

Genius Brands International, Inc.
Form 10-Q
November 16, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

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

For the transition period from _____ to _____

Commission file number: 000-54389

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.)

301 North Canon Drive, Suite 305

Beverly Hills, California

(Address of principal executive offices)

90210

(Zip Code)

310-273-4222

(Registrant's telephone number, including area code)

9401 Wilshire Blvd, #608, Beverly Hills, CA 90212

(Registrant's Former Address)

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 o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company x

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 10,859,450 shares of common stock, par value \$0.001, were outstanding as of November 16, 2015.

GENIUS BRANDS INTERNATIONAL, INC.

FORM 10-Q

For the Quarterly Period Ended September 30, 2015

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PART I - FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS.**

Genius Brands International, Inc.

Consolidated Balance Sheets

As of September 30, 2015 (unaudited) and December 31, 2014 (audited)

<u>ASSETS</u>	9/30/2015	12/31/2014
Current Assets:		
Cash and Cash Equivalents	\$2,147,931	\$4,301,099
Accounts Receivable, net	263,916	208,486
Inventory, net	14,046	11,691
Prepaid and Other Assets	191,565	217,622
Total Current Assets	2,617,458	4,738,898
Property and Equipment, net	166,773	32,420
Film and Television Costs	903,634	303,953
Capitalized Product Development in Process	–	7,500
Intangible Assets, net	1,937,337	1,876,438
Goodwill	10,365,805	10,365,805
Investment in Stan Lee Comics, LLC	–	–
Total Assets	\$15,991,007	\$17,325,014
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	\$346,320	\$312,728
Accrued Expenses	409,512	283,582
Deferred Revenue and Advances	290,999	242,160
Accrued Salaries and Wages	85,620	50,288
Disputed Trade Payable	925,000	925,000
Short Term Debt - Related Party	411,521	411,008
Total Current Liabilities	2,468,972	2,224,766
Long Term Liabilities:		
Deferred Revenue and Advances	715,598	640,417
Services Advance	1,489,583	739,583
Total Liabilities	4,674,153	3,604,766

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Stockholders' Equity		
Preferred Stock, \$0.001 par value, 10,000,000 share authorized, respectively; 5,690 and 6,000 shares issued and outstanding, respectively	6	6
Common Stock, \$0.001 par value, 700,000,000 shares authorized, respectively; 6,529,450 and 6,374,450 shares issued and outstanding, respectively	6,530	6,375
Additional Paid in Capital	34,884,910	34,866,521
Accumulated Deficit	(23,574,592)	(21,152,654)
Total Equity	11,316,854	13,720,248
Total Liabilities and Stockholders' Equity	\$15,991,007	\$17,325,014

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

Genius Brands International, Inc.

Consolidated Statements of Operations

Three Month and Nine Month Periods Ended September 30, 2015 and 2014 (unaudited)

	Three Months Ended		Nine Months Ended	
	9/30/2015	9/30/2014	9/30/2015	9/30/2014
Revenues:				
Licensing & Royalties	\$98,035	\$53,774	\$372,022	\$155,341
Television & Home Entertainment	182,715	25,635	323,804	112,910
Product Sales	–	239,392	15,173	444,028
Total Revenues	280,750	318,801	710,999	712,279
Cost of Sales	23,127	172,870	45,699	414,017
Gross Profit	257,622	145,931	665,300	298,262
Operating Expenses:				
Professional Services	244,803	202,154	549,702	822,997
Rent Expense	34,136	34,863	106,271	105,207
Marketing & Sales	91,258	109,592	342,318	234,286
Amortization of Film & TV Costs	42,642	–	42,642	–
Depreciation & Amortization	36,673	29,673	96,823	83,301
Salaries and Related Expenses	429,348	442,760	1,414,746	1,003,234
Bad Debt Expense (Recovery)	–	–	(1,550)	55,000
Other General & Administrative	133,388	191,774	581,774	605,454
Total Operating Expenses	1,012,247	1,010,816	3,132,726	2,909,479
Loss from Operations	(754,624)	(864,885)	(2,467,426)	(2,611,217)
Other Income (Expense):				
Other Income	11,421	22,156	16,965	29,945
Interest Expense	(723)	–	(2,212)	(2,230)
Interest Expense - Related Parties	(6,224)	(6,241)	(18,544)	(19,611)
Gain (Loss) on Distribution Contracts	(47,650)	–	102,350	(47,229)
Gain (Loss) on Impairment of Assets	–	–	(7,500)	–
Gain (Loss) on Extinguishment of Debt	–	–	–	52,447
Gain (Loss) on Disposition of Assets	–	–	–	(70,905)
Gain (Loss) on Inventory	–	–	–	(174,963)
Gain (Loss) on Deferred Financing Costs	–	–	(9,313)	–
Unrealized Gain (Loss) on Foreign Currency Translation	(20)	–	(36,258)	–
Net Other Income (Expense)	(43,196)	15,915	45,488	(232,546)
Loss before Income Tax Expense	(797,820)	(848,970)	(2,421,938)	(2,843,763)

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Income Tax Expense	–	–	–	–
Net Loss	\$(797,820)	\$(848,970)	\$(2,421,938)	\$(2,843,763)
Net Loss per Common Share	\$(0.12)	\$(0.13)	\$(0.37)	\$(0.46)
Weighted Average Shares Outstanding	6,529,450	6,383,450	6,464,505	6,129,391

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

Genius Brands International, Inc.

Consolidated Statements of Cash Flows

Nine Month Period Ended September 30, 2015 and 2014 (unaudited)

	9/30/2015	9/30/2014
Cash Flows from Operating Activities:		
Net Loss	\$(2,421,938)	\$(2,843,763)
Adjustments to reconcile net loss to net cash provided in operating activities:		
Depreciation Expense	46,501	37,774
Amortization Expense	50,322	45,527
Imputed Interest Expense	18,544	19,611
Bad Debt Expense	(1,550)	55,000
Prepaid Consulting Services Expense	–	280,482
(Gain) Loss on Distribution Contracts	(102,350)	47,229
(Gain) Loss on Deferred Financing Asset	9,313	–
(Gain) Loss on Impairment of Assets	7,500	70,905
(Gain) Loss on Foreign Currency Translation	36,258	–
(Gain) Loss on Settlement of Accounts Payable	–	(52,447)
(Gain) Loss on Inventory	–	174,963
Decrease (increase) in operating assets:		
Accounts Receivable	18,612	495,522
Inventory	(2,355)	28,226
Prepaid Expenses & Other Assets	16,744	138,295
Film and Television Costs, net	(599,681)	(156,592)
Increase (decrease) in operating liabilities:		
Accounts Payable	(14,059)	(448,708)
Accrued Salaries	35,332	59,800
Deferred Revenue and Advances	165,270	432,648
Other Accrued Expenses	125,930	(9,392)
Net cash used in operating activities	(2,611,607)	(1,624,920)
Cash Flows from Investing Activities:		
Investment in Intangible Assets	(111,221)	(70,000)
Investment in Fixed Assets	(180,853)	(3,151)
Investment in Capitalized Product Development	–	(16,330)
Net cash used in investing activities	(292,074)	(89,481)
Cash Flows from Financing Activities:		
Sale of Preferred Stock, net of offering costs	–	6,000,000
Sale of Common Stock, net of offering costs	–	360,000
Proceeds from Services Advance	750,000	750,000

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Repayment of Services Advance	–	(10,117)
Proceeds of Related Party Notes	513	–
Payments of Related Party Notes	–	(105,017)
Common Stock Offering Costs	–	(4,884)
Preferred Stock Offering Costs	–	(620,085)
Debt Issuance Cost	–	(15,000)
Net cash provided by financing activities	750,513	6,354,897
Net Increase (Decrease) in Cash and Cash Equivalents	(2,153,168)	4,640,496
Beginning Cash and Cash Equivalents	4,301,099	527,110
Ending Cash and Cash Equivalents	\$2,147,931	\$5,167,606
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	\$–	\$–
Cash paid for interest	\$1,076	\$2,230
Schedule of non-cash financing and investing activities:		
Common Stock issued as Settlement for Accounts Payable	\$–	\$32,572
Common Stock issued for Prepaid Services	\$–	\$113,998

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

Genius Brands International, Inc.

Consolidated Statements of Stockholders' Equity

	Common Stock		Preferred Stock		Additional Paid in Capital	Accumulated	
	Shares	Amount	Shares	Amount		Deficit	Total
Balance, December 31, 2014 (audited)	6,374,450	\$ 6,375	6,000	\$ 6	\$ 34,866,521	\$(21,152,654)	\$ 13,720,248
Conversion of preferred shares	155,000	155	(310)	–	(155)	–	–
Imputed Interest for Member Advances	–	–	–	–	18,544	–	18,544
Net Loss	–	–	–	–	–	(2,421,938)	(2,421,938)
Balance, September 30, 2015 (unaudited)	6,529,450	\$ 6,530	5,690	\$ 6	\$ 34,884,910	\$(23,574,592)	\$ 11,316,854

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

Genius Brands International, Inc.

Notes to Financial Statements

September 30, 2015 (unaudited)

Note 1: Organization and Business

Organization and Nature of Business

Genius Brands International, Inc. (“we”, “us”, “our”, “GBI” or the “Company”) is a global content and brand management company dedicated to providing entertaining and enriching “content and products with a purpose” for toddlers to tweens. Led by industry veterans Andrew Heyward (Chief Executive Officer) and Amy Moynihan Heyward (President), the Company produces original content and licenses the rights to that content to a variety of partners. Our licensees include (i) companies to which the audio-visual rights are licensed for exhibition in various formats, including but not limited to, Pay Television, Free or Broadcast Television, Video-on-Demand (“VOD”), subscription on demand (“SVOD”), DVDs/CDs and (ii) companies that develop and distribute products based on our content within different product categories, including but not limited to, toys, electronics, publishing, home goods, stationary, gifts.

The Company owns a portfolio of original children’s entertainment that is targeted at children from toddlers to teens including the award-winning *Baby Genius*, Warren Buffett's *Secret Millionaires Club*, *Thomas Edison's Secret Lab* and *Stan Lee's Mighty 7*, the first project from *Stan Lee Comics, LLC*, a joint venture with legendary Stan Lee's POW! Entertainment.

In addition to the Company’s wholly-owned brands, it also acts as licensing agent for certain brands, leveraging its existing licensing infrastructure to expand these brands into new product categories, new retailers, and new territories. These include the best-selling children’s book series, *Llama Llama; Psycho Bunny*, a luxury apparel line; *From Frank*, a humor greeting card and product line; and *Celessence Technologies*, the world's leading microencapsulation company.

Consistent with the Company’s strategy of securing widespread distribution for its content in a variety of formats and building awareness and engagement for its brands that in turn drives its consumer products business, the Company has expanded its successful relationship with Comcast beyond the already popular *Baby Genius* on-demand offering. The Company has announced it will launch a new Kid Genius Channel in the fourth quarter of 2015, offering 24-hours of video on-demand content that will be consistent with the Company’s “content and products with a purpose” mission. The new video on-demand channel will include the Company’s own content, in addition to other content the Company will

curate, to offer a robust line-up for kids. The Company's Senior Vice President - International Sales, Andrew Berman, will oversee the channel.

The Company commenced operations in January 2006, assuming all of the rights and obligations of its then Chief Executive Officer, under an Asset Purchase Agreement between the Company and Genius Products, Inc., in which the Company 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. In October 2011, 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"). In connection with the Reincorporation, the Company changed its trading symbol from "PENT" to "GNUS".

On November 15, 2013, the Company entered into an Agreement and Plan of Reorganization (the "Merger Agreement") with A Squared Entertainment LLC, a Delaware limited liability company ("A Squared"), A Squared Holdings LLC, a California limited liability company and sole member of A Squared (the "Parent Member") and A2E Acquisition LLC, its newly formed, wholly-owned Delaware subsidiary ("Acquisition Sub"). Upon closing of the transactions contemplated under the Merger Agreement (the "Merger"), which occurred concurrently with entering into the Merger Agreement, the Acquisition Sub merged with and into A Squared, and A Squared, as the surviving entity, became a wholly-owned subsidiary of the Company. As a result of the Merger, the Company acquired the business and operations of A Squared.

On April 2, 2014, the Company filed a certificate of amendment to its Articles of Incorporation to affect a reverse split of its issued and outstanding common stock on a one-for-one-hundred basis. The reverse stock split was effective with FINRA (Financial Industry Regulatory Authority) on April 7, 2014 (the "Reverse Split"). All per share amounts referenced herein are reflective of the Reverse Split.

Strategic Initiatives

During 2014, the Company began a series of strategic initiatives to restructure certain areas of business in an effort to operate more profitably in the long run. This included product sales, content distribution, production, and product development:

During the second quarter of 2014, the Company began phasing out the direct production and sale of physical products including DVDs and CDs and shifted to a licensing model whereby these functions were outsourced to 1) industry experts and category leaders in their respective industries. On July 14, 2014, the Company employed Stone Newman in the newly created position of President - Global Consumer Products to manage all consumer products, licensing and merchandising sales for the Company's brands.