

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

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

For the transition period from _____ to _____

Commission file number: 000-54389

GENIUS BRANDS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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Nevada 20-4118216
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

5820 Oberlin Dr., Suite 203
San Diego, California 92121
(Address of principal executive offices) (Zip Code)

(858) 450-2900

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes** **No**

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

Large accelerated filer Accelerated filer

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

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: 71,912,617 shares of common stock, par value \$0.001, were outstanding as of August 14, 2012.

GENIUS BRANDS INTERNATIONAL, INC.

FORM 10-Q

For the Quarterly Period Ended June 30, 2012

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PART I — FINANCIAL INFORMATION**Item 1. Consolidated Financial Statements (Unaudited).**

Genius Brands International, Inc.

Consolidated Balance Sheets

June 30, 2012 (unaudited) and December 31, 2011 (audited)

| <u>ASSETS</u> | 6/30/2012 | 12/31/2011 |
|---|-------------|-------------|
| Current Assets: | | |
| Cash | \$1,191,509 | \$405,341 |
| Accounts Receivable, net | 762,163 | 1,021,039 |
| Inventory | 221,510 | 340,782 |
| Prepaid and Other Assets | 317,258 | 168,486 |
| Total Current Assets | 2,492,440 | 1,935,648 |
| Property and Equipment, net | 29,206 | 32,894 |
| Capitalized Product Development in Process | 353,194 | 278,696 |
| Intangible Assets, net | 334,915 | 405,019 |
| Debenture Issuance Costs | 256,040 | — |
| Total Assets | \$3,465,795 | \$2,652,257 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Current Liabilities: | | |
| Accounts Payable | \$547,675 | \$1,008,460 |
| Accrued Expenses | 377,082 | 408,684 |
| Accrued Salaries and Wages | 493,277 | 193,519 |
| Accrued Interest - Debentures | 19,049 | 19,049 |
| Unearned Revenue | 482,746 | — |
| Total Current Liabilities | 1,919,829 | 1,629,712 |
| Long Term Liabilities: | | |
| Debenture (Net of discount) and Accrued Interest | 623,226 | — |
| Notes Payable – Related Parties and Accrued Interest | 435,665 | 2,143,178 |
| Total Liabilities | 2,978,720 | 3,772,890 |

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| | | |
|---|-------------|-------------|
| Stockholders' Equity (Deficit) | | |
| Common Stock, \$0.001 par value, 250,000,000 shares authorized; 71,862,617 and 60,698,815 shares issued and outstanding, respectively | 71,863 | 60,699 |
| Additional Paid in Capital | 9,740,175 | 6,959,083 |
| Accumulated Deficit | (9,324,963) | (8,135,049) |
| Total Genius Brands International, Inc. Stockholders' Equity (Deficit) | 487,075 | (1,115,267) |
| Noncontrolling Interest | – | (5,366) |
| Total Equity | 487,075 | (1,120,633) |
| | | |
| Total Liabilities & Stockholders' Equity (Deficit) | \$3,465,795 | \$2,652,257 |

See accompanying notes to consolidated financial statements

Genius Brands International, Inc.

Consolidated Statements of Operations

Periods Ending June 30, 2012 and 2011 (unaudited)

| | Three Months Ending | | Six Months Ending | |
|--|---------------------|------------|-------------------|-------------|
| | 6/30/2012 | 6/30/2011 | 6/30/2012 | 6/30/2011 |
| Revenues: | | | | |
| Product Sales | \$1,601,212 | \$791,568 | \$2,602,463 | \$1,684,859 |
| Licensing & Royalties | 40,586 | 44,168 | 70,282 | 458,053 |
| Total Revenues | 1,641,798 | 835,736 | 2,672,745 | 2,142,912 |
| Cost of Sales (Excluding Depreciation) | 1,290,745 | 575,814 | 2,024,876 | 1,129,722 |
| Gross Profit | 351,053 | 259,922 | 647,869 | 1,013,190 |
| Operating Expenses: | | | | |
| Product Development | 2,622 | 2,156 | 8,302 | 7,419 |
| Professional Services | 30,693 | 77,907 | 104,568 | 144,767 |
| Rent Expense | 9,431 | 26,321 | 18,863 | 58,643 |
| Marketing & Sales | 239,563 | 142,120 | 429,120 | 506,672 |
| Depreciation & Amortization | 36,974 | 54,265 | 75,689 | 109,094 |
| Salaries and Related Expenses | 437,973 | 327,949 | 847,337 | 634,236 |
| Stock Compensation Expense | 61,419 | 304,596 | 123,379 | 306,367 |
| Other General & Administrative | 182,026 | 71,844 | 258,430 | 144,888 |
| Total Operating Expenses | 1,000,701 | 1,007,158 | 1,865,688 | 1,912,086 |
| Loss from Operations | (649,648) | (747,236) | (1,217,819) | (898,896) |
| Other Income (Expense): | | | | |
| Other Income | 86 | 10,641 | 171 | 21,059 |
| Interest Expense | (3,987) | – | (5,147) | (1,145) |
| Interest Expense – Related Parties | (5,978) | (29,733) | (38,033) | (63,594) |
| Gain (loss) on extinguishment of debt | 76,280 | – | 76,280 | – |
| Net Other Income (Expense) | 66,401 | (19,092) | 33,271 | (43,680) |
| | (583,247) | (766,328) | (1,184,548) | (942,576) |

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Loss before Income Tax Expense and Noncontrolling Interest

| | | | | |
|--|--------------|--------------|----------------|--------------|
| Income Tax Expense | – | – | – | – |
| Net Loss | (583,247) | (766,328) | (1,184,548) | (942,576) |
| Acquisition of Noncontrolling Interest | – | – | (5,366) | – |
| Net Loss attributable to Noncontrolling Interest | – | 977 | – | 4,421 |
| Net Loss attributable to Genius Brands International, Inc. | \$(583,247) | \$(765,351) | \$(1,189,914) | \$(938,155) |
| Net Loss per common share | \$(0.01) | \$(0.01) | \$(0.02) | \$(0.02) |
| Weighted average shares outstanding | 62,312,162 | 59,490,691 | 63,277,002 | 56,215,116 |

See accompanying notes to consolidated financial statements

Genius Brands International, Inc.

Consolidated Statements of Stockholders' Equity (Deficit)

| | Common Stock | | Additional Paid in Capital | Noncontrolling Interest | Accumulated Deficit | Total |
|---|--------------|----------|----------------------------------|----------------------------|------------------------|---------------|
| | Shares | Amount | | | | |
| Balance, December 31, 2011 (audited) | 60,698,815 | \$60,699 | \$6,959,083 | \$ (5,366 |) \$(8,135,049) | \$(1,120,633) |
| Common Stock Issued for Cash | 950,000 | 950 | 189,050 | – | – | 190,000 |
| Common Stock Issued for Services | 1,486,070 | 1,486 | 323,228 | – | – | 324,714 |
| Common Stock Issued in exchange for repayment of Note Payable | 8,727,732 | 8,728 | 1,736,818 | – | – | 1,745,546 |
| Warrants Granted for Debenture Issuance Costs | – | – | 28,929 | – | – | 28,929 |
| Warrants Granted for Debt Discount | – | – | 379,688 | – | – | 379,688 |
| Stock Compensation Expense | – | – | 123,379 | – | – | 123,379 |
| Acquisition of Noncontrolling Interest | – | – | – | 5,366 | – | 5,366 |
| Net Loss | – | – | – | – | (1,189,914) | (1,189,914) |
| Balance, June 30, 2012 (unaudited) | 71,862,617 | \$71,863 | \$9,740,175 | \$ – | \$(9,324,963) | \$487,075 |

See accompanying notes to consolidated financial statements

Genius Brands International, Inc.

Consolidated Statements of Cash Flows (unaudited)

| | Six Months Ending | |
|---|-------------------|-------------|
| | 6/30/2012 | 6/30/2011 |
| Cash Flows from Operating Activities: | | |
| Net Loss | \$(1,184,548) | \$(942,578) |
| Adjustments to reconcile net loss to net cash provided in operating activities: | | |
| Depreciation Expense | 5,586 | 6,771 |
| Amortization Expense | 70,104 | 102,323 |
| Issuance of Common Stock for Services | 324,714 | 9,690 |
| Accretion of discount on convertible notes payable | 1,581 | - |
| Stock Compensation Expense | 123,379 | 306,367 |
| Decrease (increase) in operating assets | | |
| Accounts Receivable | 258,876 | 611,585 |
| Inventory | 119,272 | (25,672) |
| Prepaid Expenses & Other Assets | (148,772) | (209,249) |
| Increase (decrease) in operating liabilities | | |
| Accounts Payable | (460,785) | (519,492) |
| Accrued Salaries | 299,758 | 136,548 |
| Accrued Interest | 1,333 | - |
| Accrued Interest – Related Party | 38,033 | 63,594 |
| Other Accrued Expenses | 451,144 | 377,377 |
| Net cash provided/(used) in operating activities | (100,325) | (82,736) |
| Cash Flows from Investing Activities: | | |
| Investment in Intangible Assets | (74,498) | (116,422) |
| Purchase of Fixed Assets | (1,898) | (7,720) |
| Net cash provided/(used) by investing activities | (76,396) | (124,142) |
| Cash Flows from Financing Activities: | | |
| Sale of Common Stock | 190,000 | 860,000 |
| Common Stock Offering Cost | - | (1,770) |
| Proceeds from long term debenture | 1,000,000 | - |
| Issuance costs on long term debenture | (227,111) | - |
| Payments on Related Party Debt | - | (120,000) |
| Net cash provided/(used) by financing activities | 962,889 | 738,230 |
| Net increase/(decrease) in cash | 786,168 | 531,352 |
| Beginning Cash Balance | 405,341 | 207,880 |
| Ending Cash Balance | \$1,191,509 | \$739,232 |

Supplemental disclosures of cash flow information:

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| | | |
|---|-------------|-----------|
| Cash paid for income taxes | \$- | \$- |
| Cash paid for interest | \$1,160 | \$1,145 |
| Related Party Note converted to Common Stock | \$1,745,546 | \$200,000 |
| Warrants granted for debenture issuance costs | \$28,929 | \$- |
| Discount on long term debentures attributed to Warrants | \$379,688 | \$- |

See accompanying notes to consolidated financial statements

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Genius Brands International, Inc.

Notes to Consolidated Financial Statements

June 30, 2012 (unaudited)

Note 1: The Company and Significant Accounting Policies

Organization and Nature of Business

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

Pacific Entertainment Corporation commenced operations in January 2006, assuming all of the rights and obligations of its Chief Executive Officer, Klaus Moeller, under an Asset Purchase Agreement between the Company and Genius Products, Inc., in which we obtained all rights, copyrights, and trademarks to the brands “Baby Genius,” “Little Genius,” “Kid Genius,” “123 Favorite Music” and “Wee Worship,” and all then existing productions under those titles. On October 17, 2011 and October 18, 2011, the Company, filed Articles of Merger with the Secretary of State of the State of Nevada and with the Secretary of State of the State of California, respectively, which (i) changed our domicile to Nevada from California, and (ii) changed our name to Genius Brands International, Inc. from Pacific Entertainment Corporation (the “Reincorporation”). Pursuant to the Articles of Merger, Pacific Entertainment Corporation, a California corporation, merged into Genius Brands International, Inc., a Nevada corporation that, prior to the Reincorporation, was the wholly owned subsidiary of Pacific Entertainment Corporation. Genius Brands International, the Nevada corporation, is the surviving corporation. The trading symbol is “GNUS”.

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

On January 11, 2011, the Company signed an agreement with Jakks Pacific's Tollytots® division for a new toy line. As a result of the five-year agreement, Tollytots® immediately began development of a comprehensive line of musical and early learning toys, incorporating the music, characters and themes from the *Baby Genius* series of videos and music CDs. The new toy line will cover a broad range of exclusive categories, including learning and developmental toys, most plush toys and musical toys, as well as several other non-exclusive categories, and is being marketed to retail stores for third quarter 2012. As part of the development of the new toy products, the Company created several new characters.

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

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

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

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

Interim Consolidated Financial Statements

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

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

Significant Accounting Policies

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

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

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

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

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

Liquidity - Historically, the Company has incurred net losses. As of June 30, 2012, the Company had a consolidated accumulated deficit of \$9,324,963 and total stockholders' equity of \$487,075. At June 30, 2012, the Company had consolidated current assets of \$2,492,440, including cash of \$1,191,509, and consolidated current liabilities of \$1,919,829, resulting in a working capital of \$572,611. For the six month period ending June 30, 2012, the Company reported a consolidated net loss of \$1,184,548, including stock option expense of \$123,379 which has no cash expenditure requirement. The Company had net cash used by operating activities of \$100,325. Management believes

that its increasing revenue each year over the prior year and cash generated by operations, together with funds available from short-term related party advances and funding from debentures issued, will be sufficient to fund planned operations for the next twelve months. However, there can be no assurance that operations and operating cash flows will continue at the current levels or improve in the near future. If the Company is unable to obtain profitable operations and positive operating cash flows sufficient to meet scheduled debt obligations, it may need to seek additional funding or be forced to scale back its development plans or to significantly reduce or terminate operations.

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

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

| | 6/30/2012 | 12/31/2011 |
|-------------------------------|-------------|--------------|
| Furniture and Equipment | \$89,159 | \$87,261 |
| Less Accumulated Depreciation | (59,953) | (54,367) |
| Net Fixed Assets | \$29,206 | \$32,894 |
| Trademarks | \$129,831 | \$129,831 |
| Product Masters | 3,255,107 | 3,255,107 |
| Other Intangible Assets | 224,605 | 224,605 |
| Less Accumulated Amortization | (3,274,628) | (3,204,524) |
| Net Intangible Assets | \$334,915 | \$405,019 |

Pursuant to FASB Accounting Standards Codification regarding Topic 350, Intangible Assets, intangible asset(s) acquired, either individually or with a group of other assets shall be initially recognized and measured based on fair value. In the acquisition of the assets from Genius Products, fair value was calculated using a discounted cash flow analysis of the revenue streams for the estimated life of the assets. As this resulted in a fair market value in excess of the purchase price, the assets were recorded at \$2,489,082, the total purchase price discounted with the imputed interest rate of 10%.

The Company reviews all intangible assets periodically to determine if the value has been impaired by recent financial transactions using the discounted cash flow analysis of revenue stream for the estimated life of the assets. At the six months ending June 30, 2012 and twelve months ending December 31, 2011 it was determined that no impairment exists.

The Company continues to develop new CDs and DVDs, in addition to adding content, improved animation and bonus songs/features to their existing CD and DVD collection. 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. As of June 30, 2012, the Company has \$353,194 in Capitalized Product Development in Process representing DVD, CD, preschool readiness program and toy development projects not yet completed.

Note 3: Accrued Liabilities

Accrued Salaries and Wages as of June 30, 2012 total \$493,277 and \$193,519 as of December 31, 2011. Debenture Interest accrued and unpaid for the 2006 issuance of \$2.5 million is \$19,049 as of June 30, 2012 and December 31, 2011. Interest on this series of debentures was terminated effective July 24, 2009 in accordance with the conversion agreement upon establishment of a secondary trading market for our common stock. Other Accrued Liabilities, totaling \$377,082 as of June 30, 2012 and \$408,684 as of December 31, 2011, include a reserve for product returns, music royalty payments, financed insurance costs, commissions to outside representatives on net sales and royalty income, and amounts accrued but not yet due to studios for distributed products. The reserve for returned product represents an estimate of potential product returns in future periods and is evaluated for reasonableness each reporting period. Unearned revenue was recognized in the amounts of \$482,746 as of June 30, 2012 and \$0 as of December 31, 2011, representing prepayment by a customer of sales not recorded until shipment was made in July 2012.

Note 4: Long Term Notes Payable and Accrued Interest

On June 27, 2012, the Company entered into a Securities Purchase Agreement with Hillair Capital Investments L.P. ("Hillair") whereby the Company issued and sold (i) a \$1,000,000 16% senior secured convertible debenture due June 27, 2014 (the "Debenture"), and (ii) a common stock purchase warrant (the "Debenture Warrant") to purchase up to 5,000,000 shares of the Company's common stock. The initial closing of the Debenture and Warrant Transaction occurred on June 27, 2012 ("Original Issue Date").

The Company issued to Hillair the Debenture and the Debenture Warrant for the purchase price of \$1,000,000. The Debenture is convertible, in whole or in part, into shares of Common Stock upon notice by Hillair to the Company, subject to certain conversion limitations set forth in the Debenture. The conversion price for the Debenture is \$0.21 per share, subject to adjustments. Interest on the Debenture accrues at the rate of 16% annually and is payable quarterly on February 1, May 1, August 1 and November 1, beginning on November 1, 2012, on any redemption, conversion and at maturity. Interest is payable in cash or at the Company's option in shares of the Company's common stock; provided certain conditions are met. Commencing on December 27, 2013, the Company will be obligated to redeem a certain amount under the Debenture on a quarterly basis, in an amount equal to \$250,000 on each of December 27, 2013 and March 27, 2014 and \$500,000 on June 27, 2014, until the Debenture's maturity date of June 27, 2014. Accrued interest was recorded for the debenture as of June 30, 2012 and December 31, 2011 in the amounts of \$1,333 and \$0, respectively.

Debt Discount was recorded in the amount of \$379,689, based on the Black-Scholes valuation for the warrants issued using the following assumptions:

| | |
|-------------------------|--------|
| Risk-free interest rate | 0.73% |
| Expected life in years | 5 |
| Dividend yield | 0 |
| Expected volatility | 63.65% |

For the three months ended June 30, 2012 and June 30, 2011, amortization of the debt discount was recorded in the amounts of \$1,582 and \$0, respectively.

To secure the Company's obligations under the Debenture, the Company granted a security interest in certain of its property to secure the prompt payment, performance and discharge in full of all of the Company's obligations under the Debenture.

National Securities Corporation acted as placement agent to the Company in connection with the Debenture and Warrant Transaction and received commissions of 8% of the gross proceeds and a five year warrant to purchase 380,952 shares of the company's common stock at a price of \$0.33 per share, which warrant contained terms substantially similar to the Debenture Warrants.

Additional information regarding the Debenture may be found in the Form 8-K filed by the Company on July 2, 2012.

| | 6/30/2012 | 12/31/2011 |
|--|-------------|------------|
| Debenture - \$1,000,000 16% senior secured convertible | \$1,000,000 | \$ - |
| Debt Discount | (378,107) | - |
| Accrued Interest | 1,333 | - |
| Total Notes Payable and Accrued Interest | 623,226 | - |
| Less: Current Portion | - | - |
| Long Term Portion | \$623,226 | \$ - |

Note 5: Notes Payable and Accrued Interest - Related Parties

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As of June 30, 2012 and December 31, 2011, the Company had the following notes payable and accrued interest balances outstanding:

| | 6/30/2012 | 12/31/2011 |
|--|-----------|-------------|
| Related Party Note Payable to Company | \$— | \$136,840 |
| Accrued Interest on Related Party Note | — | 33,982 |
| Officer Loans to Company | 194,163 | 194,163 |
| Accrued Interest on Officer Loans to Company | 41,916 | 34,957 |
| Subordinated Officer Loans to Company | 159,753 | 1,620,137 |
| Accrued Interest on Subordinated Loans | 39,833 | 123,099 |
| Total Notes Payable and Accrued Interest | 435,665 | 2,143,178 |
| Less: Current Portion | — | — |
| Long Term Portion | \$435,665 | \$2,143,178 |

On February 1, 2008, Isabel Moeller, sister of our Chief Executive Officer, Klaus Moeller, loaned \$310,000 to the Company at an interest rate equal to 8% per annum as a short term note payable. The funds were borrowed from Ms. Moeller in order to reduce outstanding obligations due to Genius Products at that time. Subsequent agreements extended the maturity date to January 15, 2015 and reduced the stated interest rate to six (6%) percent per annum. Payments were made on the outstanding principal in the amount of \$14,000 and \$10,000 on February 9, 2011 and April 27, 2011, respectively. On April 1, 2011, Ms. Moeller converted \$200,000 of the outstanding principle to 1,000,000 shares of the Company's common stock. On March 31, 2012, Ms. Moeller agreed to convert the remaining balance, including outstanding principal and interest, in the amount of \$173,385 to 866,925 shares of common stock of the Company, or \$0.20 per share. The note was fully repaid as of March 31, 2012. Accrued interest was recorded for the six month period ended June 30, 2012 and December 31, 2011 in the amounts of \$0 and \$33,982, respectively.

Notes were issued in favor of four of the Company's officers for loans to the Company at various times during the years 2007 through 2009. Subsequent agreements amended the stated interest rate to 6% per annum and extended the maturity to January 15, 2015. Repayments were made on February 2, 2011 and April 27, 2011 in the aggregate amounts of \$66,000 and \$30,000, respectively. The amount due to the officers on these notes includes accrued but unpaid interest in the amounts of \$41,916 and \$34,957 as of June 30, 2012 and December 31, 2011, respectively.

On March 31, 2011, four of the officers agreed to convert accrued but unpaid salaries through December 31, 2010 to subordinated long term notes payable. In February 2011, as a result of an agreement by each of the four officers to retroactively decrease the amount of the annual salary for 2010 from \$125,000 per annum per officer to \$80,000, the amount of the notes were reduced to an aggregate of \$1,620,137. On March 31, 2012, three of the officers agreed to convert the entire balance outstanding on their respective notes in the cumulative amount of \$1,326,048, including principal and interest, to 6,630,241 shares of common stock of the Company as payment in full. The remaining officer converted a total of \$246,113 of the outstanding balance for 1,230,566 shares of common stock of the Company. All shares issued in exchange for the notes were valued at \$0.20 per share. The remaining note has a principal balance of \$159,753, a maturity date of January 15, 2015 and a stated interest rate of six percent (6%) per annum. There is no prepayment penalty. As of June 30, 2012 and December 31, 2011, the accrued but unpaid interest totals \$39,833 and \$123,099, respectively.

Note 6: Stockholders' Equity

As part of the reincorporation, the total number of authorized shares of common stock was changed to 250,000,000 shares of \$0.001 par value. As of June 30, 2012, 71,862,617 shares of common stock were outstanding.

The Company has 10,000,000 shares of preferred stock authorized with a par value of \$0.001 which may have such designation, rights and preferences as approved by the Board of Directors. As of June 30, 2012, no shares of preferred stock were outstanding and the Board of Directors has not authorized issuance of preferred shares.

On March 31, 2012, the Company issued 8,727,732 shares of common stock in exchange for outstanding notes payable, including principal and interest, in the cumulative amount of \$1,745,546, or \$0.20 per share, for certain related parties and officers of the Company.

Through June 30, 2012, stock option grant notices for up to 15,220,000 shares of common stock to employees and service providers of the Company pursuant to the 2008 Stock Option Plan are outstanding. In accordance with the provisions of Topic 718, Compensation, of the Accounting Standards Codification, which require 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, \$123,379 has been recognized as Additional Paid in Capital as the value of these options granted for the six months ended June 30, 2012. Additional details regarding the stock options granted is found in Note 9: Stock Options.

On April 11, 2012, the Company agreed to issue 1,000,000 shares of common stock in exchange for services valued at \$235,000.

On May 2, 2012, the Company issued 111,070 shares of common stock in exchange for services valued at \$22,214.

On May 10, 2012, the Company issued 250,000 shares of common stock pursuant to a consulting agreement. The services are valued at \$42,500.

On May 10, 2012, the Company issued 900,000 shares of common stock in exchange for cash in the amount of \$180,000, or \$0.20 per share, to an accredited investor. The Company issued an additional 50,000 shares to the same investor on June 25, 2012 in exchange for \$10,000 cash.

On June 20, 2012, the Company issued 125,000 shares of common stock for services valued at \$25,000.

On June 27, 2012, a senior secured convertible debenture was issued in the face value of \$1,000,000 with a stated conversion price of \$0.21, subject to certain adjustments, and 5,000,000 warrants, which is equal to the total face value divided by the stated warrant conversion price of \$0.20. The debenture warrants may be exercised at any time on or after June 27, 2012 and on or prior to the close of business on June 27, 2017, at an exercise price of \$0.33 per share, subject to adjustments upon certain events. The warrants contain full anti-dilution protection and were valued at \$379,688, which was recorded as debt discount as of June 30, 2012 (see also Note 4).

The Company issued warrants to purchase up to 380,952 shares of the company's common stock at a price of \$0.33 per share, which warrant contained terms substantially similar to the Debenture Warrants to National Securities Corporation and several of its employees, who acted as placement agent to the Company in connection with the Debenture. The warrants were valued at \$28,929, which was recorded as debt issuance costs, using a Black-Scholes calculation with the following assumptions:

| | |
|-------------------------|--------|
| Risk-free interest rate | 0.73% |
| Expected life in years | 5 |
| Dividend yield | 0 |
| Expected volatility | 63.65% |

The Company is required to reserve shares equal to the total outstanding debentures divided by seventy-five percent (75%) of the conversion price plus the outstanding warrants. As of June 30, 2012, we have reserved 11,349,206 shares of common stock for the debenture conversion provision and warrants issued to Hillair. The net proceeds of the debenture, after legal fees, due diligence fees and commissions were \$796,817.

On June 2, 2009, the Company, through Glendale Securities, Inc. of Sherman Oaks, California as broker-dealer, filed a Disclosure Statement with the Financial Investment Regulatory Agency (FINRA) pursuant to Rule 15c2-11 of the Securities and Exchange Act of 1934, as amended, to establish a secondary trading market on the Pink Sheets Electronic OTC Markets system. Glendale Securities' request for un-priced quotation on the Pink OTC Markets was cleared by FINRA on July 13, 2009 and trading began on July 24, 2009. In May 2011, the OTC Markets, Inc. moved the Company to the OTCQB trading platform. On September 7, 2011, FINRA cleared the Company for quotation on the OTCBB. In connection with the change in domicile and name change from Pacific Entertainment Corporation to Genius Brands International, Inc., the Company filed an application for a new ticker symbol for trading purposes. The new trading symbol is "GNUS".

Note 7: Income Taxes

The Company accounts for income taxes in accordance with Accounting Standards Codification Topic 740, Income Taxes, which 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, 2007, 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 operations in the provision for income taxes. As of June 30, 2012 and December 31, 2011, 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. 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 8: Recent Accounting Pronouncements

There were no new accounting pronouncements issued during the six months ended June 30, 2012 and through the date of this filing that the Company believes are applicable or would have a material impact on the consolidated financial statements of the Company.

Note 9: Stock Options

The Company has adopted the provisions of Topic 718, Compensation, of the Accounting Standards Codification, which requires companies to measure the cost of 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 Pacific Entertainment Corporation 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 11 million. On September 2, 2011, the shareholders 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 50 million.

On January 1, 2012, the Company issued a Stock Option Grant to the Vice President of Sales for the purchase of up to 25,000 shares of common stock, fully vesting as of March 31, 2012, with a life of five years and an exercise price of \$0.50.

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On May 2, 2012, pursuant to an employment agreement with the Chief Financial Officer, the Company issued and option to purchase up to 200,000 shares of common stock. The option fully vests on December 31, 2014, has a five year term and a exercise price of \$0.44.

The Company used the Black-Scholes valuation model to estimate the grant date fair value of the options granted in 2012. The Company used the following assumptions for the 2012 valuations:

| | |
|-------------------------|--------------|
| Risk-free interest rate | 0.82-0.85% |
| Expected life in years | 5 |
| Dividend yield | 0 |
| Expected volatility | 59.19-63.64% |

The following schedule summarizes the changes in the Company's stock option plan for the six months ended June 30, 2012:

| | Options Outstanding Number of Shares | Exercise Price per Share | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value | Weighted Average Exercise Price per Share |
|------------------------------|---|--------------------------------|---|---------------------------------|---|
| Balance at December 31, 2011 | 14,995,000 | \$0.18-0.55 | 4.47 years | – | \$ 0.43 |
| Options Granted | 225,000 | \$0.44-0.50 | 4.83 years | – | \$ 0.45 |
| Options Exercised | – | – | – | – | – |
| Options Expired | – | – | – | – | – |
| Balance at June 30, 2012 | 15,220,000 | \$0.18-0.55 | 4.23 years | – | \$ 0.44 |
| Exercisable June 30, 2012 | 12,070,000 | \$0.18-0.55 | 2.52 years | – | \$ 0.34 |

During the six months ended June 30, 2012 and 2011 the Company recognized \$123,379 and \$306,367 in Stock Compensation expense, respectively.

Note 10: Warrants

During the three months ended June 30, 2012, 5,380,952 warrants were issued to various holders as part of the debenture issued on June 27, 2012. The warrants have an exercise price of \$0.33, subject to adjustment, and a term of five (5) years.

The following schedule summarizes the changes in the Company's warrants for the six months ended June 30, 2012:

| | Number of Warrants | Exercise Price per Share | Weighted Average Exercise Price per Share |
|-------------------------------|--------------------------|--------------------------------|---|
| Exercisable December 31, 2011 | 471,108 | \$0.40 | \$ 0.40 |

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| | | | |
|---------------------------|-----------|-------------|---------|
| Warrants Granted | 5,380,952 | \$0.33 | \$ 0.33 |
| Warrants Exercised | — | — | — |
| Warrants Expired | — | — | — |
| Balance at June 30, 2012 | 5,852,060 | \$0.33-0.40 | \$ 0.34 |
| Exercisable June 30, 2012 | 5,852,060 | \$0.33-0.40 | \$ 0.34 |

The following schedule summarizes the outstanding warrants at June 30, 2012:

| Number of Warrants Outstanding at June 30, 2012 | Number of Warrants Exercisable at June 30, 2012 | Expiration Date | Exercise Price |
|---|--|--------------------|-------------------|
| 5,852,060 | 5,852,060 | 2013-2017 | \$0.33 - 0.40 |

Note 11: Employment Agreements

On April 26, 2011, the Company and each of four Officers agreed to enter into new five-year employment agreements unless written termination is provided by either party. Each employment agreement provides for a graduated base salary beginning at \$165,000 per annum retroactive to March 20, 2011 and continuing to December 31, 2011 and increasing to \$195,000 for 2012, \$225,000 for 2013. After 2013, the agreement provides for base salary increases at the discretion of the Board of Directors, with a minimum 5% increase. In addition to base salary, each Executive continues to receive an annual car allowance of \$11,400.

On May 2, 2012, the Company entered into a five-year “at will” employment agreement with Jeanene Morgan to serve as the Company’s Chief Financial Officer. The agreement provides a base salary of \$165,000 per annum from January 1, 2012 to December 31, 2012, increasing to \$190,000 on January 1, 2013 and \$215,000 on January 1, 2014. After 2014, the agreement provides for base salary increases at the discretion of the Board of Directors with a minimum 5% increase. The board of directors, in its sole discretion, may grant Ms. Morgan a year-end bonus with a value of no less than 2% of EBITDA of the Company (assuming a positive figure) and up to 100% of Ms. Morgan’s base salary. Ms. Morgan shall be granted an option to purchase 200,000 shares of the Company’s common stock. Ms. Morgan shall be permitted to participate in all benefit plans of the Company and receive 4 weeks paid vacation.

The following is a schedule by year of the future minimum salary payments related to these employment agreements:

| | |
|-------|-------------|
| 2012 | \$753,077 |
| 2013 | 1,090,000 |
| 2014 | 1,160,000 |
| 2015 | 1,218,002 |
| 2016 | 497,506 |
| Total | \$4,718,585 |

Note 12: Limited Liability Company

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 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. Circle of Education, LLC was formed on September 24, 2010.

The Company consolidated the results for the twelve month period ended December 31, 2011 with the results of COE. As the Company had an economic interest of 75 percent of the total subsidiary for the twelve months ended December 31, 2011, 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.

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 has 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.

On May 2, 2012, the Board of Directors approved the cancellation of the California Limited Liability Company. The cancellation has been approved by the California Secretary of State and the company has been dissolved. There will be no additional consolidation of results subsequent to June 30, 2012.

Note 13: Subsequent Events

The Company has evaluated subsequent events through the date the financial statements were issued in accordance with Financial Accounting Standards Board Codification Topic 855, Subsequent Events.

On July 12, 2012, the Company issued 50,000 shares of common stock in exchange for cash in the amount of \$10,000, or \$0.20 per share, to an accredited investor.

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 unaudited consolidated financial statements and related notes for the three and six months ended June 30, 2012 and 2011. 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.

Forward Looking Statements

This report on Form 10-Q contains forward-looking statements which involve assumptions and describe our future plans, strategies and expectations. When used in this statement, the words “may,” “will,” “expect,” “anticipate,” “continue,” “estimate,” “project,” “intend,” and similar expressions are intended to identify forward-looking statements regarding events, conditions, and financial trends that may affect the Company’s future plans of operations, business strategy, operating results, and financial position. These statements are expressed in good faith and based upon a reasonable basis when made, but there can be no assurance that these expectations will be achieved or accomplished.

Persons reviewing this report are cautioned that any forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties and actual results may differ materially from those included within the forward looking statements as a result of various factors. Such factors include, among other things, uncertainties relating to our success in judging consumer preferences, financing our operations, entering into strategic partnerships, engaging management, seasonal and period-to-period fluctuations in sales, failure to increase market share or sales, inability to service outstanding debt obligations, dependence on a limited number of customers, increased production costs or delays in production of new products, intense competition within the industry, inability to protect intellectual property in the international market for our products, changes in market condition and other matters disclosed by us in our public filings from time to time. Forward-looking statements speak only as to the date they are made. The Company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

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

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, which (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”.

Our products include video, music and books based on our characters and content distributed at wholesale to retail stores and outlets, direct to consumers through various “deal for a day” sites and through digital platforms. The Company obtains rights to the content of other studios for distribution through our warehouse facility to our customers, for which we either pay royalty fees or earn distribution fees. We also license the use of our brands and characters, both domestically and internationally, to others to manufacture, market and sell products based on our characters and brand, from whom we receive advances and royalties.

In August 2009, the Company launched a line of Baby Genius pre-school toys. The line of 24 Baby Genius toys, manufactured by toy manufacturer Battat Incorporated, included musical, activity, and role-play toys that incorporated the Baby Genius principle of music as a core learning tool to engage and encourage children to communicate, connect, discover, and use their imagination. The Company 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 Jakks Pacific’s 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 other non-exclusive categories. 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. The Company anticipates the new toys will be available at retail beginning in third quarter 2012.

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 Jakks Pacific toy line 2012, we anticipate a reduction in royalty revenue during 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 Jakks Pacific toys, we are unable to state the amount of the overall reduction for our licensed revenue category.

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 actively participated in a research study into the use of music-based curriculum through a major university for 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.

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 will be included in our product catalog starting in the third quarter of 2011. The agreements vary in length from three to five years.

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

Results of Operations

Three and Six Month Periods Ended June 30, 2012 Compared to June 30, 2011

Our summary results of operations are presented below:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|--------------|------------------------------|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenues | \$1,641,798 | \$835,736 | \$2,672,745 | \$2,142,912 |
| Costs and Operating Expenses | (2,254,472) | (1,528,707) | (3,814,875) | (2,932,714) |
| Depreciation and Amortization | (36,974) | (54,265) | (75,689) | (109,094) |
| Loss from Operations | (649,648) | (747,236) | (1,217,819) | (898,896) |
| Other Income | 86 | 10,641 | 171 | 21,059 |
| Interest Expense | (9,965) | (29,733) | (43,180) | (64,739) |
| Gain on settlement of debt | 76,280 | – | 76,280 | – |
| Total Other Income | 66,401 | (19,092) | 33,271 | (43,680) |
| Net Loss | (583,247) | (766,328) | (1,184,548) | (942,576) |
| Acquisition of Noncontrolling Interest | – | – | (5,366) | – |
| Net Loss attributable to Noncontrolling Interest | – | 977 | – | 4,421 |

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| | | | | |
|--|--------------|--------------|----------------|--------------|
| Net Loss attributable to Genius Brands International, Inc. | \$(583,247) | \$(765,351) | \$(1,189,914) | \$(938,155) |
| Net Loss per common share | \$(0.01) | \$(0.01) | \$(0.02) | \$(0.02) |
| Weighted average shares outstanding | 63,312,162 | 59,490,691 | 63,277,002 | 56,215,116 |

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

| | Three Months Ended | | Six Months Ended | |
|-----------------------------------|--------------------|-----------|------------------|-------------|
| | March 31, | | June 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Genius Brands Product Sales | \$480,957 | \$432,758 | \$1,002,980 | \$1,076,476 |
| Licensed and Distributed Products | 1,120,255 | 358,810 | 1,599,483 | 608,383 |
| Royalty Revenue | 40,586 | 44,168 | 70,282 | 458,053 |
| Total Revenue | \$1,641,798 | \$835,736 | \$2,672,745 | \$2,142,912 |

Genius Brands product sales represent items in which the Company holds the copyrights and/or trademarks to the characters and content which are manufactured and sold by the Company directly, either at wholesale to retail stores and outlets or direct to consumers through daily deal sites and our website. The increase of \$48,199 (11.1%) for the three months ended June 30, 2012 compared to the three months ended June 30, 2011, was due to an increase in DVD sales offset by a decrease in CD sales. The decrease of \$73,496 (6.8%) for the six months ended June 30, 2012 compared to the six month period ended June 30, 2011 is a result of a decrease in DVD and CD sales. Management believes that the Company is on target to slightly increase direct product sales volumes over 2011, although economic and retail conditions in the market could impact our future sales in a negative manner and we are unable to guarantee increased sales. We continue to explore additional sales opportunities with customers and new distribution channels; however, there is no guarantee that our products will be accepted by these new customers.

The licensed and distributed product sales category includes items for which we license rights from other companies to copyrights and trademarks of select brands we feel will do well within our distribution channels, product acquired from other studios through distribution agreements, and overstock inventory from other studios which we sell and from which we receive income. For the three months ended June 30, 2012, the category increased by \$761,445 (212.2%) over the same period in 2011 as a result of an increase in outside overstock studio product acquired and sold and other studios' distributed products. For the six months ended June 30, 2012, the increase of \$991,100 (162.9%) was the result of an increase in outside overstock studio product acquired and sold. The timing of the sales of overstock product is intermittent and unpredictable as it is determined by the availability of excess inventory from outside studios.

Royalty revenue is income for our characters and brands licensed to others to manufacture and/or market, both internationally and domestically, and our content distributed through licensed digital distribution providers. For the three months ended June 30, 2012 compared to the same period in 2011, there was a decrease of \$3,582 (8.1%) as a result of timing for international licensing reporting and collection. For the six months ended June 30, 2012 compared to the six months ended June 30, 2011 there was a decrease of \$387,771 (84.7%). The decrease was caused by the termination of the toy license with Battat. There may be fluctuation in licensing revenue due to economic conditions in the sales territory. We believe this royalty revenue will increase in late 2012 and in the subsequent years with the introduction of the new toy line currently in development with Jakks Pacific's Tollytots® division. We cannot guarantee that the new toy line will be accepted nor that the royalty revenue will increase.

Our products compete in the pre-school music, books, DVDs, and toy categories. We believe we compare favorably in the quality of our products, as well as competitive price point. We continue to market direct to retailers and are exploring new domestic and international licensing opportunities. We are investigating additional relevant external brands to license, adding to the diversity of our product line, while maintaining the integrity of our core mission of educating and entertaining children.

The Company's business is subject to the effects of seasonality, causing revenues to fluctuate with consumer purchasing behavior, competition, and the timing of holiday periods.

The 2012 economic outlook remains challenging, however, we anticipate sales growth through our actions to improve our existing products, maintaining highly competitive price points, increasing our digital product revenue and adding content to our product catalog.

Costs. Costs and expenses, excluding depreciation and amortization, consisting of cost of sales, marketing and sales expenses, and general and administrative costs, increased \$726,764 (47.5%) for the three months ended June 30, 2012 compared to the three months ended June 30, 2011 and increased \$882,161 (30.1%) for the six months ended June 30,

2012 compared to the same period of 2011.

| | Three Months Ended | | Six Months Ended | |
|------------------------------------|--------------------|-------------|-------------------------|-------------|
| | March 31, | | June 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Cost of Sales | \$1,290,745 | \$575,814 | \$2,024,876 | \$1,129,722 |
| General and Administrative | 722,542 | 808,617 | 1,352,577 | 1,288,901 |
| Marketing and Sales | 239,563 | 142,120 | 429,120 | 506,672 |
| Product Development | 2,622 | 2,156 | 8,302 | 7,419 |
| Total Costs and Operating Expenses | \$2,255,472 | \$1,528,707 | \$3,814,875 | \$2,932,714 |

Cost of sales increased \$714,931 (124.2%) during the three months ended June 30, 2012 compared to the three months ended June 30, 2011 and \$895,154 (79.2%) for the six months ended June 30, 2012 compared to the same six month period of 2011, as a result of increased sales volumes, product mix variations, and shipping costs.

Operating expenses predominately consists of salaries, employee benefits and stock based compensation as well as other expenses associated with executive management, finance, legal, facilities, marketing, rent, and other professional services. Costs associated with these categories are detailed as follows:

General and administrative costs decreased \$86,076 (10.6%) for the three months ended June 30, 2012 compared to the three months ended June 30, 2011. This is the result of increases in salaries and related expenses of \$110,024 and investor relations of \$105,182, offset by decreased stock compensation expense of \$243,177, rent expenses in the amount of \$16,890 and legal fees of \$31,008. For the six months ended June 30, 2012 compared to the same period in 2011, general and administrative costs increased \$63,676 (4.9%) due to increases in salaries and related expenses of \$213,101 and investor relations costs of \$115,568 offset by decreases in stock compensation expense of \$182,988 and legal fees of \$34,024.

Marketing and sales expenses include trade shows, public relations firms, sales and royalty commissions and personal contact. Marketing expenses exhibit some fluctuation due to timing of trade shows attended. For the three months ended June 30, 2012 compared to the same period in the prior year the total expense increased \$97,443 (68.6%), due to increases of commission expense for “deal for a day” revenue. The expense for the six months ended June 30, 2012 compared to the six months ended June 30, 2011 decreased \$77,552 (15.3%) due to decreased commissions paid for royalty revenue.

Product development expenses are for routine and periodic alterations to existing products. For the three months ended June 30, 2012 compared to the three months ended June 30, 2011, these expenses increased \$466 (21.6%) and increased \$883 (11.9%) for the six months ended June 30, 2012 compared to the same period in the prior year. All costs for new product development and significant improvements to existing products are capitalized in accordance with FASB Accounting Standards Codification Topic 350, Intangible Assets and Topic 730, Research and Development.

Operating expenditures are not generally seasonal and require consistent cash outflows.

Interest Expense. Interest expense primarily resulted from related party loans.

The Company borrowed funds from four of the officers of the Company during the years 2007 to 2009 and issued promissory notes in favor of the officers. The proceeds from the notes were used to pay operating obligations of the Company. Interest expense for these loans was recorded in the three months ended June 30, 2012 and 2011 in the amounts of \$3,506 and \$3,096, respectively. For the six months ended June 30, 2012 compared to the same period of 2011, interest expenses for these loans were recorded in amounts of \$6,960 and \$7,103, respectively.

On February 1, 2008, Isabel Moeller, sister of our Chief Executive Officer, Klaus Moeller, loaned \$310,000 to the Company at an interest rate equal to 8% per annum. The funds were borrowed from Ms. Moeller in order to reduce outstanding obligations due to Genius Products, Inc. at that time. Subsequent agreements extended the maturity date to January 15, 2015 and reduced the stated interest rate to six (6%) percent per annum. Repayments on the principle balance were made in the aggregate of \$24,000 during February and April 2011. On April 1, 2011, Ms. Moeller agreed to convert \$200,000 of the outstanding balance to shares of common stock of the Company. On March 31 2012, Ms. Moeller agreed to convert the remaining balance of outstanding principal and interest, in the amount of \$173,385, to shares of common stock of the Company. Interest expense for the three month period ended June 30, 2012 and June 30, 2011 was \$0 and \$2,184, respectively. The interest expense for the six months ended June 30, 2012 and June 30, 2011 was \$2,562 and \$7,488, respectively. The note is paid in full.

On March 31, 2011, four of the Company's officers agreed to convert accrued but unpaid salaries through December 31, 2010 to subordinated long term notes payable. In February 2011, as a result of an agreement by each of the four officers to retroactively decrease the amount of the annual salary for 2010 from \$125,000 per annum per officer to \$80,000, the amount of the notes were reduced to an aggregate of \$1,620,137. In March 2012, the officers agreed to convert the aggregate sum of \$1,572,161 to shares of common stock of the Company. The remaining note, with a principal balance of \$159,753, has a maturity of January 15, 2015 and a stated interest rate of six percent (6%) per annum. For the three months ended June 30, 2012 and June 30, 2011, interest expense was recorded in the amount of \$2,472 and \$24,453, respectively. For the six months periods ended June 30, 2012 and 2011, interest expense was recorded in the amounts \$28,510 and \$49,012, respectively.

On June 27, 2012, the Company entered into a Securities Purchase Agreement with Hillair Capital Investments L.P. whereby the Company issued and sold (i) a \$1,000,000 16% senior secured convertible debenture due June 27, 2014. The Company recorded interest expense for the three and six months ended June 30, 2012 and June 30, 2011 in the amounts of \$1,333 and \$0, respectively.

Liquidity and Capital Resources

Three and Six Months Ended June 30, 2012 Compared to June 30, 2011

To date, we have relied on a combination of revenue, loans from officers and private offerings of our securities to meet our cash requirements. Currently, our principal source of liquidity is cash in the bank. Management believes that its increasing revenues and cash generated by operations, together with funds available from short-term related party advances and the debenture issuance, will be sufficient to fund planned operations for the next twelve months. However, there can be no assurance that operations and operating cash flows will continue at the current levels or improve in the near future. If the Company is unable to obtain profitable operations and positive operating cash flows sufficient to meet scheduled debt obligations, it may need to seek additional funding through equity and related party loans or be forced to scale back its development plans or to significantly reduce or terminate operations.

Cash totaled \$1,191,509 and \$739,232 at June 30, 2012 and 2011, respectively. The change in cash is as follows:

| | Six Months Ended | | |
|------------------------------------|-------------------------|------------|------------|
| | June 30, | | |
| | 2012 | 2011 | Change |
| Cash provided (used) by operations | \$(100,325) | \$(82,736) | \$(17,589) |

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| | | | |
|--|-----------|-----------|-----------|
| Cash provided (used) in investing activities | (76,396) | (124,142) | \$47,746 |
| Cash provided (used) in financing activities | 962,889 | 738,230 | \$224,659 |
| Increase (decrease) in cash and cash equivalents | \$786,168 | \$531,352 | \$254,816 |

Our cash flow is very seasonal and a vast majority of our sales historically occur in the last two quarters of the year as retailers expand inventories for the holiday selling season. Cash used by operations in the six months ended June 30, 2012, compared to 2011, increased by \$17,589 due to increased prepaid and other accrued expenses, a decrease in the accounts payable balance and decreases in accounts receivable and inventory. Cash used in the same periods for investing activities decreased \$47,746 and relates to investment in music, DVD, preschool readiness program and toy products.

Notes were issued in favor of four of our officers for loans to the Company at various times during the years 2007 through 2009. Interest expense was recorded in the six months ended June 30, 2012 and 2011 in the amounts of \$6,960 and \$7,103, respectively.

On March 31, 2011, four of the officers agreed to convert accrued but unpaid salaries through March 31, 2011 to subordinated long term notes payable in an aggregate of \$1,620,137. In March 2012, the Officers agreed to convert the sum of \$1,572,161 to shares of common stock of the Company. The remaining note, with a principal balance of \$159,753, has a maturity of January 15, 2015 and a stated interest rate of six percent (6%) per annum. For the six months ended June 30, 2012 and June 30, 2011, interest expense was recorded in the amount of \$28,510 and \$49,012, respectively.

On June 27, 2012, the Company entered into a Securities Purchase Agreement with Hillair Capital Investments L.P. whereby the Company issued and sold (i) a \$1,000,000 16% senior secured convertible debenture due June 27, 2014. Net proceeds after legal costs, commissions and other fees were \$796,817. The Company recorded interest expense for the six months ended June 30, 2012 and June 30, 2011 in the amounts of \$1,333 and \$0, respectively.

Critical Accounting Policies

The Company's accounting policies are described in Note 1: The Company and Significant Accounting Policies of the notes to the Company's financial statements in Item 1 above. 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.

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

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

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

Principles of Consolidation - The consolidated financial statements include the financial statements of the Company, and its wholly owned subsidiary: Circle of Education LLC. All inter-company balances and transactions have been eliminated in consolidation. In March 2012, the Company acquired the additional 25% outstanding ownership interest in the subsidiary from the noncontrolling partner. The subsidiary has been closed and no additional results will be consolidated subsequent to June 30, 2012. The financial statements reflect the noncontrolling interest recognized as of June 30, 2012 and December 31, 2011 of \$0 and \$5,366 respectively.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable

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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 six months ended June 30, 2012, 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.

Internal Control Over Financial Reporting

There were no changes in our system of internal controls over financial reporting during the three months ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. 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 1a. Risk factors.

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

Item 2. Unregistered sales of equity securities and use of proceeds.

On April 11, 2012, the Company issued 1,000,000 shares of common stock for services valued at \$235,000.

On May 2, 2012, the Company issued 111,070 shares of common stock for services valued at \$22,214.

On May 10, 2012, the Company issued 250,000 shares of common stock pursuant to a consulting agreement. The services are valued at \$42,500.

On May 10, 2012, the Company issued 900,000 shares of common stock for cash in the amount of \$180,000, or \$0.20 per share, to an accredited investor. The Company issued an additional 50,000 shares to the same investor on June 25, 2012 for \$10,000 cash.

On June 20, 2012, the Company issued 125,000 shares of common stock for services valued at \$25,000.

Proceeds from the sales of equity securities are used for working capital.

The Company relied on an exemption pursuant to Rule 506 of Regulation d and/or Section 4(2) of the Securities Act of 1933, as amended in connection with the foregoing issuances.

Item 3. Defaults upon senior securities.

There were no reportable events under this Item 3 during the three months ended June 30, 2012.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other information.

None

Item 6. Exhibits.

| Exhibit No. | Description |
|----------------|-------------|
|----------------|-------------|

| | |
|------|--|
| 10.1 | Securities Purchase Agreement dated June 27, 2012 (Incorporated by reference to the Company's current report on Form 8-K filed with the SEC on July 3, 2012) |
|------|--|

- 10.2 Security Agreement dated June 27, 2012(Incorporated by reference to the Company's current report on Form 8-K filed with the SEC on July 3, 2012)
- 10.3 Form of 16% Senior Secured Convertible Debenture due June 27, 2014(Incorporated by reference to the Company's current report on Form 8-K filed with the SEC on July 3, 2012)
- 10.4 Form of Common Stock Warrant pursuant to Securities Purchase Agreement dated June 27, 2012 (Incorporated by reference to the Company's current report on Form 8-K filed with the SEC on July 3, 2012)
- 10.5 Form of Subordination Agreement pursuant to Securities Purchase Agreement dated June 27, 2012 (Incorporated by reference to the Company's current report on Form 8-K filed with the SEC on July 3, 2012)
- 31.1 Section 302 Certification of Chief Executive Officer.
- 31.2 Section 302 Certification of Chief Financial Officer.
- 32.1 Section 906 Certification of Chief Executive Officer
- 32.2 Section 906 Certification of Chief Financial Officer

101* XBRL (Extensible Business Reporting Language) The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in Extensive Business Reporting Language (XBRL), (i) consolidated balance sheets, (ii) consolidated statements of operations, (iii) consolidated statements of stockholders' equity (deficit), (iv) consolidated statements of cash flows, and (iv) the notes to the consolidated financial statements

* Pursuant to Rule 405(a)(2) of Regulation S-T, the Company will furnish the XBRL Interactive Data Files with detailed footnote tagging as Exhibit 101 in an amendment to this Form 10-Q within the permitted 30-day grace period granted for the first quarterly period in which detailed footnote tagging is required.

SIGNATURES

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

GENIUS BRANDS INTERNATIONAL, INC.

Date: August 14, 2012

By: /s/ Klaus Moeller
Klaus Moeller, Chief Executive Officer