

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

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

FORM 10-K

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

For the fiscal year ended December 31, 2011

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

For the transition period from _____ to _____

000-54389
Commission file number

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

Nevada
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

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

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

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

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

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in the definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or amendment to Form 10-K. Yes No

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

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

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

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

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

Genius Brand International, Inc.

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FORWARD LOOKING STATEMENTS

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

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

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

Part I

Item 1. Description of Business.

General

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

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

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

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

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

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

Distribution

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

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

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

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

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

Products

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

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

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

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

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

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

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

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

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

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

Marketing

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

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

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

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

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

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

Competition

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

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

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

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

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

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

Customers and Licensees

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

Seasonality

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

Government Regulation

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

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

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

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

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

Research and Development

The Company engages in the development of new products as part of its ongoing business. In accordance with FASB Accounting Standards Codification regarding the topics of Intangible Assets (350) and Research and Development (730), the costs of new product development and significant improvement to existing products are capitalized while routine and periodic alterations to existing products are expensed as incurred. We capitalized as intangible assets and capitalized product development in process \$203,890 and \$263,750 for the years ending December 31, 2011 and December 31, 2010, respectively. The amount expensed for product development in the years ending December 31, 2011 and December 31, 2010 are \$18,491 and \$7,796, respectively, representing updates to existing products which may include changes to artwork and/or content. The Company is responsible for the entire expenditure of any research and development of new products, with the exception of licensed product development costs borne by the licensee. Research and development costs are generally passed on to customers through pricing of our products.

Employees

We currently have fourteen employees, all of whom are full-time employees.

Insurance

We currently maintain commercial general liability and directors and officers insurance in levels deemed to be appropriate for the size and complexity of the Company.

We currently maintain no insurance coverage against trademark and copyright infringement protection. Although there have been no claims made against the Company, there is no assurance that the Company would have sufficient insurance to cover such claims or that we would prevail against any future claim. Successful claims could have a serious adverse effect upon our financial condition and our future viability.

The Company maintains workman's compensation coverage as required by the laws of the states in which we have employees.

Intellectual Property

We strive to obtain ownership rights in the content included in our DVD and CD products, and currently own the majority of sing-a-long and instrumental (non-classical) songs included in those products. However, because there are songs which are not available in the public domain and which we think make desirable additions to our products (for instance, classical music), we license some songs included in our products from third party licensors such as the Harry Fox Agency and NAXOS. Currently, we are licensing approximately 25 songs through these agencies under terms generally available to the market. We pay royalties on licensed songs and, should any of the songs no longer be available for licensing, we would need to make adjustments to our existing products to remove or replace them. Other songs could be used and the cost of the change would be minimal.

We own the trademarks "Baby Genius", "Kid Genius", "Child Genius", "Wee Worship" and "Little Genius," as well as several other names and trademarks on characters developed for our DVD releases and associated with our different brands. We will obtain trademarks for any additional titles. We currently hold fourteen registered trademarks in multiple classes in the United States. We hold additional trademarks in the United States that are associated with our other brands and we also have a number of registered and pending trademarks in Europe and other countries in which our products are sold.

We currently hold eleven motion picture and thirteen sound recording copyrights related to our DVD and CD products. However, we do not generally file for copyright protection for our productions, but rely on common law principles and agreements with our vendors and content providers to secure our rights in the intellectual property aspects of our products. We do not currently hold patents with respect to any of our products.

The Company had commissioned research into the use of music-based curriculum through San Diego State University and had developed certain unregistered copyrights and trademarks, confidential information, designs, ideas, discoveries, inventions, processes, research results and work product based on the research results. The Company obtained an initial voting and economic interest of seventy-five percent of the outstanding units of the newly formed limited liability company, Circle of Education, LLC, in exchange for the contribution of all of these rights and any other interests of the Company in the Circle of Education program. COE is in the process of registering trademarks associated with its name. In March 2012, the Company and Dr. Shulamit Ritblatt agreed to terminate the joint venture agreement for Circle of Education, LLC ("COE"). COE transferred equal right of ownership in the intellectual property

developed as of the date of termination (“IP”) to each of the Company and Dr. Ritblatt, and in exchange for the rights to the IP, Dr. Ritblatt transferred her units of COE to the Company. Each party will have the right to continue development of the IP and products based on the IP with no further obligation to the other party. Subject to certain limitations for specific channels of distribution reserved for each party for a period of twelve months from the execution of the agreements, both parties have non-exclusive and non-restrictive rights to the use, sublicense or sale of the IP and products created based on the IP. The trademarks registered by COE, “Circle of Education” and “Preschool in Your Pocket”, were assigned to Dr. Ritblatt and the Company, respectively.

Item 1A. Risk Factors.

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, the Company is not required to provide this information.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The Company owns no real property. On April 10, 2009, we entered into a lease for approximately 2,162 square feet of office space located at 5820 Oberlin Drive in San Diego, California. The lease expired on October 31, 2010, and the Company continues to lease the facilities on a month-to-month basis in accordance with all other terms of the lease. Base monthly rent for the space is \$3,144, and we are responsible for 6% of operating expenses on the property (not to exceed \$400 per month during the term of the lease). No security deposit was required under the lease.

We also leased approximately 1,415 square feet of office space in Del Mar, California, where our original executive business offices were located until May 2009. The lease for the property commenced on August 1, 2008 and expired on July 31, 2011. The lease required a security deposit of \$4,150 and rent equal to \$4,650 plus 35% of operating expenses for the property per month through July 31, 2011.

On March 27, 2009, the Company entered into an agreement to sublease the Del Mar space for the duration of the lease term. The sublease provided for base monthly rent of \$3,396, which graduated up to \$3,467 during the second year of the agreement and to \$3,538 during the final year, leaving a deficiency between what we were required to pay under the original lease and what we received under the sublease, which was absorbed by the Company. We required a security deposit under the sublease of \$3,538. Our subtenant was responsible for all operating expenses payable by us to the landlord under the original lease. The sublease expired on July 31, 2011.

In October 2010, the Company agreed to rent approximately 2,000 square feet of warehouse space on a month to month basis for our fulfillment and distribution operations in Rogers, Minnesota. The rent is \$3,350 per month. There is no written agreement.

Item 3. Legal Proceedings.

There are presently no material pending legal proceedings to which the Company is a party or as to which any of its property is subject, and no such proceedings are known to the Company to be threatened or contemplated against it.

Item 4. Mine Safety Disclosures.

Part II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Commencing in November 2011, our common stock is quoted on the OTC Bulletin Board under the symbol “GNUS”. Previously transactions in our common stock were reported in the United States under the symbol “PENT” on the OTC Market Groups, Inc. quotation service that displays real-time quotes, last-sale prices, and volume information in over-the-counter equity securities. The following table sets forth the range of high and low bids reported in the over-the-counter market for our common stock. The prices shown below represent prices in the market between dealers in securities; they do not include retail markup, markdown or commissions, and do not necessarily represent actual transactions.

Quarter Ending	Quarter High	Quarter Low
03/31/2010	\$0.50	\$0.45
06/30/2010	\$0.50	\$0.40
09/30/2010	\$0.50	\$0.25
12/31/2010	\$0.35	\$0.28

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03/31/2011	\$0.35	\$0.25
06/30/2011	\$0.40	\$0.15
09/30/2011	\$0.23	\$0.17
12/31/2011	\$0.20	\$0.10

Outstanding Shares and Number of Stockholders

As of March 21, 2012, the number of shares of common stock outstanding was 60,698,815. As of March 21, 2012, there were approximately 132 record holders of our shares of issued and outstanding common stock. This figure does not include holders of shares held in securities position listings.

As of March 21, 2011, we have outstanding warrants to purchase 471,108 shares of common stock. We currently have outstanding options to purchase up to 14,995,000 shares of common stock, 10,545,000 of which are vested and can be exercised at this time.

Transfer Agent

The Company's registrar and transfer agent is -----Globex Transfer LLC, 780 Deltona Blvd, Suite 202, Deltona, FL 32725.

Dividends

We have never declared or paid dividends on our common stock. Moreover, we currently intend to retain any future earnings for use in our business and, therefore, do not anticipate paying any dividends on our common stock in the foreseeable future.

Equity Compensation Plan Information

The following table reflects, as of December 31, 2011, compensation plans pursuant to which the Company is authorized to issue options, warrants or other rights to purchase shares of its common stock, including the number of shares issuable under outstanding options, warrants and rights issued under the plans and the number of shares remaining available for issuance under the plans:

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by shareholders(1)	14,995,000	\$0.43	35,005,000
Equity compensation plans not approved by shareholders	0	\$0.00	0
Total	14,995,000	\$0.43	35,005,000

(1) On September 2, 2011, the majority shareholders of the Company adopted an amendment to the Company's 2008 Stock Option Plan to increase the number of shares of common stock issuable under the plan from 16,000,000 to 50,000,000.

Unregistered Sales of Equity Securities

On March 8, 2010, the Board of Directors ratified an agreement between the Company and James Sommers whereby the Company agreed to issue options to purchase 250,000 shares of common stock at an exercise price of \$0.50 in exchange for consulting services for one year. The Option was issued on June 21, 2010 pursuant to Rule 701. In the event the option is exercised, the Company will likely use the proceeds from the exercise to pay general operating expenses of the Company.

On April 6, 2010, the Company commenced a private placement to certain accredited investors pursuant to Rule 506 for up to 12,500,000 shares of common stock at a purchase price of \$0.40 per share. On July 13, 2010, the Board of Directors amended the offering to include the issuance of a warrant to purchase one additional share of common stock for each share of common stock sold through the offering. Each warrant expires three years from the date of purchase and has a stated exercise price of \$0.40 per share. A total subscription of \$188,443 was received and 471,108 shares have been issued and warrants have been issued to purchase an additional 471,108 shares. Costs of the offering in the amount of \$17,396 were offset against the additional paid in capital account through December 31, 2010 and the offering is closed. The proceeds of the offering were used to pay product development costs. In the event the warrants are exercised, proceeds from the exercise will likely be used to cover general operating expenses.

On September 28, 2010, 50,000 shares were issued in payment of website design services rendered. The service provider is an accredited investor and the shares were issued pursuant to Section 4(6) of the Securities Act. The shares were valued at \$0.50 per share, and the full amount of \$25,000 was capitalized in 2010 as an intangible asset.

On October 1, 2010, the issuer granted an incentive stock option to purchase up to 25,000 shares of common stock to our Vice President of Sales. The option was fully vested on December 31, 2010 and will expire five years from the date of grant. The option was granted with an exercise price of \$0.50 per share. The option was granted pursuant to the exemption provided by Rule 701.

On December 31, 2010, the Company issued Stock Option Grant Notices to ten employees and service providers, granting options to purchase 115,000 shares of common stock. The options fully vested as of December 31, 2010. In the event the options are exercised, the Company will likely use the proceeds from the exercise to pay general operating expenses of the Company.

On December 31, 2010, the Company issued a Stock Option Grant Notice in conjunction with the appointment of our Chief Accounting and Operating Officer under the 2008 Stock Option Plan to purchase up to 450,000 shares of the Company's common stock at an exercise price of \$0.336 per share vesting as to 150,000 shares on December 31, 2010 and as to 100,000 shares on each of December 31, 2011, 2012 and 2013.

In January 2011, the issuer granted an incentive stock option to purchase up to 25,000 shares of common stock to our Vice President of Sales. The option was fully vested on March 31, 2011 and will expire five years from the date of grant. The option was granted with an exercise price of \$0.336 per share. The option was granted pursuant to the exemption provided by Rule 701.

On March 31, 2011, the Company issued 32,300 shares of restricted common stock to one service provider for website design services pursuant to Section 4(6) of the Securities Act of 1933 in exchange for services valued at approximately \$9,690 or \$0.30 per share.

In April 2011, pursuant to new employment agreements, we granted a non-qualified stock option to purchase up to 1,000,000 shares of common stock to each of Mr. Moeller, Mr. Meader, Mr. Larry Balaban and Mr. Howard Balaban. The options were vested as to 250,000 of the shares on the date of grant and will vest as to the remaining shares at a rate of 250,000 shares on each of April 1, 2012, April 1, 2013 and April 1, 2014. The options have a term of ten years and will not expire earlier except in the event of a termination for cause, in which case they will expire as to all shares within ninety days of the date of termination. The options were granted with an exercise price of \$0.44 per share, or the greater of \$0.44 or 110% of the fair market value of the shares on the date of grant.

On April 1, 2011, the issuer granted an incentive stock option to purchase up to 25,000 shares of common stock to our Vice President of Sales. The option was fully vested on June 30, 2011 and will expire five years from the date of grant. The option was granted with an exercise price of \$0.50 per share. The option was granted pursuant to the exemption provided in Rule 701.

During the first two quarters of 2011, we conducted a private placement to accredited investors only under Rule 506. As a result of the offering, the Company sold 5,300,000 shares of common stock at a purchase price of \$0.20 per share for an aggregate of \$1,060,000. The proceeds of the offering were primarily used to fund general operating expenses, product development and introduction for Circle of Education, LLC and for the reduction of the outstanding principal balance on the note issued to Isabel Moeller. Ms. Moeller subscribed for 1,000,000 shares. In lieu of cash payment for the subscribed shares, Ms. Moeller agreed to a \$200,000 reduction in the outstanding principal balance of her note effective April 1, 2011.

On June 13, 2011, the issuer granted an option to purchase up to 1,000,000 shares of restricted common stock at an exercise price of \$0.44 to Alfred Kahn as part of a consulting agreement. The option, which was granted under the Company's 2008 Stock Option Plan, will vest as to 500,000 shares on May 31, 2012 with the remainder vesting on May 31, 2013 and will expire five years from the grant date. Mr. Kahn has granted the Company a right of first refusal on any shares purchased under the option in the event of early termination of the agreement. The repurchase price of the right of first refusal would be the bid price on the date of termination. The option was granted to Mr. Kahn pursuant to Rule 701 of the Securities Act of 1933, as price amended.

On July 1, 2011, the issuer granted an incentive stock option to purchase up to 25,000 shares of common stock to our Vice President of Sales. The option was fully vested on September 30, 2011 and will expire five years from the date of grant. The option was granted with an exercise price of \$0.50 per share. The option was granted pursuant to the exemption provided in Rule 701.

On October 1, 2011, the issuer granted an incentive stock option to purchase up to 25,000 shares of common stock to our Vice President of Sales. The option was fully vested on December 31, 2011 and will expire five years from the date of grant. The option was granted with an exercise price of \$0.50 per share. The option was granted pursuant to the exemption provided in Rule 701.

On December 31, 2011, the Company issued an incentive stock option to purchase up to 250,000 shares to the Marketing Director in conjunction with an offer of employment. The option vests fully on September 30, 2012 and expires five years thereafter. The exercise price was \$0.44 per share. The option was granted pursuant to the exemption provided in Rule 701.

On December 31, 2011, the Company issued 250,000 shares of restricted common stock to one service provider for investor relation services pursuant to Section 4(6) of the Securities Act of 1933 in exchange for services valued at approximately \$42,500, or \$0.17 per share.

On December 31, 2011, the Company issued incentive Stock Option Grant Notices to eighteen employees and service providers, granting options to purchase 715,000 shares of common stock. The options fully vested as of December 31, 2011. In the event the options are exercised, the Company will likely use the proceeds from the exercise to pay general operating expenses of the Company.

Warrants and Rights

Currently, the Company has warrants outstanding to purchase up to 471,108 shares of our common stock, each of which was issued with an exercise price of \$0.40 and expires three years from the date of issue. All of the warrants will expire on November 18, 2013. All common stock underlying the warrants will be restricted when issued.

Either the exercise price or the number of shares purchasable under the warrant may be adjusted in the event of any split of the common stock, reclassification, capital reorganization or change in the outstanding common stock, or declaration of a common stock dividend. In the event of any such adjustment, the Company will notify the holders of the warrants of the exercise price and number of shares purchasable under the warrant following adjustment, the facts requiring the adjustment and the method of calculation of any increase or decrease in price or purchasable shares. No adjustment will be required, however, unless the adjustment would require an increase or decrease in the exercise price of at least 1%.

Item 6. Selected Financial Data

Not required for smaller reporting companies.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion and analysis of our results of operations, financial condition and liquidity and capital resources should be read in conjunction with our audited financial statements and related notes for the fiscal years ended December 31, 2011 and 2010. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements.

Overview

The MD&A 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. ("we", "us", "our" or the "Company") commenced operations in January 2006, assuming all of the rights and obligations of its Chief Executive Officer, Klaus Moeller, under an Asset Purchase Agreement between the Company and Genius Products, Inc., in which we obtained all rights, copyrights, and trademarks to the brands "Baby Genius", "Little Genius", "Kid Genius", "Child Genius", "123 Favorites" and "Wee Worship", and all then existing productions under those titles. We create and provide family entertainment and music-based products that we believe will be entertaining, educational and beneficial to the well-being of infants and young children. We create market and sell children's DVDs, CD music, toy, and book products in the United States by distribution at wholesale to retail stores and outlets and directly to consumers through our website and "deal for a day" sites. We also license the use of our brands domestically and internationally to others to manufacture market and sell products based on our characters and brand, whereby we receive advances and royalties.

On October 17, 2011 and October 18, 2011, Genius Brands International, Inc., f/k/a Pacific Entertainment Corporation, filed Articles of Merger with the Secretary of State of the State of Nevada and with the Secretary of State of the State of California, respectively. As described on the Company's Schedule 14C Information Statement, filed with the Securities and Exchange Commission on September 21, 2011, by filing the Articles of Merger, the Company (i) changed its domicile to Nevada from California, and (ii) changed its name to Genius Brands International, Inc.

from Pacific Entertainment Corporation (the “Reincorporation”). Pursuant to the Articles of Merger, Pacific Entertainment Corporation, a California corporation, merged into Genius Brands International, Inc., a Nevada corporation that, prior to the Reincorporation, was the wholly owned subsidiary of Pacific Entertainment Corporation. Genius Brands International, the Nevada corporation, is the surviving corporation. In connection with the Reincorporation, on October 12, 2011, the Company filed an Issuer Company-Related Action Notification Form with the Financial Industry Regulatory Authority (“FINRA”). In November 2011, FINRA issued the Company a new ticker symbol, “GNUS”, for trading purposes.

The Company released two new music products, “50 Classic Lullabies & Soothing Songs” and “Favorite Guitar and Piano Melodies” in 2010. We released three new music titles in 2011, “Best of Baby Genius”, “Sleighbells and Snowflakes” and “Favorite Country Christmas Music”.

In August 2009, the Company launched a line of Baby Genius pre-school toys. The line of 24 Baby Genius toys, manufactured by toy manufacturer Battat Incorporated, included musical, activity, and role-play toys that incorporate the Baby Genius principle of music as a core learning tool to engage and encourage children to communicate, connect, discover, and use their imagination. The Company cancelled the agreement in December 2010 according to the terms of the contract, permitting Battat to continue selling the current line of toys until late spring 2011. The Company received no royalty revenue from Battat subsequent to the three month period ended March 31, 2011 and anticipates no further royalty income from this license.

On January 11, 2011, the Company signed a world-wide license agreement with Tollytots® division for a new toy line. As a result of the five-year agreement, Tollytots® immediately began development on a comprehensive line of musical and early learning toys, incorporating the music, characters and themes from the Baby Genius series of videos and music CDs. The new toy line will cover a broad range of exclusive categories including learning and developmental toys, most plush toys and musical toys, as well as several non-exclusive categories, including board games, puzzles, electronic learning aids and amusement plush toys. As part of the development of the new products, the Company has engaged in the creation of several new characters as well as updating the existing characters.

Due to a gap between the termination of the Battat license and subsequent end of the extended sell off period and the introduction of the Tollytots® toy line 2012, we experienced a reduction in royalty income in 2011 and anticipate a reduction in royalty revenue during the first half of 2012. As we cannot state with any certainty what the revenue would have been from the Battat toy line nor predict the sales for the new line of Tollytots® toys, we are unable to state the amount of the overall reduction for our licensed revenue category.

The Company, in partnership with Dr. Shulamit Ritblatt, has developed an early childhood education curriculum using music as the basis for skills required to prepare pre-school children for Kindergarten. This product is designed to assist teachers and parents in providing their pre-school children with the skills required to succeed in their first steps of education. Circle of Education, LLC was formed on September 24, 2010, pursuant to a joint venture agreement between the Company and Dr. Ritblatt. The Company obtained an initial voting and economic interest of seventy-five percent of the outstanding units of the newly formed company in exchange for the contribution of all intellectual property rights the Company had in the Circle of Education program. In March 2012, the Company and Dr. Shulamit Ritblatt agreed to terminate the joint venture agreement for Circle of Education, LLC (“COE”). COE transferred equal right of ownership in the intellectual property developed as of the date of termination (“IP”) to each of the Company and Dr. Ritblatt, and in exchange for the rights to the IP, Dr. Ritblatt transferred her units of COE to the Company. Each party will have the right to continue development of the IP and products based on the IP with no further obligation to the other party. Subject to certain limitations for specific channels of distribution reserved for each party for a period of twelve months from the execution of the agreements, both parties have non-exclusive and non-restrictive rights to the use, sublicense or sale of the IP and products created based on the IP. The Company has consolidated the results for the twelve month period ended December 31, 2011 and December 31, 2010 with the results of COE. COE recognized a loss of \$21,461 for the twelve month period ended December 31, 2011. As the Company has an economic interest of 75 percent of the total subsidiary, the Company recognized 100 percent of the loss and recorded 25 percent of the loss, or \$5,366, as Noncontrolling Interest on the financial statements for the twelve months ended December 31, 2011. There were no sales or expenses in the fiscal year ended December 31, 2010.

The Company also obtains licenses for other select brands we feel we can market and sell through our distribution channels.

During 2010, the Company launched a line of DVDs including classic movies and television programs under the brand “Pacific Entertainment Presents”. Initially consisting of seven titles, each focusing on a specific genre such as Horror, Western, SciFi, Action, Mystery, War, and Gangster, an additional six titles were added in late 2010 expanding the line with the Super Hero’s collection as well as Family Favorites. In 2011, we obtained the rights to distribute other studios’ films on DVD, Blu-Ray, digital and broadcast formats under our brand which were included in our product catalog starting in the third quarter of 2011. The agreements vary in length from three to five years.

Results of Operations

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Fiscal Year Ended December 31, 2011 Compared to December 31, 2010

Our summary results are presented below:

	2011	2010
Revenues	\$ 6,023,010	\$ 3,972,663
Costs and Expenses	(7,084,424)	(4,012,788)
Depreciation and Amortization	(208,859)	(694,698)
Loss from Operations	(1,270,273)	(734,823)
Other Income	24,865	46,060
Interest Expense	(126,851)	(70,406)
Gain on Settlement of Debt	-	66,286
Total Other Income (Expense)	(101,986)	41,940
Net Loss	(1,372,259)	(692,883)
Net Loss attributable to Non-Controlling Interest	5,366	-
Net Loss attributable to Genius Brands International, Inc.	\$ (1,366,893)	\$ (692,883)
Net Loss per common share	\$ (0.02)	\$ (0.01)
Weighted average shares outstanding	58,923,904	54,757,285

Revenues. Revenues by product segment and for the Company as a whole were as follows:

2011	2010
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