

Genius Brands International, Inc.  
Form 10-Q  
May 15, 2017

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**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 March 31, 2017**

**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)

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

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

Emerging growth company

If an emerging growth company, indicate by check if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 5,897,091 shares of common stock, par value \$0.001, were outstanding as of May 12, 2017.

**GENIUS BRANDS INTERNATIONAL, INC.**

**FORM 10-Q**

**For the Quarterly Period Ended March 31, 2017**

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**PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS.****Genius Brands International, Inc.****Consolidated Balance Sheets****As of March 31, 2017, and December 31, 2016**

|   | March 31,<br>2017<br><b>(unaudited)</b> | December<br>31, 2016 |
|---|---|----------------------|
| <b>ASSETS</b>                               |   |                      |
| Current Assets:                             |   |                      |
| Cash and Cash Equivalents                   | \$4,227,097                             | \$1,887,921          |
| Restricted Cash                             | 1,000,000                               | 1,000,000            |
| Accounts Receivable, net                    | 442,071                                 | 122,910              |
| Inventory, net                              | 22,572                                  | 6,562                |
| Prepaid and Other Assets                    | 420,037                                 | 359,395              |
| Total Current Assets                        | 6,111,777                               | 3,376,788            |
| Property and Equipment, net                 | 73,528                                  | 90,461               |
| Film and Television Costs, net              | 3,229,013                               | 2,260,964            |
| Intangible Assets, net                      | 1,827,953                               | 1,845,650            |
| Goodwill                                    | 10,365,805                              | 10,365,805           |
| Total Assets                                | \$21,608,076                            | \$17,939,668         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |   |                      |
| Current Liabilities:                        |   |                      |
| Accounts Payable                            | \$326,402                               | \$648,638            |
| Accrued Expenses                            | 256,604                                 | 249,482              |
| Deferred Revenue                            | 757,899                                 | 410,662              |
| Accrued Salaries and Wages                  | 159,929                                 | 132,827              |
| Disputed Trade Payable                      | 925,000                                 | 925,000              |
| Service Advance                             | -                                       | 1,489,583            |
| Total Current Liabilities                   | 2,425,834                               | 3,856,192            |
| Long Term Liabilities:                      |   |                      |
| Deferred Revenue                            | 4,068,452                               | 2,695,946            |
| Production Facility                         | 2,651,851                               | 1,332,004            |

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|   |              |              |
|---|--------------|--------------|
| Total Liabilities   | 9,146,137    | 7,884,142    |
| Stockholders' Equity  |              |              |
| Preferred Stock, \$0.001 par value, 10,000,000 share authorized, respectively; 4,445 and 4,895 shares issued and outstanding, respectively        | 4            | 5            |
| Common Stock, \$0.001 par value, 233,333,334 shares authorized, respectively; 5,652,091 and 4,010,649 shares issued and outstanding, respectively | 5,652        | 4,011        |
| Common Stock to Be Issued   | 24           | 24           |
| Additional Paid in Capital  | 50,418,011   | 46,697,005   |
| Accumulated Deficit   | (37,958,994) | (36,642,761) |
| Accumulated Other Comprehensive Income (Loss)   | (2,758 )     | (2,758 )     |
| Total Stockholders' Equity  | 12,461,939   | 10,055,526   |
| Total Liabilities and Stockholders' Equity  | \$21,608,076 | \$17,939,668 |

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

**Genius Brands International, Inc.****Consolidated Statements of Operations****Three months ended March 31, 2017 and 2016****(unaudited)**

|   | Three months ended |                   |
|---|--------------------|-------------------|
|   | March 31,<br>2017  | March 31,<br>2016 |
| Revenues:   |                    |                   |
| Licensing & Royalties                                   | \$ 153,213         | \$ 148,012        |
| Television & Home Entertainment                         | 43,373             | 203,881           |
| Advertising Sales                                       | 1,505              | –                 |
| Total Revenues  | 198,091            | 351,893           |
| Operating Expenses:                                     |                    |                   |
| Marketing and Sales                                     | 89,504             | 261,632           |
| Direct Operating Costs                                  | 23,069             | 139,875           |
| General and Administrative                              | 1,400,925          | 1,602,102         |
| Total Operating Expenses                                | 1,513,498          | 2,003,609         |
| Loss from Operations                                    | (1,315,407)        | (1,651,716)       |
| Other Income (Expense):                                 |                    |                   |
| Other Income  | 26                 | 60                |
| Interest Expense  | (853 )             | (1,428 )          |
| Interest Expense - Related Parties                      | –                  | (6,141 )          |
| Gain on Distribution Contracts                          | –                  | 9,510             |
| Gain on Foreign Currency Translation                    | –                  | 405               |
| Net Other Income (Expense)                              | (827 )             | 2,406             |
| Loss before Income Tax Expense                          | (1,316,234)        | (1,649,310)       |
| Income Tax Expense                                      | –                  | –                 |
| Net Loss  | (1,316,234)        | (1,649,310)       |
| Net Loss per Common Share (Basic and Diluted)           | \$(0.26 )          | \$(0.44 )         |
| Weighted Average Shares Outstanding (Basic and Diluted) | 5,020,154          | 3,772,051         |

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





**Genius Brands International, Inc.**

**Consolidated Statements of Comprehensive Income**

**Three months ended March 31, 2017 and 2016**

**(unaudited)**

|  | Three months ended |                   |
|--|--------------------|-------------------|
|  | March 31,<br>2017  | March 31,<br>2016 |
| Net Loss   | \$(1,316,234)      | \$(1,649,310)     |
| Other Comprehensive Income (Loss), Net of Tax:         |                    |                   |
| Unrealized Gain (Loss) on Foreign Currency Translation | –                  | –                 |
| Other Comprehensive Income (Loss), Net of Tax:         | –                  | –                 |
| Comprehensive Income (Loss)                            | \$(1,316,234)      | \$(1,649,310)     |

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

**Genius Brands International, Inc.****Consolidated Statements of Cash Flows****Three months ended March 31, 2017 and 2016****(unaudited)**

|   | March 31,<br>2017 | March 31,<br>2016 |
|---|-------------------|-------------------|
| Cash Flows from Operating Activities:   |                   |                   |
| Net Loss  | \$(1,316,234)     | \$(1,649,310)     |
| Adjustments to Reconcile Net Loss to Net Cash (Used in) / Provided by Operating Activities: |                   |                   |
| Amortization of Film and Television Costs   | 4,605             | 117,513           |
| Depreciation Expense  | 16,933            | 16,635            |
| Amortization Expense  | 17,697            | 19,131            |
| Imputed Interest Expense  | –                 | 6,141             |
| Stock Issued for Services   | 100,000           | 24,000            |
| Stock Compensation Expense  | 221,992           | 564,985           |
| Gain on Distribution Contracts  | –                 | (9,510 )          |
| Gain on Foreign Currency Translation  | –                 | (405 )            |
| Decrease (Increase) in Operating Assets:  |                   |                   |
| Accounts Receivable   | (319,161 )        | (179,507 )        |
| Inventory   | (16,010 )         | (177 )            |
| Prepaid Expenses & Other Assets   | (60,642 )         | (155,437 )        |
| Film and Television Costs, Net  | (937,535 )        | (170,594 )        |
| Increase (Decrease) in Operating Liabilities:   |                   |                   |
| Accounts Payable  | (322,236 )        | 248,628           |
| Accrued Salaries  | 27,102            | 11,258            |
| Deferred Revenue and Advances   | 230,157           | 1,934,242         |
| Other Accrued Expenses  | 7,122             | (70,482 )         |
| Net Cash (Used in) / Provided by Operating Activities                                       | (2,346,210)       | 707,111           |
| Cash Flows from Investing Activities:   |                   |                   |
| Investment in Intangible Assets   | –                 | (1,850 )          |
| Net Cash Used in Investing Activities   | –                 | (1,850 )          |
| Cash Flows from Financing Activities:   |                   |                   |
| Proceeds from Warrant Exchange, Net of Offering Costs                                       | 3,400,658         | –                 |
| Proceeds from Production Facility   | 1,284,728         | –                 |
| Net Cash Provided by Financing Activities   | 4,685,386         | –                 |

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|  |             |             |
|--|-------------|-------------|
| Net Increase in Cash, Cash Equivalents, and Restricted Cash        | 2,339,176   | 705,261     |
| Beginning Cash, Cash Equivalents, and Restricted Cash              | 2,887,921   | 5,187,620   |
| Ending Cash, Cash Equivalents, and Restricted Cash                 | \$5,227,097 | \$5,892,881 |
| Supplemental Disclosures of Cash Flow Information:                 |             |             |
| Cash Paid for Interest   | \$853       | \$-         |
| Schedule of Non-Cash Financing and Investing Activities:           |             |             |
| Issuance of Common Stock to Sony Pictures Home Entertainment, Inc. | \$1,489,583 | \$-         |

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

**Genius Brands International, Inc.**

**Notes to Financial Statements**

**March 31, 2017 (unaudited)**

**Note 1: Organization and Business**

*Organization and Nature of Business*

Genius Brands International, Inc. (“we”, “us”, “our”, or the “Company”) is a global content and brand management company that creates and licenses multimedia content. Led by industry veterans, the Company distributes its content in all formats as well as a broad range of consumer products based on its characters. In the children's media sector, the Company’s portfolio features “content with a purpose” for toddlers to tweens, which provides enrichment as well as entertainment, including new preschool property *Rainbow Rangers*; tween music-driven brand *SpacePop*; *Rainbow Rangers*, a girls mission-based adventure series; preschool property debuting on Netflix *Llama Llama*; award-winning *Baby Genius*, re-launched with new entertainment and over 40 new products; adventure comedy *Thomas Edison's Secret Lab*®, available on Netflix, public broadcast stations and the Company’s Kid Genius Carton Channel on Comcast's Xfinity on Demand; Warren Buffett's *Secret Millionaires Club*, created with and starring iconic investor Warren Buffett. The Company is also co-producing an all-new adult-themed animated series, *Stan Lee's Cosmic Crusaders*, with Stan Lee's Pow! Entertainment and *The Hollywood Reporter*.

In addition, the Company 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 *Llama Llama*; *From Frank*, a humor greeting card and product line; and Celessence Technologies, the world's leading microencapsulation company.

The Company commenced operations in January 2006, assuming all 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,” “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 November 4, 2016, the Company filed a certificate to change its Articles of Incorporation to effect a reverse split on a one-for-three basis (the “2016 Reverse Split”). The 2016 Reverse Split became effective on November 9, 2016. All common stock (“Common Stock”) share and per share information in this Quarterly Report on Form 10-Q (“Form 10-Q”), including the accompanying consolidated financial statements and notes thereto, have been adjusted to reflect retrospective application of the 2016 Reverse Split, unless otherwise indicated.

### *Liquidity*

Historically, the Company has incurred net losses. For the three months ended March 31, 2017 and 2016, the Company reported net losses of \$1,316,234 and \$1,649,310, respectively. The Company reported net cash used in operating activities \$2,346,210 for the three months ended March 31, 2017, and reported net cash provided by operations of \$707,111 for the three months ended March 31, 2016. As of March 31, 2017, the Company had an accumulated deficit of \$37,958,994 and total stockholders’ equity of \$12,461,939. At March 31, 2017, the Company had current assets of \$6,111,777, including cash, cash equivalents, and restricted cash of \$5,227,097 and current liabilities of \$2,425,834, including certain trade payables of \$925,000 to which the Company disputes the claim. The Company had working capital of \$3,685,943 as of March 31, 2017, compared to a working capital deficit of \$479,404 as of December 31, 2016.

During the first quarter of 2017, the Company completed two key transactions that enhanced cash and working capital balances:

On January 10, 2017, the Company entered into an amendment of its home entertainment distribution agreement with Sony Pictures Home Entertainment Inc. (“SPHE”) pursuant to which, among other things, SPHE agreed to pay \$1,489,583 which was owed and payable by the Company to SPHE’s sister company Sony DADC US Inc. (“DADC”) for certain disk manufacturing and replication services. In connection with such transaction, the Company issued SPHE 301,231 shares of its Common Stock at \$4.945 per share, SPHE’s exclusive territory for exercising its home entertainment distribution rights under the Distribution Agreement was extended from the United States and Canada to worldwide, and the amount of advances subject to recoupment by SPHE out of royalty payments that would otherwise be due to the Company under the Distribution Agreement was increased by the amount of the payment to DADC. In connection with the above issuance of our shares, the Company entered into a subscription agreement with SPHE, effective as of January 17, 2017. Collectively, these transactions are referred to as the “January 2017 Sony Transactions.”

On February 9, 2017, the Company entered into a private transaction (the “Private Transaction”) pursuant to a Warrant Exercise Agreement (the “Agreement”) with certain holders of the Company’s existing warrants (the “Original Warrants”) for which it received gross proceeds of \$3,866,573 from the exercise of the Original Warrants and issued additional warrants to these holders (see Notes 10 and 12 for additional information about the Private Transaction).

While the Company believes that its anticipated cash balances and working capital combined with its production facility and deal pipeline will be sufficient to fund operations for the next twelve months, there can be no assurance that cash flows from operations will continue to improve in the near future. If the Company is unable to attain profitable operations and attain positive operating cash flows, it may need to (i) seek additional funding, (ii) scale back its development or production plans, or (iii) reduce certain operations.

## **Note 2: Summary of Significant Accounting Policies**

### *Basis of Presentation*

The accompanying 2017 and 2016 consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

### *Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of Genius Brands International, Inc., its wholly-owned subsidiaries A Squared and Llama Productions as well as its interest in Stan Lee Comics, LLC (“Stan Lee Comics”). All significant inter-company balances and transactions have been eliminated in consolidation.

### *Business Combination*

On November 15, 2013, the Company entered into a Merger Agreement with A Squared, the Parent Member, and the Acquisition Sub. Upon closing of the Merger, which occurred concurrently with entering into the Merger Agreement, our 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.

The financial statements have been prepared using the acquisition method of accounting in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 805 Business Combinations.

### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

### *Financial Statement Reclassification*

Certain account balances from prior periods have been reclassified in these consolidated financial statements to conform to current period classifications.

*Cash, Cash Equivalents, and Restricted Cash*

The Company considers all highly liquid debt instruments with initial maturities of three months or less to be cash equivalents. Restricted Cash includes \$1,000,000 that the Company deposited into a cash account to be used solely to produce its series *Llama Llama* as a condition of its loan agreement with Bank Leumi USA.

*Allowance for Doubtful Accounts*

Accounts receivable are presented on the balance sheets net of estimated uncollectible amounts. The Company assesses its accounts receivable balances on a quarterly basis to determine collectability and records an allowance for estimated uncollectible accounts in an amount approximating anticipated losses based on historical experience and future expectations. Individual uncollectible accounts are written off against the allowance when collection of the individual accounts appears doubtful. The Company had an allowance for doubtful accounts of \$110,658 at both March 31, 2017 and December 31, 2016.

*Inventories*

Inventories are stated at the lower of cost (average) or market and consist of finished goods such as DVDs, CDs and other products. A reserve for slow-moving and obsolete inventory is established for all inventory deemed potentially non-saleable by management in the period in which it is determined to be potentially non-saleable. The current inventory is considered properly valued and saleable. The Company concluded that there was an appropriate reserve for slow moving and obsolete inventory of \$26,097 at both March 31, 2017 and December 31, 2016.

*Property and Equipment*

Property and equipment are recorded at cost. Depreciation on property and equipment is computed using the straight-line method over the estimated useful lives of the assets, which range from two to seven years. Maintenance, repairs, and renewals, which neither materially add to the value of the assets nor appreciably prolong their lives, are charged to expense as incurred. Gains and losses from any dispositions of property and equipment are reflected in the statement of operations.



*Goodwill and Intangible Assets*

Goodwill represents the excess of purchase price over the estimated fair value of net assets acquired in business combinations accounted for by the purchase method. In accordance with FASB ASC 350 Intangibles Goodwill and Other, goodwill and certain intangible assets are presumed to have indefinite useful lives and are thus not amortized, but subject to an impairment test annually or more frequently if indicators of impairment arise. The Company completes the annual goodwill and indefinite-lived intangible asset impairment tests at the end of each fiscal year. To test for goodwill impairment, we are required to estimate the fair market value of each of our reporting units, of which we have one. While we may use a variety of methods to estimate fair value for impairment testing, our primary method is discounted cash flows. We estimate future cash flows and allocations of certain assets using estimates for future growth rates and our judgment regarding the applicable discount rates. Changes to our judgments and estimates could result in a significantly different estimate of the fair market value of the reporting units, which could result in an impairment of goodwill or indefinite lived intangible assets in future periods.

Other intangible assets have been acquired, either individually or with a group of other assets, and were initially recognized and measured based on fair value. In accordance with FASB ASC 350 Intangible Assets, 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. Annual amortization of these intangible assets is computed based on the straight-line method over the remaining economic life of the asset.

*Film and Television Costs*

The Company capitalizes production costs for episodic series produced in accordance with FASB ASC 926-20 Entertainment-Films - Other Assets - Film Costs. Accordingly, production costs are capitalized at actual cost and then charged against revenue based on the initial market revenue evidenced by a firm commitment over the period of commitment. The Company expenses all capitalized costs that exceed the initial market firm commitment revenue in the period of delivery of the episodes.

The Company capitalizes production costs for films produced in accordance with FASB ASC 926-20 Entertainment-Films - Other Assets - Film Costs. Accordingly, production costs are capitalized at actual cost and then charged against revenue quarterly as a cost of production based on the relative fair value of the film(s) delivered and recognized as revenue. The Company evaluates its capitalized production costs annually and limits recorded amounts by their ability to recover such costs through expected future sales.

Additionally, for both episodic series and films, from time to time, the Company develops additional content, improved animation and bonus songs/features for its existing content. After the initial release of the film or episodic series, the costs of significant improvement to existing products are capitalized while routine and periodic alterations to existing products are expensed as incurred.

### *Revenue Recognition*

The Company recognizes revenue in accordance with FASB ASC 926-605 Entertainment-Films - Revenue Recognition. Accordingly, the Company recognizes revenue when (i) persuasive evidence of a sale with a customer exists, (ii) the film is complete and has been delivered or is available for delivery, (iii) the license period of the arrangement has begun and the customer can begin its exploitation, exhibition, or sale, (iv) the arrangement fee is fixed or determinable, and (v) collection of the arrangement fee is reasonably assured.

The Company's licensing and royalty revenue represents revenue generated from license agreements that are held in conjunction with third parties that are responsible for collecting fees due and remitting to the Company its share after expenses. Revenue from licensed products is recognized when realized or realizable based on royalty reporting received from licensees. Licensing income the Company recognizes as an agent is in accordance with FASB ASC 605-45 Revenue Recognition - Principal Agent. Accordingly, the Company's revenue is its gross billings to its customers less the amounts it pays to suppliers for their products and services.

The Company sells advertising on its Kid Genius Cartoon Channel in the form of either flat rate promotions or impressions served. For flat rate promotions with a fixed term, the Company recognizes revenue when all five revenue recognition criteria under FASB ASC 606 are met. For impressions served, the Company delivers a certain minimum number of impressions on the channel to the advertiser for which the advertiser pays a contractual CPM per impression. Impressions served are reported to the Company on a monthly basis, and revenue is reported in the month the impressions are served.

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 FASB ASC 605 Revenue Recognition.

*Share-Based Compensation*

As required by FASB ASC 718 - Stock Compensation, the Company recognizes an expense related to the fair value of our share-based compensation awards, including stock options, using the Black-Scholes calculation as of the date of grant.

*Earnings Per Share*

Basic earnings (loss) per common share (“EPS”) is calculated by dividing net income (loss) applicable to common shareholders by the weighted average number of shares of Common Stock outstanding for the period. Diluted EPS is calculated by dividing net income (loss) applicable to common shareholders by the weighted average number of shares of Common Stock outstanding, plus the assumed exercise of all dilutive securities using the treasury stock or “as converted” method, as appropriate. During periods of net loss, all Common Stock equivalents are excluded from the diluted EPS calculation because they are antidilutive.

*Income Taxes*

Deferred income tax assets and liabilities are recognized based on differences between the financial statement and tax basis of assets and liabilities using presently enacted tax rates. At each balance sheet date, the Company evaluates the available evidence about future taxable income and other possible sources of realization of deferred tax assets, and records a valuation allowance that reduces the deferred tax assets to an amount that represents management’s best estimate of the amount of such deferred tax assets that more likely than not will be realized.

*Fair value of financial instruments*

The carrying amounts of cash, receivables, accounts payable, and accrued liabilities approximate fair value due to the short-term maturity of the instruments. The carrying amount of the Production Loan Facility approximates fair value since the debt carries a variable interest rate that is tied to either the current Prime or LIBOR rates plus an applicable spread.

We adopted FASB ASC 820 as of January 1, 2008, for financial instruments measured at fair value on a recurring basis. FASB ASC 820 defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP and expands disclosures about fair value measurements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC Topic 820 establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

*Recent Accounting Pronouncements*

In May 2014, the FASB issued Accounting Standards Update 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets unless those contracts are within the scope of other standards (e.g. insurance contracts). This ASU will supersede all revenue recognition requirements in Topic 605, Revenue Recognition, and industry-specific guidance throughout the industry topics of the codification. The guidance's core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the revenue principles, an entity will identify the contract(s) with a customer, identify the performance obligations, determine the transaction price, allocate the transaction price to the performance obligations and recognize revenue when the performance obligation is satisfied (either over time or at a point in time). The ASU further states that an entity should disclose sufficient information to enable users of financial

statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date", which approved a one-year deferral of the effective date of the ASU from the original effective date of annual reporting periods beginning after December 15, 2016, to annual reporting periods (including interim reporting periods) beginning after December 15, 2017, with an option for early adoption of the standard on the original effective date. Additionally, in March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)", which clarified the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing", that amended the revenue guidance on identifying performance obligations and accounting for licenses of intellectual property. In May 2016, the FASB issued ASU 2016-11 "Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 805): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting", which rescinded from the FASB Accounting Standards Codification certain SEC paragraphs as a result of two SEC Staff Announcements. The FASB also issued ASU 2016-12 "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients", which clarified guidance on assessment of collectability, presentation of sale taxes, measurement of noncash consideration, and certain transition matters. The Company is still evaluating the impact that the provisions of ASU 2014-09 and related subsequent updates will have on the Company's consolidated financial position, results of operations and cash flows.

In February 2016, the FASB issued Accounting Standards Update 2016-02, "Leases". The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2018. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In November 2016, the FASB issued Accounting Standards Update 2016-18, "Statement of Cash Flows - Restricted Cash a consensus of the FASB Emerging Issues Task Force." This standard requires restricted cash and cash equivalents to be included with cash and cash equivalents on the statement of cash flows under a retrospective transition approach. The guidance will become effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted. We have prospectively adopted ASU 2016-18. The impact to our consolidated financial position, results of operations and cash flows is minimal.

In January 2017, the FASB issued Accounting Standards Update 2017-04, "Simplifying the Test for Goodwill Impairment", which requires an entity to perform a one-step quantitative impairment test, whereby a goodwill impairment loss will be measured as the excess of a reporting unit's carrying amount over its fair value (not to exceed the total goodwill allocated to that reporting unit). It eliminates Step 2 of the current two-step goodwill impairment test, under which a goodwill impairment loss is measured by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The standard is effective January 1, 2020, with early adoption as of January 1, 2017 permitted. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

Various other accounting pronouncements have been recently issued, most of which represented technical corrections to the accounting literature or were applicable to specific industries, and are not expected to have a material effect on our financial position, results of operations, or cash flows.

### **Note 3: Inventory**

During 2014, the Company began a strategic initiative to restructure its product sales business by phasing out the direct sale of physical products including DVDs and CDs and shifting to primarily a licensing model. In addition to nominal changes to the reserve made during the normal course of business, the Company determined that a portion of its inventory may not be saleable and recorded an additional reserve of \$174,963 which was recorded as a loss on inventory. During the three months ended March 31, 2017, the Company made additions to its inventory of \$16,010 to be sold beginning in the second quarter of 2017. As of both March 31, 2017, and December 31, 2016, the Company

had recorded a total reserve of \$26,097.

**Note 4: Property and Equipment, Net**

The Company has property and equipment as follows as of March 31, 2017 and December 31, 2016:

|                               | March 31,<br>2017 | December<br>31, 2016 |
|-------------------------------|-------------------|----------------------|
| Furniture and Equipment       | \$12,385          | \$12,385             |
| Computer Equipment            | 42,654            | 42,654               |
| Leasehold Improvements        | 176,903           | 176,903              |
| Software                      | 15,737            | 15,737               |
| Property and Equipment, Gross | 247,679           | 247,679              |
| Less Accumulated Depreciation | (174,151)         | (157,218)            |
| Property and Equipment, Net   | \$73,528          | \$90,461             |

During the three months ended March 31, 2017 and 2016, the Company recorded depreciation expense of \$16,933 and \$16,635, respectively.

**Note 5: Film and Television Costs, Net**

As of March 31, 2017, the Company had net Film and Television Costs of \$3,229,013 compared to \$2,260,964 at December 31, 2016. The increase relates primarily to the production and development of *SpacePop*, *Llama Llama*, and *Rainbow Rangers* offset by the amortization of film costs associated with the revenue recognized for *Thomas Edison's Secret Lab* and *SpacePop*.

During the three months ended March 31, 2017 and 2016, the Company recorded Film and Television Cost amortization expense of \$4,605 and \$117,153, respectively.

The following table highlights the activity in Film and Television Costs of March 31, 2017, and December 31, 2016:

|   | Total       |
|---|-------------|
| Film and Television Costs, Net as of 12/31/2015 | \$1,003,546 |
| Additions to Film and Television Costs          | 1,390,450   |
| Capitalized Interest                            | 34,756      |
| Film Amortization Expense                       | (167,788 )  |
| Film and Television Costs, Net as of 12/31/2016 | 2,260,964   |
| Additions to Film and Television Costs          | 937,535     |
| Capitalized Interest                            | 35,119      |
| Film Amortization Expense                       | (4,605 )    |
| Film and Television Costs, Net as of 3/31/2017  | \$3,229,013 |

**Note 6: Goodwill and Intangible Assets, Net***Goodwill*

In connection with the Merger in 2013, the Company recognized \$10,365,805 in Goodwill, representing the excess of the fair value of the consideration for the Merger over net identifiable assets acquired. Pursuant to FASB ASC 350-20, Goodwill is not subject to amortization but is subject to annual review to determine if certain events warrant impairment to the Goodwill asset. Through March 31, 2017, the Company has not recognized any impairment to Goodwill.



*Intangible Assets, Net*

The Company had the following intangible assets as of March 31, 2017, and December 31, 2016:

|  | March 31,<br>2017 | December<br>31, 2016 |
|--|-------------------|----------------------|
| Identifiable Artistic-Related Assets (a) | \$1,740,000       | \$1,740,000          |
| Trademarks (b)                           | 129,831           | 129,831              |
| Product Masters (b)                      | 64,676            | 64,676               |
| Other Intangible Assets (b)              | 185,020           | 185,020              |
| Intangible Assets, Gross                 | 2,119,527         | 2,119,527            |
| Less Accumulated Amortization (c)        | (291,574 )        | (273,877 )           |
| Intangible Assets, Net                   | \$1,827,953       | \$1,845,650          |

- In connection with the Merger in 2013, the Company acquired \$1,740,000 of Identifiable Artistic-Related Assets. These assets, related to certain properties owned by A Squared and assumed by the Company, were valued using an independent firm. Based on certain legal, regulatory, contractual, and economic factors, the Company has
- (a) deemed these assets to be indefinite-lived. Hence, pursuant to FASB ASC 350-30, these assets are not subject to amortization and are tested annually for impairment. Through March 31, 2017, the Company has not recognized any impairment expense related to these assets.
  - (b) Pursuant to FASB ASC 350-30-35, the Company reviews these intangible assets periodically to determine if the value should be retired or impaired due to recent events. Through March 31, 2017, the Company has not recognized any impairment expense related to these assets.
  - (c) During the three months ended March 31, 2017 and 2016, the Company recognized \$17,697 and \$19,131, respectively, in amortization expense related to the Trademarks, Product Masters, and Other Intangible Assets.

Expected future intangible asset amortization as of March 31, 2017 is as follows:

| Fiscal Year: |          |
|--------------|----------|
| 2017         | \$37,823 |
| 2018         | 26,119   |
| 2019         | 9,236    |
| 2020         | 8,655    |
| 2021         | 2,059    |
| Remaining    | 4,061    |
| Total        | \$87,953 |

#### Note 7: Deferred Revenue

As of March 31, 2017, and December 31, 2016, the Company had total short term and long term deferred revenue of \$4,826,351 and \$3,106,608, respectively. Deferred revenue includes both (i) variable fee contracts with licensees and customers in which the Company had collected advances and minimum guarantees against future royalties and (ii) fixed fee contracts. The Company recognizes revenue related to these contracts when all revenue recognition criteria have been met. Included in the deferred revenue balance as of December 31, 2016 is the \$2,000,000 advance against future royalty that Sony paid to the Company in the first quarter of 2016. Included in the deferred revenue balance as of March 31, 2017, is the \$2,000,000 advance against future royalties that Sony paid to the Company in the first quarter of 2016 as well as \$1,489,583 attributable to the expansion of distribution rights acquired by Sony through the January 2017 Sony Transactions.

**Note 8: Accrued Liabilities – Current**

As of March 31, 2017, and December 31, 2016, the Company has the following current accrued liabilities:

|  | March 31,<br>2017 | December<br>31, 2016 |
|--|-------------------|----------------------|
| Accrued Salaries and Wages (a)         | \$ 159,929        | \$ 132,827           |
| Disputed Trade Payables (b)            | 925,000           | 925,000              |
| Services Advance - Current Portion (c) | –                 | 1,489,583            |
| Other Accrued Expenses                 | 256,604           | 249,482              |
| Total Accrued Liabilities - Current    | \$ 1,341,533      | \$ 2,796,892         |

(a) Accrued Salaries and Wages represent accrued vacation payable to employees.

As part of the Merger in 2013, the Company assumed certain liabilities from a previous member of A Squared which has claimed certain liabilities totaling \$925,000. The Company disputes the basis for this liability. As of (b) March 31, 2017, the Company believes that the statute of limitations applicable to the assertion of any legal claim relating to the collection of these liabilities has expired and therefore believes this liability is uncollectible. The Company is working with the counterparty to extinguish this liability.

During the first quarter of 2014, the Company entered into an exclusive three-year agreement with DADC to provide all CD, DVD and Blu-ray replication, packaging and distribution to the Company's direct customers. Under the terms of the long-term, exclusive supply chain services agreement, the Company will order a minimum level of disk replication, packaging and distribution services for its content across all physical media, including DVD, CD, and Blu-ray from DADC. As consideration for these minimum order levels, the Company received a total of \$1,500,000, \$750,000 during the first quarter of 2014 and \$750,000 during the first quarter of 2015. At the end of the term, the Company is obligated to repay a pro-rata portion of the advance if it has not ordered a minimum number of DVD/CD units during the term.

(c) On January 10, 2017, the Company entered into an amendment of our home entertainment Distribution Agreement with Sony pursuant to which, among other things, Sony agreed to pay DADC \$1,489,583, the amount which was owed and payable by us to DADC for the disk replication, packaging and distribution services.

In connection with such transaction, we issued Sony 301,231 shares of our Common Stock at \$4.945 per share, Sony's exclusive territory for exercising its home entertainment distribution rights under the Distribution Agreement was extended from the United States and Canada to worldwide, and the amount of advances subject to recoupment by Sony out of royalty payments that would otherwise be due to us under the Distribution Agreement was increased by the amount of the payment to DADC.

#### **Note 9: Production Loan Facility**

On August 8, 2016, Llama Productions closed a \$5,275,000 multiple draw-down, secured, non-recourse, non-revolving credit facility (the "Facility") with Bank Leumi USA to produce its animated series *Llama Llama*, (the "Series") which is configured as fifteen half-hour episodes comprised of thirty 11 minute programs to be delivered to Netflix in fall 2017. The Facility is secured by the license fees the Company will receive from Netflix for the delivery of the Series as well as the Company's copyright in the Series. The Facility has a term of 40 months and has an interest rate of either Prime plus 1% or one, three, or six month LIBOR plus 3.25%. As a condition of the loan agreement with Bank Leumi, the Company deposited \$1,000,000 into a cash account to be used solely to produce the Series. Additionally, the Facility contains certain standard affirmative and negative non-financial covenants such as maintaining certain levels of production insurance and providing standard financial reports. As of March 31, 2017, the

Company was in compliance with these covenants.

As of March 31, 2017, the Company had gross outstanding borrowing under the facility of \$2,810,299 against which financing costs of \$158,448 were applied resulting in net borrowings of \$2,651,851. As of December 31, 2016, the Company had gross outstanding borrowing under the facility of \$1,505,307 against which financing costs of \$173,303 were applied resulting in net borrowings of \$1,332,004.

## **Note 10: Stockholders' Equity**

### *Common Stock*

As of March 31, 2017, the total number of authorized shares of Common Stock was 233,333,334.

On October 29, 2015, the Company entered into securities purchase agreements with certain accredited investors pursuant to which the Company sold an aggregate of 1,443,362 shares of its Common Stock, par value \$0.001 per share, and warrants to purchase up to an aggregate of 1,443,362 shares of Common Stock (the "Original Warrants") for a purchase price of \$3.00 per share and the associated warrants for gross proceeds to the Company of \$4,330,000 ("2015 Private Placement"). The closing of the 2015 Private Placement occurred on November 3, 2015. Stock offering costs were \$502,218. (See Note 12 for additional information about these warrants.)

On October 6, 2016, the Board of Directors of the Company authorized a reverse stock split in preparation for the Company's anticipated uplisting on the NASDAQ Capital Market.

On November 4, 2016, the Company filed a certificate of change to the Company's Articles of Incorporation with the Secretary of State of the State of Nevada to effect a one-for-three reverse stock split of the Company's issued and outstanding Common Stock. As a result of the 2016 Reverse Split, every three shares of the Company's issued and outstanding Common Stock were automatically combined and reclassified into one share of the Company's Common Stock. The 2016 Reverse Split affected all issued and outstanding shares of Common Stock, as well as Common Stock underlying stock options and warrants outstanding. No fractional shares were issued in connection with the 2016 Reverse Split. Stockholders who would otherwise have held a fractional share of Common Stock received an increase to their Common Stock as the Common Stock was rounded up to a full share. The total number of authorized shares of Common Stock was reduced from 700,000,000 to 233,333,334 in conjunction with the 2016 Reverse Split. The 2016 Reverse Split became effective on November 9, 2016. All disclosures of shares and per share data in these consolidated financial statements and related notes have been retroactively adjusted to reflect the reverse stock split for all periods presented.

On February 9, 2017, the Company entered into the Private Transaction pursuant to the Agreement with certain holders of the Original Warrants. Pursuant to the Agreement, the holders of the Original Warrants and the Company agreed that such Original Warrant holders would exercise their Original Warrants in full, and the Company would issue to each such holder new warrants. (See Note 12 for additional information about these warrants.) In association with the Private Transaction, the Company issued 1,171,689 shares of Common Stock upon exercise of a portion of the Original Warrants for which it received gross proceeds of \$3,866,573 and recording offering costs of \$465,915 for net proceeds of \$3,400,658.

As of March 31, 2017, and December 31, 2016, there were 5,652,091 and 4,010,649 shares of Common Stock outstanding, respectively. Below are the changes to the Company's Common Stock during the three months ended March 31, 2017:

In connection with the January 2017 Sony Transactions, we issued Sony 301,231 shares of our Common Stock at \$4.945 per share.

On January 17, 2017, we issued to a consultant 10,112 shares of our Common Stock at \$4.945 per share in connection with the January 2017 Sony Transactions.

On February 9, 2017, the Company issued 1,171,689 shares of Common Stock in connection with the Private Transaction.

On March 14, 2017, the Company issued 8,410 shares of Common Stock valued at \$5.95 per share to a consultant for services rendered.

On various dates during the three months ended March 31, 2017, the Company issued 150,000 shares of the Company's Common Stock pursuant to the conversion of 450 shares of Series A Convertible Preferred Stock at a conversion price of \$3.00.

*Preferred Stock*

The Company has 10,000,000 shares of preferred stock authorized with a par value of \$0.001 per share. The Board of Directors is authorized, subject to any limitations prescribed by law, without further vote or action by our stockholders, to issue from time to time shares of preferred stock in one or more series. Each series of preferred stock will have such number of shares, designations, preferences, voting powers, qualifications and special or relative rights or privileges as shall be determined by our Board of Directors, which may include, among others, dividend rights, voting rights, liquidation preferences, conversion rights and preemptive rights.

As of March 31, 2017, and December 31, 2016, there were 4,445 and 4,895 shares of Series A Convertible Preferred Stock outstanding, respectively.

On May 12, 2014, the Board of Directors authorized the designation of a class of preferred stock as “Series A Convertible Preferred Stock”. On May 14, 2014, the Company filed the Certificate of Designation, Preferences and Rights of the 0% Series A Convertible Preferred Stock with the Secretary of State of the State of Nevada.

Each share of the Series A Convertible Preferred Stock is convertible into shares of the Company's Common Stock, par value \$0.001 per share, based on a conversion calculation equal to the Base Amount divided by the conversion price. The Base Amount is defined as the sum of (i) the aggregate stated value of the Series A Convertible Preferred Stock to be converted and (ii) all unpaid dividends thereon. The stated value of each share of the Series A Convertible Preferred Stock is \$1,000 and the initial conversion price is \$6.00 per share, subject to adjustment in the event of stock splits, dividends and recapitalizations. Additionally, in the event the Company issues shares of its Common Stock or Common Stock equivalents at a per share price that is lower than the conversion price then in effect, the conversion price shall be adjusted to such lower price, subject to certain exceptions. The Company is prohibited from effecting a conversion of the Series A Convertible Preferred Stock to the extent that as a result of such conversion, the investor would beneficially own more than 9.99% in the aggregate of the issued and outstanding shares of the Company's Common Stock, calculated immediately after giving effect to the issuance of shares of Common Stock upon conversion of the Series A Convertible Preferred Stock. The shares of Series A Convertible Preferred Stock possess no voting rights.

On May 14, 2014, we entered into securities purchase agreements with certain accredited investors pursuant to which we sold an aggregate of 6,000 shares of our then newly designated Series A Convertible Preferred Stock at a price of \$1,000 per share for gross proceeds to us of \$6,000,000. Related to the sale, we incurred offering costs of \$620,085 resulting in net proceeds of \$5,379,915. The transaction closed on May 15, 2014.

As the conversion price of the Series A Convertible Preferred Stock on a converted basis was below the market price of the Common Stock on the closing date, this resulted in a beneficial conversion feature recorded as an "imputed" dividend of \$2,010,000. In addition, during the fourth quarter of 2015, in connection with the 2015 Private Placement in which the Company's Common Stock was sold at \$3.00 per share, the conversion price of the Series A Convertible Preferred Stock decreased to \$3.00. This decrease resulted in an additional beneficial conversion feature of \$3,383,850 recognized as of the time of the 2015 Private Placement.

#### **Note 11: Stock Options**

The Company has adopted the provisions of FASB ASC 718 - Compensation which requires companies to measure the cost of employee services received in exchange for equity instruments based on the grant date fair value of those awards and to recognize the compensation expense over the requisite service period during which the awards are expected to vest.

On December 29, 2008, the Company adopted the 2008 Stock Option Plan (the "Plan"), which provides for the issuance of qualified and non-qualified stock options to officers, directors, employees and other qualified persons. The Plan is administered by the Board of Directors of the Company or a committee appointed by the Board of Directors. The number of shares of the Company's Common Stock initially reserved for issuance under the Plan was 36,667. On



September 2, 2011, the stockholders holding a majority of the Company's outstanding Common Stock adopted an amendment to the Company's 2008 Stock Option Plan to increase the number of shares of Common Stock issuable under the plan to 166,667.

On September 18, 2015, the Company adopted the Genius Brands International, Inc. 2015 Incentive Plan (the "2015 Plan"). The 2015 Plan was approved by our stockholders in September 2015. The 2015 Plan as approved by the stockholders authorized the issuance up to an aggregate of 150,000 shares of Common Stock. On December 14, 2015, the Board of Directors voted to amend the 2015 Plan to increase the total number of shares that can be issued under the 2015 Plan by 1,293,334 from 150,000 shares to 1,443,334 shares. The increase in shares available for issuance under the 2015 Plan was approved by stockholders on February 3, 2016.

The following table summarizes the changes in the Company's stock option plan during the three months ended March 31, 2017:

|                               | <b>Options<br/>Outstanding<br/>Number of<br/>Shares</b> | <b>Exercise<br/>Price<br/>per Share</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Life</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price<br/>per Share</b> |
|-------------------------------|---|---|--|--|--|
| Balance at December 31, 2016  | 1,373,554   | \$2.82 - 12.00                          | 3.99 years   | \$ 280,642                               | \$ 8.14  |
| Options Granted               | —   |   |  |  |  |
| Options Exercised             | —   |   |  |  |  |
| Options Cancelled             | 5,461   |   |  |  |  |
| Options Expired               | —   |   |  |  |  |
| Balance at March 31, 2017     | 1,368,093   | \$2.82 - 12.00                          | 3.74 years   | \$ 96,619                                | \$ 8.15  |
| Exercisable December 31, 2016 | 452,535   | \$2.82 - 6.00                           | 3.95 years   | \$ 263,375                               | \$ 5.29  |
| Exercisable March 31, 2017    | 449,200   | \$2.82 - 6.00                           | 3.70 years   | \$ 90,485                                | \$ 5.30  |

During the year ended December 31, 2015, the Company granted options to purchase 1,407,775 shares of Common Stock to officers, directors, employees, and consultants. These stock options generally vest between one and three years, while a portion vested upon grant. The fair value of these options was determined to be \$2,402,460 using the Black-Scholes option pricing model based on the following assumptions:

|                          |                  |
|--------------------------|------------------|
| Exercise Price           | \$2.82 - \$12.00 |
| Dividend Yield           | 0%               |
| Volatility               | 100% - 137%      |
| Risk-free interest rate  | 0.89% - 1.25%    |
| Expected life of options | 2.5 - 3.5 years  |

During the three months ended March 31, 2016, the Company recognized share-based compensation expense of \$564,985. The expense recognized reflects revisions to (i) align with the graded vesting of the majority of the options granted in 2015, (ii) make adjustments in certain accounting estimates utilized in the Black-Scholes model, and (iii) reflect the accurate number of options granted in 2015. As such, included in the total share-based compensation expense recognized in this first quarter of 2016 is \$220,564 of true-up expenses from prior periods. The Company has assessed these adjustments individually and in aggregate and considers them immaterial to the current and prior periods.

During the three months ended March 31, 2017, the Company recognized \$221,992 in share-based compensation expense. The unvested share-based compensation as of March 31, 2017, was \$889,637 which will be recognized

through the second quarter of 2019 assuming the underlying grants are not cancelled or forfeited.

**Note 12: Warrants**

The Company has warrants outstanding to purchase up to 1,766,698 and 1,651,698 at March 31, 2017, and December 31, 2016, respectively.

In connection with the sale of the Company's Series A Convertible Preferred Stock in May 2014, Chardan Capital Markets LLC ("Chardan") acted as sole placement agent in consideration for which it received a cash fee of \$535,000 and a warrant to purchase up to 100,002 shares of the Company's Common Stock. These warrants are exercisable immediately, have an exercise price of \$6.00 per share, and have a five-year term.

In connection with the 2015 Private Placement, the Company issued to accredited investors the Original Warrants to purchase up to an aggregate of 1,443,362 shares of Common Stock for a purchase price of \$3.00 per share. The Original Warrants are exercisable into shares of Common Stock for a period of five (5) years from issuance at an initial exercise price of \$3.30 per share, subject to adjustment in the event of stock splits, dividends and recapitalizations. The Original Warrants are exercisable immediately. The Company is prohibited from effecting an exercise of the warrants to the extent that as a result of such exercise, the holder would beneficially own more than 4.99% (subject to increase up to 9.99% upon 61 days' notice) in the aggregate of the issued and outstanding shares of Common Stock, calculated immediately after giving effect to the issuance of shares of Common Stock upon exercise of the warrant.

In connection with the 2015 Private Placement, Chardan acted as sole placement agent in consideration for which it received a cash fee of \$300,000 and a warrant to purchase up to 141,668 shares of the Company's Common Stock. These warrants are exercisable immediately, have an exercise price of \$3.60 per share, and have a five-year term.

On February 9, 2017, the Company entered into the Private Transaction pursuant to the Agreement with certain holders of the Original Warrants. Pursuant to the Agreement, the holders of the Original Warrants and the Company agreed that such Original Warrant holders would exercise their Original Warrants in full, and the Company would issue to each such holder new warrants, with the new warrants being identical to the Original Warrants except that the termination date of such new warrants is February 10, 2022 (the "Reload Warrants"). In addition, depending on the number of Original Warrants exercised by all holders of the Original Warrants, the Company also agreed to issue to the holders another new warrant, identical to the Original Warrant except that the exercise price of such warrant is \$5.30 and such warrant is not exercisable until August 10, 2017 (the "Market Price Warrants" and together with the Reload Warrants, the "New Warrants").

The Company received gross proceeds of \$3,866,573 from the exercise of the Original Warrants and issued Reload Warrants to purchase an aggregate of 799,991 shares of the Company's Common Stock and Market Price Warrants to purchase an aggregate of 371,699 shares of the Company's Common Stock. In association with the Private Transaction, the Company recorded \$1,402,174, representing the difference in the fair market value of the Original Warrants and the New Warrants, as an adjustment to additional paid-in capital.

Chardan acted as financial advisor on the Private Transaction in consideration for which Chardan received \$363,617 and was issued New Warrants for 115,000 shares of the Company's Common Stock.

The following table summarizes the changes in the Company's outstanding warrants during the three months ended March 31, 2017:

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|                               | <b>Warrants<br/>Outstanding<br/>Number of<br/>Shares</b> | <b>Exercise<br/>Price per<br/>Share</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Life</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price<br/>per Share</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |
|-------------------------------|--|---|--|--|--|
| Balance at December 31, 2016  | 1,651,698  | \$3.30 – 6.00                           | 3.75 years   | \$ 3.49  | \$3,301,913                              |
| Warrants Granted              | 1,286,690  | 3.30 – 5.30                             | –  | –  | –  |
| Warrants Exercised            | 1,171,690  | 3.30                                    | --   | –  | –  |
| Warrants Expired              | –  |   |  |  |  |
| Balance at March 31, 2017     | 1,766,698  | \$3.30 – 6.00                           | 4.44 years   | \$ 4.03  | \$476,698                                |
| Exercisable December 31, 2016 | 1,651,698  | \$3.30 – 6.00                           | 3.75 years   | \$ 3.49  | \$3,301,913                              |
| Exercisable March 31, 2017    | 1,279,999  | \$3.30 – 6.00                           | 4.28 years   | \$ 3.54  | \$476,698                                |

**Note 13: Income Taxes**

The Company accounts for income taxes in accordance with ASC 740 Income Taxes, which requires the recognition of deferred tax liabilities and assets at currently enacted tax rates for the expected future tax consequences of events that have been included in the financial statements or tax returns. A valuation allowance is recognized to reduce the net deferred tax asset to an amount that is more likely than not to be realized.

ASC 740 provides guidance on the accounting for uncertainty in income taxes recognized in a company's financial statements. ASC 740 requires a company to determine whether it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. If the more-likely-than-not threshold is met, a company must measure the tax position to determine the amount to recognize in the financial statements.

At the adoption date of January 1, 2008, the Company had no unrecognized tax benefit which would affect the effective tax rate if recognized.

The Company includes interest and penalties arising from the underpayment of income taxes in the statements of operation in the provision for income taxes. As of March 31, 2017, and December 31, 2016, the Company had no accrued interest or penalties related to uncertain tax positions.

The Company files income tax returns in the U.S. federal jurisdiction and in the state of California and Massachusetts. The Company is currently subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities since inception of the Company.

**Note 14: Employment Agreements**

On November 15, 2013, as a closing condition to the Merger, the Company entered into five-year employment agreements with Andy Heyward, to serve as Chief Executive Officer, and Amy Moynihan Heyward, to serve as President of the Company, for which each was to receive an annual base salary of \$200,000 and \$180,000, respectively. Effective August 28, 2016, Amy Moynihan Heyward resigned from her position as President of the Company but remains on the Board of Directors.

Effective July 14, 2014, the Company employed Stone Newman in the newly created operating position of President - Worldwide Consumer Products and executed a three-year employment agreement which either party may terminate on the twelfth and twenty-fourth month anniversary upon thirty (30) days' notice. Mr. Newman has oversight over all consumer products, licensing and merchandising sales and rights for the Company's brands and programming as well as certain brands he previously managed prior to his employment by the Company. The agreement provides Mr. Newman with an annual salary of \$275,000.

Effective April 18, 2016, the Company entered into an employment agreement with Rebecca Hershinger for the position of Chief Financial Officer. Ms. Hershinger will be entitled to be paid a salary at the annual rate of \$175,000 per year, which salary will be increased to \$190,000 per year not later than October 1, 2016. The term of the agreement is one year with a mutual option for an additional one-year period. Ms. Hershinger was reimbursed for certain moving and related expenses associated with her relocation from Park City, Utah to Los Angeles, California. In addition, Ms. Hershinger is received a grant of stock options commensurate with those given to the Company's Executive Vice President and is entitled to receive an annual discretionary bonus based on her performance. On April 17, 2017, the Company and Ms. Hershinger extended the employment agreement for one additional year.

#### **Note 15: Lease Commitments**

Rental expenses incurred for operating leases during the three months ended March 31, 2017 and 2016 were \$35,160 and \$35,007, respectively.

During the first quarter of 2015, the Company entered into an agreement for new office space to which it relocated its operations upon the expiration of its prior lease. Effective May 1, 2015, the Company began leasing approximately 3,251 square feet of general office space at 301 North Canon Drive, Suite 305, Beverly Hills, California 90210 pursuant to a 35-month sub-lease that commenced on May 1, 2015. The Company will pay \$136,542 annually subject to annual escalations of 3%.

The following is a schedule of future minimum lease payments required by the non-cancelable operating lease agreement:

| <b>Year</b> | <b>Amount</b> |
|-------------|---------------|
| 2017        | \$108,291     |
| 2018        | 36,214        |
|             | \$144,505     |

**Note 16: Commitment and Contingencies**

In the normal course of its business, the Company enters into various agreements which call for the potential future payment of royalties or “profit” participations associated with its individual properties. These profit participations can be for the use of third party intellectual property, such as the case with *Stan Lee and the Mighty 7* and *Llama Llama* among others, in which the Company is obligated to share net profits with the underlying rights holders on a certain basis as defined in the respective agreements.

In addition, in the normal course of its business, the Company enters into agreements with various service providers such as animation studios, post-production studios, writers, directors, musicians or other creative talent. Pursuant to these agreements, the Company is obligated to share with these service providers a portion of the net profits of the properties on which they have rendered services, as defined in each respective agreement.

**Note 17: Related Party Transactions**

On April 21, 2016, the Company entered into a merchandising and licensing agreement with Andy Heyward Animation Art (“AHAA”), whose principal is Andy Heyward, the Company’s Chief Executive Officer. The Company entered into a customary merchandise license agreement with AHAA for the use of characters and logos related to Warren Buffett’s *Secret Millionaires Club* and *Stan Lee’s Mighty 7* in connection with certain products to be sold by AHAA. The terms and conditions of such license are customary within the industry, and the Company earns an arm-length industry standard royalty on all sales made by AHAA utilizing the licensed content. During the second quarter of 2016, the Company earned \$247 in royalties from this agreement.



On July 25, 2016, the Company entered into a consulting agreement with Foothill Entertainment, Inc. (“Foothill”), an entity whose Chairman is Gregory Payne, our corporate secretary. The Company has engaged Foothill Entertainment, Inc. for a term of six months to assist in the distribution and commercial exploitation of its audiovisual content as well as for the preparation and attendance on behalf of the Company at the MIPJR and MIPCOM markets in Cannes. Foothill receives \$12,500 per month for these services.

On October 1, 2016, Llama Productions LLC entered into an animation production services agreement with Mr. Heyward for services as a producer for which he is to receive \$186,000 through the course of production of the Company’s animated series *Llama Llama*. From October 1, 2016 through March 31, 2017, Mr. Heyward has been paid \$72,000.

#### **Note 18: Subsequent Events**

Pursuant to FASB ASC 855, Management has evaluated all events and transactions that occurred from March 31, 2017 through the date of issuance of these financial statements. During this period, we did not have any significant subsequent events, except as disclosed below:

On various dates subsequent to March 31, 2017, an investor converted 735 shares of Series A Convertible Preferred Stock into 245,000 shares of the Company’s Common Stock at a conversion price of \$3.00.

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

*The following discussion and analysis of our results of operations, financial condition and liquidity and capital resources should be read in conjunction with our financial statements and related notes for the three months ended March 31, 2017 and 2016. Certain statements made or incorporated by reference in this report and our other filings with the Securities and Exchange Commission, in our press releases and in statements made by or with the approval of authorized personnel constitute forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and are subject to the safe harbor created thereby. Forward-looking statements reflect intent, belief, current expectations, estimates or projections about, among other things, our industry, management's beliefs, and future events and financial trends affecting us. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "may," "will" and variations of these words or similar expressions are intended to identify forward looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward looking statements. Although we believe the expectations reflected in any forward-looking statements are reasonable, such statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors. These differences can arise as a result of the risks described in the section entitled "Item 1A. Risk Factors" in our Annual Report on Form 10-K filed on March 31, 2017 and elsewhere in this report, as well as other factors that may affect our business, results of operations, or financial condition. Forward-looking statements in this report speak only as of the date hereof, and forward looking statements in documents incorporated by reference speak only as of the date of those documents. Unless otherwise required by law, we undertake no obligation to publicly update or revise these forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, we cannot assure you that the forward-looking statements contained in this report will, in fact, transpire.*

**Overview**

The management's discussion and analysis is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make certain estimates and judgments that affect the reported amounts of assets, liabilities and expenses and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

**Our Business**

Genius Brands International, Inc. is a global content and brand management company that creates and licenses multimedia content. Led by industry veterans, we distribute our content in all formats as well as a broad range of consumer products based on its characters. In the children's media sector, our portfolio features "content with a purpose" for toddlers to tweens, which provides enrichment as well as entertainment, including tween music-driven brand *SpacePop*; *Rainbow Rangers*, a girls mission-based adventure series; preschool property debuting on Netflix *Llama Llama*; award-winning *Baby Genius*, re-launched with new entertainment and over 40 new products; adventure comedy *Thomas Edison's Secret Lab*®, available on Netflix, public broadcast stations and our Kid Genius Cartoon Channel on Comcast's Xfinity on Demand; Warren Buffett's *Secret Millionaires Club*, created with and starring iconic investor Warren Buffett. We are also co-producing an all-new adult-themed animated series, *Stan Lee's Cosmic Crusaders*, with Stan Lee's Pow! Entertainment and *The Hollywood Reporter*.

In addition, we act as licensing agent for certain brands, leveraging our existing licensing infrastructure to expand these brands into new product categories, new retailers, and new territories. These include *Llama Llama*; *From Frank*, a humor greeting card and product line; and Celescence Technologies, the world's leading microencapsulation company.

## Recent Events

### *Warrant Exercise*

On February 9, 2017, we entered into a private transaction (the "Private Transaction") pursuant to a Warrant Exercise Agreement (the "Agreement") with certain holders of our existing warrants (the "Original Warrants"). The Original Warrants were originally issued on November 3, 2015, to purchase an aggregate of 1,443,362 shares of our common stock, par value \$0.001 per share (the "Common Stock"), at an exercise price of \$3.30 per share and were to expire on November 3, 2020.

Pursuant to the Agreement, the holders of the Original Warrants and we agreed that such Original Warrant holders would exercise their Original Warrants in full and we would issue to each such holder new warrants, with the new warrants being identical to the Original Warrants except that the termination date of such new warrants is February 10, 2022 (the “Reload Warrants”). In addition, depending on the number of Original Warrants exercised by all holders of the Original Warrants, we also agreed to issue to the holders another new warrant, identical to the Original Warrant except that the exercise price of such warrant is \$5.30 and such warrant is not exercisable until August 10, 2017 (the “Market Price Warrants” and together with the Reload Warrants, the “New Warrants”).

We received gross proceeds of \$3,866,573 from the exercise of the Original Warrants and issued Reload Warrants to purchase an aggregate of 799,991 shares of our Common Stock and Market Price Warrants to purchase an aggregate of 371,699 shares of our Common Stock.

Chardan Capital Markets LLC acted as financial advisor on the Private Transaction in consideration for which it received \$363,617 and was issued New Warrants for 115,000 shares of Common Stock.

*Distribution Agreement with Sony Pictures Home Entertainment Inc.*

On February 18, 2016, we entered into a distribution agreement (“Distribution Agreement”) with Sony Pictures Home Entertainment Inc. (“Sony”), pursuant to which we agreed to grant Sony certain rights for the marketing and distribution of our animated feature-length motion pictures and animated television series in the United States and Canada, and potentially additional countries. In consideration for such rights, and subject to certain conditions, Sony has paid us an advance in the amount of \$2,000,000, against future royalties.

On January 10, 2017, we entered into an amendment of our home entertainment distribution agreement with Sony pursuant to which, among other things, Sony agreed to pay \$1,489,583 which was owed and payable by us to Sony’s sister company Sony DADC US Inc. (“DADC”) for certain disk manufacturing and replication services. In connection with such transaction, we issued Sony 301,231 shares of our Common Stock at \$4.945 per share, Sony’s exclusive territory for exercising its home entertainment distribution rights under the Distribution Agreement was extended from the United States and Canada to worldwide, and the amount of advances subject to recoupment by Sony out of royalty payments that would otherwise be due to us under the Distribution Agreement was increased by the amount of the payment to DADC. Future cash flow from the distributed products under the distribution agreement, if any, will be impacted by the additional recoupment obligation. In connection with the above issuance of our shares, we entered into a subscription agreement with Sony, effective as of January 17, 2017. Collectively, these transactions are referred to as the “January 2017 Sony Transactions.”

**Results of Operations**

Our summary results for the three months ended March 31, 2017, and 2016 are below.

*Revenues*

|                                 | Three months ended |                | Change      | % Change |
|---------------------------------|--------------------|----------------|-------------|----------|
|                                 | March 31, 2017     | March 31, 2016 |             |          |
| Licensing & Royalties           | \$ 153,213         | \$ 148,012     | \$ 5,201    | 4%       |
| Television & Home Entertainment | 43,373             | 203,881        | (160,508)   | -79%     |
| Advertising Sales               | 1,505              | –              | 1,505       | N/A      |
| Total Revenue                   | \$ 198,091         | \$ 351,893     | \$(153,802) | -44%     |

Licensing and royalty revenue includes items for which we license the rights to our copyrights and trademarks of our brands and those of the brands for which we act as a licensing agent. During the three months ended March 31, 2017, compared to March 31, 2016, this category increased \$5,201 or 4% primarily due to increases in revenues from our *SpacePop* property offset by decreases in one brand for which we act as a licensing agent.

Television & Home Entertainment revenue is generated from distribution of our properties for broadcast on television, VOD, or SVOD in domestic and international markets and the sale of DVDs for home entertainment through our partners. Fluctuations in Television & Home Entertainment revenue occur period over period based on the achievement of revenue recognition criteria such as the start of a license period and the delivery of the content to the customer. During the three months ended March 31, 2017, compared to March 31, 2016, Television & Home Entertainment revenue decreased \$160,508 or 79%. During the three months ended March 31, 2016, we recognized revenue from numerous licenses of our *Thomas Edison's Secret Lab Property*. In the current period, there were fewer licenses of *Thomas Edison's Secret Lab* offset by increased licensing activity related to our *SpacePop* property.

Advertising sales are generated on the Kid Genius Cartoon Channel in the form of either flat rate promotions or advertising impressions served. Advertising sales increased by \$1,505 during the three months ended March 31, 2017 due to advertising impressions served compared to zero revenue in the prior period as we began to monetize our growing base of homes served during the second half of 2016.

#### Expenses

|                            | Three months ended |             |             |          |
|----------------------------|--------------------|-------------|-------------|----------|
|                            | March 31,          | March 31,   | Change      | % Change |
|                            | 2017               | 2016        |             |          |
| Marketing and Sales        | \$89,504           | \$261,632   | \$(172,128) | -66%     |
| Direct Operating Costs     | 23,069             | 139,875     | (116,806)   | -84%     |
| General and Administrative | 1,400,925          | 1,602,102   | (201,177)   | -13%     |
| Total Operating Expenses   | \$1,513,498        | \$2,003,609 | \$(490,111) | -24%     |

Marketing and sales expenses decreased \$172,218 for the three months ended March 31, 2017 compared to the prior year period primarily due to fees paid to a consultant for execution of a distribution contract in the prior period without similar activity in the current period.

Direct operating costs include costs of our product sales, unamortizable post-production costs, film and television cost amortization expense, and participation expense related to agreements with various animation studios, post-production studios, writers, directors, musicians or other creative talent with which we are obligated to share net profits of the properties on which they have rendered services. During the three months ended March 31, 2017, we recorded film and television cost amortization expense of \$4,604 and participation expense of \$12,667 compared to prior period expenses of \$117,513 and \$0, respectively. These decreases are related to decreased Television & Home Entertainment revenue in the current period compared to the prior period.

General and administrative expenses consist primarily of salaries, employee benefits, share-based compensation related to stock options, insurances, rent, depreciation and amortization as well as other professional fees related to finance, accounting, legal and investor relations. General and administrative costs for three months ended March 31, 2017 decreased \$201,177 compared to the same period in 2016. This decrease includes: (i) decreases in share-based compensation expense of \$342,993 related to the grant of options to officers, directors, employees and consultants in the fourth quarter of 2015 and in 2016; (ii) increases in salaries and related expenses of \$33,972 associated with several critical hires in various functions including the President of the Kid Genius Cartoon Channel at the end of the first quarter of 2016; and (iii) increases in professional fees of \$69,509. Fluctuations in other general and administrative expenses make up the balance of the variance.

## **Liquidity and Capital Resources**

### *Working Capital*

As of March 31, 2017, we had current assets of \$6,111,777, including cash, cash equivalents, and restricted cash of \$5,227,097, and current liabilities of \$2,425,834, including certain trade payables of \$925,000 of which we dispute the claim, resulting in working capital of \$3,685,843, compared to a working capital deficit of \$479,404 as of December 31, 2016.

Increases in working capital were the result of two transactions:

On January 10, 2017, we entered into an amendment of our home entertainment distribution agreement with Sony pursuant to which, among other things, Sony agreed to pay \$1,489,583 which was owed and payable by us to DADC. On February 9, 2017, we entered into the Private Transaction for which we received gross proceeds of \$3,866,573 from the exercise of the Original Warrants.

### *Credit Facility*

On August 8, 2016, Llama Productions LLC, our wholly-owned subsidiary, closed a \$5,275,000 multiple draw-down, secured, non-recourse, non-revolving credit facility (the “Facility”) with Bank Leumi USA to produce our animated series *Llama Llama* (the “Series”). The Series is configured as fifteen half-hour episodes comprised of thirty 11 minute programs to be delivered to Netflix in Fall 2017. The Facility is secured by the license fees we will receive from Netflix for the delivery of the Series as well as our copyright in the Series. The Facility has a term of 40 months and has an interest rate of either Prime plus 1% or one, three, or six month LIBOR plus 3.25%. As a condition of the loan agreement with Bank Leumi, we deposited \$1,000,000 into a cash account to be used solely for the production of the series.

### *Comparison of Cash Flows for the Three Months Ended March 31, 2017, and 2016*

Our total cash, cash equivalents, and restricted cash was \$5,227,097 and \$5,892,881 at March 31, 2017, and 2016, respectively.

|  | Three months ended |                   |               |
|--|--------------------|-------------------|---------------|
|  | March 31,<br>2017  | March<br>31, 2016 | Change        |
| Cash provided (used) by operations           | \$(2,346,210)      | \$707,111         | \$(3,053,321) |
| Cash provided (used) in investing activities | –                  | (1,850)           | 1,850         |
| Cash provided (used) in financing activities | 4,685,386          | –                 | 4,685,386     |
| Increase (decrease) in cash                  | \$2,339,176        | \$705,261         | \$1,633,915   |

During the three months ended March 31, 2017, our primary sources of cash were the \$3,866,573 in gross proceeds from the Private Transaction coupled with the \$1,284,728 in proceeds from the *Llama Llama* production facility. During the comparable period in 2016, our primary source of cash was the \$2,000,000 advance from the Sony Distribution Agreement. During both periods, these funds were primarily used to fund operations including the continued investment in our film and television assets as well as marketing support for our brands.



*Operating Activities*

Cash used in operating activities for the three months ended March 31, 2017, was \$2,346,210 as compared to cash provided by operating activities of \$707,111 during the prior period. The use of cash in the current period is based on the operating results discussed above as well as increases in film and television costs of \$937,535 related to the development and production of *SpacePop*, *Llama Llama*, and *Rainbow Rangers*. The cash provided by operating activities in the prior period resulted primarily from the \$2,000,000 advance from the Sony Distribution Agreement offset by our operating results and increases in film and television costs of \$170,594 related to the production of *SpacePop* and *Llama Llama*.

*Investing Activities*

Cash used in investing activities for the three months ended March 31, 2017, was \$0 as compared to a use of \$1,850 for the development of certain intangible assets during the comparable period in 2016.

*Financing Activities*

Cash generated from financing activities for the three months ended March 31, 2017, was \$4,685,386 as compared to \$0 generated in the comparable period in 2016. During the three months ended March 31, 2017, the sources of cash generated from financing activities were the \$3,866,573 in gross proceeds from the Private Transaction coupled with the \$1,284,728 in proceeds from the *Llama Llama* production facility.

## **Capital Expenditures**

As of March 31, 2017, we do not have any material commitments for capital expenditures.

## **Critical Accounting Policies**

Our accounting policies are described in the notes to the financial statements. Below is a summary of the critical accounting policies, among others, that management believes involve significant judgments and estimates used in the preparation of its financial statements.

### *Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of Genius Brands International, Inc., its wholly-owned subsidiaries A Squared and Llama Productions as well as its interest in Stan Lee Comics, LLC (“Stan Lee Comics”). All significant inter-company balances and transactions have been eliminated in consolidation.

### *Goodwill and Intangible Assets*

Goodwill represents the excess of purchase price over the estimated fair value of net assets acquired in business combinations accounted for by the purchase method. In accordance with FASB ASC 350 Intangibles Goodwill and Other, goodwill and certain intangible assets are presumed to have indefinite useful lives and are thus not amortized, but subject to an impairment test annually or more frequently if indicators of impairment arise. We complete the annual goodwill and indefinite-lived intangible asset impairment tests at the end of each fiscal year. To test for goodwill impairment, we are required to estimate the fair market value of each of our reporting units, of which we have one. While we may use a variety of methods to estimate fair value for impairment testing, our primary method is discounted cash flows. We estimate future cash flows and allocations of certain assets using estimates for future growth rates and our judgment regarding the applicable discount rates. Changes to our judgments and estimates could result in a significantly different estimate of the fair market value of the reporting units, which could result in an impairment of goodwill or indefinite lived intangible assets in future periods.

Other intangible assets have been acquired, either individually or with a group of other assets, and were initially recognized and measured based on fair value. In accordance with FASB ASC 350 Intangible Assets, 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. Annual amortization of these intangible assets is computed based on the straight-line method over the remaining economic life of the asset.

#### *Film and Television Costs*

We capitalize production costs for episodic series produced in accordance with FASB ASC 926-20 Entertainment-Films - Other Assets - Film Costs. Accordingly, production costs are capitalized at actual cost and then charged against revenue based on the initial market revenue evidenced by a firm commitment over the period of commitment. We expense all capitalized costs that exceed the initial market firm commitment revenue in the period of delivery of the episodes.

We capitalize production costs for films produced in accordance with FASB ASC 926-20 Entertainment-Films - Other Assets - Film Costs. Accordingly, production costs are capitalized at actual cost and then charged against revenue quarterly as a cost of production based on the relative fair value of the film(s) delivered and recognized as revenue. We evaluate our capitalized production costs annually and limit recorded amounts by our ability to recover such costs through expected future sales.

Additionally, for both episodic series and films, from time to time, we develop additional content, improved animation and bonus songs/features for our existing content. After the initial release of the film or episodic series, the costs of significant improvement to existing products are capitalized while routine and periodic alterations to existing products are expensed as incurred.

#### *Revenue Recognition*

We recognize revenue in accordance with FASB ASC 926-605 Entertainment-Films - Revenue Recognition. Accordingly, we recognize revenue when (i) persuasive evidence of a sale with a customer exists, (ii) the film is complete and has been delivered or is available for delivery, (iii) the license period of the arrangement has begun and the customer can begin its exploitation, exhibition, or sale, (iv) the arrangement fee is fixed or determinable, and (v) collection of the arrangement fee is reasonably assured.

Our licensing and royalty revenue represents revenue generated from license agreements that are held in conjunction with third parties that are responsible for collecting fees due and remitting to us our share after expenses. Revenue from licensed products is recognized when realized or realizable based on royalty reporting received from licensees. Licensing income that we recognize as an agent is in accordance with FASB ASC 605-45 Revenue Recognition - Principal Agent. Accordingly, our revenue is our gross billings to our customers less the amounts we pay to suppliers for their products and services.

We sell advertising on our Kid Genius channel in the form of either flat rate promotions or impressions served. For flat rate promotions with a fixed term, we recognize revenue when all five revenue recognition criteria under FASB ASC 606 are met. For impressions served, we deliver a certain minimum number of impressions on the channel to the advertiser for which the advertiser pays a contractual CPM per impression. Impressions served are reported to us on a monthly basis, and revenue is reported in the month the impressions are served.

We recognize 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 FASB ASC 605 Revenue Recognition.

#### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

#### **Recent Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets unless those contracts are within the scope of other standards (e.g. insurance contracts). This ASU will supersede all revenue recognition requirements in Topic 605, Revenue Recognition, and industry-specific guidance throughout the industry topics of the codification. The guidance's core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the revenue principles, an entity will identify the contract(s) with a customer, identify the performance obligations, determine the transaction price, allocate the transaction price to the performance obligations and recognize revenue when the performance obligation is satisfied (either over time or at a

point in time). The ASU further states that an entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date", which approved a one-year deferral of the effective date of the ASU from the original effective date of annual reporting periods beginning after December 15, 2016, to annual reporting periods (including interim reporting periods) beginning after December 15, 2017, with an option for early adoption of the standard on the original effective date. Additionally, in March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)", which clarified the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing", that amended the revenue guidance on identifying performance obligations and accounting for licenses of intellectual property. In May 2016, the FASB issued ASU 2016-11 "Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 805): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting", which rescinded from the FASB Accounting Standards Codification certain SEC paragraphs as a result of two SEC Staff Announcements. The FASB also issued ASU 2016-12 "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients", which clarified guidance on assessment of collectability, presentation of sale taxes, measurement of noncash consideration, and certain transition matters. We are still evaluating the impact that the provisions of ASU 2014-09 and related subsequent updates will have on our consolidated financial position, results of operations and cash flows.

In February 2016, the FASB issued Accounting Standards Update 2016-02, “Leases”. The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2018. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In November 2016, the FASB issued Accounting Standards Update 2016-18, “Statement of Cash Flows - Restricted Cash a consensus of the FASB Emerging Issues Task Force.” This standard requires restricted cash and cash equivalents to be included with cash and cash equivalents on the statement of cash flows under a retrospective transition approach. The guidance will become effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted. We have prospectively adopted ASU 2016-18. The impact to our consolidated financial position, results of operations and cash flows is minimal.

In January 2017, the FASB issued Accounting Standards Update 2017-04, “Simplifying the Test for Goodwill Impairment”, which requires an entity to perform a one-step quantitative impairment test, whereby a goodwill impairment loss will be measured as the excess of a reporting unit’s carrying amount over its fair value (not to exceed the total goodwill allocated to that reporting unit). It eliminates Step 2 of the current two-step goodwill impairment test, under which a goodwill impairment loss is measured by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. The standard is effective January 1, 2020, with early adoption as of January 1, 2017 permitted. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

#### **Off Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

#### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Not applicable.

#### **ITEM 4. CONTROLS AND PROCEDURES.**

## **Disclosure Controls and Procedures**

We carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Disclosure controls and procedures include, without limitation, controls and procedures that are designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective for the period ended March 31, 2017, in ensuring that information that we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

## **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **Inherent Limitations over Internal Controls**

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations, including the possibility of human error and circumvention by collusion or overriding of controls. Accordingly, even an effective internal control system may not prevent or detect material misstatements on a timely basis. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

***PART II - OTHER INFORMATION***

**ITEM 1. LEGAL PROCEEDINGS.**

As of March 31, 2017, there were no material pending legal proceedings to which we are a party or as to which any of its property is subject, and no such proceedings are known to us to be threatened or contemplated against us.

**ITEM 1A. RISK FACTORS.**

There have been no changes to the Risk Factors set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

On January 10, 2017, the Company entered into an amendment of its home entertainment distribution agreement with Sony Pictures Home Entertainment Inc. (“SPHE”) pursuant to which, among other things, SPHE agreed to pay \$1,489,583 which was owed and payable by the Company to SPHE’s sister company Sony DADC US Inc. for certain disk manufacturing and replication services.

In connection with such transaction, the Company issued SPHE 301,231 shares of its Common Stock at \$4.945 per share, SPHE’s exclusive territory for exercising its home entertainment distribution rights under the Distribution Agreement was extended from the United States and Canada to worldwide, and the amount of advances subject to recoupment by SPHE out of royalty payments that would otherwise be due to the Company under the Distribution Agreement was increased by the amount of the payment to Sony DADC US Inc. In connection with the above issuance of our shares, the Company entered into a subscription agreement with SPHE, effective as of January 17, 2017.

On January 17, 2017, the Company issued 10,112 shares of our Common Stock values at \$4.945 per share to a consultant for services rendered.



On March 14, 2017, the Company issued 8,410 shares of Common Stock valued at \$5.95 per share to a consultant for services rendered.

The securities referenced above were issued solely to “accredited investors” in reliance on the exemption from registration afforded by Section 4(a)(2) of the Securities Act, as amended.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

There were no reportable events under this Item 3 during the three months ended March 31, 2017.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**ITEM 5. OTHER INFORMATION.**

None.

**ITEM 6. EXHIBITS.**

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 10.1               | <u>Subscription Agreement dated January 17, 2017, between Genius Brands International, Inc. and Sony DADC USA, Inc.</u> (Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on January 20, 2017) |
| 10.2               | <u>Form of Warrant Exercise Agreement dated February 9, 2017.</u> (Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on February 13, 2017)  |
| 31.1 *             | <u>Section 302 Certification of Chief Executive Officer.</u>   |
| 31.2 *             | <u>Section 302 Certification of Chief Financial Officer.</u>   |
| 32.1 **            | <u>Section 906 Certification of Chief Executive Officer.</u>   |
| 32.2 **            | <u>Section 906 Certification of Chief Financial Officer.</u>   |
| 101.INS *          | XBRL Instance Document   |
| 101.SCH *          | XBRL Schema Document   |
| 101.CAL *          | XBRL Calculation Linkbase Document   |
| 101.DEF *          | XBRL Definition Linkbase Document  |
| 101.LAB *          | XBRL Label Linkbase Document   |
| 101.PRE *          | XBRL Presentation Linkbase Document  |

\* Filed herewith

\*\* Furnished herewith

**SIGNATURES**

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

**GENIUS BRANDS INTERNATIONAL,  
INC.**

Date: May 15, 2017      By:    */s/ Andy Heyward*  
  Andy Heyward, Chief Executive Officer  
  
  (Principal Executive Officer)

Date: May 15, 2017      By:    */s/ Rebecca D. Hershinger*  
  Rebecca D. Hershinger, Chief Financial  
  Officer  
  (Principal Financial and Accounting  
  Officer)