number of units sold, separated by the appropriate Channels of Distribution, all in accordance with generally accepted accounting principles.
- (c) RIGHT TO EXAMINE. LICENSOR and GLOBAL, at all times during and after termination or expiration of this Agreement, shall have the right, through any authorized representative of its choice, on five (5) business days advance notice to LICENSEE, to examine and copy all of LICENSEE's books and records relating to the manufacture and sale of the Licensed Products not more than once during a twelve (12) month period, unless in such period an audit discloses an underpayment of Net Sales or an underpayment of Royalties in either case exceeding four (4%) or \$25,000 for the calendar year being audited. LICENSOR and GLOBAL shall have the right to examine the books and records of all companies with common ownership which transact business with LICENSEE. "COMMON OWNERSHIP" shall mean that one or more of the principals, partners or shareholders is a principal, partner or shareholder of LICENSEE. All such examinations shall be at LICENSEE's principal place of business and during normal business hours. LICENSEE shall keep

all books of account and records available for at least three (3) years after the close of each fiscal year to which they relate. LICENSEE shall maintain its books and records available for inspection in the place where they are maintained in the ordinary course of business. If an examination discloses that LICENSEE has understated Net Sales or underpaid any Royalty for any report period, without prejudice to any of LICENSOR's rights, LICENSEE shall pay GLOBAL on behalf of LICENSOR the amount, if any, by which the actual Royalties exceed Royalties paid within ten (10) days of receipt of notice by LICENSOR and GLOBAL to such effect, together with the applicable late charge as provided. Further, if LICENSEE underpays Royalties by more than four (4%) or \$U.S. 25,000 (whichever is less) for any calendar year, LICENSEE shall pay all costs, fees and expenses incurred by

LICENSOR and GLOBAL in conducting such examination, in addition to any late charges and interest provided for in this Agreement and reasonable attorneys' fees.

5. QUALITY STANDARDS

- (a) STANDARDS. LICENSEE agrees to cause the Licensed Products to be:
- (i) of quality, material, workmanship, condition, appearance, and image at least equivalent to the quality, material, workmanship, condition, appearance, and image of other similar products of LICENSOR;
 - (ii) in accordance with this Agreement and all applicable laws and rules, and within the definition of Licensed Products, and
 - (iii) in conformity with designs and samples supplied by LICENSEE and approved by LICENSOR as provided in this Paragraph 5.
- (b) RIGHT TO APPROVE OR REJECT. Subject to the terms hereof, LICENSOR shall have sole and absolute discretion with respect to the approval of all concepts, pre-production prototypes, and production samples of all Licensed Products to be manufactured, marketed, distributed, used or sold by LICENSEE hereunder
- (i) LICENSEE shall seek LICENSOR's approval with respect to any concept of a Licensed Product, and LICENSOR shall be deemed to have granted approval unless LICENSOR disapproves of such concept in writing within ten (10) business days of receiving written notice from LICENSEE requesting approval. LICENSEE shall submit to LICENSOR all final designs, specifications and color details of the concept of the Licensed Product as part of the approval process.
 - (ii) LICENSEE shall seek LICENSOR's approval with respect to any pre-production prototype of a Licensed Product, and LICENSOR shall be deemed to have granted approval unless LICENSOR disapproves of such prototype in writing within ten (10) business days of receiving written notice from LICENSEE requesting approval. LICENSEE agrees to supply LICENSOR with one (1) prototype (including the proposed packaging, advertising, display, labeling, trade dress, merchandising, and all other material of any character whatsoever related thereto) together with a

description of the intended use of the material of each Licensed Product for its inspection and approval. LICENSEE shall be responsible for any and all costs of shipping and handling incurred in providing the prototype.

- (iii) LICENSEE shall seek LICENSOR's approval with respect to any production sample of a Licensed Product, and LICENSOR shall be deemed to have granted approval unless LICENSOR disapproves of such production sample in writing within five (5) business days of receiving written notice from LICENSEE requesting approval. If LICENSEE disapproves of such sample, LICENSOR shall make changes to the sample prior to commencing production. LICENSEE agrees to supply LICENSOR with ten (10) production samples (including the final

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packaging, advertising, display, labeling, trade dress, merchandising, and all other material of any character whatsoever related thereto). LICENSEE shall be responsible for any and all costs of shipping and handling incurred in providing the production samples. LICENSOR and GLOBAL shall have the right to purchase additional production samples for their own personal use at the lowest wholesale price of the Licensed Products at LICENSEE's wholesale cost (less Royalties).

- (iv) If a Licensed Product in production fails to conform to the production sample, whether approved or deemed approved, LICENSOR shall immediately cease the production of such non-conforming Licensed Product, and shall immediately make changes to the production model during the manufacturing process to cause the Licensed Product to conform in all respects to the approved production sample.
- (v) No approval of any concept, pre-production prototype, production sample or production model shall be deemed or construed as a determination by LICENSOR that any Licensed Product complies with the applicable laws, rules or regulations of any Territory governing any such Licensed Product, including, without limitation, any implied warranties of merchantability or fitness for a particular purpose.

(vi) LICENSEE shall not manufacture, distribute, market, use, give away or sell any concept, pre-production prototype, production sample or production model of any Licensed Product that has been disapproved by LICENSOR or in respect of which the approval process has not been complied with by LICENSEE, or which, in the case of a production model, fails to conform to the approved production sample, and any breach hereof shall be deemed a material breach.

(vii) LICENSEE shall supply LICENSOR and GLOBAL with 24 samples of each of the completed Licensed Products, promptly upon completion. LICENSEE shall be responsible for any and all costs of shipping and handling incurred in providing said samples under this Agreement. LICENSOR and/or Global shall have the right to purchase additional samples for their own personal use at the lowest wholesale cost of the Licensed Products.

(c) APPROVAL OF FACILITIES. LICENSEE shall provide the addresses of all facilities, including third party manufacturers, at which the Licensed Products are manufactured. LICENSOR and GLOBAL shall have the right to inspect and approve all such facilities of LICENSEE. LICENSEE's agreements with third party manufacturers shall provide for the right of LICENSOR and GLOBAL to inspect such third party's facilities. All inspections shall be during regular business hours upon twenty-four (24) hours notice to LICENSEE or LICENSEE's third party manufacturers. Inspections may include any reasonable actions necessary to assure LICENSOR that the Licensed Products are made and displayed in accordance with this Agreement, including but not limited to laboratory testing.

6. CONFIDENTIALITY For purposes of this Agreement, "CONFIDENTIAL INFORMATION" shall mean all non-public information concerning the parties' business and operations, unpublished copyrighted materials, release dates, marketing and promotional strategies, information about new products, properties and characters, and the terms and conditions of this Agreement. Each party agrees to keep all Confidential Information of each other's strictly confidential and to use such knowledge only to the exercise and performance of its respective rights and obligations under this Agreement; except that Licensed Products may be displayed and any detail evident from examination of a Licensed Product may be disclosed only at and after the line-break applicable to that Licensed Product and season. Upon expiration or termination of this Agreement, whichever first occurs, LICENSEE shall return all designs, patterns, samples and other embodiments of Confidential Information not yet disclosed as provided in the preceding sentence.

7. INTELLECTUAL PROPERTIES

- (a) PROPERTY VALUE. LICENSEE acknowledges that the Property has great value and associated goodwill because the public and the industry associate the Property with goods having consistently high quality that are sold primarily by retailers of high repute who sell primarily high quality goods and who maintain high merchandising standards. LICENSEE shall use its commercially reasonable efforts to preserve the value and goodwill of the Property and to cooperate with LICENSOR's efforts to preserve their value and goodwill as contemplated by this Agreement.
- (b) PROPERTY OWNERSHIP. LICENSEE acknowledges LICENSOR's ownership of the Property, and acknowledges that all use of such Property inures to the exclusive benefit of LICENSOR. LICENSEE shall not at any time either during or after the Term of this Agreement:
- (i) claim ownership of or attempt to register the Property;
 - (ii) do or commit any act which would adversely affect the validity of the Property;
 - (iii) infringe LICENSOR's rights in the Property;
 - (iv) use any business name with the Property in it;
 - (v) seek to cancel the Property rights; or
 - (vi) engage in any activity which may contest, dispute, dilute or otherwise impair the right, title, interest or goodwill of LICENSOR in the Property. For the purpose of protection of rights in the Property only, all uses of the Property made by or on behalf of the LICENSEE are deemed to have been made by LICENSOR.
- (c) REGISTRATIONS:
- (i) LICENSEE shall cooperate with LICENSOR and GLOBAL in the execution, filing and prosecution of trademark, copyright or patent applications; LICENSEE shall supply LICENSOR and GLOBAL with samples for applications. LICENSEE shall cooperate with LICENSOR and GLOBAL in making and terminating registered user entries. LICENSOR shall pay all costs and fees in

connection with filing and prosecution of trademarks, copyrights and patents. These obligations shall survive termination.

(ii) LICENSOR and LICENSEE shall file applications and documents with the appropriate government office, as required by law or as deemed prudent by LICENSOR, at LICENSOR's sole cost.

(d) INFRINGEMENTS. LICENSEE shall immediately give notice to LICENSOR and GLOBAL, by telephone and in writing, of any infringement or misuse of any Property by any third party of which LICENSEE's senior officers become aware. LICENSOR shall have the right, but not the requirement, to commence legal action regarding any misuse at its expense. LICENSEE shall cooperate fully and promptly in any infringement action commenced by LICENSOR or GLOBAL as LICENSOR shall require; PROVIDED, HOWEVER, that any and all costs incurred by LICENSEE in connection with such litigation shall be borne by LICENSOR, except nominal or sample costs shall be borne by LICENSEE.

8. INDEMNITY; INSURANCE ; REPRESENTATIONS

(a) LICENSEE'S INDEMNITY. LICENSEE agrees to indemnify, defend and hold harmless LICENSOR and GLOBAL, and each of their respective shareholders, members, directors, officers, employees and agents from and against any and all obligations, liabilities, claims, demands, suits, actions, causes of action, damages and expenses (including but not limited to reasonable attorney's fees) caused by or arising from LICENSEE's manufacture, labeling, marketing, use, sale or distribution of Licensed Products or any other goods, or from product liabilities arising from the manufacture, labeling, marketing, use or sale of any of the Licensed Products or other goods by LICENSEE, or from any alleged defect in a

Licensed Product regardless of whether the action is based upon negligence or strict liability, and regardless of whether the alleged negligence of LICENSEE is characterized as "passive" or "active"; or from unauthorized use by LICENSEE of LICENSOR's rights in the Property, or from any casualty or other risk of loss, damage or destruction of the Licensed Products or any materials, supplies or inventory therefor, or for any violation of any warranty, representation or agreement made by LICENSEE pertaining to a Licensed Product.

- (b) LICENSOR'S INDEMNITY. LICENSOR agrees to indemnify and hold harmless LICENSEE, its officers, directors, employees and agents from and against all third party claims, damages, losses, liabilities, suits and expenses (including reasonable attorneys' fees) arising out of or by any reason of any breach by LICENSOR of any of the representations, warranties or covenants made by it hereunder.
- (c) INSURANCE. LICENSEE shall maintain in full force and effect at all times while this Agreement is in effect, product liability insurance with minimum limits of \$2,000,000 per occurrence (excluding the costs of providing a defense), and naming LICENSOR and GLOBAL as additional named insureds. Such policy shall be primary and not contributory. LICENSEE shall deliver to LICENSOR a certificate of insurance evidencing satisfactory coverage and indicating that LICENSOR shall have thirty (30) days prior notice of cancellation, non-renewal or of any material change in coverage. LICENSEE's insurance shall be covered by a BEST Guide or B+ VII or better. This insurance may be obtained for LICENSOR by LICENSEE in conjunction with a policy which covers products other than the Licensed Products. LICENSEE shall furnish certificates and endorsements of the required insurance policies. Upon request, LICENSEE shall provide copies of policies. The insurance set forth in this section must cover the entire Territory.
- (d) If either party learns of a claim related to this Agreement or the Licensed Products, it shall immediately notify the other party by telephone, and in writing transmitted by overnight courier, of the subject matter, the parties and the nature of the claim. If the claim pertains to any of LICENSEE's obligations under this Agreement or the Licensed Products, LICENSEE shall promptly inform LICENSOR of what steps it is taking to correct the claim or complaint whether by consumer or a government body. LICENSOR and LICENSEE shall cooperate in the resolution of all such claims.
- (e) LICENSOR'S REPRESENTATIONS AND COVENANTS.
- (i) LICENSOR represents and warrants that (1) it has all necessary intellectual property rights to license the Property to LICENSEE for use in the United States as authorized hereunder and (2) LICENSEE's use of the Property in the United States as authorized hereunder will not infringe on the intellectual property rights of any third party.
- (ii) LICENSOR covenants (1) upon execution of this Agreement, to take reasonable commercial efforts to register all necessary intellectual property rights relating to the Property in Australia, Canada and

Japan, and in such countries of the European Union as reasonably requested by LICENSEE and (2) to take reasonable commercial efforts to register all necessary intellectual property rights relating to the Property in such other countries and at such other times as reasonably requested in writing by LICENSEE. LICENSOR shall notify LICENSEE of commencing such applications and provide LICENSEE with copies of final registration(s), if any. Once a registration process has been finalized in a particular country, LICENSOR's representation and covenants contained herein shall extend to such finalized registration.

(iii) There are no implied warranties for merchantability or fitness for any particular purpose.

(f) NO LEGAL IMPEDIMENTS. The parties represent and warrant that:

(i) they have the full right, power and authority to enter into this Agreement and to perform all obligations;

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(ii) they are financially capable of performing their obligations.

(g) LICENSEE REPRESENTATIONS. LICENSEE warrants and represents that it is a Delaware corporation, validly existing and in good standing under the laws of Delaware. LICENSEE further represents and warrants that it will use its best efforts to market the Licensed Products. LICENSEE further represents that entering into this Agreement will not result in the violation of: (i) the organizational documents or bylaws of LICENSEE, (ii) any agreement, contract, lease, license, document or other commitment, written or oral, to which LICENSEE is a party or may become bound, or (iii) any applicable law, rule, license or regulation.

(h) COMPLIANCE WITH LAW. LICENSEE shall take all actions required by any local, provincial, national or regional agency, government or commission to carry out the purposes of this Agreement in compliance with applicable law. LICENSEE shall immediately provide LICENSOR and GLOBAL with copies of any communications to or from any such agency, government or commission which relates to or affects this Agreement or the Licensed Products.

9. TERMINATION

- (a) OTHER RIGHTS UNAFFECTED. Termination on any ground shall be without prejudice to any other rights or remedies.
- (b) TERMINATION FOR BREACH OR MATERIAL BREACH.
 - (i) Subject to the terms hereof, if LICENSEE or LICENSOR breaches any of its obligations, the other may terminate this Agreement by transmitting to the breaching party a notice of termination (the "NOTICE OF TERMINATION").
 - (ii) Termination will become effective automatically unless the breaching party completely cures the breach within five (5) business days of giving the Notice of Termination if the breach is either a failure to pay money or is a breach designated herein to be a "material breach", and within twenty (20) non-business days ("Cure Period") of the giving of such Notice of Termination if the breach is any other breach except as otherwise herein provided. Notwithstanding anything to the contrary contained herein, LICENSEE may, on a case-by-case basis, submit in writing a request for an extension of the Cure Period giving specific reasons for such request, and LICENSOR shall, in its own discretion, determine whether to approve such an extension, provided that such approval shall not be unreasonably withheld.
 - (iii) If the LICENSEE is the breaching party, LICENSEE may continue to ship Licensed Product PROVIDED the breach is being cured in good faith.
- (c) GROUNDS FOR IMMEDIATE TERMINATION.
 - (i) INSOLVENCY: LICENSOR may terminate if: a petition for relief under the Bankruptcy Code is filed by or against the LICENSEE; LICENSEE makes any assignment for the benefit of its creditors; LICENSEE becomes the subject of proceedings under any insolvency, reorganization or receivership law; LICENSEE defaults on any obligation which is secured by a security interest, in whole or in part, in the Licensed Products; or, a receiver is appointed for LICENSEE or a substantial part of its business interests. Termination will become effective automatically sixty (60) days after LICENSOR gives notice if LICENSEE: fails to discharge the bankruptcy or terminate the assignment for the benefit of creditors. The license

assignee for the benefit of creditors, receiver, debtor in possession, trustee in bankruptcy, sheriff or any other officer or court charged with taking over custody of LICENSEE's assets or business, shall have any right to continue performance of this Agreement or to exploit or in any way use the Property if this Agreement is terminated pursuant to the preceding subparagraph, except as may be required by law.

- (ii) LICENSEE underpays Royalties by more than five percent (5%) or US \$75,000 (whichever is less) for any calendar year and such underpayment is not cured within five (5) business days of final determination of such underpayment.
- (iii) LICENSEE ceases to do business.
- (iv) LICENSEE manufactures, markets, distributes, uses or sells a Licensed Product for which LICENSEE failed to obtain approval as provided in Section 5(b) and LICENSOR notifies LICENSEE of such breach and declines to grant approval with respect to such manufacture, distribution, marketing or sale of Licensed Products.

10. OBLIGATIONS AT EXPIRATION OR TERMINATION

- (a) TERMINATION OF RIGHTS. Upon expiration or termination of this Agreement for any reason, all rights in the Property granted to LICENSEE shall automatically terminate and LICENSEE shall cease and desist from any and all manufacture, sale, distribution or disposal of the Licensed Products, or any use of the Property or of any Licensed Products or Property which are substantially or confusingly similar to the Property, except as specifically provided in this Paragraph.
- (b) INVENTORY. Upon LICENSOR's request, within ten (10) days after the expiration of this Agreement or, in the event of its termination or non-renewal, within ten (10) days after the receipt of a Notice of Termination or a notice of non-renewal or the happening of an event which terminates this Agreement where no notice is required, LICENSEE shall give LICENSOR and GLOBAL a written statement showing: i) the Licensed Products

in its possession or under its control; ii) location of the inventory; iii) work in process; iv) Licensed Products in transit; and v) the name, address and telephone number of each contractor and/or shipper and sales representative. LICENSEE shall dispose of these goods only pursuant to the specific written instructions of, and under the terms imposed by, LICENSOR.

- (c) OTHER ITEMS BEARING THE PROPERTY. All items other than the Licensed Products, bearing the Property, such as stationary, business cards, etc., shall be destroyed or delivered to LICENSOR immediately upon termination or expiration.
- (d) SELL-OFF PERIOD.
 - (i) Following the expiration or termination of this Agreement, LICENSEE shall deliver within thirty (30) days to the LICENSOR a statement indicating the number and description of the Licensed Products in the LICENSEE's inventory.
 - (ii) Upon the expiration or termination of this Agreement, LICENSEE shall immediately cease manufacturing the Licensed Products and discontinue its use of the Property; provided, however, that LICENSEE shall have a period of one hundred twenty (120) days after such expiration or termination to sell the Licensed products remaining in its inventory (the "SELL-OFF PERIOD"). The LICENSOR shall be entitled to receive Royalties in connection with all sales made by the LICENSEE during the Sell-off Period.
 - (iii) Upon the expiration of the Sell-off Period the LICENSEE shall cease to sell the Licensed Products and shall supply to the LICENSOR a description of its remaining inventory of the Licensed Products at such date.
- (e) RIGHT TO PURCHASE. LICENSOR or LICENSOR's designee shall have the option (but not the obligation) to purchase all or any part of LICENSEE's inventory of Licensed Products upon the following terms:
 - (i) LICENSOR shall notify LICENSEE of the intention to exercise this option within thirty (30) days of delivery of the inventory and shall specify the

Licensed Products to be purchased;

- (ii) If Agreement terminates because of LICENSEE's breach, then LICENSOR should have the right to purchase inventory at 70% of the LICENSEE's lowest wholesale cost. If Agreement terminates by its terms or because of LICENSOR's breach, then LICENSOR should have the right to purchase inventory at lowest wholesale price. The price for all other Licensed Products which are not manufactured by LICENSEE shall be LICENSEE's landed costs. "LANDED COSTS" means the F.O.B. price of Licensed Products together with customs, duties, and brokerage, freight and insurance;
 - (iii) LICENSEE shall deliver the Licensed Products purchased within fifteen (15) days of receipt of the notice to purchase. The purchase price shall be payable upon delivery; provided that LICENSOR shall be entitled to deduct any amounts owed it by LICENSEE.
- (f) WAIVER OF GOODWILL. LICENSEE waives any claim which it may have arising from any alleged goodwill created by LICENSEE from the alleged creation or increase of a market for Licensed Products.
- (g) RIGHT TO MANUFACTURE AND OFFER FOR SALE. At least three (3) months prior to expiration of this Agreement, LICENSEE shall notify LICENSOR of its intention to renew the Agreement. Without limiting LICENSOR's other rights in this Agreement, at any time during the three (3) months preceding expiration or termination, LICENSOR or any new licensee shall have the right to start manufacturing the Licensed Products.
- (h) DISPOSAL OF INVENTORY. Upon expiration or termination, all inventory not disposed of in accordance with this Paragraph shall be destroyed; however, such inventory may be sold provided that 1) all Property (and all markings of any kind associated with LICENSOR) are removed subject to inspection and approval of LICENSOR; and 2) the public is not advised of any association of the inventory with the Property or LICENSOR.
- (i) SUPPLIES BEARING THE PROPERTY. Upon the sooner of termination or thirty (30) days prior to expiration, at the reasonable request of LICENSOR, which request shall solely be made to the extent necessary to reassume, preserve goodwill in the Property that LICENSOR otherwise believes may otherwise be at risk, LICENSEE shall provide an inventory of all supplies of any type bearing the Property, which shall specify the location of such items.

(j) LICENSEE shall purchase all items bearing the Property held by any supplier and shall have all such items delivered to LICENSOR.

11. NOTICE AND APPROVALS Any notice, approval, consent or agreement required or permitted under this Agreement shall be effective only if in writing, signed by an officer of the party giving notice, and delivered in person, or mailed by certified or registered mail return receipt requested, or transmitted by facsimile transmission with electronic confirmation of receipt to the addressee's address or facsimile number set forth below (or such other address or facsimile number as the party changing its address specifies in a notice to the other party specifically referring to this Paragraph):

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If to LICENSOR:

Genius Products, Inc.
Attention: President
11250 El Camino Real, Suite 100
San Diego, CA 92130
Tel (858) 793-8840
Fax (858) 793-8842

With a copy to:

Global Icons, LLC
Attention: Ken Abrams
3679 Motor Avenue, 2nd Floor
Los Angeles, CA 90034
Tel (310) 253-5110
Fax (310) 994-7334

With a copy to:

Silver & Freedman
Attention: Perry S. Silver
1925 Century Park East, Suite 2100
Los Angeles, California 90067-2722
Tel (310) 556-2356
Fax (310) 556-0832

If to LICENSEE:

Jakks Pacific, Inc.

Attention: President
22761 Pacific Cast Highway, Suite 226
Malibu, CA 90265
Tel (310) 456-7799
Fax (310) 317-8527

With a copy to:

Notice shall be deemed given as of the date actually received by the last of the addressee party and that party's copy recipient to receive the notice as evidenced by acknowledgment of receipt, delivery in person, the date on the postal return, or electronic confirmation in the case of facsimile transmissions.

- 12. TIME Time is of the essence in performing the obligations of this Agreement.
- 13. INTERPRETATION The License Agreement shall be interpreted to give LICENSOR maximum control of its Property and the usage of the Property. Any uncertainty or ambiguity shall not be construed for or against the party based on attribution of drafting to either party. The caption headings of the sections are for convenience only and shall not be used for interpretation.

- 14. GOVERNING LAW/ JURISDICTION/ VENUE All questions concerning this Agreement, the rights and obligations of the parties, its enforcement, and its validity, effect, interpretation and construction which are governed by state law shall be determined under the laws of the State of California. All national law questions shall be governed by the laws of the United States of America; except that if LICENSOR seeks provisional relief, the law of the place where the provisional relief is sought shall apply. LICENSOR and LICENSEE agree to be subject to jurisdiction in Los Angeles County, California and agree to exclusive venue in the courts in Los Angeles County, California.
- 15. ASSIGNABILITY. Neither this Agreement nor any rights, duties or obligations in this Agreement may be assigned or delegated by LICENSEE, without the prior written consent of LICENSOR. A change of control of LICENSEE or the sale of all or substantially all of the assets of LICENSEE shall constitute an assignment of this Agreement requiring LICENSOR's written consent. A "change of control" shall be deemed to

have occurred if any of the following events shall have occurred if (1) any corporation, other person or "Group" (as defined below) becomes the "Beneficial Owner" (as defined below) of more than 50% of LICENSEE's outstanding Common Stock or (2) if both Steve Berman and Jack Friedman have to resign their respective offices. For purposes of this definition of change in control, the following terms shall have the following meanings: "Beneficial Owner" shall have the meaning which that term is given in Rule 13d-3 under the Securities Exchange Act of 1934 as amended (the "Act"). "Group" shall mean persons who act in concert as described in Section 14(d) (2) of the Act.

16. RELATIONSHIP OF THE PARTIES Nothing in this Agreement shall be construed to place the parties in the relationship of legal representatives, partners, joint venturers or agents. LICENSEE shall have no power to oblige or bind LICENSOR or GLOBAL in any manner except as provided.
17. WAIVER AND INTEGRATION; AMENDMENTS The failure of a party to insist upon strict adherence to any term of this Agreement, or to object to any failure to comply with any provision of this Agreement, shall not be a waiver of that term or provision, estop that party from enforcing that term or provision, or preclude that party from enforcing that term or provision by estoppel or by laches. The receipt by a party of any benefit from this Agreement (e.g., Royalty) shall not be construed as a waiver or estoppel of the right of that party to enforce any section. None of the terms of this Agreement shall be deemed to be waived or modified, including all provisions of this Paragraph, except by an express agreement in writing, signed by an authorized officer of the party against whom enforcement of the waiver or modification is sought, supported by a new consideration. This Agreement, including all attachments, constitutes the entire agreement between the parties, and supersedes all prior negotiations and agreements between the parties concerning its subject matter. This writing is intended as the final, complete and exclusive statement of the terms of the Agreement between the parties and cannot be changed or terminated orally.
18. INTEGRATION. This Agreement, and all Schedules referenced herein, constitutes the entire, final and exclusive agreement between the parties with respect to the matters set forth herein; any and all prior agreements, whether written or oral, with respect to the matters set forth herein, are superseded by this Agreement.
19. ATTORNEYS' FEES AND PROFESSIONAL EXPENSES If any legal action or dispute arises under this Agreement, arises by reason of any asserted breach of it, or arises between the parties and is related in any way to the subject matter of the Agreement, the prevailing party shall be entitled to recover all costs and expenses including reasonable attorneys' fees, investigative costs, accounting fees and charges for experts. The "PREVAILING PARTY" shall be the party who is entitled to recover its costs of suit, whether or not the suit proceeds to final judgment; if there is no court action, the prevailing party shall be

the party who wins any dispute. A party need not be awarded money damages or all relief sought in order to be considered the "prevailing party" by a court.

20. SURVIVAL All obligations of the parties of a continuing nature shall survive the termination or expiration of this Agreement.

21. SEVERABILITY If any provision of this Agreement is held by a court of competent jurisdiction or an arbitrator to be invalid or unenforceable, the remaining provisions of this Agreement shall remain in full force and effect.

22. BINDING AGREEMENT This Agreement shall be binding on and inure to the benefit of the parties and their respective successors, agents, affiliates, representatives and permitted assigns.

23. EXHIBITS/SCHEDULES All Exhibits or Schedules are incorporated into this Agreement.

24. REMEDIES All specific remedies provided for in this Agreement shall be cumulative and shall not be exclusive of one another or of any other remedies available in law or equity.

25. COUNTERPARTS This Agreement may be executed in two (2) or more counterparts, each of which together will constitute the same agreement, whether or not all parties execute each counterpart.

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

LICENSOR:

By: /S/ KLAUS MOELLER

Its: CEO

LICENSEE:

By:

SCHEDULE A

PROPERTY

1. Licensor (1) has certain trademarks registered or pending in its name (as set forth in Schedule B attached hereto, which may be amended and restated from time to time), and (2) is the exclusive owner of certain rights in and to the names, characterizations, designs, artwork, symbols, concepts, ideas, themes, plots, stories and spin-offs relating to and associated with the characters and elements contained in the Genius Products, Inc. works.

SCHEDULE 1(c)

DEFINITION OF LICENSED PRODUCTS

1. Action Figures
2. Board Games
3. ELA Toys
4. Lunch Boxes
5. Playsets
6. Plush
7. Pre-School and Infant Toys
8. Puzzles
9. Stationery
10. Stickers
11. Vehicles

Other toys that the parties agree in writing are within the scope of an exclusive master toy license.

"Licensed Products" do not include the following :

1. Small Furniture - Bouncers, Travel Bassinets
2. Nursery Accessories - Musical Mobiles (for infant care aisle), Lamps

3. Picture Frames
4. Pacifier Attachers
5. Plastic Water Teether
6. Plastic "Key" Teether
7. Musical Rattle Teether
8. Infant utensils
9. Bath Accessories:

- a. Infant Bath Aid - a die cut sponge cut at the bottom of the bathtub used in securing child in tub
- b. Spout Covers
- c. Tub Toy Bag
- d. Bath Visor
- e. No Skids
- f. Accessories

11. ACCESSORIES (FOR INFANT CARE ISLE)

- a. Stroller Activity Bar
- b. Stroller Attach-a-Toy
- c. Infant Carrier Attach-a-Toy

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SCHEDULE 1(d)

CHANNELS OF DISTRIBUTION

The following Channels of Distribution apply to this License Agreement only if initialed by the authorized signatory of Licensor:

_____ CONSUMER SALES: sales of Licensed Products directly or through Licensee's authorized wholesalers, representatives or distributors to retail establishments for eventual resale to the consumer;

_____ MAIL ORDER SALES: sales of Licensed Products directly to the consumer through direct mail solicitation or catalogues;

_____ SHOPPING NETWORK SALES: sales of Licensed Products directly or through Licensee's authorized representatives, wholesalers and distributors through media such as infomercials, local, cable, wireless or fiber optic television shopping channels, on-line shopping, or otherwise;

_____ INTERNET SALES: sales of Licensed Products through the world wide web.

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SCHEDULE 9(c)

LIST OF LICENSEE OWNERS AND KEY MANAGEMENT

KEY MANAGEMENT

TITLE

NAME

Chairman and CEO

Jack Friedman

President and COO

Stephen G. Berman

NON-EXCLUSIVE LICENSE AGREEMENT

THIS NON-EXCLUSIVE LICENSE AGREEMENT ("AGREEMENT") dated as of December, 2000, is by and among GENIUS PRODUCTS, INC., a California Corporation ("LICENSOR"), c/o of its licensing agent Global Icons, LLC ("GLOBAL") and CATTON APPAREL GROUP, a New Jersey corporation ("LICENSEE").

WHEREAS, LICENSOR owns or otherwise has the rights to license the copyrights and trademarks listed in SCHEDULE A (the "PROPERTY"); and

WHEREAS, LICENSEE is a manufacturer, marketer and distributor of products which would benefit from use of the Property; and

WHEREAS, LICENSEE recognizes the great value of the goodwill associated with the Property, and recognizes that the Property and associate goodwill are of great value to LICENSOR; and

WHEREAS, LICENSOR has appointed GLOBAL as its master licensing agent to represent LICENSOR in its licensing program and under this Agreement; and

WHEREAS, LICENSOR desires to grant and LICENSEE desires to acquire a license to manufacture, distribute and/or sell various products (as specified below) utilizing the Property under the terms and conditions as set forth below;

NOW THEREFORE, in consideration of the mutual covenants set forth herein and for other consideration the sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

1. GRANT OF LICENSE; TERM; LIMITATIONS

- (a) LICENSE. Subject to the terms and conditions of this Agreement, including but not limited to the rights reserved in Paragraph 1(b), 1(c), 1(d) and 1(e), LICENSOR grants to LICENSEE a non-exclusive, non-transferable right and license to use the Property in the manufacture, promotion, advertising, marketing and distribution and sale of the Licensed Product (as defined in Paragraph 1(c) in the Territory (as defined in Paragraph 1(d) and in the Channels of Distribution (as defined in Paragraph 1(d) (the "LICENSE"). Other than as set forth herein, LICENSEE agrees not to use the Property, directly or indirectly in any Excluded Territory (as defined in Paragraph 1(d) or on any goods other than the Licensed Products, and agrees not to sell any Licensed Products with the knowledge that the purchaser intends to re-sell the Licensed Product in any Excluded Territory. Upon knowledge of such intended or actual unauthorized sale, LICENSEE shall immediately advise LICENSOR of all details of

such sales and shall immediately cease all sales to such third party. Notwithstanding the foregoing, (i) LICENSOR shall not enter into any license agreements with LICENSEE's direct competitors which would conflict with LICENSEE's rights with respect to the Licensed Products within the Territory during

the License Term, provided that LICENSEE materially performs all of its obligations under this Agreement; and (ii) LICENSEE shall not enter into any license agreements with The Baby Einstein Company, LLC during the License Term.

- (b) **LIMITATIONS ON LICENSE:** No license is granted hereunder for the use of the Property for any purpose other than on or in connection with the Licensed Products. LICENSEE shall not sell Licensed Products to any customers which are disapproved in writing by LICENSOR. No license is granted hereunder for the manufacture, sale or distribution of Licensed Products to be used for the purpose of increasing the sale of another item; promoting or publicizing any product or service; fund-raising or as giveaways; or to motivate a sales force, merchant, consumer, or any other person to perform a specific act. In the event LICENSEE desires to sell Licensed Products for such purposes, LICENSEE acknowledges and agrees that it shall first seek and obtain a separate license from LICENSOR and that the third party user thereof shall also obtain a separate license from LICENSOR for such use of Licensed Products.
- (c) **LICENSED PRODUCTS.** The "LICENSED PRODUCTS" are defined as delineated and categorized in SCHEDULE 1(A) attached hereto and incorporated herein, manufactured by LICENSEE, approved as to quality by LICENSOR prior to public exposure as provided by Paragraph 5, and that bear the LICENSOR's trademarks on the said products and any labels, in accordance with the provisions of Paragraph 1(f).
- (d) **TERRITORY; CHANNELS OF DISTRIBUTION.** The License granted in Paragraph 1(a) above is for the United States, its territories and possessions, Puerto Rico and Canada (the "TERRITORY"). All other countries are considered to be an excluded territory (any such country, an "EXCLUDED TERRITORY"). LICENSEE shall make sales of Licensed Products through the Channels of Distribution defined in SCHEDULE 1(B) attached hereto.
- (e) **OWNERSHIP AND RESERVED RIGHTS.** LICENSOR reserves and retains the right, title and interest in the Property, and reserves and retains the right to:

- (i) license, design, manufacture, distribute and sell at wholesale, retail or otherwise (1) any products other than the Licensed Products, in the Territory and (2) any Licensed Products in any Excluded Territory.
- (ii) design and manufacture within the Territory, Licensed Products for distribution and sale in any Excluded Territory.

LICENSEE may not use the Property in any manner other than as expressly licensed under this Agreement. LICENSEE shall not claim any right, title or interest in the Property or goodwill associated therewith other than pursuant to the limited license granted in this Agreement and hereby waives any right it otherwise might acquire as a licensee, distributor or holder of a business opportunity.

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- (f) PROPERTY USE AND MARKING. LICENSEE shall use the Property in a manner that does not derogate LICENSOR's rights therein or in any manner detract from or damage the goodwill associated therewith. When the Property is used in text, it shall be distinguished from the surrounding text. When LICENSEE uses any trademark on Licensed Products, labels, hang tags, packaging, or in advertisements or other promotional material, the trademark shall be designated as such by use of the "TM" notation or the "(R)" symbol, as directed by LICENSOR, as a superscript to the mark. LICENSEE agrees that the trademark will appear on each Licensed Product and its packaging, if any. LICENSEE shall use only those tags, labels and packaging materials which have been previously approved in writing by LICENSOR. On all Licensed Products, LICENSEE shall affix such legends, markings and notices as reasonably required by LICENSOR and the law. LICENSEE acknowledges that the omission of the notice shall be considered a material breach of this Agreement.
- (g) LICENSE TERM. Subject to earlier termination as otherwise provided in this Agreement, the term of the License hereunder shall commence on the date hereof, and will continue until February 29, 2004 (the "LICENSE TERM"). Additionally, (a) LICENSEE shall ship the Licensed Products to distributors in the Territory no later than December 1, 2001 (the "SHIP DATE") and (b) LICENSEE shall use its commercially reasonable efforts to cause all of the participating distributors to introduce the Licensed Products into the Channels of Distribution within the Territory no later than Maarch 1, 2002.

(h) NO SUBLICENSE OR ASSIGNMENT.

- (i) LICENSEE has no right to, and shall not, transfer or assign, or grant any sublicense, concession, right or privilege relating to, the Property or the Licensed Products either directly, indirectly or by operation of law. A change of ownership, as defined in Paragraph 9(c)(1) shall constitute an assignment.
- (ii) LICENSEE shall contract for the manufacture of the Licensed Products by a third party only pursuant to a written agreement with such third party approved in writing by LICENSOR.

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2. MANUFACTURING, MARKETING AND PROMOTION

- (a) MANUFACTURE. LICENSEE agrees that the Licensed Product shall equal or exceed all mandatory industry and government standards established in respect of safety and fitness for use. All applicable government standards of the Territory shall be followed, whether federal, state or local. If the Territory is the U.S. or is inclusive of the U.S., such standards shall include, but not be limited to, the Consumer Product Safety Act and all appropriate sections of the Code of Federal Regulations, and to the extent applicable, the Products shall equal or exceed the standards set forth in the Hazardous Substances Act, the Flammable Fabrics Act, the Child Safety Protection Act and the Toy Manufacturers of America Safety Standards as contained in ASTM F963 and comparable industry standards. In accordance with industry practices applicable with respect to the types of products manufactured by LICENSEE, LICENSEE agrees, on an annual basis, to provide to LICENSOR at LICENSEE's expense a certificate of an approved independent testing laboratory certifying that the Products comply with such standards and regulations.
- (b) MARKETING AND PROMOTION. LICENSEE shall use its commercially reasonable efforts to exploit the License throughout the Territory, including but not limited to, selling commercial quantities of a representative sampling of the Licensed Products of the various styles as approved by LICENSOR; offering for sale the Licensed Products so that they may be sold to the consumer on a timely basis; and maintaining a sales force sufficient to provide effective distribution throughout the Territory; and cooperating at LICENSEE's

expense with LICENSOR's and any of its other licensees' marketing, merchandising, sales and anti-counterfeiting programs. LICENSOR and Global shall use its commercially reasonable efforts to assist LICENSEE with marketing and promotion of the Licensed Products.

- (c) COMPLIANCE WITH LICENSOR'S MARKETING PLANS. LICENSEE shall use its commercially reasonable efforts to comply with LICENSOR'S roll-out and marketing plans, which LICENSOR shall provide to LICENSEE at the time such plans are finalized by LICENSOR.
- (d) ADVERTISING AND PROMOTION; APPROVAL. All advertising and promotion of the Licensed Products must be consistent with the high quality, image and standards of LICENSOR and shall be subject to the prior express written approval of LICENSOR. No advertising or promotional material shall refer to LICENSOR'S name without LICENSOR'S prior written approval.
- (e) THIRD PARTIES. No manufacturer engaged by LICENSEE may sell or ship Licensed Products to any party except LICENSEE or its designee, and LICENSEE shall not contract for the manufacture and/or sale of the Licensed Products by a third party without the prior express written approval of LICENSOR and then only pursuant to a written agreement with such third party approved

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by LICENSOR, unless LICENSOR expressly waives such requirement. The written agreement shall obligate the third party to the applicable obligations of the LICENSEE under this Agreement such as, for example, the quality standards, protection and use of the Property, Confidential Information, right of inspection of premises, books and records, and prevention of resale of seconds.

3. ROYALTIES.

- (a) GUARANTEE AND ADVANCE. LICENSEE hereby guarantees Royalties (as defined in Paragraph 3(c)) of not less than Seventy Five Thousand Dollars (\$75,000) (the "GUARANTEE"). Upon execution of this Agreement, LICENSEE shall pay a non-refundable sum of Ten Thousand Dollars (\$10,000) (the "ADVANCE"), to GLOBAL on behalf of LICENSOR. The Advance shall serve as an advance against the Royalties payable by LICENSEE hereunder. Once Royalties owed to LICENSOR surpass the amount of the Advance, LICENSEE shall make quarterly Royalty payments as set forth herein. The balance of Guarantee (i.e., Sixty Five Thousand Dollars (\$65,000)), shall be paid in full not later than

December 1, 2003 according to the following schedule, provided that such balance is not previously remitted in earned Royalties:

- (i) Fifteen Thousand Dollars (\$15,000) due six (6) months after the Ship Date (as defined in Paragraph 1 (g) (I) above), but no later than June 1, 2001.
 - (ii) Twenty Five Thousand Dollars (\$25,000) due on or before December 1, 2002; and
 - (iii) Twenty Five Thousand dollars (\$25,000) due on or before December 1, 2003.
- (b) NET SALES. For purposes of calculating any Royalty (as defined in Paragraph 3(c)), "NET SALES" shall mean the full wholesale prices of the Licensed Products in U.S. dollars, billed, invoiced or shipped, whichever is first to occur, by LICENSEE to its customers within the Territory during the "ROYALTY PERIOD" (defined in Paragraph 3(c)), less trade discounts, and allowances and less defective merchandise returns actually received by LICENSEE. Returns on account of defective merchandise shall not exceed an aggregate of five percent (5%) of Net Sales for any three (3) consecutive Royalty Periods. If such returns do exceed the five percent (5%) threshold, it shall be considered a material breach of this Agreement by LICENSEE.
- (c) PERCENTAGES. LICENSEE agrees to pay a royalty to GLOBAL (until notified in writing otherwise) on behalf of LICENSOR at rates equal to the percentages of LICENSEE's Net Sales, as set forth below (the "ROYALTY"), in each calendar quarter within thirty (30) days after the end of each calendar quarter for the sales of the Licensed Products sold during such calendar quarter. For the duration of the License Term. each such quarterly period is referred to as a "ROYALTY PERIOD":

ROYALTY RATE

NET SALES

6%

Net Sales for all Tee Shirts sold through December 1, 2002

8%

Net Sales for all Tee Shirts sold in the period of commencing on December 1, 2002 through the expiration of this

8% Net Sales for all Licensed Products
(excluding Tee Shirts, as outlined
above) sold during the Term of this
Agreement

- (d) TIME OF PAYMENTS OF ROYALTY. Within thirty (30) days after the end of each Royalty Period during the Term, commencing no later than January 15, 2001, LICENSEE shall pay GLOBAL on behalf of LICENSOR, in U.S. Dollars by check or in any other manner designated by LICENSOR in writing, the Royalty (applicable for the prior Royalty Period) less the non-refundable Advance not otherwise credited.
- (e) LATE PAYMENTS. If any payment is not received by LICENSOR within ten (10) days of the due date, LICENSEE shall pay to GLOBAL on behalf of LICENSOR a late charge on all overdue payments calculated at an annualized rate of fourteen percent (14%) of such overdue sum.
- (f) INDEPENDENT COVENANT. The obligation of LICENSEE to pay Royalties is absolute notwithstanding any claim which LICENSEE may assert against LICENSOR. LICENSEE shall not have the right to set-off, compensate against or make any deduction from Royalties for any reason whatsoever.

4. DEPOSITS; BOOKS AND RECORDS

- (a) REPORT. At the time each Royalty payment is due, LICENSEE agrees to deliver to LICENSOR and GLOBAL a report setting forth: Net Sales and Royalty payable for the Royalty Period covered by the report, as well as Advance credited against such Royalty, the form of which first shall be approved by LICENSOR and amended as reasonably requested by LICENSOR.
- (b) SEPARATE BOOKS AND RECORDS. LICENSEE shall maintain separate and appropriate books of account and records sufficient to reconcile the number of units manufactured that are Licensed Products with the number of units sold, separated by the appropriate Channels of Distribution, all in accordance with generally accepted accounting principles.

- (c) RIGHT TO EXAMINE. LICENSOR and GLOBAL, at all times during and after termination or expiration of this Agreement, shall have

the right, through any authorized representative of its choice, on five (5) business days advance notice to LICENSEE, to examine and copy all of LICENSEE's books and records relating to the manufacture and sale of the Licensed Products no more than once during a twelve (12) month period, provided that within the preceding twelve (12) month period no underpayments of Royalties are discovered. LICENSOR and GLOBAL shall have the right to examine the books and records of all companies with common ownership which transact business with LICENSEE. "COMMON OWNERSHIP" shall mean that one or more of the principals, partners or shareholders is a principal, partner or shareholder of LICENSEE. All such examinations shall be at LICENSEE's principal place of business and during normal business hours. LICENSEE shall keep all books of account and records available for at least three (3) years after the close of each fiscal year to which they relate. LICENSEE shall maintain its books and records only at its principal office premises and shall not remove this information unless it has given LICENSOR and GLOBAL thirty (30) days written notice of the new location (which must be in the United States). If an examination discloses that LICENSEE has understated Net Sales or underpaid any Royalty for any report period, without prejudice to any of LICENSOR's rights, LICENSEE shall pay GLOBAL on behalf of LICENSOR the amount, if any, by which the actual Royalties exceed Royalties paid within ten (10) days of receipt of notice by LICENSOR and GLOBAL to such effect, together with the applicable late charge as provided. Further, if LICENSEE underpays Royalties by more than three percent (3%) or US \$10,000 (whichever is greater) for any calendar year, LICENSEE shall pay all costs, fees and expenses incurred by LICENSOR and GLOBAL in conducting such examination, in addition to any late charges and interest provided for in this Agreement and reasonable attorneys' fees. If LICENSEE underpays Royalties by more than five percent (5%) or US \$25,000 (whichever is greater) for any calendar year, LICENSOR may terminate this Agreement at LICENSOR's sole discretion.

5. QUALITY STANDARDS

- (a) STANDARDS. LICENSEE agrees to cause the Licensed Products to be:
 - (i) of quality, material, workmanship, condition, appearance, and image at least equivalent to the quality, material, workmanship, condition, appearance, and image of other similar products of LICENSOR (as described and approved in writing by LICENSOR in its sole discretion);
 - (ii) in accordance with this Agreement and all applicable

laws and rules, and within the definition of Licensed Products, and

- (iii) in conformity with designs and samples supplied by LICENSEE and approved by LICENSOR as provided in this Paragraph 5.

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(b) RIGHT TO APPROVE OR REJECT. All matters requiring approval of LICENSOR or the exercise of its discretion shall be at the sole and absolute discretion of LICENSOR. A submission for approval shall be deemed disapproved unless LICENSOR delivers a notice of approval within ten (10) business days after transmittal by LICENSEE. LICENSOR shall have no obligations to approve, review or consider any items which do not comply with the required procedures as set forth in this Paragraph 5(c). Approval by LICENSOR shall not be construed as either (i) a determination that the approved matter complies with all applicable regulations and laws; or (ii) an express or an implied representation or warranty of merchantability or fitness of purpose with respect to any Licensing Product. No disapproved proposed item shall be manufactured, sold, used, distributed or advertised. LICENSEE may revise any disapproved item and resubmit it. LICENSEE must strictly comply with all of LICENSOR's decisions. Upon reasonable notice, LICENSOR may withdraw approval of any previously approved item, provided, however, that LICENSEE shall be allowed to sell all previously approved Licensed Products in accordance with the terms hereof if such Licensed Products have already been manufactured at the time LICENSOR has withdrawn it's approval. LICENSEE bears the entire risk that any sample or production run Licensed Product does not meet the standards set forth in this Paragraph 5.

(c) APPROVAL PROCEDURE.

- (i) PRODUCTION SAMPLES AND INSPECTION. Prior to the production or manufacture of any Licensed Product, if applicable, LICENSEE shall submit for LICENSOR's prior written approval all final Licensed Product designs, specifications and color details. After receiving written approval of the design, specification and color details, if applicable, and prior to production of Licensed Product, LICENSEE agrees to supply to LICENSOR five (5) prototypes (including the proposed Products, packaging, advertising, display, labeling, trade dress,

merchandising, and all other material of any character whatsoever) together with a description of the intended use of the material of each Licensed Product for its inspection and approval. LICENSEE shall be responsible for any and all costs of shipping and handling incurred in providing the samples. LICENSOR and GLOBAL shall have the right to purchase additional samples for their own personal use at the actual cost of the Licensed Products plus shipping and handling.

- (ii) REJECTED GOODS. If Licensed Products manufactured do not conform to previously approved confirmation samples LICENSOR shall have the sole right to withdraw its approval and LICENSEE shall have thirty (30) days cure period to re-submit for approval. LICENSEE immediately shall cease production, advertising, sale and/or distribution of the rejected goods until such time as the manufactured Licensed Products conform to the approved confirmation samples. This Agreement shall remain in full force and effect as to Licensed Products not affected by this Paragraph.

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- (iii) NONCONFORMING GOODS. If the appearance or quality of any Licensed Product ceases to be acceptable to LICENSOR, LICENSOR shall have the right, in the exercise of its sole subjective discretion, to withdraw its approval of such Licensed Product. Upon receipt of written notice from LICENSOR of its election to withdraw such approval with respect to any Licensed Product, LICENSEE shall immediately cease the use of the Property in connection with the promotion, advertising, sale, manufacture, distribution or use of such Licensed Product. LICENSEE may complete all work in process. Notice of such election by LICENSOR to withdraw approval shall not relieve LICENSEE from its obligation to pay Royalties on sales of such Product made by LICENSEE to the date of disapproval or thereafter as permitted. LICENSEE agrees to neither sell nor expose to the public any goods not conforming to the standards in Paragraph 5(a) unless, and only if, all Property is completely removed and are not used in any connection with their sale or distribution.

- (d) APPROVAL OF FACILITIES. LICENSEE shall provide the addresses of all facilities, including third party manufacturers, at which the Licensed Products are manufactured. LICENSOR and GLOBAL shall have the right to inspect and approve all such facilities of LICENSEE. LICENSEE's agreements with third party manufacturers shall provide for the right of LICENSOR and GLOBAL to inspect such third party's facilities. All inspections shall be during regular business hours upon ten (10) business days notice to LICENSEE or LICENSEE's third party manufacturers. Inspections may include any reasonable actions necessary to assure LICENSOR that the Licensed Products are made in accordance with this Agreement, including but not limited to laboratory testing.
- (e) LICENSEE shall supply LICENSOR and GLOBAL with five (5) samples of each of the completed Licensed Products, promptly upon completion. LICENSEE shall be responsible for any and all costs of shipping and handling incurred in providing said samples under this Agreement. LICENSOR and/or Global shall have the right to purchase additional samples for their own personal use at the actual cost of the Licensed Products, plus shipping and handling.

6. CONFIDENTIALITY For purposes of this Agreement, "CONFIDENTIAL INFORMATION" shall mean information or materials regarded by each party as its confidential information, including pricing information, manufactures names, and any formula, pattern, compilation, program, device, method, technique, process, information related to its past, present or future research, development or business affairs, and its proprietary products, materials, concepts, know-how or methodologies and that (i) derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. Both parties agree to keep all Confidential Information of LICENSOR and LICENSEE strictly confidential and to use such knowledge only to the exercise and performance of its respective

rights and obligations under this Agreement; except that Licensed Products may be displayed and any detail evident from examination of a Licensed Product may be disclosed only at and after the line-break applicable to that Licensed Product and season. Upon expiration or termination of this Agreement, whichever first occurs, LICENSEE shall return all designs, patterns, samples and other embodiments of Confidential Information not yet disclosed as provided in the preceding sentence.

INTELLECTUAL PROPERTIES

- (a) PROPERTY VALUE. LICENSEE acknowledges that the Property has great value and associated goodwill because the public and the industry associate the Property with goods having consistently high quality that are sold primarily by retailers of high repute who sell primarily high quality goods and who maintain high merchandising standards. LICENSEE shall use its commercially reasonable efforts to preserve the value and goodwill of the Property and to cooperate with LICENSOR's efforts to preserve their value and goodwill as contemplated by this Agreement.
- (b) PROPERTY OWNERSHIP. LICENSEE (as between LICENSOR and LICENSEE) acknowledges LICENSOR's ownership of the Property, and acknowledges that all use of such Property inures to the exclusive benefit of LICENSOR. LICENSEE shall not at any time either during or after the Term of this Agreement:
- (i) claim ownership of or attempt to register the Property;
 - (ii) do or commit any act which would adversely affect the validity of the Property;
 - (iii) infringe LICENSOR's rights in the Property;
 - (iv) use any business name with the Property in it;
 - (v) seek to cancel the Property rights; or
 - (vi) engage in any activity which may contest, dispute, dilute or otherwise impair the right, title, interest or goodwill of LICENSOR in the Property. For the purpose of protection of rights in the Property only, all uses of the Property made by or on behalf of the LICENSEE are deemed to have been made by LICENSOR.
- (c) REGISTRATIONS:
- (i) LICENSEE shall, at LICENSOR's cost, cooperate with LICENSOR and GLOBAL in the execution, filing and prosecution of trademark, copyright or patent applications; LICENSEE shall, at LICENSOR's cost, supply LICENSOR and GLOBAL with samples for applications. LICENSEE shall cooperate with LICENSOR and GLOBAL in making and terminating registered user entries. LICENSOR shall pay all costs and fees in connection with filing and prosecution of trademarks, copyrights and patents. These obligations shall

(ii) LICENSOR and LICENSEE shall file applications and documents with the appropriate government office, as required by law or as deemed prudent by LICENSOR, at LICENSOR's sole cost.

(d) INFRINGEMENTS. LICENSEE shall immediately give notice to LICENSOR and GLOBAL, by telephone and in writing, of any infringement or misuse of any Property by any third party of which LICENSEE becomes aware. LICENSOR shall have the right, but not the requirement, to commence legal action regarding any misuse at its expense. LICENSEE shall reasonably cooperate in any infringement action commenced by LICENSOR or GLOBAL as LICENSOR shall require; PROVIDED, HOWEVER, that any and all costs incurred by LICENSEE in connection with such litigation shall be borne by LICENSOR, except nominal or sample costs shall be borne by LICENSEE. Notwithstanding the foregoing, LICENSEE shall not be required to join any such action commenced by LICENSOR. If LICENSOR does not commence such action, LICENSEE may prosecute such action at its cost and risk.

8. INDEMNITY; INSURANCE; REPRESENTATIONS

(a) INDEMNITY. LICENSEE agrees to indemnify, defend and hold harmless LICENSOR and GLOBAL, and each of their respective shareholders, members, directors, officers, employees and agents from and against any and all obligations, liabilities, claims, demands, suits, actions, causes of action, damages and expenses (including but not limited to reasonable attorney's fees) caused by or arising from LICENSEE's manufacture, labeling, use, sale or distribution of Licensed Products or any other goods, or from product liabilities arising from the manufacture, use or sale of any of the Licensed Products or other goods by LICENSEE, or from any alleged defect in a Licensed Product regardless of whether the action is based upon negligence or strict liability, and regardless of whether the alleged negligence of LICENSEE is characterized as "passive" or "active"; or from unauthorized use by LICENSEE of LICENSOR's rights in the Property, or from any casualty or other risk of loss, damage or destruction of the Licensed Products or any materials, supplies or inventory therefor, or for any violation of any warranty, representation or agreement made by LICENSEE pertaining to a Licensed Product. Anything herein to the contrary notwithstanding, LICENSEE shall have no

obligation to indemnify LICENSOR for its negligence or willful misconduct.

- (b) INSURANCE. LICENSEE shall maintain comprehensive general liability insurance in the amount of at least One Million Dollars (\$1,000,000) (combined single limit per occurrence) and Two Million Dollars (\$2,000,000) aggregate per year, plus defense costs. This insurance shall include broad form blanket contractual liability, products and completed operations liability, including protection for LICENSOR its shareholders, members, directors, officers, employees and agents (including Global) against any claims, damages, liabilities, costs and

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expenses (including attorney's fees) arising out of any alleged defect (whether latent or patent) in any and all Licensed Products manufactured, distributed, sold or otherwise disposed of by LICENSEE. LICENSEE shall purchase insurance against theft and destruction of the Licensed Products which shall: 1) be written on an "all-risk" basis; 2) provide that LICENSEE shall be reimbursed for loss in an amount equal to the manufacturer's selling price for the Licensed Products (this may be accomplished by either a selling price endorsement or business interruption insurance); 3) provide that LICENSOR is an added as additionally named loss payee with respect to loss of Licensed Products; 4) be in effect while goods are on premises owned, rented and controlled by LICENSEE and while in transit or storage; and 5) include a brand and label clause stating that the insurer will pay the cost of removing LICENSOR's name from damaged merchandise and labeling goods. The insurance shall include: 1) a cross-liability endorsement; 2) an endorsement stating that LICENSOR shall receive at least thirty (30) days written notice prior to modification, cancellation or non-renewal of coverage; 3) an endorsement naming LICENSOR as a named insured; 4) an endorsement stating that the insurance purchased by LICENSOR shall only apply in excess of the insurance purchased by LICENSEE; 5) a waiver of subrogation in favor of LICENSOR; and 6) an endorsement stating that LICENSOR may recover for any loss caused to LICENSOR, or their respective shareholders, members, directors, officers, employees or agents (including Global) by the negligence (including active, passive and gross negligence) of LICENSEE. All insurance shall be obtained from an insurance company Best's rated A, class 10 or better acceptable to LICENSOR. LICENSEE shall give LICENSOR and insurance policy that would affect the status or benefits of LICENSOR or GLOBAL. This

insurance may be obtained for LICENSOR by LICENSEE in conjunction with a policy which covers products other than the Licensed Products. LICENSEE shall furnish certificates and endorsements of the required insurance policies. Upon request, LICENSEE shall provide copies of policies. The insurance set forth in this section shall cover the entire Territory.

- (c) If either party learns of a claim related to this Agreement or the Licensed Products, it shall immediately notify the other party by telephone, and in writing transmitted by nationally recognized overnight courier, of the subject matter, the parties and the nature of the claim. If the claim pertains to any of LICENSEE's obligations under this Agreement or the Licensed Products, LICENSEE shall promptly inform LICENSOR of what steps it is taking to correct the claim or complaint whether by consumer or a government body. LICENSOR and LICENSEE shall cooperate in the resolution of all such claims.
- (d) NO REPRESENTATIONS. LICENSOR has made no representation or warranty, except as expressly provided, with respect to the Licensed Products. Notwithstanding anything to the contrary contained herein, LICENSOR represents and warrants that LICENSOR holds valid U.S. federal trademark registrations in and to the Property. Furthermore, LICENSOR represents and warrants that it shall comply with any applicable laws with respect to its intellectual property rights and obligations under this Agreement. There are no implied warranties for merchantability or fitness for any particular purpose.

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Notwithstanding the foregoing, LICENSOR acknowledges and agrees that once LICENSOR approves LICENSEE's submissions in accordance with Section 5 of this Agreement, such approval shall be deemed LICENSOR's consent to concept and design of the Licensed Products provided in no event shall LICENSOR be liable for any breach of any implied or express warranty of merchantability or fitness for any purpose.

- (e) NO LEGAL IMPEDIMENTS. The parties represent and warrant that:
- (i) they have the full right, power and authority to enter into this Agreement and to perform all obligations;
 - (ii) they are financially capable of performing their obligations.

- (f) LICENSEE REPRESENTATIONS. LICENSEE warrants and represents that it is a New Jersey corporation, validly existing and in good standing under the laws of New Jersey. LICENSEE further represents and warrants that it will use its commercially reasonable efforts to market the Licensed Products. LICENSEE further represents that entering into this Agreement will not result in the violation of: (i) the organizational documents or bylaws of LICENSEE, (ii) any agreement, contract, lease, license, document or other commitment, written or oral, to which LICENSEE is a party or may become bound, or (iii) any applicable law, rule, license or regulation.
- (g) LICENSOR Representations. LICENSOR warrants and represents that it is a California corporation, validly existing and in good standing under the laws of California. LICENSOR further represents that entering into this Agreement will not result in the violation of : (i) the organizational documents or bylaws of LICENSOR, (ii) any agreement, contract, lease, license, document or other commitment, written or oral, to which LICENSOR is a party or may become bound, or (iii) any applicable law, rule, license or regulations.
- (h) COMPLIANCE WITH LAW. Both parties shall take all actions required by any local, provincial, national or regional agency, government or commission to carry out the purposes of this Agreement in compliance with applicable law (including, but not limited to any applicable child labor laws and/or regulations). Both parties shall immediately provide each other with copies of any communications to or from any such agency, government or commission which relates to or affects this Agreement or the Licensed Products.

9. TERMINATION

- (a) OTHER RIGHTS UNAFFECTED. Termination on any ground shall be without prejudice to any other rights or remedies.

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- (b) TERMINATION FOR BREACH OR MATERIAL BREACH. If LICENSEE or LICENSOR breaches any of its obligations, the other may terminate this Agreement by transmitting to the breaching party a notice of termination (the "NOTICE OF TERMINATION"). A material breach may or may not be specifically designated as such in this Agreement. Termination will become effective automatically unless the breaching party completely cures the breach within five (5) business days of giving the Notice of Termination if the breach is a failure to pay money or within

ten10 business days of the giving of such Notice of Termination if the breach is any other breach except as otherwise herein provided. If the LICENSEE is the breaching party, pending cure, the LICENSEE may continue to ship Licensed Products PROVIDED the breach is being cured in good-faith. Upon the giving of a Notice of Termination for the third time, for any reason, the breaching party shall no longer have the right to cure any violation, and termination shall be effective upon the giving of the Notice of Termination.

(c) GROUNDS FOR IMMEDIATE TERMINATION.

- (i) CHANGE OF OWNERSHIP: The right of LICENSOR to approve or disapprove any transfer of all or part of the ownership of LICENSEE (whether by sale of substantially all its assets or by transfer of shares of its stock) shall be at the sole discretion of LICENSOR. If Licensee breaches Paragraph 1(c); if there is a change in more than fifty percent (50%) of the ownership of LICENSEE (except for change in ownership due to transfers for estate planning purposes); if LICENSEE sells or otherwise disposes of fifty percent (50%) or more of its stock or assets; or, if any of the key executives listed in SCHEDULE 9(C) leaves LICENSEE, LICENSOR shall have the right to immediately terminate.
- (ii) LICENSEE'S INSOLVENCY: LICENSOR may terminate if: a petition for relief under the Bankruptcy Code is filed by or against the LICENSEE; LICENSEE makes any assignment for the benefit of its creditors; LICENSEE becomes the subject of proceedings under any insolvency, reorganization or receivership law; LICENSEE defaults on any obligation which is secured by a security interest, in whole or in part, in the Licensed Products in an amount in excess of \$100,000 and is not cured within the sixty (60) day cure period; or, a receiver is appointed for LICENSEE or a substantial part of its business interests. Termination will become effective automatically sixty (60) days after LICENSOR gives notice if LICENSEE: fails to discharge the bankruptcy or terminate the assignment for the benefit of creditors. The license and rights granted are personal to LICENSEE. No assignee for the benefit of creditors, receiver, debtor in possession, trustee in bankruptcy, sheriff or any other officer or court charged with taking over custody of LICENSEE's assets or business, shall have any right to continue performance of this Agreement or to exploit or in any way use the

Property if this Agreement is terminated pursuant to the preceding subparagraph, except as may be required by law.

- (iii) LICENSOR's Insolvency: LICENSEE may terminate if: a petition for relief under the Bankruptcy Code is filed by or against LICENSOR; LICENSOR makes any assignment for the benefit of its creditors; LICENSOR becomes the subject of proceedings under any insolvency, reorganization or receivership law;

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LICENSOR defaults on any obligation which is secured by a security interest, in whole or in part, in the Licensed Products in an amount in excess of \$100,000 and is not cured within the sixty (60) day cure period; or, a receiver is appointed for LICENSOR or a substantial part of its business interests. Termination will become effective automatically sixty (60) days after LICENSEE gives notice if LICENSOR: fails to discharge the bankruptcy or terminate the assignment for the benefit of creditors. The license and rights granted are personal to LICENSOR. No assignee for the benefit of creditors, receiver, debtor in possession, trustee in bankruptcy, sheriff or any other officer or court charged with taking over custody of LICENSOR's assets or business, shall have any right to continue performance of this Agreement or to exploit or in any way use the Property if this Agreement is terminated pursuant to the preceding subparagraph, except as may be required by law.

- (iv) QUALITY AND MARKETING DEFAULTS: LICENSOR may immediately terminate this Agreement with no right of cure, if:

- (1) LICENSEE understates Royalties and/or payments due for any report by more than five percent (5%) or US\$25,000, whichever is greater, makes any unreported sales or knowingly misrepresents or misstates material information in any other report required or requested under this Agreement;
- (2) LICENSEE ceases to do business;

- (3) LICENSEE ceases to market any of the Licensed Products for more than three (3) consecutive months;
- (4) events occur that call for immediate termination as expressly provided elsewhere in this Agreement; or
- (5) LICENSEE markets products using the Property not submitted for approval; or for which no approval is granted.

10. OBLIGATIONS AT EXPIRATION OR TERMINATION

(a) TERMINATION OF RIGHTS. Upon expiration or termination of this Agreement for any reason, all rights in the Property granted to LICENSEE shall automatically terminate and LICENSEE shall cease and desist from any and all manufacture, sale, distribution or disposal of the Licensed Products, or any use of the Property or of any Licensed Products or Property which are substantially or confusingly similar to the Property, except as specifically provided in this Paragraph. Furthermore, upon LICENSOR paying for same, LICENSEE shall immediately turn over to LICENSOR any production molds and/or materials created and/or used in connection with the Licensed Products.

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(b) INVENTORY. Upon LICENSOR's request, within ten (10) days after the expiration of this Agreement or, in the event of its termination or non-renewal, within ten (10) days after the receipt of a Notice of Termination or a notice of non-renewal or the happening of an event which terminates this Agreement where no notice is required, LICENSEE shall give LICENSOR and GLOBAL a written statement showing: i) the Licensed Products in its possession or under its control; ii) location of the inventory; iii) work in process; and iv) Licensed Products in transit. LICENSEE shall dispose of these goods only pursuant to the specific terms of this Paragraph 10.

(c) OTHER ITEMS BEARING THE PROPERTY. All items other than the Licensed Products, bearing the Property, such as stationary, business cards, etc., shall be at LICENSEE's option recycled, destroyed or delivered to LICENSOR immediately upon termination or expiration.

(d) CONCLUDING SALES. LICENSEE shall not undertake any new

production, that would be delivered after the date of expiration or termination. At LICENSOR's reasonable request, LICENSEE shall provide LICENSOR with relevant information regarding LICENSEE's concluding sales of the inventory which LICENSOR considers important for maintaining the good-will of LICENSOR's brand. Additionally, at LICENSOR's reasonable request, LICENSEE shall facilitate LICENSOR's direct contact with any third parties involved in the sale and distribution of the Licensed Products. The right of LICENSEE to sell off inventory under this Paragraph is also subject to LICENSOR's right of first refusal to buy the inventory as provided in Paragraph 10(e).

- (e) RIGHT TO PURCHASE. LICENSOR or LICENSOR's designee shall have the option (but not the obligation) to purchase all or any part of LICENSEE's inventory of Licensed Products upon the following terms:
- (i) LICENSOR shall notify LICENSEE of the intention to exercise this option within fifteen (15) days of delivery of the list of inventory and shall specify the Licensed Products to be purchased.
 - (ii) If termination is due to LICENSEE's breach, the price for Licensed Products shall be LICENSEE's standard cost (the actual manufacturing cost if manufactured by LICENSEE) and LICENSEE's Landed Cost, herein defined, (if not manufactured by LICENSEE.) "LANDED COST" means the F.O.B. price of Licensed Products together with customs, duties, and brokerage, demurrage, freight and insurance. If the Agreement expires by its own terms or due to LICENSOR's breach, the prices for Licensed Products shall be those offered by LICENSEE to its own favored customers.
 - (iii) LICENSEE shall deliver the Licensed Products purchased within fifteen (15) days of receipt of the notice to purchase. The purchase price shall be payable upon delivery; provided that LICENSOR shall be entitled to deduct any amounts owed it by LICENSEE.

- (f) WAIVER OF GOODWILL. LICENSEE waives any claim which it may have arising from any alleged goodwill created by LICENSEE from the alleged creation or increase of a market for Licensed Products.

- (g) RIGHT TO MANUFACTURE AND OFFER FOR SALE. Without Limiting LICENSOR's other rights in this Agreement, at any time during the three (3) months preceding expiration or termination, LICENSOR or any new licensee shall have the right to manufacture, show, advertise and take orders for the Licensed Products for delivery following said expiration or termination.
- (h) RIGHT OF SELL-OFF; DISPOSAL OF INVENTORY. Anything herein to the contrary notwithstanding, upon expiration or termination of this Agreement, subject to LICENSOR's right to purchase LICENSEE's inventory under Paragraph 10(e), LICENSEE shall have the right to sell off all of its inventory for a three (3) month period, commencing the date of the expiration or termination of this Agreement. Such right of sell-off is subject to LICENSEE complying with the royalty payment provisions of this Agreement. All inventory not disposed of in accordance with this Paragraph shall be destroyed.
- (i) SUPPLIES BEARING THE PROPERTY. Upon the sooner of termination or thirty (30) days prior to expiration, LICENSEE shall provide:
 - (i) the name, addresses and phone numbers of each supplier on any item bearing the Property; and
 - (ii) an inventory of all supplies of any type bearing the Property, which shall specify the location of such items.
- (j) LICENSEE, at its option, shall use its commercially reasonable efforts to either (1) purchase all items bearing the Property held by any supplier and shall have all such items delivered to LICENSOR, at LICENSOR's cost or (2) cause the Property to be removed from all items bearing the Property held by any supplier. The purchase price to be paid by LICENSOR for such items shall be determined in accordance with Paragraph 10(e) (ii).

11. NOTICE AND APPROVALS. Any notice, approval, consent or agreement required or permitted under this Agreement shall be effective only if in writing, signed by an officer of the party giving notice, and delivered in person, or mailed by nationally recognized overnight courier or transmitted by facsimile transmission with electronic confirmation of receipt to the addressee's address or facsimile number set forth below (or such other address or facsimile number as the party changing its address specifies in a notice to the other party specifically referring to this Paragraph):

If to LICENSOR:

Genius Products, Inc.
Attention: President
11250 El Camino Real, Suite 100
San Diego, CA 92130
Tel (858) 793-8840
Fax (858) 793-8842

With a copy to:

Global Icons, LLC
Attention: Ken Abrams
3679 Motor Avenue, 2nd Floor
Los Angeles, CA 90034
Tel (310) 253-5100
Fax (310) 253-5110

With a copy to:

Silver & Freedman
Attention: Perry S. Silver
1925 Century Park East, Suite 2100
Los Angeles, California 90067-2722
Tel (310) 556-2356
Fax (310) 556-0832

If to LICENSEE:

Catton Apparel Group
Attention: Richard Rosenbluth
112 West 34th Street, Suite 1905
New York, New York 10120
Tel (212) 695-6343
Fax (212) 695-8459

With a copy to:

Goodkind, Labaton, Rudoff and Sucharoww, LLP
100 Park Ave.
New York, NY 10017-5563
Attention: John H. Riley, Esq.
Tel (212) 907-0700
Fax (212) 883-7007

Notice shall be deemed given as of the date actually received by the last of the addressee party and that party's copy recipient to receive the notice as evidenced by acknowledgment of receipt, delivery in person, the date on the postal return, or electronic confirmation in the case of facsimile transmissions.

12. INTERPRETATION The License Agreement shall be interpreted to give LICENSOR maximum control of its Property and the usage of the Property. The caption headings of the sections are for convenience only and shall not be used for interpretation.
13. GOVERNING LAW/ JURISDICTION/ VENUE All questions concerning this Agreement, the rights and obligations of the parties, its enforcement, and its validity, effect, interpretation and construction which are governed by state law shall be determined under the laws of the State of California. All national law questions shall be governed by the laws of the United States of America; except that if LICENSOR seeks provisional relief, the law of the place where the provisional relief is sought shall apply. LICENSOR and LICENSEE agree to be subject to jurisdiction in Los Angeles County, California and in the federal district court situated therein and if there is no federal jurisdiction, state courts of California.
14. RELATIONSHIP OF THE PARTIES. Nothing in this Agreement shall be construed to place the parties in the relationship of legal representatives, partners, joint venturers or agents. LICENSEE shall have no power to oblige or bind LICENSOR or GLOBAL in any manner except as provided.
15. WAIVER AND INTEGRATION; AMENDMENTS. The failure of a party to insist upon strict adherence to any term of this Agreement, or to object to any failure to comply with any provision of this Agreement, shall not be a waiver of that term or provision, estop that party from enforcing that term or provision, or preclude that party from enforcing that term or provision by estoppel or by laches. The receipt by a party of any benefit from this Agreement (e.g., Royalty) shall not be construed as a waiver or estoppel of the right of that party to enforce any section. None of the terms of this Agreement shall be deemed to be waived or modified, including all provisions of this Paragraph, except by an express agreement in writing, signed by an authorized officer of the party against whom enforcement of the waiver or modification is sought, supported by a new consideration. This Agreement, including all attachments, constitutes the entire agreement between the parties, and supersedes all prior negotiations and agreements between the parties concerning its subject matter. This writing is intended as the final, complete and exclusive statement of the terms of the Agreement between the parties and cannot be changed or terminated orally.

16. INTEGRATION. This Agreement, and all Schedules referenced herein, constitutes the entire, final and exclusive agreement between the parties with respect to the matters set forth herein; any and all prior agreements, whether written or oral, with respect to the matters set forth herein, are superseded by this Agreement.
17. ATTORNEYS' FEES AND PROFESSIONAL EXPENSES. If any legal action or dispute arises under this Agreement, arises by reason of any asserted breach of it, or arises between the parties and is related in any way to the subject matter of the Agreement, the prevailing party shall be entitled to recover all costs and expenses including reasonable attorneys' fees, investigative costs, accounting fees and charges for experts. The "PREVAILING PARTY" shall be the party who is entitled to recover its costs of suit, whether or not the suit proceeds to final judgment; if there is no court action, the prevailing party shall be the party who wins any dispute. A party need not be awarded money damages or all relief sought in order to be considered the "prevailing party" by a court.
18. SURVIVAL All obligations of the parties of a continuing nature shall survive the termination or expiration of this Agreement.
19. SEVERABILITY. If any provision of this Agreement is held by a court of competent jurisdiction or an arbitrator to be invalid or unenforceable, the remaining provisions of this Agreement shall remain in full force and effect.
20. BINDING AGREEMENT This Agreement shall be binding on and inure to the benefit of the parties and their respective successors, agents, affiliates, representatives and permitted assigns.
21. EXHIBITS/SCHEDULES All Exhibits or Schedules are incorporated into this Agreement.
22. REMEDIES. All specific remedies provided for in this Agreement shall be cumulative and shall not be exclusive of one another or of any other remedies available in law or equity.
23. COUNTERPARTS. This Agreement may be executed in two (2) or more counterparts, each of which together will constitute the same agreement, whether or not all parties execute each counterpart.
24. MISCELLANEOUS
- (a) CD HANG-TAGS. LICENSOR shall provide LICENSEE with CD

Hang-Tags at \$0.40 ("Set Price") per CD Hang-Tag, provided that LICENSEE requests such CD Hang-Tags ninety (90) days prior to the date LICENSEE would require LICENSOR to deliver

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such CD Hang-Tags. In the event that LICENSEE requires LICENSOR to deliver such CD Hang-Tags within a shorter period of time, the Set Price shall be adjusted accordingly to cover LICENSOR's expenses related to the accelerated delivery schedule of such CD Hang-Tags.

- (b) INCLUSION OF LICENSOR'S/EXISTING AND FUTURE LICENSEES' PRODUCTS. LICENSEE shall use its commercially reasonable efforts to include in its gift sets (as defined in Schedule 1(b)) products manufactured by LICENSOR and/or any of LICENSOR's existing and/or future licensees.
- (c) CONSENTS/REQUESTS/APPROVALS: All consents, requests and approvals required under this Agreement shall not be unreasonably withheld or delayed.

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

LICENSOR:

By: /S/ Dorian Lowell

Name: Dorian Lowell

Its: President

LICENSEE:

By:

Name:

Its: President

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SCHEDULE A

PROPERTY

	NAME	REGISTRATION #	PRODUCT CLASS
	----	-----	-----
1.	"Baby Genius"		

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SCHEDULE 1 (a)

DEFINITION OF LICENSED PRODUCTS

A. APPAREL:

1. Coveralls
2. Overall Sets
3. Pants Sets
4. Boy & Girls Basics
5. Tee Shirts
6. Short Sets
7. Diaper Sets
8. Rompers
9. Creepers
10. Shortall Sets
11. Knit & Woven Short Sets
12. Dresses
13. Sportswear and Playwear
14. Accessories (i.e., bootie, socks, visors, hats/caps, headbands & scrunches) may be sold in gift sets only, with any of the items listed above, but not separately.

All of the above apparel shall be in sizes 0-4 T (i.e., newborn, infant and toddler sizes) for boys and girls.

B. LAYETTE GIFT SETS:

1. FEEDING LAYETTE:

- a. Spoon
- b. Fork
- c. Sipper Cup

- d. Bottle
- e. Bowl
- f. Bibs
- g. Rattles
- h. Pacifier

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2. BATH SET LAYETTE:

- a. Sponge
- b. Wash Cloths
- c. Song Ball
- d. Robe
- e. Comb
- f. Brush
- g. Mirrors

All of the Layette Gift Sets shall always include apparel.

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SCHEDULE 1 (b)

CHANNELS OF DISTRIBUTION

The following Channels of Distribution apply to this License Agreement only if initialed by the authorized signatory of Licensor:

1. Distribution to the following tier of retailer from commencing upon execution of this Agreement and ending upon the expiration of the Agreement:

- Mid-tier
- Department stores
- Specialty stores
- Record stores
- Airport shops
- Duty Free shops
- Internet
- Direct mail order sales
- Mass market
- Drug chains
- Supermarkets

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LICENSE AGREEMENT

THIS NON-EXCLUSIVE LICENSE AGREEMENT ("AGREEMENT") dated as of September 20 2000, is by and between GENIUS PRODUCTS, INC., a California Corporation ("LICENSOR"), c/o GLOBAL ICONS L.L.C. (hereinafter referred to as ("GLOBAL") located at 3679 Motor Avenue, Suite 200, Los Angeles, California, 90034; telephone # (310) 253-5100; fax # (310) 253-5139; and J. WASSON ENTERPRISES, INC. whose address is 6952 South 220th Street, Kent, WA 98032, telephone # (253) 395-1017; fax # (253) 395-1042 an Oregon Corporation ("LICENSEE"). The parties agree as follows:

RECITALS

LICENSOR owns or otherwise has the rights to license the copyrights and trademarks listed in SCHEDULE A (the "PROPERTY");

LICENSEE is a manufacturer, marketer and distributor of products which would benefit from use of the Property;

LICENSEE recognizes the great value of the goodwill associated with the Property, and recognizes that the Property and associate goodwill are of great value to LICENSOR; and

LICENSOR desires to grant and LICENSEE desires to acquire a license to manufacture, distribute and/or sell various products (as specified below) utilizing the Property under the terms and conditions as set forth below.

1. GRANT OF LICENSE; TERM; LIMITATIONS

- (a) LICENSE. Subject to the terms and conditions of this Agreement, including but not limited to the rights reserved in Paragraph 1(b), 1(c), 1(d) and 1(e), LICENSOR grants to LICENSEE a non-exclusive, nontransferable right and license to use the Property in the manufacture, distribution and sale of the "LICENSED PRODUCT(S)" (as defined in Paragraph 1(c)) in the "TERRITORY" (as defined in Paragraph 1(d)) and in the Channels of Distribution (as defined in Paragraph 1(d)) (the "LICENSE"). Other than as set forth herein, LICENSEE agrees not to use the Property, directly or indirectly, in any area other than the Territory or on any goods other than the Licensed Products, and agrees not to sell any Licensed Products with the knowledge or constructive knowledge that the purchaser intends to resell the Licensed Products outside the Territory. Further, LICENSEE agrees not to sell any Licensed Products in the Territory to any party identified by LICENSOR in a notice to LICENSEE, or known to LICENSEE, as having previously resold, or reasonably suspected of having

previously resold, any Licensed Products outside the Territory. Upon knowledge of such intended or actual unauthorized sale, LICENSEE shall immediately advise LICENSOR of all details of such sales and shall immediately cease all sales to such third party.

- (b) **LIMITATIONS ON LICENSE:** No license is granted hereunder for the use of the Property for any purpose other than on or in connection with the Licensed Products. LICENSEE shall not sell Licensed Products to any customers which are disapproved in writing by LICENSOR. No license is granted hereunder for the manufacture, sale or distribution of Licensed Products to be used for the purpose of increasing the sale of another item; promoting or publicizing any product or service; fund-raising or as giveaways; or to motivate a sales force, merchant, consumer, or any other person to perform a specific act. In the event LICENSEE desires to sell Licensed Products for such purposes, LICENSEE acknowledges and agrees that it shall first seek and obtain a separate license from LICENSOR and that the third party user thereof shall also obtain a separate license from LICENSOR for such use of Licensed Products.
- (c) **LICENSED PRODUCTS.** The "LICENSED PRODUCTS" are defined as delineated and categorized in SCHEDULE 1(c) attached hereto and incorporated herein, manufactured by LICENSEE, approved as to quality by LICENSOR prior to public exposure as provided by Paragraph 5, and that bear the LICENSOR's trademarks on the said products and any labels, in accordance with the provisions of Paragraph 1(f).
- (d) **TERRITORY; CHANNELS OF DISTRIBUTION.** The License granted in Paragraph 1(a) above is limited to the United States, its territories and possessions and Canada ("TERRITORY"). LICENSEE only shall make sales of Licensed Products through the Channels of Distribution as defined and delineated in SCHEDULE 1(d) attached hereto and incorporated herein.
- (e) **OWNERSHIP AND RESERVED RIGHTS.** LICENSOR reserves and retains the right, title and interest in the Property, and reserves and retains the right to license, design, manufacture, distribute and sell at wholesale, retail or otherwise all goods, including the Licensed Products, in the world, including the Territory. LICENSEE may not use the Property in any manner other than as expressly licensed under this Agreement. LICENSEE shall not claim any right, title or interest in the Property or goodwill associated therewith other than pursuant to the limited license granted in this

Agreement and hereby waives any right it otherwise might acquire as a licensee, distributor or holder of a business opportunity.

- (f) PROPERTY USE AND MARKING. LICENSEE shall use the Property in a manner that does not derogate LICENSOR's rights therein or in any manner detract from or damage the goodwill associated therewith. When the Property is used in text, it shall be distinguished from the surrounding text. When LICENSEE uses the any trademark on Licensed Products, labels, hang tags, packaging, or in advertisements or other promotional material, the trademark shall be designated as such by use of the "TM" notation or the "(R)" symbol, as directed by LICENSOR, as a superscript to the mark. LICENSEE agrees that the trademark will appear on each Licensed Product and its packaging, if any. LICENSEE shall use only those tags, labels and packaging materials which have been previously approved in writing by LICENSOR. On all Licensed Products, LICENSEE shall affix such legends, markings and notices as reasonably required by LICENSOR and the law. LICENSEE acknowledges that the omission of the notice shall be considered a material breach of this Agreement.

- (g) LICENSE TERM. Subject to earlier termination as otherwise provided in this Agreement, the term of the License hereunder shall commence on November 1, 2000 and will continue until December 31, 2003 (the "LICENSE TERM").

- (h) LICENSE Renewal: Provided that Licensee is in compliance with all terms and conditions under this Agreement and that the Royalties, as defined below, reach the minimum of Two Hundred Thousand Dollars (\$200,000) during the Term of the Agreement, this Agreement shall be automatically renewed for an additional period of two (2) years under the same terms and conditions.

- (i) NO SUBLICENSE OR ASSIGNMENT.
 - (i) LICENSEE has no right to, and shall not, transfer or assign, or grant any sublicense, concession, right or privilege relating to, the Property or the Licensed Products either directly, indirectly or by operation of law. A change of ownership, as defined in Paragraph 9(c)(1) shall constitute an assignment.

 - (ii) LICENSEE shall contract for the manufacture of the Licensed Products by a third party only pursuant to a written agreement with such third party approved in writing by LICENSOR.

2. MANUFACTURING, MARKETING AND PROMOTION

- (a) MANUFACTURE. LICENSEE agrees that the Licensed Product shall equal or exceed all industry and government standards established in respect of safety and fitness for use. All applicable government standards of the Territory shall be followed, whether federal, state or local. If the Territory is the U.S. or is inclusive of the U.S., such standards shall include, but not be limited to, the Consumer Product Safety Act and all appropriate sections of the Code of Federal Regulations, and to the extent applicable, the Products shall equal or exceed the standards set forth in the Hazardous Substances Act, the Flammable Fabrics Act, the Child Safety Protection Act and the Toy Manufacturers of America Safety Standards as contained in ASTM F963 and comparable industry standards. Prior to commencing shipment of each Licensed Product and on a regular basis thereafter but no less frequently than annually, or as otherwise requested by LICENSOR, LICENSEE agrees to provide to LICENSOR at LICENSEE'S expense a certificate of an approved independent testing laboratory certifying that the Products comply with such standards and regulations. Each certificate that is provided must specifically describe the Products that are covered by the certificate, including the manufacturing source of the Products being tested.
- (b) MARKETING AND PROMOTION. LICENSEE shall use its best efforts to exploit the License throughout the Territory, including but not limited to, selling commercial quantities of a representative sampling of the Licensed Products of the various styles as approved by LICENSOR; offering for sale the Licensed Products so that they may be sold to the consumer on a timely basis; and maintaining a sales force sufficient to provide effective distribution throughout the Territory; and cooperating at LICENSEE'S expense with LICENSOR'S and any of its other licensees' marketing, merchandising, sales and anti-counterfeiting programs. Failure of LICENSEE to commence marketing the Licensed Products within (9) months of the date of this Agreement shall be a material breach of this Agreement.
- (c) ADVERTISING AND PROMOTION; APPROVAL. All advertising and promotion of the Licensed Products must be consistent with the high quality, image and standards of LICENSOR and shall be subject to the prior express written approval of LICENSOR. No advertising or promotional material shall refer to LICENSEE'S name except for advertisements in trade publications and as

required by law.

- (d) THIRD PARTIES. No manufacturer engaged by LICENSEE may sell or ship Licensed Products to any party except LICENSEE; and LICENSEE shall not contract for the manufacture and/or sale of the Licensed Products by a third party without the prior express written approval of LICENSOR and then only pursuant to a written agreement with such third party approved by LICENSOR, unless LICENSOR expressly waives such requirement. The written agreement shall obligate the third party to the applicable obligations of the LICENSEE under this Agreement such as, for example, the quality standards, protection and use of the Property, Confidential Information, right of inspection of premises, books and records, and prevention of resale of seconds.

3. ROYALTIES.

- (a) GUARANTEE AND ADVANCE. Licensor hereby guarantees Royalties (as defined in Paragraph 3 (c)) of not less than Forty Thousand Dollars (\$40,000) (the "GUARANTEE"). Upon execution of this Agreement, LICENSEE shall pay a non-refundable sum of Twenty Thousand Dollars (\$20,000) (the "ADVANCE"), to LICENSOR. The Advance shall serve as an advance against the Royalties (as defined in Paragraph 3(b)) payable by LICENSEE hereunder. Once Royalties owed to LICENSOR surpass the amount of the Advance, LICENSEE shall make monthly Royalty payments as set forth herein. The balance of the Guarantee (i.e., Forty Thousand Dollars (\$40,000)), shall be paid in full not later than December 31, 2003 according to the following schedule, provided that such balance is not previously remitted in earned Royalties:

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- (i) Ten Thousand Dollars (\$10,000) due on or before November 1, 2001; and
- (ii) Ten Thousand Dollars (\$10,000) due on or before November 1, 2003.
- (b) "GROSS SALES" for purposes of calculating a Royalty or Royalties (as defined in this Paragraph), shall be the full wholesale prices in U.S. dollars of Licensed Products, billed, invoiced or shipped, whichever is first to occur, by LICENSEE to its customers within the Territory during the "ROYALTY PERIOD" (defined in Paragraph 3(b)(i)), less allowances and less defective merchandise returns actually received by

LICENSEE. Returns on account of defective merchandise shall not exceed an aggregate of five percent (5%) of Gross Sales for any three (3) consecutive Royalty Periods. If such returns do exceed the five percent (5%) threshold, it shall be considered a material breach of this Agreement by LICENSEE. LICENSEE agrees to pay a "ROYALTY" to LICENSOR for each Royalty Period in the following amounts:

- (i) PERCENTAGES. LICENSEE, as a Royalty, shall pay LICENSOR nine percent (9%) of LICENSEE's Gross Sales in each calendar month no later than the fifteenth (15th) day of each month following the month during which Gross Sales were made, for the duration of the License Term. Each such period is referred to as a "ROYALTY PERIOD."
- (c) TIME OF PAYMENTS OF ROYALTY. On or before the fifteenth (15th) day after the end of each Royalty Period during the Term, , LICENSEE shall pay LICENSOR, in U.S. Dollars by check or in any other manner designated by LICENSOR in writing, the greater of the Royalty (applicable for the prior Royalty Period) less the non-refundable Advance not otherwise credited. If LICENSEE earns no Royalties during a Royalty Period or if LICENSEE is in the process of recouping the advance or the remainder of the Guarantee, LICENSEE shall still be obligated to submit to LICENSOR a Royalty Report reflecting the most current financial state of the License granted herein.
- (d) LIQUIDATED DAMAGES, LATE PAYMENTS. LICENSEE acknowledges that late payment of any sums due to LICENSOR will cause LICENSOR to incur costs not contemplated by this Agreement and that the exact amount of such costs are extremely difficult and impractical to fix. If any payment is not received by LICENSOR within ten (10) days of the due date, LICENSEE shall pay to LICENSOR a late charge on all overdue payments calculated at an annualized rate of eighteen percent (14%) of such overdue sum. This late charge represents a fair and reasonable estimate of the costs that LICENSOR will incur by reason of late payment by LICENSEE.
- (e) INDEPENDENT COVENANT. The obligation of LICENSEE to pay Royalties is absolute notwithstanding any claim which LICENSEE may assert against LICENSOR. LICENSEE shall not have the right to set-off, compensate against or make any deduction from Royalties for any reason whatsoever.

4. DEPOSITS; BOOKS AND RECORDS

- (a) STATEMENTS. At the time each Royalty payment is due, LICENSEE agrees to deliver to LICENSOR a report setting forth: Gross

Sales and Royalty payable for the Royalty Period covered by the report, the form of which first shall be approved by LICENSOR and amended as requested by LICENSOR.

- (b) SEPARATE BOOKS AND RECORDS. LICENSEE shall maintain separate and appropriate books of account and records sufficient to reconcile the number of units manufactured that are Licensed Products with the number of units sold, separated by the appropriate Channels of Distribution, all in accordance with generally accepted accounting principles.

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- (c) RIGHT TO EXAMINE. LICENSOR, at all times during and after termination or expiration of this Agreement, shall have the right, through any authorized representative of its choice, on five (5) business days advance notice to LICENSEE, to examine and copy all of LICENSEE's books and records relating to the manufacture and sale of the Licensed Products. LICENSOR shall have the right to examine the books and records of all companies with common ownership which transact business with LICENSEE. "COMMON OWNERSHIP" shall mean that one or more of the principals, partners or shareholders is a principal, partner or shareholder of LICENSEE. All such examinations shall be at LICENSEE's principal place of business and during normal business hours. LICENSEE shall keep all books of account and records available for at least three (3) years after the close of each fiscal year to which they relate. LICENSEE shall maintain its books and records only at its principal office premises and shall not remove this information unless it has given LICENSOR thirty (30) days written notice of the new location (which must be in the United States). If an examination discloses that LICENSEE has understated Gross Sales or underpaid any Royalty for any report period, without prejudice to any of LICENSOR's rights, LICENSEE shall pay LICENSOR the amount, if any, by which the actual Royalties exceed Royalties paid within ten (10) days of receipt of notice by LICENSOR to such effect, together with the applicable late charge as provided. Further, if LICENSEE underpays Royalties by more than three percent (3%) or US \$10,000 (whichever is less) for any calendar year, LICENSEE shall pay all costs, fees and expenses incurred by LICENSOR in conducting such examination, in addition to any late charges and interest provided for in this Agreement and reasonable attorneys' fees. If LICENSEE underpays Royalties by more than five percent (5%) or US \$25,000 (whichever is less) for any calendar year, LICENSOR may terminate this Agreement at LICENSOR's sole discretion.

5. QUALITY STANDARDS

- (a) STANDARDS. LICENSEE agrees to cause the Licensed Products to be:
- (i) of quality, material, workmanship, condition, appearance, and image at least equivalent to the quality, material, workmanship, condition, appearance, and image of other similar products of LICENSOR;
 - (ii) in accordance with this Agreement and all applicable laws and rules, and within the definition of Licensed Products, and
 - (iii) in conformity with designs and samples supplied by LICENSEE and approved by LICENSOR as provided in this Paragraph 5.
- (b) RIGHT TO APPROVE OR REJECT. All matters requiring approval of LICENSOR or the exercise of its discretion shall be at the sole and absolute subjective discretion of LICENSOR. LICENSOR shall deliver a notice of disapproval or approval within fifteen (15) business days after transmittal by LICENSEE. LICENSOR shall have no obligations to approve, review or consider any items which do not comply with the required procedures as set forth in this Paragraph 5(c). Approval by LICENSOR shall not be construed as a determination that the approved matter complies with all applicable regulations and laws. No disapproved proposed item shall be manufactured, sold, used, distributed or advertised. LICENSEE may revise any disapproved item and resubmit it. LICENSEE must strictly comply with all of LICENSOR's decisions. Upon a ninety (90)-day notice to LICENSEE, LICENSOR may withdraw approval of any previously approved item. LICENSEE bears the entire risk that any sample or production run Licensed Product does not meet the standards set forth in this Paragraph 5.
- (c) APPROVAL PROCEDURE.

- (i) PRODUCTION SAMPLES AND INSPECTION. Prior to the production or manufacture of any Licensed Product, if applicable, LICENSEE shall submit for LICENSOR's prior written approval all final Licensed Product designs, specifications and color details. After

receiving written approval of the design, specification and color details, if applicable, and prior to production of Licensed Product, LICENSEE agrees to supply to LICENSOR six (6) samples (including the proposed Products, packaging, advertising, display, labeling, trade dress, merchandising, and all other material of any character whatsoever) together with a description of the intended use of the material of each Licensed Product for its inspection and approval. LICENSEE shall be responsible for any and all costs of shipping and handling incurred in providing the samples. LICENSOR shall have the right to purchase additional samples for their own personal use at the actual cost of the Licensed Products.

(ii) REJECTED GOODS. If Licensed Products manufactured do not conform to previously approved confirmation samples, LICENSOR shall have the sole right to withdraw its approval, at which time this Agreement shall automatically terminate with respect to such Licensed Products. LICENSEE immediately shall cease production, advertising, sale and/or distribution of the rejected goods. This Agreement shall remain in full force and effect as to Licensed Products not affected by this Paragraph.

(iii) NONCONFORMING GOODS. If the appearance or quality of any Licensed Product ceases to be acceptable to LICENSOR, LICENSOR shall have the right, in the exercise of its sole subjective discretion, to withdraw its approval of such Licensed Product. Upon receipt of written notice from LICENSOR of its election to withdraw such approval with respect to any Licensed Product, LICENSEE shall immediately cease the use of the Property in connection with the promotion, advertising, sale, manufacture, distribution or use of such Licensed Product. LICENSEE may complete all work in process. Notice of such election by LICENSOR to withdraw approval shall not relieve LICENSEE from its obligation to pay Royalties on sales of such Product made by LICENSEE to the date of disapproval or thereafter as permitted. LICENSEE agrees to neither sell nor expose to the public any goods not conforming to the standards in Paragraph 5(a) unless, and only if, all Property is completely removed and are not used in any connection with their sale or distribution.

(d) APPROVAL OF FACILITIES. LICENSEE shall provide the addresses of all facilities, including third party manufacturers, at

which the Licensed Products are manufactured. LICENSOR shall have the right to inspect and approve all such facilities of LICENSEE. LICENSEE's agreements with third party manufacturers shall provide for the right of LICENSOR to inspect such third party's facilities. All inspections shall be during regular business hours upon twenty-four (24) hours notice to LICENSEE or LICENSEE's third party manufacturers. Inspections may include any reasonable actions necessary to assure LICENSOR that the Licensed Products are made and displayed in accordance with this Agreement, including but not limited to laboratory testing.

6. CONFIDENTIALITY For purposes of this Agreement, "CONFIDENTIAL INFORMATION" shall mean information or materials regarded by each party as its confidential information, including any formula, pattern, compilation, program, device, method, technique, process, information related to its past, present or future research, development or business affairs, and its proprietary products, materials, concepts, know-how or methodologies and that (i) derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. LICENSEE agrees to keep all Confidential Information of LICENSOR strictly confidential and to use such knowledge only to the exercise and performance of its respective rights and obligations under this Agreement; except that Licensed Products may be displayed and any detail evident from examination of a Licensed Product may be disclosed only at and after the line-break applicable to that Licensed Product and season. Upon expiration or termination of this Agreement, whichever first occurs, LICENSEE shall return all designs, patterns, samples and other embodiments of Confidential Information not yet disclosed as provided in the preceding sentence.

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7. INTELLECTUAL PROPERTIES

- (a) PROPERTY VALUE. LICENSEE acknowledges that the Property has great value and associated goodwill because the public and the industry associate the Property with goods having consistently high quality that are sold primarily by retailers of high repute who sell primarily high quality goods and who maintain high merchandising standards. LICENSEE shall use its commercially reasonable efforts to preserve the value and goodwill of the Property and to cooperate with LICENSOR's efforts to preserve their value and goodwill as contemplated by this Agreement.

(b) PROPERTY OWNERSHIP. LICENSEE acknowledges LICENSOR's ownership of the Property, and acknowledges that all use of such Property inures to the exclusive benefit of LICENSOR. LICENSEE shall not at any time either during or after the Term of this Agreement:

- (i) claim ownership of or attempt to register the Property;
- (ii) do or commit any act which would adversely affect the validity of the Property;
- (iii) infringe LICENSOR's rights in the Property;
- (iv) use any business name with the Property in it;
- (v) seek to cancel the Property rights; or
- (vi) engage in any activity which may contest, dispute, dilute or otherwise impair the right, title or interest of LICENSOR in the Property. For the purpose of protection of rights in the Property only, all uses of the Property made by or on behalf of the LICENSEE are deemed to have been made by LICENSOR.

(c) REGISTRATIONS:

- (i) LICENSEE shall cooperate with LICENSOR in the execution, filing and prosecution of trademark, copyright or patent applications; LICENSEE shall supply LICENSOR with samples for applications. LICENSEE shall cooperate with LICENSOR in making and terminating registered user entries. LICENSOR shall pay all costs and fees in connection with filing and prosecution of trademarks, copyrights and patents. These obligations shall survive termination.
- (ii) LICENSOR and LICENSEE shall file applications and documents with the appropriate government office, as required by law or as deemed prudent by LICENSOR, at LICENSOR's sole cost.

(d) INFRINGEMENTS. LICENSEE shall immediately give notice to LICENSOR, by telephone and in writing, of any infringement or misuse of any Property by any third party of which LICENSEE becomes aware. LICENSOR shall have the right, but not the requirement, to commence legal action regarding any misuse at its expense. LICENSEE shall cooperate fully and promptly in any infringement action commenced by LICENSOR as LICENSOR shall require; provided, however, that any and all costs

incurred by LICENSEE in connection with such litigation shall be borne by LICENSOR, except nominal or sample costs shall be borne by LICENSEE.

8. INDEMNITY; INSURANCE ; REPRESENTATIONS

- (a) INDEMNITY. LICENSEE agrees to indemnify, defend and hold harmless LICENSOR, its officers, directors, shareholders, and employees from and against any and all obligations, liabilities, claims, demands, suits, actions, causes of action, damages and expenses (including but not limited to reasonable attorney's fees) caused by or arising from LICENSEE's manufacture, labeling, use, sale or distribution of Licensed Products or any other goods, or from product liabilities arising from the manufacture, use or sale of any of the Licensed Products or other goods by LICENSEE, or from

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any alleged defect in a Licensed Product regardless of whether the action is based upon negligence or strict liability, and regardless of whether the alleged negligence of LICENSOR is characterized as "passive" or "active"; or from unauthorized use by LICENSEE of LICENSOR's rights in the Property, or from any casualty or other risk of loss, damage or destruction of the Licensed Products or any materials, supplies or inventory therefor, or for any violation of any warranty, representation or agreement made by LICENSEE pertaining to a Licensed Product.

- (b) LICENSOR'S INDEMNITY. LICENSOR agrees to indemnify and hold harmless LICENSEE, its officers, directors, employees, and agents from and against all third party claims, damages, losses, liabilities, suits, and expenses (including reasonable attorneys' fees) arising out of or by any reason of any breach by LICENSOR of any of the representations, warranties or covenants made by it hereunder.
- (c) INSURANCE. Without limiting LICENSEE's liability under the indemnity provisions, LICENSEE shall maintain comprehensive general liability insurance in the amount of at least One Million Dollars (\$1,000,000) (combined single limit per occurrence) plus defense costs. This insurance shall include broad form blanket contractual liability, products and completed operations liability, including protection for LICENSOR as a named insured, its officers, agents, and employees against any claims, damages, liabilities, costs and expenses (including attorney's fees) arising out of any

alleged defect (whether latent or patent) in any and all Licensed Products manufactured, distributed, sold or otherwise disposed of by LICENSEE. LICENSEE shall purchase insurance against theft and destruction of the Licensed Products which shall: 1) be written on an "all-risk" basis; 2) provide that LICENSEE shall be reimbursed for loss in an amount equal to the manufacturer's selling price for the Licensed Products (this may be accomplished by either a selling price endorsement or business interruption insurance); 3) provide that LICENSOR is added as an additionally named loss payee as respects loss to Licensed Products; 4) be in effect while goods are on premises owned, rented and controlled by LICENSEE and while in transit or storage; and 5) include a brand and label clause stating that the insurer will pay the cost of removing LICENSOR's name from damaged merchandise and labeling goods. The insurance shall include: 1) a cross-liability endorsement; 2) an endorsement stating that LICENSOR shall receive at least thirty (30) days written notice prior to modification, cancellation or non-renewal of coverage; 3) an endorsement naming LICENSOR as an insured; 4) an endorsement stating that the insurance purchased by LICENSOR shall only apply in excess of the insurance purchased by LICENSEE; 5) a waiver of subrogation in favor of LICENSOR; and 6) an endorsement stating that LICENSOR may recover for any loss caused to LICENSOR, its agents or employees by the negligence (including active, passive and gross negligence) of LICENSEE. All insurance shall be obtained from an insurance company Best's rated A, class 10 or better acceptable to LICENSOR. LICENSEE shall give LICENSOR at least thirty (30) days prior written notice of the cancellation of, or any modification in, such insurance policy that would affect LICENSOR's status or benefits. This insurance may be obtained for LICENSOR by LICENSEE in conjunction with a policy which covers products other than the Licensed Products. LICENSEE shall furnish certificates and endorsements of the required insurance policies. Upon request, LICENSEE shall provide copies of policies. The insurance set forth in this section must cover the entire Territory.

- (d) If either party learns of a claim related to this Agreement or the Licensed Products, it shall immediately notify the other party by telephone, and in writing transmitted by overnight courier, of the subject matter, the parties and the nature of the claim. If the claim pertains to any of LICENSEE's obligations under this Agreement or the Licensed Products, LICENSEE shall promptly inform LICENSOR of what steps it is taking to correct the claim or complaint whether by consumer or a government body. LICENSOR and LICENSEE shall cooperate in the resolution of all such claims.

- (e) LICENSOR'S REPRESENTATIONS. LICENSOR represents and warrants that (1) it has all necessary intellectual property rights to license the Property to LICENSEE for use in the United States as authorized hereunder and (2) LICENSEE's use of the Property in the United States as authorized hereunder will not infringe on the intellectual property rights of any third party. Notwithstanding the foregoing, there are no implied warranties for merchantability or fitness for any particular purpose.
- (f) NO LEGAL IMPEDIMENTS. The parties represent and warrant that:
- (i) they have the full right, power and authority to enter into this Agreement and to perform all obligations;
 - (ii) they are financially capable of performing their obligations.
- (g) LICENSEE REPRESENTATIONS. LICENSEE warrants and represents that it is a Oregon corporation, validly existing and in good standing under the laws of Oregon. LICENSEE further represents and warrants that it will use its best efforts to market the Licensed Products. LICENSEE further represents that entering into this Agreement will not result in the violation of: (i) the organizational documents or bylaws of LICENSEE, (ii) any agreement, contract, lease, license, document or other commitment, written or oral, to which LICENSEE is a party or may become bound, or (iii) any applicable law, rule, license or regulation.
- (h) COMPLIANCE WITH LAW. LICENSEE shall take all actions required by any local, provincial, national or regional agency, government or commission to carry out the purposes of this Agreement in compliance with applicable law. LICENSEE shall immediately provide LICENSOR with copies of any communications to or from any such agency, government or commission which relates to or affects this Agreement or the Licensed Products.

9. TERMINATION

- (a) OTHER RIGHTS UNAFFECTED. Termination on any ground shall be without prejudice to any other rights or remedies.
- (b) TERMINATION FOR BREACH OR MATERIAL BREACH. If either party breaches any of its obligations, the other may terminate this Agreement by transmitting to the breaching party a notice of termination (the "NOTICE OF TERMINATION"). A material breach

may or may not be specifically designated as such in this Agreement. Termination will become effective automatically unless the breaching party completely cures the breach within three (3) business days of giving the Notice of Termination if the breach is a failure to pay money or within ten (10) business days of the giving of such Notice of Termination if the breach is any other breach except as otherwise herein provided. If the LICENSEE is the breaching party, pending cure, the LICENSEE shall ship no Licensed Products. If the LICENSEE does ship Licensed Products during such period, it shall automatically forfeit its right to cure and this Agreement shall be deemed immediately terminated. Upon the giving of a Notice of Termination for the third time, for any reason, the breaching party shall no longer have the right to cure any violation, and termination shall be effective upon the giving of the Notice of Termination.

(c) GROUNDS FOR IMMEDIATE TERMINATION BY LICENSOR.

(i) CHANGE OF OWNERSHIP: This Agreement is being entered into based upon LICENSOR's evaluation of and reliance upon the current ownership, management and control of LICENSEE. LICENSOR has determined that current management has the technical, marketing and sales expertise, business reputation, and sensitivity to the unique image of the Property, all of which are necessary to carry out the purposes of this license. Schedule 9(c) is a list of the current owners and key executives. The right of LICENSOR to approve or disapprove any transfer of all or part of the ownership

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(ii) LICENSEE (whether by sale of substantially all its assets or by transfer of shares of its stock) shall be at the sole subjective discretion of LICENSOR. If Licensee breaches Paragraph 1(c); if there is a change in more than fifty percent (50%) of the ownership of LICENSEE; if LICENSEE sells or otherwise disposes of fifty percent (50%) or more of its stock or assets; or, if any of the key executives listed in Schedule 9(c) leaves the LICENSEE, LICENSOR shall have the right to immediately terminate.

(iii) FAILURE TO REACH MINIMUM SALES: LICENSOR may immediately terminate by written notice within forty-five (45) days of receipt of the last report

(per Paragraph 4) for any year of the License Term, if LICENSEE fails to reach its Minimum Gross Sales set forth in Paragraph 3(a)(2) for any two (2) calendar years. There is no right to cure this breach. A waiver in one year to terminate this Agreement shall not constitute a waiver for any other year.

(iv) **INSOLVENCY:** LICENSOR may terminate if: a petition for relief under the Bankruptcy Code is filed by or against the LICENSEE; LICENSEE makes any assignment for the benefit of its creditors; LICENSEE becomes the subject of proceedings under any insolvency, reorganization or receivership law; LICENSEE defaults on any obligation which is secured by a security interest, in whole or in part, in the Licensed Products; or, a receiver is appointed for LICENSEE or a substantial part of its business interests. Termination will become effective automatically sixty (60) days after LICENSOR gives notice if LICENSEE: fails to discharge the bankruptcy or terminate the assignment for the benefit of creditors. The license and rights granted are personal to LICENSEE. No assignee for the benefit of creditors, receiver, debtor in possession, trustee in bankruptcy, sheriff or any other officer or court charged with taking over custody of LICENSEE's assets or business, shall have any right to continue performance of this Agreement or to exploit or in any way use the Property if this Agreement is terminated pursuant to the preceding subparagraph, except as may be required by law.

(v) **QUALITY AND MARKETING DEFAULTS:** LICENSOR may immediately terminate this Agreement with no right of cure, if:

- (1) LICENSEE understates Royalties and/or payments due for any report by more than five percent (5%) or US\$25,000, whichever is less, makes any unreported sales or knowingly misrepresents or misstates material information in any other report required or requested under this Agreement;
- (2) LICENSEE ceases to do business;
- (3) LICENSEE ceases to produce any of the Licensed Products for more than three (3) consecutive months;

- (4) events occur that call for immediate termination as expressly provided elsewhere in this Agreement;
 - (5) the quality of any Licensed Product is materially lower (as determined by Licensor in its absolute subjective discretion) than those submitted for approval;
 - (6) LICENSEE markets products not submitted for approval; or
 - (7) LICENSEE markets, manufactures and/or sells any Licensed Product for which LICENSEE cannot furnish a written approval form signed by LICENSOR.
- (d) Grounds for immediate termination by LICENSEE. LICENSEE shall have the right to immediately terminate this Agreement in the event that LICENSOR enters into any non-exclusive licensing deals with a third party(ies) with the term substantially similar to the terms of this Agreement.

10. OBLIGATIONS AT EXPIRATION OR TERMINATION

- (a) TERMINATION OF RIGHTS. Upon expiration or termination of this Agreement for any reason, all rights in the Property granted to LICENSEE shall automatically terminate and LICENSEE shall cease and desist from any and all manufacture, sale, distribution or disposal of the Licensed Products, or any use of the Property or of any Licensed Products or Property which are substantially or confusingly similar to the Property, except as specifically provided in this Paragraph.

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- (b) INVENTORY. Upon LICENSOR's request, within ten (10) days after the expiration of this Agreement or, in the event of its termination or non-renewal, within ten (10) days after the receipt of a Notice of Termination or a notice of non-renewal or the happening of an event which terminates this Agreement where no notice is required, LICENSEE shall give LICENSOR a written statement showing: i) the Licensed Products in its possession or under its control; ii) location of the inventory; iii) work in process; iv) Licensed Products in transit; and v) the name, address and telephone number of each contractor and/or shipper and sales representative. LICENSEE shall dispose of these goods only pursuant to the specific

written instructions of, and under the terms imposed by, LICENSOR.

- (c) OTHER ITEMS BEARING THE PROPERTY. All items other than the Licensed Products, bearing the Property, such as stationary, business cards, etc., shall be destroyed or delivered to LICENSOR immediately upon termination or expiration.
- (d) CONCLUDING SALES. LICENSEE shall accept no order, nor undertake any new production, that would be delivered after the date of expiration or termination. Three (3) months prior to expiration, and monthly until expiration, LICENSEE shall provide to LICENSOR an inventory, by style or stockkeeping unit (SKU) number, of all Licensed Products in its possession or under its control, and all work in process. Three (3) months prior to expiration and weekly until expiration, LICENSEE shall provide LICENSOR copies of all orders, invoices, bills of lading, credit memoranda and statements provided to the factor (if any). Only if the inventory and all documents listed above are timely delivered to LICENSOR, shall LICENSEE be entitled to sell its inventory of the Licensed Products, until the date of expiration, only to customers previously sold by LICENSEE. LICENSOR may have a representative present to confirm any inventory calculated by LICENSEE or may take its own inventory (or inventories) during the final three (3) month period. If LICENSEE does not allow LICENSOR to verify or take an inventory, it shall have no right to dispose of any remaining Licensed Products. The right of LICENSEE to sell off inventory under this Paragraph is also subject to LICENSOR's right of first refusal to buy the inventory as provided in Paragraph 10(e).
- (e) RIGHT TO PURCHASE. LICENSOR or LICENSOR's designee shall have the option (but not the obligation) to purchase all or any part of LICENSEE's inventory of Licensed Products upon the following terms:
 - (i) LICENSOR shall notify LICENSEE of the intention to exercise this option within thirty (30) days of delivery of the inventory and shall specify the Licensed Products to be purchased;
 - (ii) The price for Licensed Products shall be LICENSEE's standard cost (the actual manufacturing cost). The price for all other Licensed Products which are not manufactured by LICENSEE shall be LICENSEE'S landed costs. "LANDED COSTS" means the F.O.B. price of Licensed Products together with customs, duties, and brokerage, freight and insurance;
 - (iii) LICENSEE shall deliver the Licensed Products

purchased within fifteen (15) days of receipt of the notice to purchase. The purchase price shall be payable upon delivery; provided that LICENSOR shall be entitled to deduct any amounts owed it by LICENSEE.

- (f) WAIVER OF GOODWILL. LICENSEE waives any claim which it may have arising from any alleged goodwill created by LICENSEE from the alleged creation or increase of a market for Licensed Products.
- (g) DISPOSAL OF INVENTORY. Upon expiration or termination, all inventory not disposed of in accordance with this Paragraph shall be destroyed; however, such inventory may be sold provided that 1) all Property (and all markings of any kind associated with LICENSOR) are removed subject to inspection and approval of LICENSOR; and 2) the public is not advised of any association of the inventory with the Property or LICENSOR.

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- (h) SUPPLIES BEARING THE PROPERTY. Upon the sooner of termination or thirty (30) days prior to expiration, LICENSEE shall provide:
 - (i) the name, addresses and phone numbers of each supplier on any item bearing the Property; and
 - (ii) an inventory of all supplies of any type bearing the Property, which shall specify the location of such items.
- (i) LICENSEE shall purchase all items bearing the Property held by any supplier and shall have all such items delivered to LICENSOR.

11. NOTICE AND APPROVALS Any notice, approval, consent or agreement required or permitted under this Agreement shall be effective only if in writing, signed by an officer of the party giving notice, and delivered in person, or mailed by certified or registered mail return receipt requested, or transmitted by facsimile transmission with electronic confirmation of receipt to the addressee's address or facsimile number set forth below (or such other address or facsimile number as the party changing its address specifies in a notice to the other party specifically referring to this Paragraph):

If to LICENSOR:

Genius Products, Inc.
Attention: President
11250 El Camino Real, Suite 100
San Diego, CA 92130
Tel (858) 793-8840, Fax (858) 793-8842

With a copy to:

Global Icons, LLC
Attention: Ken Abrams
3679 Motor Avenue, 2nd Floor
Los Angeles, CA 90034
Tel (310) 253-5110
Fax (310) 994-7334

With a copy to:

Silver & Freedman
Attention: Perry S. Silver
1925 Century Park East, Suite 2100
Los Angeles, California 90067-2722
Tel (310) 556-2356
Fax (310) 556-0832

If to LICENSEE:

With a copy to:

Notice shall be deemed given as of the date actually received by the last of the addressee party and that party's copy recipient to receive the notice as evidenced by acknowledgment of receipt, delivery in person, the date on the postal return, or electronic confirmation in the case of facsimile transmissions.

12. TIME Time is of the essence in performing the obligations of this Agreement.
13. INTERPRETATION The License Agreement shall be interpreted to give LICENSOR maximum control of its Property and the usage of the Property. Any uncertainty or ambiguity shall not be construed for or against the party based on attribution of drafting to either party. The caption headings of the sections are for convenience only and shall not be used for interpretation.
14. GOVERNING LAW/ JURISDICTION/ VENUE All questions concerning this Agreement, the rights and obligations of the parties, its enforcement, and its validity, effect, interpretation and construction which are governed by state law shall be determined under the laws of the State of California. All national law questions shall be governed by the laws of the United States of America; except that if LICENSOR seeks provisional relief, the law of the place where the provisional relief is sought shall apply.
15. ARBITRATION AND FORUM SELECTION CLAUSE. Both parties acknowledge and consent that any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be settled either by arbitration in Los Angeles, California or in a court located in the state of California as follows: (a) Any controversy or claim arising out of or relating to the Agreement, or breach thereof shall be settled by arbitration in Los Angeles, California in accordance with the American Arbitration Association. The judgement upon the award rendered by the arbitrator(s) may be entered in any court having the jurisdiction thereof ; and/or (b) LISCENSEE agrees and consents to venue and jurisdiction within any court located in the State of California, agreeing that any such court would have exclusive jurisdiction over any case/controversy arising under or in connection with this Agreement, and that such any California court shall be a proper forum in which to adjudicate such dispute, case or controversy. The prevailing party in any action above (including arbitration) shall be allowed to recoup any and all attorney fees, interest and costs therein.
16. ASSIGNABILITY. Neither this Agreement or any rights, duties or obligations in this Agreement may be assigned or delegated by LICENSEE, without the prior written consent of LICENSOR. A change of control of LICENSEE of the sale of all or substantially all of the assets of LICENSEE shall constitute an assignment of this Agreement requiring LICENSOR's written consent. A "change of control" shall be deemed to have occurred if (1) any corporation, other person or "Group" (as defined below) becomes the "Beneficial Owner" (as defined below) of more than 15% of LICENSEE's outstanding common stock. For purposes of this definition of change in control, the following terms shall have the following meanings: "Beneficial Owner" shall have the meaning which that term is given in Rule 13b-3 under the Securities Exchange Act of 1934 as amended (the "Act"). "Group" shall mean persons who act in

concert as described in Section 14(d)(2) of the Act.

17. RELATIONSHIP OF THE PARTIES Nothing in this Agreement shall be construed to place the parties in the relationship of legal representatives, partners, joint venturers or agents. LICENSEE shall have no power to oblige or bind LICENSOR in any manner except as provided.

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18. WAIVER AND INTEGRATION; AMENDMENTS The failure of a party to insist upon strict adherence to any term of this Agreement, or to object to any failure to comply with any provision of this Agreement, shall not be a waiver of that term or provision, estop that party from enforcing that term or provision, or preclude that party from enforcing that term or provision by estoppel or by laches. The receipt by a party of any benefit from this Agreement (e.g., Royalty) shall not be construed as a waiver or estoppel of the right of that party to enforce any section. None of the terms of this Agreement shall be deemed to be waived or modified, including all provisions of this Paragraph, except by an express agreement in writing, signed by an authorized officer of the party against whom enforcement of the waiver or modification is sought, supported by a new consideration. This Agreement, including all attachments, constitutes the entire agreement between the parties, and supersedes all prior negotiations and agreements between the parties concerning its subject matter. This writing is intended as the final, complete and exclusive statement of the terms of the Agreement between the parties and cannot be changed or terminated orally.
19. INTEGRATION. This Agreement, and all Schedules referenced herein, constitutes the entire, final and exclusive agreement between the parties with respect to the matters set forth herein; any and all prior agreements, whether written or oral, with respect to the matters set forth herein, are superseded by this Agreement.
20. ATTORNEYS' FEES AND PROFESSIONAL EXPENSES If any legal action or dispute arises under this Agreement, arises by reason of any asserted breach of it, or arises between the parties and is related in any way to the subject matter of the Agreement, the prevailing party shall be entitled to recover all costs and expenses including reasonable attorneys' fees, investigative costs, accounting fees and charges for experts. The "prevailing party" shall be the party who is entitled to recover its costs of suit, whether or not the suit proceeds to final judgment; if there is no court action, the prevailing party shall be the party who wins any dispute. A party need not be awarded money damages or all relief sought in order to be considered the "prevailing party" by a court.

21. SURVIVAL All obligations of the parties of a continuing nature shall survive the termination or expiration of this Agreement.
22. SEVERABILITY If any provision of this Agreement is held by a court of competent jurisdiction or an arbitrator to be invalid or unenforceable, the remaining provisions of this Agreement shall remain in full force and effect.
23. BINDING AGREEMENT This Agreement shall be binding on and inure to the benefit of the parties and their respective successors, agents, affiliates, representatives and permitted assigns.
24. EXHIBITS/SCHEDULES All Exhibits or Schedules are incorporated into this Agreement.
25. REMEDIES All specific remedies provided for in this Agreement shall be cumulative and shall not be exclusive of one another or of any other remedies available in law or equity.
26. COUNTERPARTS This Agreement may be executed in two (2) or more counterparts, each of which together will constitute the same agreement, whether or not all parties execute each counterpart.
27. MISCELLANEOUS

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- (a) CD HANG-TAGS. LICENSOR shall provide LICENSEE with CD Hang-Tags at \$0.40 ("Set Price") per CD Hang-Tag, provided that LICENSEE requests such CD Hang-Tags ninety (90) days prior to the date LICENSEE would require LICENSOR to deliver such CD Hang-Tags. In the event that Licensee requires Licensor to deliver such CD Hang Tags within a shorter period of time, the Set Price shall be adjusted accordingly to cover LICENSOR's expenses related to the accelerated delivery schedule of such CD Hang-Tags.

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

LICENSOR:

By:

Its: President

LICENSEE:

By:

Its: President

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SCHEDULE A

PROPERTY

1. "Baby Genius"

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SCHEDULE 1 (A)

DEFINITION OF LICENSED PRODUCTS

A. Diaper Bags and

B. Accessories:

1. Pacifier Pouch
2. Single Zip Mesh Bag
3. Double Zip Mesh Bag
4. Single Zip Wet Pack Mesh Bag
5. 6"x8 1/2 Mesh Bag
6. 12"x8 1/2 Mesh Clothes Bag
7. Baby Wipe Storage Bag
8. Large Storge Bag
9. Bottle Warmer Bag
10. Single Bottle Warmer Bag
11. Juice Cup Bag
12. Small Baby Bottle Bag
13. Double Deck Baby Bottle Bag

- 14. Sleeping Mat
- 15. Changing Pad
- 16. Wet Pack
- 17. Meal Time Feeding Bags with Bibb

CONDITIONS:

- (a) Accessories may be sold with diaper bags and/or separately.
- (b) Bibb must be sold with Meal Time Feeding Bags and not separately.
- (c) Sleeping Mat and Changing Pad will be marketed as a "replacement" for original Sleeping Mat and Changing Pad sold with Diaper Bag.

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SCHEDULE 1(B)

CHANNELS OF DISTRIBUTION

The following Channels of Distribution apply to this License Agreement only if initialed by the authorized signatory of Licensor:

- 1. Distribution to the following tier of retailer commencing upon execution of this Agreement and ending on May 31, 2002:
 - o Mid-tier
 - o Department stores
 - o Specialty stores
 - o Mass market

The above defined Channels of Distribution are subject to change based upon Licensor's "roll-out" plans and Licensee's presentations to retailers, provided however, that any such change shall be subject to Licensor's final approval.

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SCHEDULE 1(C)

LIST OF LICENSEE OWNERS AND KEY MANAGEMENT

OWNERS

100%

PERCENT OF OWNERSHIP

James K. Wasson

TITLE

President

KEY MANAGEMENT

James K. Wasson

SETTLEMENT AGREEMENT

(INVESTMENT AGREEMENT)

SETTLEMENT AGREEMENT between Genius Products, Inc., a Nevada corporation ("GPI") and American Public Media Group (formerly known as Minnesota Communications Group), a Minnesota non-profit organization ("APMG") dated as of December 21, 2000.

WHEREAS, the parties entered into an Investment Agreement dated as of March 31, 1999 (the "INVESTMENT AGREEMENT"); and

WHEREAS, the parties desire to terminate the agreement and release each other from all known and unknown actual and potential claims that exist or may exist arising out of or in connection with the Investment Agreement; and

WHEREAS, APMG is willing to cancel certain options under the Investment Agreement to acquire additional shares in GPI;

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

1. DEFINED TERMS: Capitalized terms shall have the meaning set forth in the Investment Agreement unless otherwise defined.
2. CANCELLATION OF OPTION: In consideration of the issuance by GPI to APMG of 25,000 restricted shares of GPI common stock, APMG hereby agrees to cancel, relinquish and forfeit with prejudice all rights to acquire any shares in GPI pursuant to the Investment Agreement, including without limitation, the option to acquire 400,000 Subject Shares under Section 2.4 of the Investment Agreement and 500,000 Subject Shares under Section 2.6 of the Investment Agreement.
3. RELEASE AND DISCHARGE: The parties for themselves and on behalf of their respective subsidiaries and affiliates, and each of their respective successors, assigns, agents, representatives, shareholders, directors, officers, and employees, and any other person or entity who may claim through them, hereby release and forever discharge each other and their respective subsidiaries and affiliates, and each of their respective successors, assigns, agents, representatives, shareholders, directors, officers, and employees, from any and all actions, claims, demands and suits of whatever nature arising out of or connected directly or indirectly with the

rights, duties and obligations of the parties under the Investment Agreement.

The release and discharge set forth in this Section 3 extends to and includes all damages, injuries, losses, claims and rights now existing as well as any that may develop in the future, whether known or unknown, as related to the obligations and duties of the parties under the Investment Agreement. Each party expressly waives and relinquishes any and all rights and benefits conferred upon it by the provisions of Section 1542 of the California Civil Code, which provides as follows:

"A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

The parties acknowledge that the waiver of Section 1542 of the California Civil Code was separately bargained for, and they agree that the this Agreement shall be given full force and effect in accordance with the terms and provisions related to unknown and unsuspected claims and damages as well as those provisions related to known claims, demands, and causes of action.

4. NO ADMISSION OF LIABILITY. The parties agree and acknowledge that the terms and conditions of this Agreement constitute an accord and satisfaction of contested matters and neither the offer nor the acceptance of the terms and conditions hereto represent an admission of liability, responsibility or wrongdoing on the part of either party, and each party hereby expressly disclaims any such liability, responsibility or wrongdoing.
5. GOVERNING LAW: This Agreement shall be construed in accordance with and governed by the internal laws of the State of California.
6. ENTIRE AGREEMENT. This Agreement embodies the entire agreement and understanding among the parties with respect to the subject matter hereof, and supercedes all prior agreements, understandings and representations between the parties related to the subject matter hereof.

IN WITNESS WHEREOF, the parties have executed this Settlement Agreement

by their duly authorized officers as of the dated first above written.

GENIUS PRODUCTS, INC.

/S/ Dorian Lowell

Dorian Lowell
President

AMERICAN PUBLIC MEDIA GROUP

/S/ Thomas J. Kigin

Thomas J. Kigin
Executive Vice President

SETTLEMENT AGREEMENT

(SHAREHOLDERS AGREEMENT)

SETTLEMENT AGREEMENT by and among Klaus Moeller, Michael Meader and Gerald Edick (the "SHAREHOLDERS"), and American Public Media Group (formerly known as Minnesota Communications Group), a Minnesota non-profit organization ("APMG") dated as of December 21, 2000.

WHEREAS, the parties entered into a Shareholders Agreement dated as of March 31, 1999 (the "SHAREHOLDERS AGREEMENT") in connection the acquisition by APMG of shares in Genius Products, Inc. ("GPI"); and

WHEREAS, the parties desire to cancel certain provisions of the Shareholders Agreement, and for APMG to release the Shareholders with respect to certain provisions under the Shareholders Agreement, from any known and unknown actual and potential claims that exist or may exist arising out of or in connection with the Shareholders Agreement; and

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

1. DEFINED TERMS: Capitalized terms shall have the meaning set forth in the Shareholders Agreement unless otherwise defined.
2. CANCELLATION OF SECTION 1: APMG hereby agrees that the duties and obligations of the Shareholders under Section 1 of the Shareholders Agreement are hereby cancelled, and the Proxy granted thereunder is hereby cancelled and deemed null and void with immediate effect, and without the need for further action on the part of any Shareholder, and APMG shall take such action as may be reasonably necessary for the purpose of giving effect to the cancellation of the Proxy.
3. CONTINUATION OF SECTIONS 2, 3 AND 4. Sections 2, 3 and 4 of the Shareholders Agreement shall continue in full force and effect. The parties acknowledge the right of the Shareholders to sell shares owned by the shareholders in an open market transaction pursuant to Paragraph 4(b)(ii) of the Shareholders Agreement. of the Shareholders Agreement.
4. RELEASE AND DISCHARGE: APMG hereby releases and forever discharges each Shareholder and GPI and its respective subsidiaries and affiliates, and each of their respective

heirs, executors, administrators, successors, assigns, agents, representatives, shareholders, directors, officers, and employees, from any and all actions, claims, demands and suits of whatever nature arising out of or connected directly or indirectly with the rights, duties and obligations of the Shareholders under Section 1 of the Shareholder Agreement (the claims released being the "RELEASED Claims").

The release and discharge set forth in this Section 4 extends to and includes all damages, injuries, losses, claims and rights now existing as well as any that may develop in the future, whether known or unknown, as related to the Released Claims. With respect to the Released Claims, APMG expressly waives and relinquishes any and all rights and benefits conferred upon it by the provisions of Section 1542 of the California Civil Code, which provides as follows:

"A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

The parties acknowledge that the waiver of Section 1542 of the California Civil Code was separately bargained for, and they agree that the this Agreement shall be given full force and effect in accordance with the terms and provisions related to unknown and unsuspected claims and damages as well as those provisions related to known claims, demands, and causes of action.

5. NO ADMISSION OF LIABILITY. With respect to the Released Claims, the parties agree and acknowledge that the terms and conditions of this Agreement constitute an accord and satisfaction of contested matters and neither the offer nor the acceptance of the terms and conditions hereto represent an admission of liability, responsibility or wrongdoing on the part of either party, and each party hereby expressly disclaims any such liability, responsibility or wrongdoing.
6. GOVERNING LAW: This Agreement shall be construed in accordance with and governed by the internal laws of the State of California.
7. ENTIRE AGREEMENT. This Agreement embodies the entire agreement and understanding among the parties with respect to the subject matter hereof, and supercedes all prior agreements,

understandings and representations between the parties related to the subject matter hereof.

IN WITNESS WHEREOF, the parties have executed this Settlement Agreement by their duly authorized officers as of the dated first above written.

/S/ Klaus Moeller

KLAUS MOELLER

/S/ Michael Meader

MICHAEL MEADER

/S/ Gerald Edick

GERALD EDICK

AMERICAN PUBLIC MEDIA GROUP

/S/ Thomas J. Kigin

Thomas J. Kigin
Executive Vice President

GENIUS PRODUCTS, INC.

PRODUCTION AGREEMENT

production agreement between Genius Products, Inc., a Nevada corporation ("Company") and James Sommers, ("Producer") dated as of December 1, 2000.

whereas, Company wishes to engage Producer and Producer wishes to be engaged as an executive producer by Company, all on the terms and conditions set forth herein;

now therefore, in consideration of the mutual covenants set forth below and for other good and valuable consideration, the adequacy and sufficiency is hereby acknowledged, the parties agree as follows:

1) position and term:

a) Company hereby engages Producer for a period of two (2) years (the "Term") unless otherwise terminated pursuant to Section 4, commencing as of December 1, 2000 (the "Effective Date") as an executive producer to provide music recording and production services Executive Vice President, Interim Chief Financial Officer _____ of the Company in connection with the development of sound tracks for CDs, cassettes and videos under the Baby Genius(TM) and other brand names. This Agreement may be automatically renewed on not less than sixty (60) days prior written notice to Producer on the same terms and conditions (except as provided in Section 5 a)) at the option of Company for two (2) additional years.

b) Producer may not contractually bind Company without the prior consent of either the Chief Executive Officer or the President of Company.

c) Producer shall render substantially all of his services in Los Angeles.

2) Services:

(a) In consideration of the compensation payable hereunder, Producer shall produce six (6) master sound recordings ("Masters") during the Term of not less than 40 minutes and not more than 60 minutes each. Six (6) Masters shall be Original Productions except to the extent the parties agree to a number of Masters that may be Licensed Productions.

i) "ORIGINAL PRODUCTION" means a Master disc or tape of all the

material of which comprises new compositions composed by one or more artists approved by Producer and Company and produced and recorded by Producer, or an existing composition produced and re-recorded by Producer with one or more artists approved by Producer and Company. Producer shall use his best efforts to produce all such recordings in digital format.

ii) "LICENSED PRODUCTION" means a Master disc or tape of all the material of which comprises existing compositions composed by one or more artists approved by Producer and Company, produced and recorded by any person other than Producer, and compiled by Producer.

iii) "PRODUCTS" means CDs, cassettes and video music tapes duplicated and manufactured by Company from Original and Licensed Productions, for retail sales.

(b) Producer's services shall include those customarily performed by CD and music video producers, including without limitation: suggesting material to record, suggesting actors and musicians, supervising rehearsals, performing both control room and studio work at recording sessions (for Original Productions), editing, mixing and supervision of mastering. It is intended that the Masters shall be completed and delivered as soon as reasonably possible.

(c) Recording sessions for the Masters shall be conducted by Producer at such times as Producer and Company shall designate. Each Master shall constitute compilations and recordings approved by Company. Producer shall render his services diligently and conscientiously and to the best of their ability until production of the Masters is completed. Producer shall deliver to Company the Masters in final form for the manufacturing and duplication of Products. Each original session recording, and any part thereof, and each mother, master, or other derivative shall be delivered to Company to be kept available for Company and subject to Company's control at such place as Company shall designate.

(d) The Company shall engage artist, musicians recording studios and other personnel or facilities required in order to produce the Masters hereunder. Producer shall deliver to Company within a reasonable period after execution of this Agreement a non-binding estimated budget for the costs of recording the Masters for the entire project (including all recording fees, royalties for any Licensed Production, and arranging fees which will exceed union scale and the recipients of such proceeds). No production of a Master may be commenced unless the Board of Directors, the Chief Executive Officer or the President has approved in writing the proposal and budget for such Master. The proposal and budget for a Master may only be amended in writing and approved by the Board of Directors, the Chief Executive Officer or the President. The total costs for recording each Master shall not exceed the amount approved by Company in the final budget furnished by Producer. If the total cost for any Master recording exceeds the final budget, the excess costs shall be recouped by Company from royalties otherwise payable hereunder.

(e) Producer's services hereunder shall be non-exclusive. Producer shall have the right during their term hereof to produce recordings for any other person,

firm or corporation, provided, however, that any such activity does not delay, hinder or interfere with the timely completion and delivery of the Masters hereunder. Producer agrees that, during the three (3) year period following delivery of all Masters to Company in accordance herewith, Producer will not produce any CDs, cassettes, videos, CD-ROMS or other music, film or video recordings by any performer embodying an arrangement of any selection embodied in the Masters of any Original Production.

(f) Producer further covenants that at the time of delivery of each Master, there will be no claims, demands or actions pending or threatened with respect thereto of which Producer is, or reasonably should be aware.

(g) Producer acknowledges that Company's business is to develop and publish music, video and other products of the highest quality, including recordings which stimulate the intellectual development, education and well-being of children from birth through the age of 12 and beyond, and which assist parents and families in their roles as parents and care-givers. Producer agrees that all Masters shall be consistent with the nature of Company's business and products.

(h) Producer shall not work on any projects outside the course of his engagement hereunder that compete with music and video products for the intellectual development, education and well-being of children.

(i) Producer shall report to either the Chief Executive Officer or the President of Company in connection with all matters regarding his services being rendered hereunder.

(j) Producer shall permit Company to use his name, approved photograph, likeness and approved biographical information in connection with sales, marketing and advertising of Productions, subject to Producer's prior approval which shall not be unreasonably withheld. Company agrees to accord Producer credit on the back cover of all Productions on which Producer rendered services.

(k) Producer represents and warrants that he is under no disability or prohibition, whether contractual or otherwise with respect to his right to execute this Agreement, to fully perform its terms and conditions, to furnish to Company his services hereunder and to grant to Company all rights herein granted.

3) INTELLECTUAL PROPERTY: -----

a) All Masters made hereunder, all reproductions made therefor, the performances of Producer embodied herein, and the copyrights therein and thereto, shall (as between Company and Producer) be entirely Company's property at all stages during and from creation (other than existing copyrights relating to Licensed Productions) free of any claims whatsoever by Producer or anyone claiming

through or on behalf of Producer. Further, Producer hereby grants to Company all rights of every kind and character, whether now known or hereafter created, in and to the results and proceeds of Producer's services hereunder. Producer acknowledges and agrees that with respect to Original Productions, Company (or its designee) is and, in so far as Producer is concerned, shall be the owner of all rights of copyright in and to the Masters relating thereto, and that Company shall be entitled to the exclusive right to the copyright of each Master, it being agreed that for this purpose Producer is deemed Company's employee-for hire such that Company may exercise all rights in the Masters as the author and copyright proprietor thereof. Without limiting the generality of the foregoing, Company may grant to its distributors the right to manufacture, advertise, sell, lease, license or otherwise exploit the Masters, or refrain therefrom, within their respective territories upon such terms as Company may decide. Producer acknowledges that Products manufactured pursuant to this Agreement may be released under any trademark, trade name or label designated by Company.

b) Company's distributors shall each within their respective territory have the perpetual, non-exclusive, worldwide right to use and to permit others to use Producer's name and likeness and biographical material concerning him in connection with the sales and distribution of Masters produced hereunder and record made therefrom.

4) INDEMNITY:

a) Each party agrees to indemnify and hold the other party and other party's successors, assigns, agents, distributors, licenses, officers, directors and employees harmless from and against any liability, damage, cost and expense (including reasonable attorney's fees) occasioned by or arising out of any third party claim, demand or action (collectively, a "Claim") arising out of or in connection with any breach of any covenant, representation, grant or warranty made or assumed by the indemnifying party hereunder which Claim results in a final adjudication or settlement. Upon being notified of any Claim, the indemnified party shall promptly notify the indemnifying party of such Claim. The indemnifying party may participate in the defense of the Claim, at its own expense, with counsel of its own choice, subject to the other party's approval which shall not be unreasonably withheld.

b) Upon the making or filing of a Claim against Company, Company shall be entitled to withhold amounts payable to Producer under this Agreement provided that the total amount withheld is in an amount reasonably related to the amount of the Claim, unless Producer furnishes Company with a bond or similar instrument which is acceptable to Company. All amounts withheld by Company shall be deposited in an interest-bearing bank account. All amounts withheld by Company relating to a Claim shall be released to Producer if an action based on such Claim is not filed within one (1) year after Company has received written notice of such Claim.

5) ADVANCE ROYALTIES AND ROYALTIES:

a) Subject to Producer's performance of all of his obligations hereunder, Company agrees to pay to Producer advance royalties at a rate of \$7,000 per month over each of the two the years of the Term, of which \$3,000 shall be payable in cash, and \$4,000 of which shall be payable in restricted shares of the Company's common stock determined by the weighted average closing price of the stock in the 20 consecutive trading days immediately preceding the date of issue. All cash payments shall be payable on the fifth (5th) and twentieth (20th) day of each calendar month, in arrears, with the first payment hereunder being made on January 5, 2001. If Company elects to renew this Agreement for two (2) additional years under Section 1 a), Company will advance Producer royalties of \$7,700 per month (of which \$3,300 shall be payable in cash and \$4,400 shall be payable in restricted shares of the Company's common stock) for the third year and \$8,470 per month (of which \$3,630 shall be payable in cash and \$4,840 shall be payable in restricted shares of the Company's common stock) for the fourth year, on the same terms and conditions set forth herein.

Notwithstanding anything to the contrary herein, upon the company receiving not less than \$1 million in capital in a single or related series of financings, the portion of advance royalties payable in shares shall thereafter be payable in cash.

b) Company shall pay Producer Net Royalties based on 100% of the Net Sales of all Products, computed on the suggested retail list price of such Products (except as otherwise provided), as follows:

i) With respect to Net Sales of Products based on Original Productions manufactured, distributed and sold by Company and its distributors in the United States of America through normal retail channels, a net royalty of five (5%) percent on such Net Sales.

ii) With respect to Net Sales of Products based on Licensed Productions manufactured, distributed and sold by Company and its distributors in the United States of America through normal retail channels, a net royalty of four (4%) percent on such Net Sales.

iii) With respect to Net Sales of Products based on Original Productions manufactured, distributed and sold by Company or its distributors outside of the United States of America through normal retail channels, a royalty of four (4%) percent on such Net Sales.

iv) For purposes of sales outside of the United States, the suggested list price shall be the suggested retail list price of the Products fixed in such country, or in the absences of such price, that price which is customarily utilized in the respective industries for Products for such purposes in the country involved.

v) Net royalties on foreign Net Sales will be deemed earned only when

amounts from Net Sales on which such Net Royalties are based are received by Company in the United States or credited to Company against an advance at the dollar equivalent of the rate of exchange at which Company is paid or credited against an advance, net of all applicable foreign taxes. The applicable rate of exchange shall be the rate of exchange at which Company is paid by its distributors. If Company does not receive payments in United States dollars in the United States as a result of the action of any governmental or other authority and Company accepts payment in a foreign currency, Company may deposit Producer's Net Royalties in such foreign currency to Producer's account (and at Producer's expense) in a depository selected by Producer. Such deposits of payments representing Net Royalties applicable hereto shall satisfy Company's obligations hereunder for the sales to which such net royalty payments are applicable.

vi) Net royalties applicable to Net Sales of Products sold direct at retail by Company via any internet site it publishes or direct mail or through a mail order operation shall be computed at one-half (1/2) of the royalty percentage rate set forth in (i), (ii), or (iii), as the case may be, based upon the price to the consumer.

vii) Net royalties applicable to Net Sales of Products being sold at retail at 50% off Company's suggested retail price shall be computed at one-half (1/2) of the royalty percentage rate set forth in (i), (ii) or (iii).

viii) No royalties shall be payable in respect of (1) Products distributed by Company or its distributors as "samplers" at trade shows or for trade and marketing purposes; (2) Products distributed free (whether or not shipping and handling charges are payable), as special promotions either posted on Company's web sites, including www.babygenius.com, or advertised on television or radio; (3) Products distributed free in connection with membership drives for member programs operated by Company; (4) Products distributed for free or sold for less than seventy percent (70%) Company's or its distributors, listed wholesale list price to publishers, employees, video, CD and motion picture companies, radio and television stations and other customary recipients of free, discounted or promotional records which are not intended for resale; (5) Products sold by Company or its distributors at cost; directly; (6) distribution of Products directly or by third parties as premiums and (7) Products given away or shipped under sales programs on a "no-charge" or "freebie" basis, or sold for thirty percent (30%) or less of the wholesale list price to distributors, subdistributors, dealers and others as an inducement to purchase Products, whether or not such Products are intended for sale to third parties.

ix) Notwithstanding anything to the contrary contained herein, the

following shall be excluded from the base against which the applicable royalty percentage rate is to be applied: (1) all sales, use, excise, transaction, value added taxes and other applicable domestic and international taxes included in the price, and (2) in the case of Products sold with special inserts or attachments, a packaging charge of ten percent (10%) of the suggested retail list price for such Products.

x) Company may at any time elect to utilize a different method of computing royalties from that specified above, in the event that the method by which Company is accounted to by its distributors is changed, provided that such method does not materially alter the net amounts due Producer.

xi) As used herein, "Net Royalties" means Company's royalties earned by actual Net Sales of Products for which Company has been paid or received credit against an advance, less taxes withheld or charged and payments to any unions or guilds (or their trust funds). Sales by Company shall be deemed to have occurred during the accounting periods in which Company receives payments or credits therefor. "Net Sales" means the cumulative number of Products sold by Company or its distributors to independent third parties for which Company has been paid or received credit against an advance, less Products returned at any time for any reason, including at Company's request, and less all rebates, advertising allowances, free goods, credits, bad debts, credit card charge-backs, cancellations and exchanges. Prior to final determination thereof, Company may withhold a reasonable reserve against returns, such reserve to be established by Company in its reasonable discretion. Reserves shall not exceed forty percent (40%) of Products shipped in the first year of the Term and shall thereafter be based on the average percentage of returns received by Company in the previous 12 months, and each such reserve shall be liquidated not later than the delivery of the second accounting statement following the statement on which such reserve was established. Company agrees that in the United States Products which are returned shall be charged to Producer's account in the same royalty-bearing ratio such Products were originally credited to Producer's account.

xii) Notwithstanding anything to the contrary contained herein, Producer shall not be entitled to receive any Net Royalties whatsoever with respect to Net Sales of Products prior to the recoupment by Company of any advance royalties paid to Producer under Section 5 a).

xiii) Within sixty (60) days after June 30 and December 31 of the first eighteen months during which Products are sold, Company will render a statement of accrued royalties earned under the Agreement during the preceding calendar half year, less all amounts chargeable against such royalties pursuant to the Agreement, including without limitation, all

advance royalties paid under Section 5 a) through the date of such statement. Simultaneously with the rendering of its statement, Company will pay Producer the net amount, if any, shown to be due thereon, less any deductions or withholding required by law or any union guild rules or regulations. Notwithstanding the foregoing, only expenses, advances or other charges incurred during any particular semi-annual period may be charged during that or a subsequent period (e.g., a charge incurred on January 5 of a particular calendar year shall be reflected in the June 30 statement for that period and not for the December 31 statement for the preceding period). After the first eighteen months, statements will be rendered within sixty (60) days of each calendar quarter.

6) GRANT OF OPTIONS:

- a) On the Effective Date, Company will grant Producer options to acquire 50,000 shares of Company's common stock.
- b) In addition, for each 100,000 Net Sales of units of Products, Company will grant Producer on the last day of the calendar quarter in which such 100,000 Net Sales target has been reached, options to acquire 25,000 shares of Company's common stock. Company will make a reasonable estimation in its sole discretion as to when Net Sales of 100,000 units are made, based on historic rates of return experienced by Company and by the industry, and will make such adjustments as it deems necessary in its estimations based on actual Net Sales as and when such sales data becomes known.
- c) If prior to December 31, 2001, Company sells 500,000 Net Sales of units of Products based on Original Productions, Company shall grant Producer options for an additional 50,000 shares.
- d) The maximum number of shares for which Producer shall be granted options during the Term shall be 400,000, including the options for 50,000 shares to be granted on the Effective Date and all options that may be granted pursuant to subsections b) and c) above.
- e) The exercise price of all options granted to Producer hereunder shall be 1.20 times the average closing price of Company's shares in the twenty (20) consecutive trading days immediately preceding the date of grant.
- f) Producer shall not be entitled to exercise any options until after ninety (90) days following the date of grant of such options.
- g) Company shall give notice to Producer of its intent to consummate a private placement of its shares and Producer shall be entitled to purchase shares in such placement subject to applicable federal and state securities laws.
- h) All shares underlying the options granted hereunder shall be restricted securities within the meaning of Rule 144 of the Securities Act of 1933, as amended.

i) All shares issuable under any options granted hereunder shall, at the Company's sole discretion, either (1) be registered pursuant to the Form S-8 filed with the Securities Exchange Commission on May 25, 2000, or (2) be issuable pursuant to the options being exercised on a "cashless" basis.

7) TERMINATION.

a) Company may terminate Producer's engagement upon not less than thirty (30) days prior written notice as a result of a material breach by Producer of his obligations hereunder, if such breach has not been cured within thirty (30) days of receipt of written notice from Company.

b) Upon the termination of this Agreement for any reason, Producer shall deliver to Company all documents used by Producer in the course of Company's business and in Producer's possession or control, including but without limiting the foregoing, all price lists, mailing lists, customer, client or supplier lists, sales information, catalogues, diaries, log books, computer software and computer data.

8) PROPRIETARY AND CONFIDENTIAL INFORMATION:

a) Producer acknowledges that he may receive information concerning Company's business, financial and technical plans and strategies, inventions, new products, services, customers and members, and technology (collectively "Confidential Information"). The terms and conditions set forth in this Agreement shall be Confidential Information. Producer acknowledges and agrees that all Confidential Information is of substantial value to Company, which value would be harmed if such information were disclosed to third parties. Producer agrees that he shall not use (except in the performance of his obligations under this Agreement) Confidential Information in any way for his own account or any account of any third party, nor disclose to any third party such Confidential Information. Producer may disclose Confidential Information to his agents and representatives who need to know such information, provided that such persons are bound by confidentiality obligations no less restrictive than the terms in this section. The obligations in this section shall survive the termination of this Agreement for a period of two (2) years. Confidential Information does not include any information that Producer can demonstrate by written records (a) was known to him prior to its disclosure hereunder by Company, (b) was independently developed by Producer, (c) is or becomes publicly known through no wrongful act of Producer, (d) has been rightfully received from a third party whom Producer has reasonable grounds to believe is authorized to make such disclosure without restriction, or (e) has been approved for public release by Company's prior written authorization. Confidential Information may be disclosed pursuant to applicable law, regulations or court order, provided that Producer provides prompt advance notice thereof to enable Company to seek a protective order or otherwise prevent such disclosure.

b) Should Producer reveal or threaten to reveal any Confidential Information, Company shall be entitled to an injunction restraining the Producer from disclosing same, or from rendering any services to any entity to whom such information has been or is threatened to be disclosed. The right to secure an injunction is not exclusive, and Company may pursue any other remedies it has against the Producer for a breach or threatened breach of this provision, including the recovery of damages from the Producer.

9) RESTRICTIVE COVENANT: Producer further agrees during and for one (1) year after the termination of this Agreement for any reason, whether for Producer's own account or for any other person or for any firm or company not to solicit, interfere with or endeavor to entice away from Company any employee of Company or any person, firm or company who at any time during the continuance of the employment shall have been a customer or client of Company.;

10) GOVERNING LAW; JURISDICTION; VENUE. The Agreement will be interpreted, construed and enforced in all respects in accordance with the laws of the State of California, without regard to its conflicts of laws principles. Each party hereby irrevocably consents to the exclusive jurisdiction of the state and federal courts of Orange County of the State of California in connection with any action arising under this Agreement and waives all defenses regarding the inconvenience of such forum.

11) MISCELLANEOUS:

a) INTEGRATION. This Agreement is the sole contract governing the relationship between Company or any predecessor of Company and Producer, and supersedes any and all prior agreements, letters of intent, correspondence, negotiations, discussions or understandings between Company or any predecessor of Company and the Producer.

b) SEVERABILITY. If any provision of the Agreement is held invalid by a court with jurisdiction over the parties to the Agreement, (i) such provision will be deemed to be restated to reflect as nearly as possible the original intentions of the parties in accordance with applicable law and (ii) the remaining terms, provisions, covenants and restrictions of this Agreement will remain in full force and effect. If this Agreement is held invalid or cannot be enforced, then to the full extent permitted by law any prior agreement between Company (or any predecessor thereof) and the Producer shall be deemed reinstated as if this Agreement had not been executed.

c) SUCCESSORS. Company's rights and obligations under this Agreement will inure to the benefit and be binding upon Company's successors and assignees.

d) AMENDMENTS. This Agreement may be altered only by a written agreement signed by the party against whom enforcement of any waiver, change, modification, extension, or discharge is sought.

e) NOTICES. Any notice, approval, request, authorization, direction or other communication under this Agreement will be given in writing and will be deemed to have been delivered and given for all purposes (i) on the delivery date if delivered personally to the party to whom the same is directed; (ii) one business day after deposit with a commercial overnight carrier, with written verification of receipt; or (iii) five business days after the mailing date, whether or not actually received, if sent by U.S. mail, return receipt requested, postage and charges prepaid, or any other means of rapid mail delivery for which a receipt is available. All notices to Company will be effective if delivered to Company, 11250 El Camino Real, Suite 100, San Diego, CA 92130, attention: President, or such other address specified by Company in writing. All notices to Producer will be effective if delivered to Producer's last residential address provided to Company by Producer.

f) ASSIGNMENTS. Company will not assign this Agreement or any right, interest or benefit under this Agreement without the prior written consent of Producer. Producer may not assign this Agreement or any part thereof with Company's prior written consent except, however, that, after the completion of Producer's services hereunder, Producer may assign Producer's right to receive royalties hereunder.

g) REMEDIES. Except where otherwise specified herein, the rights and remedies granted to a party under the Agreement are cumulative and in addition to, and not in lieu of, any other rights or remedies which the Party may possess at law or in equity.

h) LIMITED EFFECT OF WAIVER BY COMPANY. Should Company waive breach of any provision of this Agreement by the Producer, such waiver will not operate or be construed as a waiver of further breach by the Producer.

i) COUNTERPARTS. The Agreement may be executed in counterparts, each of which will be deemed an original and all of which together will constitute one and the same document.

In witness whereof, both parties have signed this Production Agreement as of the date first above written.

GENIUS PRODUCTS, INC.

By: /s/ Dorian Lowell

Name: Dorian Lowell
President

Producer

By: /s/ James Sommers

Name: James Sommers

Exhibit A

Estimated Budget

To be delivered by Producer within a reasonable period of time after the date hereof.

Original Masters:

-
- 1.
 - 2.
 - 3.
 - 4.
 - 5.
 - 6.

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the registration statement on Form S-8 POS (No. 333-37914 filed on July 5, 2000) of Genius Products, Inc. and Subsidiaries of our report dated March 20, 2001, on our audit of the financial statements of Genius Products, Inc. and Subsidiaries as of December 31, 2000, and for each of the years in the two-year period ended December 31, 2000.

/S/ CACCIAMATTA ACCOUNTANCY CORPORATION

CACCIAMATTA ACCOUNTANCY CORPORATION

Irvine, California
April 17, 2001