

Genius Brands International, Inc.
Form 10-Q
November 14, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2012

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.)

5820 Oberlin Dr., Suite 203
San Diego, California
(Address of principal executive offices)

92121
(Zip Code)

(858) 450-2900
(Registrant's telephone number, including area code)

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

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 No

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

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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 No x.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 71,912,617 shares of common stock, par value \$0.001, were outstanding as of November 14, 2012.

GENIUS BRANDS INTERNATIONAL, INC.
FORM 10-Q

For the Quarterly Period Ended September 30, 2012

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PART I — FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (Unaudited).

Genius Brands International, Inc.
Consolidated Balance Sheets
September 30, 2012 (unaudited) and December 31, 2011 (audited)

| ASSETS | 9/30/2012 | 12/31/2011 |
|--|---------------------|---------------------|
| Current Assets: | | |
| Cash | \$ 149,513 | \$ 405,341 |
| Accounts Receivable, net | 1,019,282 | 1,021,039 |
| Inventory | 345,632 | 340,782 |
| Prepaid and Other Assets | 294,372 | 168,486 |
| Total Current Assets | 1,808,799 | 1,935,648 |
| Property and Equipment, net | 26,404 | 32,894 |
| Capitalized Product Development in Process | 318,744 | 278,696 |
| Intangible Assets, net | 302,829 | 405,019 |
| Debenture Issuance Costs | 223,901 | - |
| Total Assets | \$ 2,680,677 | \$ 2,652,257 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 816,137 | \$ 1,008,460 |
| Accrued Expenses | 410,902 | 408,684 |
| Accrued Salaries and Wages | 436,851 | 193,519 |
| Accrued Interest - Debentures | 60,382 | 19,049 |
| Unearned Revenue | - | - |
| Total Current Liabilities | 1,724,272 | 1,629,712 |
| Long Term Liabilities: | | |
| Debenture (Net of discount) and Accrued Interest | 669,355 | - |
| Notes Payable – Related Parties and Accrued Interest | 441,732 | 2,143,178 |
| Total Liabilities | 2,835,359 | 3,772,890 |
| Stockholders' Equity (Deficit) | | |
| Common Stock, \$0.001 par value, 250,000,000 shares authorized; 71,912,617 and 60,698,815 shares issued and outstanding, respectively | 71,913 | 60,699 |
| Additional Paid in Capital | 9,818,795 | 6,959,083 |
| Accumulated Deficit | (10,045,390) | (8,135,049) |
| Total Genius Brands International, Inc. Stockholders' Equity (Deficit) | (154,682) | (1,115,267) |
| Noncontrolling Interest | - | (5,366) |
| Total Equity | (154,682) | (1,120,633) |
| Total Liabilities & Stockholders' Equity (Deficit) | \$ 2,680,677 | \$ 2,652,257 |

See accompanying notes to consolidated financial statements

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Genius Brands International, Inc.

Consolidated Statements of Operations
Periods Ending September 30, 2012 and 2011 (unaudited)

| | Three Months Ending | | Nine Months Ending | |
|--|---------------------|--------------|--------------------|----------------|
| | 9/30/2012 | 9/30/2011 | 9/30/2012 | 9/30/2011 |
| Revenues: | | | | |
| Product Sales | \$1,592,684 | \$1,610,774 | \$4,195,147 | \$3,295,633 |
| Licensing & Royalties | 39,394 | 71,231 | 109,676 | 529,284 |
| Total Revenues | 1,632,078 | 1,682,005 | 4,304,823 | 3,824,917 |
| Cost of Sales (Excluding Depreciation) | 1,389,564 | 1,225,123 | 3,414,440 | 2,354,845 |
| Gross Profit | 242,514 | 456,882 | 890,383 | 1,470,072 |
| Operating Expenses: | | | | |
| Product Development | 12,442 | 3,974 | 20,744 | 11,393 |
| Professional Services | 38,702 | 66,347 | 143,269 | 211,114 |
| Rent Expense | 9,432 | 14,395 | 28,295 | 73,037 |
| Marketing & Sales | 91,635 | 114,108 | 520,756 | 620,780 |
| Depreciation & Amortization | 34,889 | 53,991 | 110,578 | 163,085 |
| Salaries and Related Expenses | 438,514 | 348,324 | 1,285,851 | 982,560 |
| Stock Compensation Expense | 68,670 | 78,770 | 192,049 | 385,137 |
| Other General & Administrative | 140,327 | 62,423 | 398,758 | 207,313 |
| Total Operating Expenses | 834,611 | 742,332 | 2,700,300 | 2,654,419 |
| Loss from Operations | (592,097) | (285,450) | (1,809,917) | (1,184,347) |
| Other Income (Expense): | | | | |
| Other Income | 189 | 3,720 | 361 | 24,777 |
| Interest Expense | (122,452) | (1,518) | (127,599) | (2,662) |
| Interest Expense – Related Parties | (6,067) | (29,968) | (44,100) | (93,562) |
| Gain (loss) on extinguishment of debt | - | - | 76,280 | - |
| Net Other Income (Expense) | (128,330) | (27,766) | (95,058) | (71,447) |
| Loss before Income Tax Expense and Noncontrolling Interest | (720,427) | (313,216) | (1,904,975) | (1,255,794) |
| Income Tax Expense | - | - | - | - |
| Net Loss | (720,427) | (313,216) | (1,904,975) | (1,255,794) |
| Acquisition of Noncontrolling Interest | - | - | (5,366) | - |
| Net Loss attributable to Noncontrolling Interest | - | 742 | - | 5,163 |
| Net Loss attributable to Genius Brands International, Inc. | \$(720,427) | \$(312,474) | \$(1,910,341) | \$(1,250,631) |
| Net Loss per common share | \$(0.01) | \$(0.01) | \$(0.03) | \$(0.02) |

| | | | | |
|-------------------------------------|------------|------------|------------|------------|
| Weighted average shares outstanding | 60,743,380 | 60,448,815 | 67,965,997 | 58,394,312 |
|-------------------------------------|------------|------------|------------|------------|

See accompanying notes to consolidated financial statements

Genius Brands International, Inc.
Consolidated Statements of Stockholders' Equity (Deficit)

| | Common Stock | | Additional Paid in Capital | Noncontrolling Interest | Accumulated Deficit | Total |
|---|--------------|----------|----------------------------------|----------------------------|------------------------|----------------|
| | Shares | Amount | | | | |
| Balance, December 31, 2011 (audited) | 60,698,815 | \$60,699 | \$6,959,083 | \$ (5,366) | \$(8,135,049) | \$(1,120,633) |
| Common Stock Issued for Cash | 1,000,000 | 1,000 | 199,000 | - | - | 200,000 |
| Common Stock Issued for Services | 1,486,070 | 1,486 | 323,228 | - | - | 324,714 |
| Common Stock Issued in exchange for repayment of Note Payable | 8,727,732 | 8,728 | 1,736,818 | - | - | 1,745,546 |
| Warrants Granted for Debenture Issuance Costs | - | - | 28,929 | - | - | 28,929 |
| Warrants Granted for Debt Discount | - | - | 379,688 | - | - | 379,688 |
| Stock Compensation Expense | - | - | 192,049 | - | - | 192,049 |
| Acquisition of Noncontrolling Interest | - | - | - | 5,366 | - | 5,366 |
| Net Loss | - | - | - | - | (1,910,341) | (1,910,341) |
| Balance, September 30, 2012 (unaudited) | 71,912,617 | \$71,913 | \$9,818,795 | \$ - | \$(10,045,390) | \$(154,682) |

See accompanying notes to consolidated financial statements

Genius Brands International, Inc.
Consolidated Statements of Cash Flows (unaudited)

| Cash Flows from Operating Activities: | Nine Months Ending | |
|---|--------------------|----------------|
| | 9/30/2012 | 9/30/2011 |
| Net Loss | \$(1,904,975) | \$(1,255,794) |
| Adjustments to reconcile net loss to net cash provided in operating activities: | | |
| Depreciation Expense | 8,388 | 9,601 |
| Amortization Expense | 102,190 | 153,484 |
| Issuance of Common Stock for Services | 324,714 | 9,690 |
| Accretion of discount on convertible notes payable | 49,043 | - |
| Stock Compensation Expense | 192,049 | 385,137 |
| Gain on Extinguishment of Debt | (76,280) | - |
| Decrease (increase) in operating assets | | |
| Accounts Receivable | 1,757 | 192,617 |
| Inventory | (4,850) | (129,825) |
| Prepaid Expenses & Other Assets | (125,886) | (35,000) |
| Increase (decrease) in operating liabilities | | |
| Accounts Payable | (116,043) | (193,246) |
| Accrued Salaries | 243,332 | 128,713 |
| Accrued Interest | 41,333 | - |
| Accrued Interest – Related Party | 44,100 | 93,562 |
| Other Accrued Expenses | 2,218 | 103,727 |
| Net cash provided/(used) in operating activities | (1,218,910) | (537,334) |
| Cash Flows from Investing Activities: | | |
| Investment in Intangible Assets | (40,048) | (162,177) |
| Purchase of Fixed Assets | (1,898) | (7,720) |
| Net cash provided/(used) by investing activities | (41,946) | (169,897) |
| Cash Flows from Financing Activities: | | |
| Sale of Common Stock | 200,000 | 860,000 |
| Common Stock Offering Cost | - | (1,770) |
| Proceeds from long term debenture | 1,000,000 | - |
| Issuance costs on long term debenture | (194,972) | - |
| Payments on Related Party Debt | - | (120,000) |
| Net cash provided/(used) by financing activities | 1,005,028 | 738,230 |
| Net increase/(decrease) in cash | (255,828) | 30,999 |
| Beginning Cash Balance | 405,341 | 207,880 |
| Ending Cash Balance | \$149,513 | \$238,879 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for income taxes | \$- | \$- |
| Cash paid for interest | \$4,012 | \$2,662 |

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| | | |
|---|-------------|-----------|
| Related Party Note converted to Common Stock | \$1,745,546 | \$200,000 |
| Warrants granted for debenture issuance costs | \$28,929 | \$- |
| Discount on long term debentures attributed to Warrants | \$379,688 | \$- |

See accompanying notes to consolidated financial statements

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Genius Brands International, Inc.
Notes to Consolidated Financial Statements
September 30, 2012 (unaudited)

Note 1: The Company and Significant Accounting Policies

Organization and Nature of Business

Genius Brands International, Inc. (“we”, “us”, “our” or the “Company”), formerly known as Pacific Entertainment Corporation, develops, markets and distributes 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 and Little Genius. Our products include video, music and books based on our characters and content distributed at wholesale to retail stores and outlets, direct to consumers through various “deal for a day” sites and through digital platforms. The Company obtains rights to the content of other studios for distribution through our warehouse facility to our customers, for which we either pay royalty fees or earn distribution fees. We also license the use of our brands and characters, both domestically and internationally, to others to manufacture, market and sell products based on our characters and brand, from which we receive advances and royalties.

Pacific Entertainment Corporation 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, the Company, 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, which (i) changed our domicile to Nevada from California, and (ii) changed our 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. The trading symbol is “GNUS”.

In August 2009, the Company launched a line of Baby Genius pre-school toys. The line of 24 Baby Genius toys, manufactured by toy manufacturer Battat Incorporated, included musical, activity, and role-play toys that incorporated the Baby Genius principle of music as a core learning tool to engage and encourage children to communicate, connect, discover, and use their imagination. The Company granted an exclusive license to Battat for the marketing and distribution of a line of toys based on the Baby Genius brand and characters in the United States and Canada, and non-exclusive rights of distribution in other parts of the world. This license was terminated according to the terms of the contract in December 2010 although we granted Battat the right to continue to distribute the existing line of toys through late Spring 2011. We received no royalty reporting from Battat subsequent to the three month period ended March 31, 2011 and anticipate no further royalty revenue from this license agreement.

On January 11, 2011, the Company signed an agreement with Jakks Pacific’s Tollytots® division for a new toy line. As a result of the five-year agreement, Tollytots® immediately began development of a comprehensive line of musical and early learning toys, incorporating the music, characters and themes from the Baby Genius series of videos and music CDs. The new toy line covers a broad range of exclusive categories, including learning and developmental toys, most plush toys and musical toys, as well as several other non-exclusive categories, and is available in retail stores. As part of the development of the new toy products, the Company created several new characters.

On September 20, 2010, the Company entered into a joint venture agreement with 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 actively participated in a three year research study into the use of music-based curriculum through a major university 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.

During 2010, the Company launched a line of classic movies and television programs, “Pacific Entertainment Presents”. Initially consisting of seven titles, each focusing on a specific genre such as Horror, Western, Sci-Fi, 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. During 2011, the Company also signed distribution agreements with five studios whereby we sell their existing products through our channels of distribution. The term of the agreements vary in length from three to five years.

In 2012, the Company signed agreements with Nokia and Microsoft to develop applications based on our content, characters and kindergarten readiness program. The initial two applications in development, games based on our characters, are anticipated to be available through Microsoft Marketplace in the fourth quarter of 2012. Additional applications featuring a variety of tools, including lesson plans, curriculum and songs, are currently in development and planned for launch in the first quarter of 2013. These applications are designed to assist parents in teaching academic subjects and socialization skills to their children ages 2-5 years in preparation for attending kindergarten.

The Company’s Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America. These require the use of estimates and assumptions that affect the assets, liabilities, revenues and expenses reported in the financial statements, as well as amounts included in the notes thereto, including discussion and disclosure of contingent liabilities. Although the Company uses its best estimates and judgments, actual results could differ from these estimates as future confirming events occur.

Interim Consolidated Financial Statements

The accompanying condensed consolidated financial statements of the Company have been prepared without audit. Certain information and disclosures required by accounting principles generally accepted in the United States have been condensed or omitted. These condensed consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary to present fairly the results of operations of the Company for the periods presented. The results of operations for the three and nine month periods ended September 30, 2012, are not necessarily indicative of the results that may be expected for any future period or the fiscal year ending December 31, 2012.

These consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company’s 2011 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission on March 22, 2012.

Significant Accounting Policies

Revenue Recognition – The Company recognizes revenue related to product sales when (i) the seller's price is substantially fixed, (ii) shipment has occurred causing the buyer to be obligated to pay for product, (iii) the buyer has economic substance apart from the seller, and (iv) there is no significant obligation for future performance to directly bring about the resale of the product by the buyer as required by Revenue Recognition Topic 605 of the FASB Accounting Standards Codification.

Revenues associated with the sale of branded CDs, DVDs and other products, are recorded when shipped to customers pursuant to approved customer purchase orders resulting in the transfer of title and risk of loss. Cost of sales, rebates and discounts are recorded at the time of revenue recognition or at each financial reporting date.

The Company's licensing and royalty revenue represent variable payments based on net sales from brand licensees for content distribution rights. Revenue from licensed products is recognized when realized or realizable based on royalty reporting received from licensees.

Principles of Consolidation - The consolidated financial statements include the financial statements of the Company, and its wholly owned subsidiary: Circle of Education LLC. All inter-company balances and transactions have been eliminated in consolidation. In March 2012, the Company acquired the additional 25% outstanding ownership interest in the subsidiary from the noncontrolling partner. The Company dissolved the limited liability company with the State of California Secretary of State and thus no consolidation occurred subsequent to September 30, 2012. The financial statements reflect the noncontrolling interest recognized as of September 30, 2012 and December 31, 2011 of \$0 and \$5,366 respectively.

Other Estimates – The Company estimates reserves for future returns of product based on an analysis that considers historical returns, changes in customer demand and current economic trends. The Company regularly reviews the outstanding Accounts Receivable balances for each account and monitors delinquent accounts for collectability. The Company reviews all intangible assets periodically to determine if the value has been impaired by recent financial transactions using the discounted cash flow analysis of revenue stream for the estimated life of the assets.

Liquidity - Historically, the Company has incurred net losses. As of September 30, 2012, the Company had a consolidated accumulated deficit of \$10,045,390 and total stockholders' deficit of \$154,682. At September 30, 2012, the Company had consolidated current assets of \$1,808,799, including cash of \$149,513, and consolidated current liabilities of \$1,724,272, resulting in a working capital of \$84,527. For the nine month period ending September 30, 2012, the Company reported a consolidated net loss of \$1,910,341, including stock option expense of \$192,049 which has no cash expenditure requirement. The Company had net cash used by operating activities of \$1,218,910. Management believes that its increasing revenue each year over the prior year and cash generated by operations, together with funds available from short-term related party advances and funding from the debentures issued June 27, 2012, will be sufficient to fund planned operations for the next twelve months. However, there can be no assurance that operations and operating cash flows will continue at the current levels or improve in the near future. If the Company is unable to obtain profitable operations and positive operating cash flows sufficient to meet scheduled debt obligations, it may need to seek additional funding or be forced to scale back its development plans or to significantly reduce or terminate operations.

Note 2: Plant, Property, and Equipment and Intangible Assets

The Company has plant, property and equipment and other intangible assets used in the creation of revenue of the following as of:

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| | 9/30/2012 | 12/31/2011 |
|-------------------------------|-----------|------------|
| Furniture and Equipment | \$89,159 | \$87,261 |
| Less Accumulated Depreciation | (62,755) | (54,367) |
| Net Fixed Assets | \$26,404 | \$32,894 |
| Trademarks | \$129,831 | \$129,831 |
| Product Masters | 3,255,107 | 3,255,107 |