

Genius Brands International, Inc.
Form 10-K
March 22, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011

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

For the transition period from _____ to _____

000-54389
Commission file number

GENIUS BRANDS INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

20-4118216
(I.R.S. Employer
Identification No.)

5820 Oberlin Dr., Suite 203
San Diego, CA 92121
(858) 450-2900
(Address and telephone number of principal executive offices)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

Securities registered pursuant to Section 12(g) of the Act: common stock, par value \$0.001 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files.

Yes 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 the registrant's knowledge, in the definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or amendment to Form 10-K. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer (Do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates based upon the last sale price of the issuer common stock reported on the OTC Bulletin Board on June 30, 2011 was \$7,091,290.

As of March 21, 2012, there were 60,698,815 shares of common stock outstanding.

Genius Brand International, Inc.

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FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K (including the section regarding Management's Discussion and Analysis and Results of Operation) contains forward-looking statements regarding our business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not deemed to represent an all-inclusive means of identifying forward-looking statements as denoted in this Annual Report on Form 10-K. Additionally, statements concerning future matters are forward-looking statements.

Although forward-looking statements in this Annual Report on Form 10-K reflect the good faith judgment of our Management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those specifically addressed under the heading "Risks Factors" below, as well as those discussed elsewhere in this Annual Report on Form 10-K. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. We file reports with the Securities and Exchange Commission ("SEC"). Our electronic filings with the United States Securities and Exchange Commission (including our Annual Reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to these reports) are available free of charge on the Securities and Exchange Commission's website at <http://www.sec.gov>. You can also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Annual Report on Form 10-K, except as required by law. Readers are urged to carefully review and consider the various disclosures made throughout the entirety of this Annual Report, which are designed to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

Part I

Item 1. Description of Business.

General

Genius Brands International, Inc. ("we", "us", "our" or the "Company"), f/k/a Pacific Entertainment Corporation, provides music-based products which we believe are entertaining, educational and beneficial to the well-being of infants and young children under our brands, including Baby Genius. We create, market and sell children's DVDs, CD music and book products in the United States by distribution at wholesale to retail stores and outlets and direct to consumers through various "deal for a day" sites. We also license the use of our brands, both domestically and internationally, to others to manufacture, market and sell products based on our characters and brand, whereby we receive advances and royalties.

The Company commenced operations in January 2006, assuming all of the rights and obligations of its Chief Executive Officer, Klaus Moeller, under an Asset Purchase Agreement between the Company and Genius Products,

Inc., in which we obtained all rights, copyrights, and trademarks to the brands “Baby Genius,” “Little Genius,” “Kid Genius,” “123 Favorite Music” and “Wee Worship,” and all then existing productions under those titles. On October 17, 2011 and October 18, 2011, Genius Brands International, Inc., filed Articles of Merger with the Secretary of State of the State of Nevada and with the Secretary of State of the State of California, respectively. As previously described on the Company’s Schedule 14C Information Statement, filed with the Securities and Exchange Commission on September 21, 2011, by filing the Articles of Merger, the Company (i) changed its domicile to Nevada from California, and (ii) changed its name to Genius Brands International, Inc. from Pacific Entertainment Corporation (the “Reincorporation”). Pursuant to the Articles of Merger, Pacific Entertainment Corporation, a California corporation, merged into Genius Brands International, Inc., a Nevada corporation that, prior to the Reincorporation, was the wholly owned subsidiary of Pacific Entertainment Corporation. Genius Brands International, the Nevada corporation, is the surviving corporation. In connection with the Reincorporation, on October 12, 2011, the Company filed an Issuer Company-Related Action Notification Form with the Financial Industry Regulatory Authority (“FINRA”) and on November 29, 2011 our trading symbol changed from “PENT” to “GNUS”.

In addition to the distribution of our CD and DVD products, we have developed and will continue to develop multiple revenue streams which include worldwide licensing and merchandising opportunities for toys, books, and other customer products that have been inspired by our brands or which we feel we can market and sell through our distribution channels. The Company is committed to providing the very best in children’s education and developmental entertainment, as well as quality items based on our brand and licensed characters.

Following is a summary of our revenues, assets and net losses for our two most recent fiscal years ended December 31, 2011 and December 31, 2010:

	Fiscal Years Ended December 31,	
	2011	2010
Total Revenue	\$ 6,023,010	\$ 3,972,663
Net Loss	\$ (1,372,259)	\$ (692,883)
Total Assets	\$ 2,652,257	\$ 2,299,748
Total Liabilities	\$ 3,772,890	\$ 3,590,964
Accumulated Deficit	\$ (8,135,049)	\$ (6,768,156)

Distribution

In 2008, the Company began self-distributing its DVD and CD products through direct relationships with customers after terminating a third party distribution agreement. We also have third party licensing agreements under which we developed musical products under other brands and receive revenue and pay a royalty for distributing those products through our distribution channels.

Where we have licensed our brands for production of additional product lines, such as toys, books and other products, the products are primarily distributed by the licensee through the licensee’s marketing channels, although we may have opportunities for direct distribution through our website at www.babygenius.com.

We experience a risk of concentration of customers on our products because one of our customers represented in excess of 10% of sales during our last fiscal year. In the event we were to lose this account, it could have an adverse impact on our results of operations or financial condition to the extent we could not replace sales through distribution to other customers, new or existing.

To the extent we enter into license agreements that are exclusive as to particular products or territories or both, it creates a risk of concentration because we will have only one licensor distributing their products in those territories and will be substantially dependent upon their marketing efforts to increase sales. The loss of an exclusive licensee, or the failure of an exclusive licensee to adequately market and sell products produced by them in those exclusive territories, could adversely impact our revenue and, consequently, have an adverse impact on our results of operations and financial condition. We currently have only one exclusive license agreement, which is with Jakks Pacific’s Tollytots® (“Tollytots®”) division. See “Products” below. That license gives them the sole right to manufacture, market

and distribute certain products, including learning and developmental toys based on our brand and characters, on a world-wide basis for a period of five years. To the extent it does not successfully sell the toys in each market, we will experience less royalty income from the license of our brand for those products and will be unable to offset the reduced royalties through licenses of such products to other parties or by directly manufacturing and distributing competing products.

Products

Our products consist primarily of family and children's DVD and CD music products. These products are manufactured and sold under brand names such as "Baby Genius", "Kid Genius", "Wee Worship", "123 Favorite Music" and "Pacific Entertainment Presents". The Company released two new music products, "50 Classic Lullabies & Soothing Songs" and "Favorite Guitar and Piano Melodies" in 2010. We released three new music titles in 2011, "Best of Baby Genius", "Sleighbells and Snowflakes" and "Favorite Country Christmas Music". The entire library of Baby Genius DVD and CD music products includes both English and Spanish versions.

We also license our Baby Genius brand for various product lines including toys, books, games and puzzles, sippy cups, and early learning aids, as well as others, and receive royalties based on sales of these products.

On December 17, 2009, we signed an agreement with Battat Incorporated ("Battat") whereby our brand was licensed to Battat for development and introduction to retail stores of a line of 24 toys in August 2009. The license granted Battat an exclusive license for the manufacture, marketing and distribution of a toy line based on the Baby Genius brand in the United States and Canada, and non-exclusive rights of distribution in other parts of the world. When it became clear that minimum sales requirements for 2011 would not be met, this license was terminated according to its terms in December 2010. At that time, we extended the sell-off period to allow Battat the right to continue to distribute the existing line of toys through late Spring 2011. The Company received the final royalty revenue from the Battat agreement in the first quarter of 2011.

On January 11, 2011, the Company signed a five-year, world-wide license agreement with Tollytots® for a new toy line to be distributed world-wide. As a result of the agreement, Tollytots® immediately began development on a comprehensive line of musical and early learning toys, incorporating the music, characters and themes associated with our Baby Genius series of videos and music CDs. As described above under “Distribution”, the new toy line will cover a broad range of exclusive categories including learning and developmental toys, most plush toys, and musical toys which Tollytots® has the sole right to manufacture, market and distribute on a world-wide basis. It also allows Tollytots® a non-exclusive right to manufacture, market and distribute products in several non-exclusive categories, including board games, puzzles, electronic learning aids and amusement plush toys, where we may already have other licenses who produce similar products or may grant licenses for such products to new parties in addition to Tollytots®. We will receive quarterly royalties from sales of products developed under the agreement by Tollytots®. The Company will have rights to sell product developed under the license agreement directly via its website subject to availability of inventory from Tollytots®. The agreement provides for certain guaranteed minimum payments to the Company for each contract year. The agreement is subject to early termination by the Company in specified territories in the event minimum sales requirements in those territories have not been met in any contract year. Currently, Tollytots® has several toys in development for the line, including musical and early learning toys, and we anticipate that these toys will be ready for retail sales in the third quarter of 2012.

We experienced a reduction in royalty revenue in 2011 and anticipate a reduction in revenues during the first and second quarters of 2012 from 2010 levels due to the gap between the cessation of sales by Battat in Spring 2011 and the anticipated commencement of sales of the Tollytots® line in Fall 2012. We are unable to predict the amount of the reduction in revenue with certainty as we could not predict the amount of sales that would have been made by Battat during the period had the line had not been cancelled and cannot predict with certainty the degree to which the loss in sales of the Battat line will be offset by other royalty income.

We will continue to explore the potential for derivative products under the Baby Genius brand to expand brand awareness and sales. For instance, we have created custom products using the Baby Genius brand for several book and music premiums, including Wendy’s, Taco Bell and Gerber. For example, through an agreement with a third party licensee, we created small books based on our characters specifically for Wendy’s which could be inserted as a gift in kids meals purchased at Wendy’s locations throughout 2012.

During June 2010, the Company introduced a line of DVDs including classic movies and television programs (films or shows that were made during the Hollywood studio system era (pre-1970s) or which have received significant recognition, either at the time they were released or subsequently), “Pacific Entertainment Presents”. Initially consisting of seven titles, each focusing on a specific genre such as Horror, Western, SciFi, Action, Mystery, War, and Gangster, an additional six titles were added in late 2010 expanding the line with the Super Hero’s collection as well as Family Favorites.

On September 20, 2010, the Company entered into a joint venture agreement between the Company and Dr. Shulamit Ritblatt to form Circle of Education, LLC (“COE”), a California limited liability company, for the purpose of creation and distribution of a curriculum to promote school readiness for children ages 0-5 years. The Company commissioned research into the use of music-based curriculum through San Diego State University over the past three years based on certain unregistered copyrights and trademarks, confidential information, designs, ideas, discoveries, inventions, processes, research results and work product it had developed. Dr. Ritblatt, who holds a Doctorate of Philosophy in Child Development and Family Relations, has conducted research into child development and has experience developing early learning curriculum for children. In March 2012, the Company and Dr. Shulamit Ritblatt agreed to terminate the joint venture agreement. COE transferred equal right of ownership in the intellectual property developed as of the date of termination (“IP”) to each of the Company and Dr. Ritblatt, and in exchange for the rights to the IP, Dr. Ritblatt transferred her units of COE to the Company. Each party will have the right to continue

development of the IP and products based on the IP with no further obligation to the other party. Subject to certain limitations for specific channels of distribution reserved for each party for a period of twelve months from the execution of the agreements, both parties have non-exclusive and non-restrictive rights to the use, sublicense or sale of the IP and products created based on the IP.

We have third party licensing agreements under which we developed musical products under other brands, such as “Guess How Much I Love You,” “The Snowman” and “Precious Moments”. The Company also licensed the rights to eight DVDs previously created by Precious Moments in exchange for royalty payments on net sales of the DVD products. Through an exclusive licensing agreement with the San Diego Zoological Society, we created a series of Baby Genius DVD’s featuring footage from the San Diego Zoo and San Diego Wild Animal Park. The Company signed agreements with five studios to begin distribution of additional titles through our channels during the fourth quarter of 2011. We will continue to investigate partnerships which may lead to valuable additions to our product lines.

Marketing

We market our products in a variety of ways, including through our website at www.babygenius.com. The website was redesigned, adding interactive features, and we launched the Baby Genius Club in Spring 2009. The club offers ways for parents and caregivers to enrich their child's Baby Genius experience with exclusive, members-only promotions, merchandise discounts, opportunities to earn points toward future purchases and a membership kit.

Other features on the website include a dedicated "Circle of Education" section, games and activities, and a room for parents to share their experience with other parents, read testimonials, get tips on parenting and link to external websites for important information.

We are developing a musical based system for early learning to help prepare children for socialization and education. The curriculum and songs were developed in conjunction with Dr. Shulamit Ritblatt, Ph.D., Department Chair at the San Diego University Department of Child and Family Development, who is spearheading a research project that exposes young children through music to behavior and knowledge that they will need to succeed in kindergarten. We presented a live concert, featuring Grammy winner Patti Austin, to promote the introduction of the program, in addition to media appearances by Larry Balaban, our Chief Creative Officer.

During the introduction of the Baby Genius toy line in 2009, the Company conducted marketing programs that included print and online advertising, marketing programs targeting mothers with children one to five years old, DVD and CD inserts cross-promoting the product lines, on-air spots running on Comcast and Cox VOD, and a dedicated national publicity campaign, including a television media tour hosted by C.O.O., Larry Balaban.

We make 12-minute segments of our DVD products available "On-Demand" through Comcast and Cox Communications. We neither pay nor receive royalties for the airing of these segments, which are geared toward gaining exposure of our products.

We utilize multiple forms of media to market our brand for all products. We engage in print campaigns and our Chief Creative Officer, Larry Balaban, has made a number of appearances on television in an effort to create and expand consumer awareness of our products, including appearances on Good Morning America Now, the Today Show, Health Corner, ABC Now, Money Matters, Fox Business, Comcast Babyboost, CN8 PHIL, Dr. Lisa and NBC 4 NY. Our print advertising has reached consumers through a number of English and Spanish publications in the United States, including Today's Family Magazine, The Parent Guide, Parents Magazine, Parenting Magazine, and WomensDay.com, among others. Through distributors, promotional partners and direct marketing, we plan to market our brand worldwide. Currently, we have licensed the right to broadcast in four countries, have licensed the rights to sales at retail in eleven countries for audio products and seventeen countries for DVD products, and have a license for VOD in one country.

Competition

Our Baby Genius brand competes with other brands in the 0 to 60 month age range that produce DVDs and CDs, books and other branded, licensed products, including toys. Some of our main competitors are Baby Einstein, Brainy Baby, So Smart, The Wiggles and Sesame Baby.

The main competition for our DVD and CD products comes from the major studios, such as Disney and Universal Studios that produce a large volume of children's programming, including our main competition, the "Baby Einstein" brand. The next level of competition is from other independent production companies, distributors and content

producers/owners. To be competitive, we must produce high quality creative productions and must develop the reputation and contacts to meet with the principal players in this industry.

We believe that our Baby Genius brand is positioned in the market as a high quality, value brand. Each Baby Genius DVD includes all tracks in both English and Spanish. The DVDs are packaged with companion music CDs. We believe this additional music CD with no additional cost to the consumer adds value to our products and, with our broad, multi-media marketing campaign, we believe we are positioned competitively to reach both English and Spanish consumers. Although many of our competitors have more resources than we do, we have specifically designed our marketing campaign to reach consumers in the preschool entertainment and education market even if our exposure is not as broad as some of our competitors.

We also introduced a toy line in August 2009 through a licensing arrangement with toy manufacturer, Battat Incorporated, which Battat had the right to sell through Spring 2011, and have launched a series of books based on the Baby Genius brand through Meadowbrook Press and distributor Simon & Schuster. Our primary competitors for these products are Playskool, Fisher Price, Little Tykes and Leapfrog. However, we will also face intense competition for retail shelf space for these products and will compete with a variety of other toys and books offered by those retailers in addition to products produced by our primary competitors in the DVD and CD markets.

During 2010, the Company introduced a line of DVDs including classic movies and television programs, "Pacific Entertainment Presents". The primary competition for this line of products is various studios that also have lines of products considered in the public domain.

Customers and Licensees

Our customers consist of retail stores and outlets, whereby we sell at wholesale pricing for resale, and direct to consumers through our website and “deal for a day” sites. Terms for our retail customers range from thirty to ninety days from date of shipment. Our direct consumers pay upon order via credit cards. Licenses are granted to companies that, based on our experience and investigation, we believe will offer quality products which will be readily accepted by consumers and have a strong financial history. For fiscal year 2011, the revenue from one customer comprised 28.5% of the Company’s total revenue. This account made up 1.1% of the total accounts receivable balance at December 31, 2011. For fiscal year 2010, the revenue from three retail customers or licensees comprised 27.6%, 16.3% and 14.1% of the Company’s total revenue, one of which reflects royalty income from Battat Incorporated. Those three accounts made up 39.1%, 0%, and 0% of the total accounts receivable balance at December 31, 2010, respectively. As indicated above under “Distribution,” there is significant financial risk associated with a dependence upon a small number of customers or licensees. The Company periodically assesses the financial strength of its customers and establishes allowances for any anticipated bad debt. At December 31, 2011 and 2010, no allowance for bad debt has been established for our customers as these amounts are believed to be fully collectible.

Seasonality

Our business has reacted to seasonal influence, such as the holiday season. We generally anticipate increased sales in the third and fourth quarters principally due to sales from the holiday season. Due to the seasonality of our sales, we expect quarterly results to fluctuate. Our results of operations may also fluctuate significantly as a result of a variety of other factors, including changing consumer tastes and the marketing efforts of our distributors.

Government Regulation

We are currently subject to regulations applicable to businesses generally, including numerous federal and state laws that impose disclosure and other requirements upon the origination, servicing, enforcement and advertising of credit accounts, and limitations on the maximum amount of finance charges that may be charged by a credit provider. Although credit to our customers is provided by third parties without recourse to us based upon a customer’s failure to pay, any restrictive change in the regulation of credit, including the imposition of, or changes in, interest rate ceilings, could adversely affect the cost or availability of credit to our customers and, consequently, our results of operations or financial condition.

Licensed toy products are subject to regulation under the Consumer Product Safety Act and regulations issued thereunder. These laws authorize the Consumer Product Safety Commission (the “CPSC”) to protect the public from products which present a substantial risk of injury. The CPSC can require the manufacturer of defective products to repurchase or recall such products. The CPSC may also impose fines or penalties on manufacturers or retailers. Similar laws exist in some cities and other countries in which we plan to market our products. Although we do not manufacture and may not directly distribute the toy products, a recall of any of the products may adversely affect our business, financial condition, results of operations and prospects.

We also maintain websites, including our website located at www.babygenius.com, and are subject to laws and regulations directly applicable to Internet communications and commerce, which is a currently developing area of the law. The United States has enacted Internet laws on children’s privacy, copyrights and taxation. However, laws governing the Internet remain largely unsettled. The growth of the market for Internet commerce may result in more stringent consumer protection laws, both in the United States and abroad, that place additional burdens on companies conducting business over the Internet. We cannot predict with certainty what impact such laws will have on our business in the future. In order to comply with new or existing laws regulating Internet commerce, we may need to

modify the manner in which we conduct our website business, which may result in additional expense.

Because our products are manufactured by third parties and licensees, the Company is not significantly impacted by federal, state and local environmental laws and does not have significant costs associated with compliance with such laws and regulations.

Research and Development

The Company engages in the development of new products as part of its ongoing business. In accordance with FASB Accounting Standards Codification regarding the topics of Intangible Assets (350) and Research and Development (730), the costs of new product development and significant improvement to existing products are capitalized while routine and periodic alterations to existing products are expensed as incurred. We capitalized as intangible assets and capitalized product development in process \$203,890 and \$263,750 for the