

Genius Brands International, Inc.
Form S-1
June 16, 2014

As filed with the Securities and Exchange Commission on June 16, 2014.

SEC File No. [_____]

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

GENIUS BRANDS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Nevada

7812

20-4118216

(State or other jurisdiction of (Primary Standard Industrial

incorporation or organization) Classification Code Number)

(I.R.S. Employer Identification No.)

9401 Wilshire Blvd, #608

Beverly Hills, CA 90212

Telephone: (310) 273-4222

(Address, including zip code, and telephone number,

including area code, of registrant's principal executive offices)

The Corporation Trust Company of Nevada

311 S. Division St.

Carson City, NV 89703

Telephone: (775) 888-4070

(Name, address, including zip code, and telephone number,

including area code, of agent for service)

Copies of all communications, including communications sent to agent for service, should be sent to:

Harvey J. Kesner, Esq.

Sichenzia Ross Friedman Ference LLP

61 Broadway, 32nd Floor

New York, New York 10006

Telephone: (212) 930-9700

Fax: (212) 930-9725

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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

(Check one):

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

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be Registered	Proposed Maximum Offering Price Per Security	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, \$.001 par value per share	3,125,000 (2)	\$ 3.97	(1) \$12,406,250	\$ 1,597.93
Total				\$ 1,597.93

(1) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, using the average of the high and low prices as reported on the OTC Bulletin Board on June 13, 2014, which was \$3.97 per share.

(2) Represents shares of common stock of Genius Brands International, Inc., offered by the selling stockholders, which includes 3,125,000 shares of Common Stock. The number of shares registered represents 125% of shares of Common Stock issuable upon conversion of our outstanding shares of Series A Convertible Preferred Stock, as required by the registration rights agreement entered into by and among the Company and the Selling Stockholders.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JUNE 16, 2014

PRELIMINARY PROSPECTUS

3,125,000 Shares

GENIUS BRANDS INTERNATIONAL, INC.

Common Stock

This prospectus relates to the sale by the selling stockholders identified in this prospectus of up to 3,125,000 shares of our common stock, par value \$0.001 per share (the “Common Stock”). The number of shares registered represents 125% of shares of Common Stock issuable upon conversion of our outstanding shares of Series A Convertible Preferred Stock, as required by the registration rights agreement entered into by and among the Company and the Selling Stockholders.

There are no underwriting arrangements to sell the shares of Common Stock that are being registered hereunder. The prices at which the selling stockholders may sell shares will be determined by the prevailing market price for the shares or in privately negotiated transactions. We will not receive any proceeds from the sale of these shares by the selling stockholders. All expenses of registration incurred in connection with this offering are being borne by us, but all selling and other expenses incurred by the selling stockholders will be borne by the selling stockholders.

Our Common Stock is currently approved for quotation on the OTC Bulletin Board maintained by the Financial Industry Regulatory Authority, Inc. (FINRA) under the symbol “GNUS”. On June 13, 2014, the last reported sale price of our Common Stock as reported on the OTC Bulletin Board was \$4.04 per share.

Investing in our Common Stock is highly speculative and involves a high degree of risk. You should carefully consider the risks and uncertainties in the section entitled “Risk Factors” beginning on page 4 of this prospectus before making a decision to purchase our stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2014

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You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

ABOUT THIS PROSPECTUS

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. The selling stockholders are offering to sell and seeking offers to buy shares of our Common Stock they may acquire upon exercise of their derivative securities, only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our Common Stock. The prospectus will be updated and updated prospectuses made available for delivery to the extent required by the federal securities laws.

No person is authorized in connection with this prospectus to give any information or to make any representations about us, the selling stockholders, the securities or any matter discussed in this prospectus, other than the information and representations contained in this prospectus. If any other information or representation is given or made, such information or representation may not be relied upon as having been authorized by us or any selling stockholder. This prospectus does not constitute an offer to sell, or a solicitation of an offer to buy the securities in any circumstances under which the offer or solicitation is unlawful. Neither the delivery of this prospectus nor any distribution of securities in accordance with this prospectus shall, under any circumstances, imply that there has been no change in our affairs since the date of this prospectus. The prospectus will be updated and updated prospectuses made available for delivery to the extent required by the federal securities laws.

Prospectus Summary

This summary highlights information contained elsewhere in this prospectus. It does not contain all of the information that you should consider before investing in our securities. You should read the entire prospectus carefully, including the section entitled “Risk Factors” and our consolidated financial statements and the related notes. Some of the statements contained in this prospectus, including statements under “Prospectus Summary” and “Risk Factors” as well as those noted in the documents incorporated herein by reference, are forward-looking statements and may involve a number of risks and uncertainties. We note that our actual results and future events may differ significantly based upon a number of factors. The reader should not put undue reliance on the forward-looking statements in this document, which speak only as of the date on the cover of this prospectus.

Corporate Information

Genius Brands International, Inc. (“we”, “us”, “our”, “GBI”, “Genius Brands” or the “Company”), creates, produces and distributes original “content with a purpose” for kids, meaning multi-media, multi-format content for kids that we believe is as entertaining as it is enriching. In most cases, the Company wholly owns the original content it produces, and works with a variety of partners who are experts in their respective categories, to develop and distribute it in multiple formats around the world. The Company owns and is developing a portfolio of original children’s entertainment to appeal to toddlers to teens.

The Company commenced operations in January 2006, assuming all of the rights and obligations of its then 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”). 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”.

On November 15, 2013, we entered into an Agreement and Plan of Reorganization (the “Merger Agreement”) with A Squared Entertainment LLC, a Delaware limited liability company (“A Squared”), A Squared Holdings LLC, a California limited liability company and sole member of A Squared (the “Parent Member”) and A2E Acquisition LLC, our newly formed, wholly-owned Delaware subsidiary (“Acquisition Sub”). Upon closing of the transactions contemplated under the Merger Agreement (the “Merger”), which occurred concurrently with entering into the Merger

Agreement, our Acquisition Sub merged with and into A Squared, and A Squared, as the surviving entity, became a wholly-owned subsidiary of the Company. As a result of the Merger, the Company acquired the business and operations of A Squared. A Squared created, produced and distributed original “content with a purpose” for kids 6-11, whereas Genius Brands previously focused on toddlers. Today the merged company is focused on providing “content with a purpose” for toddlers to tweens, in all media formats, relevant consumer products categories, in territories around the world.

On April 2, 2014, we filed a certificate of amendment to our Articles of Incorporation to affect a reverse split of our issued and outstanding common stock on a one-for-one-hundred basis. The reverse stock split was effective with FINRA (Financial Industry Regulatory Authority) on April 7, 2014. All common stock share and per share information in this Prospectus, including the accompanying consolidated financial statements and notes thereto, has been adjusted to reflect retrospective application of the reverse split, unless otherwise indicated.

Our executive offices are located at 9401 Wilshire Boulevard #608, Beverly Hills, CA 90212, and our telephone number is 310-273-4222.

About This Offering

This prospectus includes 3,125,000 shares of Common Stock offered by the Selling Stockholders, consisting entirely of shares of Common Stock issuable upon conversion of outstanding shares of Series A Convertible Preferred Stock acquired by the Selling Stockholders pursuant to the following transactions:

Private Placement

On May 14, 2014, we entered into securities purchase agreements with certain accredited investors pursuant to which the Company sold an aggregate of 6,000 shares of its newly designated Series A Convertible Preferred Stock (the “Series A Preferred Stock”) at a price of \$1,000 per share (the “Private Placement”) for gross proceeds to the Company of \$6,000,000. The closing of the Private Placement was subject to certain customary closing conditions and closed on May 15, 2014.

Each share of Series A Preferred Stock is convertible into shares of the Company’s common stock, par value \$0.001 per share based on a conversion calculation equal to the Base Amount divided by the conversion price. The Base Amount is defined as the sum of (i) the aggregate stated value of the Series A Preferred Stock to be converted and (ii) all unpaid dividends thereon. The stated value of each share of the Series A Preferred Stock is \$1,000 and the initial conversion price is \$2.00 per share, subject to adjustment in the event of stock splits, dividends and recapitalizations. Additionally, in the event the Company issues shares of its common stock or common stock equivalents at a per share price that is lower than the conversion price then in effect, the conversion price shall be adjusted to such lower price, subject to certain exceptions. The Company is prohibited from effecting a conversion of the Series A Preferred Stock to the extent that as a result of such conversion, the investor would beneficially own more than 9.99% in the aggregate of the issued and outstanding shares of the Company’s common stock, calculated immediately after giving effect to the issuance of shares of common stock upon conversion of the Series A Preferred Stock. The shares of Series A Preferred Stock possess no voting rights.

Pursuant to the terms of governing the purchase agreement, beginning on the closing date of the Private Placement and ending on the sixty (60) trading day anniversary of the Applicable Date (defined as the earlier of such date that the resale of the shares of Common Stock underlying the Series A Preferred Stock is covered by one or more effective registration statements and (y) the first date all of such shares may be resold under Rule 144), the Company shall not issue any securities, subject to certain exceptions.

The Company has agreed to file a “resale” registration statement with the Securities and Exchange Commission (the “SEC”) covering 125% of all shares of common stock underlying the Series A Preferred Stock within 30 days of the final closing of the Private Placement (the “Filing Date”) and to maintain the effectiveness of the registration statement

until all securities have been sold or are otherwise able to be sold pursuant to Rule 144 pursuant to a registration rights agreement entered into with the Investors (the “Registration Rights Agreement”). The Company has agreed to use its reasonable best efforts to have the registration statement declared effective within 90 days of the closing of the Private Placement (or 120 days after such closing if the registration statement is subject to review by the SEC (the “Effectiveness Date”). The Company is obligated to pay to investors liquidated damages equal to 1.5% per month in cash for every thirty day period up to a maximum of six (6%) percent, (i) that the registration statement has not been filed after the Filing Date, (ii) following the Effectiveness Date that the registration statement has not been declared effective; and (iii) as otherwise set forth in the Registration Rights Agreement.

In connection with the Private Placement, investors holding a majority of the securities sold in the Company’s November 2013 and January 2014 private placement waived the Company’s registration rights obligations and any accrued liquidated damages associated therewith.

Estimated use of proceeds

This prospectus relates to shares of our Common Stock that may be offered and sold from time to time by the selling stockholders. We will not receive any of the proceeds resulting from the sale of Common Stock by the selling stockholders.

Financial Results

We reported a net loss of approximately (\$7,216,031) for the year ended December 31, 2013 as compared to a net loss of approximately (\$2,067,609) for the year ended December 31, 2012. We expect to incur significant losses into the foreseeable future and our monthly “burn rate”, or expected cash outflow, for fixed general and administrative costs (including all employee salaries, public company expenses and consultants), marketing and sales costs, and interest costs is approximately \$350,000. Our monthly burn rate for all those costs, plus the repayment of certain related party advances, during each month of the first quarter 2014 was approximately \$325,000. If we are unable to raise external funding, and eventually generate significant revenues from sales of our products, we will not be able to earn profits or continue operations. It is uncertain that we will generate any operating revenues or ever achieve profitable operations. If we are unsuccessful in addressing these risks, our ability to continue as a going concern will be in substantial doubt.

As used in this prospectus, unless otherwise specified, references to the “Company,” “Genius Brands,” “we,” “our” and “us” refer to Genius Brands International, Inc. and, unless otherwise specified, its direct and indirect subsidiaries.

The Offering

Common Stock offered by the Selling Stockholders: A total offering of 3,125,000 shares from a private placement (the “Private Placement”), consisting entirely of shares of Common Stock issuable upon conversion of outstanding shares of Series A Convertible Preferred Stock. The Company granted certain registration rights to the investors in the Private Placement. The registration of the shares of the selling stockholders pursuant to the registration statement of which this prospectus is a part, will satisfy the Company’s obligations to the investors in the Private Placement.

Common Stock outstanding before and after this offering: 6,383,269 (1) and 9,508,269 (2)

Use of proceeds: We will not receive any proceeds from the sale of shares in this offering by the selling stockholders.

OTC Bulletin Board symbol: GNUS

Risk factors: You should carefully consider the information set forth in this prospectus and, in particular, the specific factors set forth in the “Risk Factors” section beginning on page 4 of this prospectus before deciding whether or not to invest in shares of our Common Stock.

(1)

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The number of outstanding shares before the offering is based upon 6,383,269 shares outstanding as of June 6, 2014 and excludes 3,125,000 shares of Common Stock issuable upon conversion of outstanding shares of Series A Convertible Preferred Stock.

The number of outstanding shares after the offering assumes the issuances and sale of the Common Stock offered (2) pursuant to this prospectus, which are issuable upon the conversion of the shares of Series A Convertible Preferred Stock of the Company.

RISK FACTORS

Investing in our Common Stock involves a high degree of risk. Before investing in our Common Stock you should carefully consider the following risks, together with the financial and other information contained in this prospectus. If any of the following risks actually occurs, our business, prospects, financial condition and results of operations could be adversely affected. In that case, the trading price of our Common Stock would likely decline and you may lose all or a part of your investment.

RISKS RELATING TO OUR BUSINESS

We have incurred net losses since inception.

The Company has recently adopted significant changes to its business model and experienced a broad change in its management and operations. Under prior management and in connection with its prior business model and activities, the Company had a history of operating losses and incurred significant net losses in each fiscal quarter since its inception. For the years ended December 31, 2013 and 2012, the Company had net revenues of \$2,556,538 and \$6,570,199 and incurred net losses of \$7,216,031 and \$2,067,609, respectively. For the three months ended March 31, 2014 and 2013, the Company had net revenues of \$176,283 and \$734,239 and incurred net losses of \$854,162 and \$945,865, respectively. These losses, among other things, have had an adverse effect on our results of operations, financial condition, stockholders' equity, net current assets and working capital.

We will need to generate significant additional revenue to achieve profitability. The Company has already achieved significant cost savings. Our ability to generate and sustain significant additional revenues or achieve profitability will depend upon numerous factors some of which are outside of our control, including sales of our products.

Business interruptions could adversely affect our operations.

Our operations are vulnerable to outages and interruptions due to fire, floods, power loss, telecommunications failures and similar events beyond our control, particularly in locations where our manufacturers and vendors are located. An increase in prices due to any of these occurrences would increase our operating costs, which could in turn adversely affect our profitability. We carry business interruption insurance for potential losses (excluding earthquake-related losses), but there can be no assurance that such insurance would be sufficient to compensate us for losses that may occur or that such insurance may continue to be available on affordable terms if available at all. Any losses or damages incurred by us could have a material adverse effect on our business and results of operations.

Our business depends in large part on the success of our vendors and outsourcers, and our brands and reputation may be harmed by the actions of third-parties that are outside our control.

We have long and established partnerships with partners around the world, ranging from broadcasters, licensees, retailers, agencies, etc. While we cannot fully control the actions of our partners, we are careful to be in business with partners who we believe to be trustworthy, reliable and accountable.

In connection with our direct to retail business, we rely significantly on vendor and outsourcing relationships with third parties for manufacturing and other services. Any shortcoming of a vendor or outsourcer, particularly an issue affecting the quality of the end product, may be attributed by customers to us, thus damaging our reputation, brand value and potentially affecting our results of operations. Problems with transitioning these services and systems or operating failures with these vendors and outsourcers could also delay product sales, reduce efficiency of operations, and significant capital investments could be required to remediate the problem. However, this risk is diminished with respect to properties that we license to third parties for exploitation pursuant to which we generally receive an advance against future royalties and/or a minimum guarantee which we believe shifts the foregoing risks to the licensee. Any material failure, inadequacy or interruption resulting from such vendors or outsourcings could harm our ability to effectively operate our business.

Significant increases in the price of commodities, transportation or labor, if not offset by declines in other input costs, or a reduction or interruption in the delivery of raw materials, components and finished products from our vendors could negatively impact our financial results.

Cost increases, whether resulting from rising costs of materials, compliance with existing or future regulatory requirements, transportation, services and labor could impact the profit margins realized by us on the sale of our products. Because of market conditions, timing of pricing decisions, and other factors, there can be no assurance that we will be able to offset any of these increased costs by adjusting the prices of our products. Increases in prices of our products could result in lower sales. Our ability to meet customer demand depends, in part, on our ability to obtain timely and adequate delivery of products from our suppliers and internal manufacturing capacity. Although we work closely with our vendors to avoid these types of shortages, there can be no assurance that we will not encounter these problems in the future. A reduction or interruption in the delivery of finished products, whether resulting from more stringent regulatory requirements, suppliers, disruptions in transportation, port delays, labor strikes, lockouts, or otherwise, or a significant increase in the price of one or more supplies, such as fuel or resin (which is an oil-based product), could negatively impact our financial results.

Because we expect to need additional capital to fund our growing operations, we may not be able to obtain sufficient capital and may be forced to limit the scope of our operations.

We expect that as our business continues to grow we will need additional working capital. If adequate additional debt and/or equity financing is not available on reasonable terms or at all, we may not be able to continue to expand our business, and we will have to modify our business plans accordingly. These factors would have a material and adverse effect on our future operating results and our financial condition.

If we reach a point where we are unable to raise needed additional funds to continue as a going concern, we will be forced to cease our activities and dissolve the Company. In such an event, we will need to satisfy various creditors and other claimants, severance, lease termination and other dissolution-related obligations.

Our ability to raise financing through sales of equity securities depends on general market conditions and the demand for our common stock. We may be unable to raise adequate capital through sales of equity securities, and if our stock has a low market price at the time of such sales, our existing stockholders could experience substantial dilution. If adequate financing is not available or unavailable on acceptable terms, we may find we are unable to fund expansion, continue offering products and services, take advantage of acquisition opportunities, develop or enhance services or products, or to respond to competitive pressures in the industry which may jeopardize our ability to continue operations.

Changes in the United States, global or regional economic conditions could adversely affect the profitability of our business.

A decrease in economic activity in the United States or in other regions of the world in which we do business could adversely affect demand for our products, thus reducing our revenue and earnings. A decline in economic conditions could reduce demand for and sales of products. In addition, an increase in price levels generally, or in price levels in a particular sector such as the energy sector, could result in a shift in consumer demand away from the entertainment and consumer products we offer, which could also adversely affect our revenues and, at the same time, increase our costs.

Production cost amortization for our CD and DVD products are calculated on a straight-line basis. Unamortized production costs are evaluated for impairment each reporting period on an aggregate basis. If estimated remaining revenue is not sufficient to recover the unamortized production costs, the unamortized production costs will be written down to fair value. In any given quarter, if we lower our previous forecast with respect to total anticipated revenue from a category of products, we would be required to accelerate amortization of related production costs. Such accelerated amortization would adversely impact our business, operating results and financial condition.

If we fail to honor our obligations under the terms of our third party licensing and supply agreements, our business may be adversely affected.

We try to maintain a reasonable DVD and CD inventory, however if we overestimate the demand for a particular title, we may warehouse significant quantities of that title. The Company has in the past distributed third party DVD properties for which it incurred production and warehousing costs. The Company has terminated those third party arrangements and is concentrating on inventory of its own DVD and CD titles for which it can more closely control its costs. In February 2014, the Company entered into an exclusive 3-year arrangement with Sony DADC US Inc. which gives Sony the right to fulfill the Company's DVD and CD duplication requirements. In consideration for these exclusive rights the Company received a marketing support payment of \$750,000 with an additional \$750,000 to be paid within 12 months. Sony will recoup the marketing support payment through a premium on the physical media unit costs. The Company is obligated to repay a pro-rata portion of the marketing support payment if the Company does not order a minimum number of DVD/CD units during the term. The Company believes the minimum order threshold is achievable over the term based on its productions as well as given that the minimum number will include duplication orders placed with Sony under the arrangement made by the Company's licensees as described below. Although we may sell such inventory at a deeply discounted price toward the end of the distribution term in order to recoup our manufacturing, storage and other costs, there is no guarantee that a market will exist for a given title, even at the deeply discounted price. Additionally, our royalty and/or distribution fee agreements sometimes contain terms, such as minimum royalties per unit and music publishing fees, which effectively prevent us from steeply discounting the price on some titles.

Conversely, if we or our distributors fail to stock sufficient inventory for any particular product or product line, we may be unable to meet customer demand in a timely manner, which may result in loss of accounts, requests for discounts or refusal by the customer to pay.

For the Company's non-direct-to-retail business, the Company seeks to license the DVD and CD rights to third parties for which it will receive a royalty per unit without the obligation to manufacture the units itself. The Company will seek to increase this model of physical goods distribution while seeking to have such third parties licensees fulfill their duplication needs through the Company's arrangement with Sony described above although there is no assurance that it will be successful in doing so.

If we are not able to adequately protect our proprietary intellectual property and information, our results of operations could be adversely affected.

The value of our business depends on our ability to protect our intellectual property and information, including our trademarks, trade names, copyrights, patents and trade secrets, in the United States and around the world, as well as our customer, employee, and consumer data. If we fail to protect our proprietary intellectual property and information, including any successful challenge to our ownership of intellectual property or material infringements of intellectual

property, it could have a significant adverse effect on our business, financial condition, and results of operations.

Loss of key personnel may adversely affect our business.

Our success greatly depends on the performance of our executive management team, including Andrew Heyward, our Chief Executive Officer and Amy Moynihan Heyward, our President. The loss of the services of any member of our core executive management team or other key persons could have a material adverse effect on our business, results of operations and financial condition.

Our management team currently owns an aggregate controlling interest in our voting stock and investors will not have any voice in our management.

Our management team and Board of Directors own or control a combined 3,013,962, or 47.2%, of the 6,383,269 shares currently outstanding. It should be assumed that our management team and Board of Directors will maintain a controlling interest in the Company and, as a result, will have the ability to control substantially all matters submitted to our stockholders for approval, including:

- election of our board of directors;
- removal of any of our directors;
- amendment of our articles of incorporation or bylaws; and
- adoption of measures that could delay or prevent a change in control or impede a merger, takeover or other business combination involving us.

The approval of our directors and executive officers will be required to affect all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. In addition, sales of significant amounts of shares held by our directors and executive officers, or the prospect of these sales, could adversely affect the market price of our common stock. Management's stock ownership may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which in turn could reduce our stock price or prevent our stockholders from realizing a premium over our stock price.

We cannot assure you that the interests of our management team will coincide with the interests of the investors. Our articles of incorporation do not provide for the allocation of corporate opportunities between us, on the one hand, and certain of our founding stockholders, on the other hand, which could prevent us from taking advantage of certain corporate opportunities. So long as our management team collectively controls a significant portion of our common stock, these individuals, or entities controlled by them, will continue to collectively be able to strongly influence or effectively control our decisions.

Litigation may harm our business or otherwise distract management.

Substantial, complex or extended litigation could cause us to incur large expenditures and could distract management. For example, lawsuits by licensors, consumers, employees or stockholders could be very costly and disrupt business. While disputes from time to time are not uncommon, we may not be able to resolve such disputes on terms favorable to us.

Our revenues and results of operations may fluctuate significantly.

Cash flow and projections for any entertainment company producing original content can be expected to fluctuate until consumer products are in the market. Unanticipated delays in entertainment production can push back an entire program. Structured retail windows that dictate when new products can be introduced at retail are also out of the Company's control. And the unknown as to the popularity and appeal of a new entertainment product also directly impacts cash flow.

Our revenues and results of operations depend significantly upon the appeal of our content to end customers, which cannot be predicted with certainty, the timing of releases of our products and the commercial success of our products, none of which can be predicted with certainty. Accordingly, our revenues and results of operations may fluctuate significantly from period to period. The results of one period may not be indicative of the results of any future period. Our revenues and results are also significantly influenced by seasonality and in particular the fourth quarter gift-giving season where demand for our products peaks. Any quarterly fluctuations that we report in the future may not match the expectations of market analysts and investors. This could cause the price of our common stock to fluctuate significantly.

If we fail to adequately manage our growth, we may not be successful in growing our business and becoming profitable.

Our focus is on maximizing the revenue potential of our existing brand portfolio while strategically working to round-out the portfolio with complementary brands and build our business infrastructure to ensure our brands success in the marketplace.

We expect our business to grow over the next two years. We expect that our growth will place significant stress on our operation, management, employee base and ability to meet capital requirements sufficient to support our growth over that period. Any failure to address the needs of our growing business successfully could have a negative impact on our chance of success.

Failure to successfully market or advertise our products could have an adverse effect on our business, financial condition and results of operations.

Our products are marketed worldwide through a diverse spectrum of advertising and promotional programs. Our ability to sell products is dependent in part upon the success of these programs. If we or our distributors do not successfully market our products or if media or other advertising or promotional costs increase, these factors could have an adverse effect on our business, financial condition, and results of operations.

We may experience indirect increases in the cost of our products as a result of new laws and governmental regulations passed in response to changing climate conditions.

Although we are not directly responsible for compliance with such laws in the manufacturing of our products, and rely on our manufacturers and vendors to ensure that they are in compliance with federal, state and local environmental laws and regulations, as well as similar laws in other jurisdictions where they do business, the cost of compliance with new or existing laws and regulations may increase and our vendors may pass those costs on to the Company. If that happens, it will have the effect of decreasing our profit margins and we may be forced to either raise our prices or, in response to competitive pressure, experience a decrease in profits which would have a material adverse effect on our business, financial condition and results of operations.

We are subject to various laws and government regulations, violation of which could subject the Company to sanctions. In addition, changes in such laws or regulations may lead to increased costs, changes in our effective tax rate, or the interruption of normal business operations that would negatively impact our financial condition

and results of operations.

We operate in a highly regulated environment in the US and international markets. Federal, state and local governmental entities and foreign governments regulate many aspects of our business, including our products and the importation and exportation of those products. These regulations may include accounting standards, taxation requirements (including changes in applicable income tax rates, new tax laws and revised tax law interpretations), product safety and other safety standards, trade restrictions, regulations regarding financial matters, environmental regulations, advertising directed toward children, product content, and other administrative and regulatory restrictions. While we take all the steps we believe are necessary to comply with these laws and regulations, there can be no assurance that we will be in compliance in the future. Failure to comply could result in monetary liabilities and other sanctions which could have a negative impact on our business, financial condition and results of operations. In addition, changes in laws or regulations may lead to increased costs (including costs of compliance passed on to us by manufacturers), changes in our effective tax rate, or the interruption of normal business operations that would negatively impact our financial condition and results of operations.

Inaccurately anticipating changes and trends in popular culture, media and movies, fashion, or technology can negatively affect our sales.

Successful movies and characters in children's literature affect play preferences. Trends in media, movies, and children's characters change swiftly and contribute to the transience and uncertainty of play preferences. Almost all of our products and product lines are based on the Baby Genius brand and related brands. We respond to trends and developments by modifying, refreshing, extending, and expanding our product offerings on an annual basis. However, we operate in extremely competitive industries where demand for children's attention is dynamic. If the interest of children trend away from our current brand or products toward other offerings based on current media, movies and characters, and if we fail to accurately anticipate trends in popular culture, movies, media, fashion, or technology, our products may not be accepted by children, parents, or families and our revenues, profitability, and results of operations may be adversely affected.

We rely on a limited number of suppliers.

There are many factors beyond our control which may impact the sale of our products and orders for production of our programming, including but not limited to economic downturns such as the current recession. If we are forced to change the music or content on existing products, which may be costly and time consuming and which may have the result of making our then current inventory undesirable.

We may not be able to keep pace with technological advances.

The entertainment industry in general and the music and motion picture industries in particular, are continuing to undergo significant changes, primarily due to technological developments. Because of the rapid growth of technology, shifting consumer tastes and the popularity and availability of other forms of entertainment, it is impossible to predict the overall effect these factors could have on potential revenue from, and profitability of, distributing entertainment programming. It is also impossible to predict the overall effect these factors could have on our ability to compete effectively in a changing market.

Others' failure to promote our products may adversely affect our business.

The availability of retailer programs relating to product placement, co-op advertising and market development funds, and our ability and willingness to pay for such programs, are important with respect to promoting our exclusive titles. In addition, although we may have agreements for the advertising and promotion of our products through distributors,

we will not be in direct control of those marketing efforts. Such efforts may not be done in a manner that will maximize sales of our products and the cost of increasing marketing efforts through our retail customers and distributors may be cost-prohibitive.

We face intense competition from a large variety of retailers that sell similar merchandise and have better resources than we do.

The industries in which we operate are highly and increasingly competitive and our results of operations are sensitive to, and may be adversely affected by, competitive pricing, promotional pressures, additional competitor offerings and other factors, many of which are beyond our control. We compete for retailers as well as other outlets for the sale and promotion of our merchandise. Our primary competition comes from competitors, such as The Walt Disney Company and Fisher Price, which have greater financial resources and more developed marketing channels than we do. If we fail to compete successfully, we could face lower sales and may decide or be compelled to offer greater discounts to our customers, which could result in decreased profitability or a failure to attain profitability.

We may not possess satisfactory rights in certain of our properties.

We do not require chain of title information to some of our exclusively licensed content and the risk exists that some content may have a defective chain of title, although we have no reason to believe otherwise and these have never been contested. The validity and ownership of rights to some titles can be uncertain and may be contested by third parties, which may result in litigation which could result in substantial costs and the diversion of resources, and could have a material adverse effect on our business, results of operations and financial condition. The Company believes, however, that in the event of such occurrence, it can replace those defective materials with content that is wholly owned by the Company. The Company is already in the process of re-designing certain of the Company's titles to eliminate these risks and to replace the elements owned by third parties with content wholly owned by the Company which can also generate revenue for the Company. Notwithstanding the foregoing, the majority of the Company's intellectual property is wholly owned by the Company.

Protecting and defending against intellectual property claims may have a material adverse effect on our business.

Our ability to compete in the home entertainment industry depends, in part, upon successful protection of our proprietary and intellectual property. We protect our property rights to our productions through available copyright and trademark laws and licensing and distribution arrangements with reputable companies in specific territories and media for limited durations. Despite these precautions, existing copyright and trademark laws afford only limited practical protection in some jurisdictions. In some jurisdictions of our distribution, there are no copyright and/or trademark protections available. In addition, although we own most of the music included in our products, and license other content through licensors such as HFA, NAXOS, and the San Diego Zoological Society, there are numerous titles which are available in the public domain and for which it is difficult or even impossible to determine whether anyone has obtained ownership or royalty rights. It is an inherent risk in our industry that people may make such claims with respect to any title already included in our products, whether or not such claims can be substantiated. With respect to the music and other licensed content from third parties the Company is already in the process of re-designing certain of the Company's titles to eliminate these risks and to replace the elements owned by third parties with content wholly owned by the Company which can also generate revenue for the Company. Notwithstanding the foregoing, the majority of the Company's intellectual property is wholly owned by the Company.

It may be possible for unauthorized third parties to copy and distribute our productions or portions of our productions. In addition, litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. Any such litigation could result in substantial costs and the resulting diversion of resources could have an adverse effect on our business, operating results or financial condition. From time to time, we may also receive claims of infringement of other parties' proprietary rights. Regardless of the validity or the success of the claims, we could incur significant costs and diversion of resources in defending against such claims, which could have an adverse effect on our business, financial condition or results of operations.

The adoption or modification of laws or regulations relating to the internet could adversely affect the manner in which the Company conducts its business.

The growth and development of the market for online commerce may lead to more stringent consumer protection laws, both in the United States and abroad, that may impose additional burdens on the Company. Laws and regulations directly applicable to communications or commerce over the internet are becoming more prevalent. The United States Congress has enacted internet laws regarding children's privacy, copyrights, taxation, and the transmission of sexually explicit material. The European Union recently enacted its own privacy regulations. The law of the internet, however, remains largely unsettled, even in areas in which there has been some legislative action. It may take years to determine whether and how existing laws such as those governing intellectual property, privacy, libel, and taxation apply to the internet. In order to comply with new or existing laws regulating online commerce, the Company (i) may need to spend time and money revising its websites, (ii) may need to hire additional personnel to monitor compliance with applicable laws or (iii) may need to modify its software to protect customers' personal information.

In addition to the foregoing, as a publisher of online content, the Company faces potential liability for defamation, negligence, copyright, patent or trademark infringement or other claims based on the nature and content of materials published or distributed, as do other publishers of such content. If the Company faces such liability, then its reputation and business may suffer. In the past, plaintiffs have brought these types of claims and sometimes successfully litigated them against online services. Although the Company carries general liability insurance, such insurance does not cover claims of these types. There can be no assurance that the Company will be able to obtain insurance to protect against such liability in the future or that same will be adequate to indemnify the Company for all liability that may be imposed thereon.

RISKS RELATING TO OUR COMMON STOCK

Our common stock may be affected by limited trading volume and price fluctuations which could adversely impact the value of our common stock.

Trading in our common stock can fluctuate significantly and there can be no assurance that an active trading market will either develop or be maintained. Our common stock is expected to continue to experience significant price and volume fluctuations. This trading activity could adversely affect the market price of our common stock without regard to our operating performance. In addition, we believe that factors such as quarterly fluctuations in our financial results and changes in the overall economy or the condition of the financial markets could cause the price of our common stock to fluctuate substantially. These fluctuations may also cause short sellers to periodically enter the market in the belief that our stock price will decline in the future. We cannot predict the actions of market participants or the stock market as a whole. We can offer no assurances that the market for our common stock will be stable or that our stock price will fluctuate in a manner that is consistent with our operating results.

If our common stock remains subject to the SEC’s penny stock rules, broker-dealers may experience difficulty in completing customer transactions and trading activity in our securities may be adversely affected.

Unless our common stock is listed on a national securities exchange, including the Nasdaq Capital Market or we have stockholders’ equity of \$5,000,000 or more and our common stock has a market price per share of more than \$4.00, transactions in our common stock will be subject to the SEC’s “penny stock” rules. If our common stock remains subject to the “penny stock” rules promulgated under the Securities Exchange Act of 1934, broker-dealers may find it difficult to effectuate customer transactions and trading activity in our securities may be adversely affected.

In accordance with these rules, broker-dealers participating in transactions in low-priced securities must first deliver a risk disclosure document that describes the risks associated with such stocks, the broker-dealer's duties in selling the stock, the customer's rights and remedies and certain market and other information. Furthermore, the broker-dealer must make a suitability determination approving the customer for low-priced stock transactions based on the customer's financial situation, investment experience and objectives. Broker-dealers must also disclose these restrictions in writing to the customer, obtain specific written consent from the customer, and provide monthly account statements to the customer. The effect of these restrictions will probably decrease the willingness of broker-dealers to make a market in our common stock, decrease liquidity of our common stock and increase transaction costs for sales and purchases of our common stock as compared to other securities. Our management is aware of the abuses that have occurred historically in the penny stock market.

As a result, if our common stock continues to be subject to the penny stock rules, the market price of our securities may be depressed, and you may find it more difficult to sell our securities.

If we fail to maintain effective internal controls over financial reporting, the price of our common stock may be adversely affected.

Our internal control over financial reporting may have weaknesses and conditions that could require correction or remediation, the disclosure of which may have an adverse impact on the price of our common stock. We are required to establish and maintain appropriate internal controls over financial reporting. Failure to establish those controls, or any failure of those controls once established, could adversely affect our public disclosures regarding our business, prospects, financial condition or results of operations.

Rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require an annual assessment of internal controls over financial reporting, and for certain issuers an attestation of this assessment by the issuer’s independent registered public accounting firm. The standards that must be met for management to assess the internal controls over financial reporting as effective are evolving and complex, and require significant documentation, testing,

and possible remediation to meet the detailed standards. We expect to incur significant expenses and to devote resources to Section 404 compliance on an ongoing basis. It is difficult for us to predict how long it will take or costly it will be to complete the assessment of the effectiveness of our internal control over financial reporting for each year and to remediate any deficiencies in our internal control over financial reporting. As a result, we may not be able to complete the assessment and remediation process on a timely basis. In addition, management's assessment of internal controls over financial reporting may identify weaknesses and conditions that need to be addressed in our internal controls over financial reporting or other matters that may raise concerns for investors. Any actual or perceived weaknesses and conditions that need to be addressed in our internal control over financial reporting or disclosure of management's assessment of our internal controls over financial reporting may have an adverse impact on the price of our common stock.

We are authorized to issue "blank check" preferred stock without stockholder approval, which could adversely impact the rights of holders of our common stock.

Our Articles of Incorporation authorize our Company to issue up to 10,000,000 shares of blank check preferred stock. Currently 6,000 shares of our preferred stock have been designated Series A Convertible Preferred stock, of which 6,000 are issued and outstanding; however, we can issue additional shares of our preferred stock in one or more series and can set the terms of the preferred stock without seeking any further approval from our common stockholders. Any preferred stock that we issue may rank ahead of our common stock in terms of dividend priority or liquidation premiums and may have greater voting rights than our common stock. In addition, such preferred stock may contain provisions allowing those shares to be converted into shares of common stock, which could dilute the value of common stock to current stockholders and could adversely affect the market price, if any, of our common stock. In addition, the preferred stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of the Company. Although we have no present intention to issue any shares of authorized preferred stock, there can be no assurance that we will not do so in the future.

Shares eligible for future sale may adversely affect the market.

From time to time, certain of our stockholders may be eligible to sell all or some of their shares of common stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144 promulgated under the Securities Act, subject to certain limitations. In general, pursuant to amended Rule 144, non-affiliate stockholders may sell freely after six months subject only to the current public information requirement. Affiliates may sell after six months subject to the Rule 144 volume, manner of sale (for equity securities), current public information and notice requirements. Of the approximately 6,047,707 shares of our common stock outstanding as of March 31, 2014, approximately 1,389,682 shares are freely tradable without restriction. Any substantial sales of our common stock pursuant to Rule 144 may have a material adverse effect on the market price of our common stock.

We do not expect to pay dividends in the future and any return on investment may be limited to the value of our common stock.

We do not currently anticipate paying cash dividends in the foreseeable future. The payment of dividends on our common stock will depend on earnings, financial condition and other business and economic factors affecting it at such time as the board of directors may consider relevant. Our current intention is to apply net earnings, if any, in the foreseeable future to increasing our capital base and development and marketing efforts. There can be no assurance that we will ever have sufficient earnings to declare and pay dividends to the holders of our common stock, and in any event, a decision to declare and pay dividends is at the sole discretion of the our Board of Directors. If we do not pay dividends, our common stock may be less valuable because a return on your investment will only occur if its stock price appreciates.