**KARTOON STUDIOS, INC.**

**INDEX TO FINANCIAL STATEMENTS**

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Kartoon Studios, Inc.

**Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of Kartoon Studios, Inc. and Subsidiaries (the "Company") as of December 31, 2025 and 2024, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2025 and 2024, and the consolidated results of its operations and its cash flows for the years ended December 31, 2025 and 2024, in conformity with accounting principles generally accepted in the United States of America.

**Substantial Doubt About the Company's Ability to Continue as a Going Concern**

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses and negative cash flows from operations since inception and expects to continue incurring losses and negative cash flows in the future. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**Basis for Opinion**

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

**Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

*Accounting for Complex Equity Transactions*

**Description:**

As disclosed in Notes 13 and 16 to the consolidated financial statements, on May 14, 2025, there were changes in facts and circumstances impacting the Company's warrant agreement associated with the Company's December 2024 offering. Based on these changes in facts and circumstances, the Company reevaluated the classification of the warrants under ASC 815-40 and determined that equity classification is appropriate. The warrants were remeasured to fair value immediately before the reclassification. As of May 13, 2025, the warrants were revalued at approximately $5.7 million, resulting in a recognition of a $0.7 million decrease in the liability. The change in value was recorded as a Gain on Revaluation of Warrants within Other Income (Expense), net on the consolidated statements of operations. Subsequently, the total liability of approximately $5.7 million was reclassified to additional paid-in capital.

On October 22, 2025, pursuant to the terms of the October 2025 Purchase Agreement, the Company closed the registered direct offering of the 3,000,000 October 2025 Shares and the October 2025 Pre-Funded Warrants to purchase up to 6,903,049 shares of common stock to the October 2025 Investor. In the Concurrent Private Placement, pursuant to the October 2025 Purchase Agreement, the Company also sold to the October 2025 Investor unregistered October 2025 Common Warrants to purchase up to 9,903,049 shares of common stock, with an exercise price of $0.738 per share. Each October 2025 Share and privately placed October 2025 Common Warrant was sold at a combined public offering price of $0.738, and each October 2025 Pre-Funded Warrant and privately placed October 2025 Common Warrant was sold at a combined public offering price of $0.737, for aggregate gross proceeds at closing of approximately $7.3 million, prior to deducting placement agent fees and other offering expenses. In addition, the Company issued Placement Agent Warrants to purchase 693,213 shares of common stock to the placement agent and its designees with an exercise price of $0.8118 per share. The warrants were deemed to be equity classified.

The accounting for the transactions required an assessment of the particular features of the warrants, and the impact of those features on the accounting and classifications of the warrants. The complexities and significant estimates required a high degree of auditor judgement and an increased extent of audit effort.

**Response:**

Our audit procedures related to management's judgements of the accounting treatment for the warrants and classification, as well as the determination of fair value of the transactions. Our audit procedures included, among others, inspecting the agreements and evaluating the terms and conditions of the agreements and assessing the reasonableness of management's interpretation and application of the appropriate accounting authoritative guidance. Our audit procedures also included utilizing personnel with specialized skill and knowledge to assist in assessing the appropriateness of conclusions reached by management by evaluating the underlying terms of the agreements and assessing the appropriateness of management's application of the authoritative accounting guidance. We evaluated the methodologies and assumptions used to estimate the fair value of the warrants on the date of grant as well as the date of the reclassification of the warrants originally issued with the December 2024 offering. In addition, we evaluated the Company's footnote disclosures in relation to the warrants.

*Impairment of Intangible Assets*

**Description:**

As disclosed in Note 9 to the consolidated financial statements, as of December 31, 2025, the Company had $17.6 million of intangible assets, net. During the year ended December 31, 2025, the Company recorded an impairment charge of approximately $0.8 million related to the Frederator and Wow tradenames due to a reduction in the estimated present value of their expected future cash flows. The Company completes the annual intangible asset impairment tests at the end of each fiscal year. Intangible assets have been acquired, either individually or with a group of other assets, and were initially recognized and measured based on fair value. Subjective auditor judgment was required to evaluate certain key assumptions used to determine the fair value of the intangible assets. For the intangible assets, the key assumptions included the discount rates used in the present value calculations and the forecasted revenue growth rate and operational cost trends. Changes to these key assumptions could have had a substantial impact on the fair value of the intangible assets and the amount of the impairment charges. Additionally, the audit effort associated with the estimates required specialized valuation skills and knowledge.

**Response:**

The following are the primary procedures we performed to address this critical audit matter: We evaluated the Company's third-party specialist and their valuation report and checked it for mathematical accuracy. We reviewed key valuation inputs and reviewed the comparable company guidelines for reasonableness. We evaluated the forecasted revenue growth and operational costs for reasonableness by utilizing historical rates to benchmark and also used peer company data. We evaluated the Company's discount rates by comparing the assumptions and data used by management to develop the discount rates to publicly available market data and historical experience. In addition, we involved valuation professionals with specialized skills and knowledge, who assisted in evaluating the appropriateness of the valuation method utilized, specific inputs used in the valuation as well as performing a parallel analysis for reasonableness.

/s/ WithumSmith+Brown, PC

We have served as the Company's auditor since 2024.

Whippany, New Jersey

March 30, 2026

PCAOB ID Number: 100

**Kartoon Studios, Inc.**
**Consolidated Balance Sheets**
**(in thousands, except for share data)**

| | As of December 31, | |
|---|---|---|
| | **2025** | **2024** |
| **ASSETS** | | |
| **Current Assets:** | | |
| Cash | $ 2,943 | $ 7,879 |
| Restricted Cash | – | 506 |
| Investments in Marketable Securities (amortized cost of $3,953 and $2,116, respectively) | 3,978 | 2,029 |
| Accounts Receivable (net of allowance of $3 and $239, respectively) | 9,632 | 11,982 |
| Tax Credits Receivable (net of allowance of $423 and $187, respectively) | 16,800 | 10,295 |
| Other Receivable | 1,571 | 1,367 |
| Prepaid Expenses and Other Assets | 841 | 606 |
| Total Current Assets | 35,765 | 34,664 |
| | | |
| **Noncurrent Assets:** | | |
| Property and Equipment, net | 1,635 | 2,053 |
| Operating Lease Right-of-Use Assets, net | 5,114 | 5,847 |
| Finance Lease Right-of-Use Assets, net | 312 | 278 |
| Notes and Accounts Receivable from Related Party | – | 1,352 |
| Film and Television Costs, net | 4,878 | 2,621 |
| Tax Credits Receivable (net of allowance of $0 and $421, respectively) | – | 2,384 |
| Investment in Your Family Entertainment AG | 5,481 | 16,429 |
| Intangible Assets, net | 17,604 | 19,722 |
| Other Assets | 118 | 117 |
| **Total Assets** | **$ 70,907** | **$ 85,467** |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current Liabilities:** | | |
| Accounts Payable | $ 12,115 | $ 11,954 |
| Participations Payable | 1,024 | 1,427 |
| Accrued Expenses | 744 | 405 |
| Accrued Salaries and Wages | 1,370 | 1,213 |
| Deferred Revenue | 4,391 | 5,997 |
| Margin Loan | – | 900 |
| Production Facilities, net | 11,819 | 9,220 |
| Current Portion of Operating Lease Liabilities | 1,077 | 1,002 |
| Current Portion of Finance Lease Liabilities | 156 | 249 |
| Due to Related Party | 5 | 8 |
| Other Current Liabilities | 750 | 1,065 |
| Total Current Liabilities | 33,451 | 33,440 |
| | | |
| **Noncurrent Liabilities:** | | |
| Deferred Revenue | 3,369 | 3,371 |
| Operating Lease Liabilities, Net Current Portion | 4,488 | 5,359 |
| Finance Lease Liabilities, Net Current Portion | 144 | 54 |
| Deferred Tax Liability, net | 1,225 | 1,301 |
| Factoring Liability | 689 | – |
| Warrant Liability | – | 5,477 |
| Other Noncurrent Liabilities | 8 | 5 |
| **Total Liabilities** | **43,374** | **49,007** |
| | | |
| Commitments and Contingencies (Note 19) | | |
| | | |
| **Stockholders' Equity:** | | |
| Preferred Stock, 10,000,000 shares authorized, 0 shares issued and outstanding as of | – | – |

| | | |
|---|---|---|
| December 31, 2025 and December 31, 2024 | | |
| 0% Series A Convertible Preferred Stock, $0.001 par value, 6,000 shares authorized, 0 shares issued and outstanding as of December 31, 2025 and December 31, 2024 | – | – |
| Series B Preferred Stock, $0.001 par value, 0 shares authorized, 0 shares issued and outstanding as of December 31, 2025 and December 31, 2024 | – | – |
| Series C Preferred Stock, $0.001 par value, 50,000 shares authorized, 0 shares issued and outstanding as of December 31, 2025 and December 31, 2024 | – | – |
| Common Stock, $0.001 par value, 190,000,000 shares authorized; 55,282,150 and 46,285,078 shares issued and 54,857,000 and 46,209,081 shares outstanding as of December 31, 2025 and December 31, 2024, respectively | 55 | 45 |
| Additional Paid-in Capital | 793,814 | 777,930 |
| Treasury Stock at Cost, 425,150 and 75,997 shares of common stock as of December 31, 2025 and December 31, 2024, respectively | (604) | (340) |
| Accumulated Deficit | (763,817) | (739,285) |
| Accumulated Other Comprehensive Loss | (3,238) | (3,379) |
| Total Kartoon Studios, Inc. Stockholders' Equity | 26,210 | 34,971 |
| Non-Controlling Interests in Consolidated Subsidiaries | 1,323 | 1,489 |
| **Total Stockholders' Equity** | **27,533** | **36,460** |
| **Total Liabilities and Stockholders' Equity** | **$ 70,907** | **$ 85,467** |

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

**Kartoon Studios, Inc.**
**Consolidated Statements of Operations**
**(in thousands, except share and per share data)**

| | Year Ended December 31, 2025 | Year Ended December 31, 2024 |
|---|---|---|
| Revenues: | | |
| Production Services | $ 26,832 | $ 17,850 |
| Content Distribution | 7,982 | 9,607 |
| Licensing and Royalties | 387 | 298 |
| Media Advisory and Advertising Services | 4,152 | 4,836 |
| Total Revenues | 39,353 | 32,591 |
| | | |
| Operating Expenses: | | |
| Marketing and Sales | 681 | 1,243 |
| Direct Operating Costs | 26,829 | 23,134 |
| General and Administrative | 23,992 | 25,210 |
| Impairment of Intangible Assets | 767 | – |
| Total Operating Expenses | 52,269 | 49,587 |
| | | |
| Loss from Operations | (12,916) | (16,996) |
| | | |
| Interest Expense | (656) | (779) |
| Other Expense | (11,261) | (3,209) |
| | | |
| Loss Before Income Tax Benefit | (24,833) | (20,984) |
| | | |
| Income Tax Benefit | 135 | 43 |
| | | |
| Net Loss | (24,698) | (20,941) |
| | | |
| Net Loss Attributable to Non-Controlling Interests | 166 | 202 |
| | | |
| **Net Loss Attributable to Kartoon Studios, Inc.** | **$ (24,532)** | **$ (20,739)** |
| | | |
| **Net Loss per Share - Basic** | **$ (0.49)** | **$ (0.54)** |
| **Net Loss per Share - Diluted** | **$ (0.49)** | **$ (0.54)** |
| | | |
| Weighted Average Shares Outstanding - Basic | 50,228,716 | 38,413,131 |
| Weighted Average Shares Outstanding - Diluted | 50,228,716 | 38,413,131 |

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

**Kartoon Studios, Inc.**
**Consolidated Statements of Comprehensive Loss**
**(in thousands)**

| | Year Ended December 31, | |
|---|---|---|
| | **2025** | **2024** |
| Net Loss | $ (24,698) | $ (20,941) |
| Change in Accumulated Other Comprehensive Loss: | | |
| Change in Unrealized Gain on Marketable Securities | 75 | 190 |
| Realized Losses on Marketable Securities Reclassified from AOCI into Earnings | 36 | 612 |
| Foreign Currency Translation Adjustments | 30 | (298) |
| Total Change in Accumulated Other Comprehensive Loss | 141 | 504 |
| **Total Comprehensive Net Loss** | **(24,557)** | **(20,437)** |
| Net Loss Attributable to Non-Controlling Interests | 166 | 202 |
| **Total Comprehensive Net Loss Attributable to Kartoon Studios, Inc.** | **$ (24,391)** | **$ (20,235)** |

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

## Kartoon Studios, Inc.
## Consolidated Statements of Stockholders' Equity
## (in thousands, except share data)

| | Common Stock | | Preferred Stock | | Additional Paid-In | Treasury Stock | | Accumulated | Accumulated Other Comprehensive | Non-Controlling | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Capital | Shares | Amount | Deficit | Loss | Interest | Total |
| **Balance, December 31, 2023** | **35,247,744** | **$ 352** | **1** | **$ –** | **$ 773,986** | **75,473** | **$ (339)** | **$ (718,546)** | **$ (3,883)** | **$ 1,691** | **$ 53,261** |
| Issuance of Common Stock for Services | 362,568 | – | – | – | 306 | – | – | – | – | – | 306 |
| Issuance of Common Stock for Vested Restricted Stock Units, Net of Shares Withheld for Taxes | 166,033 | – | – | – | – | 524 | (1) | – | – | – | (1) |
| Stock Option Granted to Consultants | – | – | – | – | 30 | | | – | – | – | 30 |
| Reclassification Related to Reverse Stock Split | – | (316) | – | – | 316 | – | – | – | – | – | – |
| Proceeds from Securities Purchase Agreement, Net | 8,375,000 | 8 | – | – | 3,014 | – | – | – | – | – | 3,022 |
| Placement Agent Fee Paid in Cash | – | – | – | – | (390) | – | – | – | – | – | (390) |
| Warrant Exercise | 2,057,736 | 2 | – | – | – | – | – | – | – | – | 2 |
| Share cancellation | – | – | (1) | – | – | – | – | – | – | – | – |
| Share-Based Compensation | – | – | – | – | 667 | – | – | – | – | – | 667 |
| Realized Loss Reclassified from AOCI to Earnings, net change in Unrealized Loss | – | – | – | – | – | – | – | – | 802 | – | 802 |
| Currency Translation Adjustment | – | – | – | – | – | – | – | – | (298) | – | (298) |
| Net Loss | – | – | – | – | – | – | – | (20,739) | – | (202) | (20,941) |
| **Balance, December 31, 2024** | **46,209,081** | **$ 46** | **–** | **$ –** | **$ 777,929** | **75,997** | **$ (340)** | **$ (739,285)** | **$ (3,379)** | **$ 1,489** | **$ 36,460** |
| Issuance of Common Stock for Services | 340,340 | – | – | – | 228 | – | – | – | – | – | 228 |
| Issuance of Common Stock for Vested Restricted Stock Units, Net of Shares Withheld for Taxes | 327,459 | 1 | – | – | 27 | 1,026 | (1) | – | – | – | 27 |
| Issuance of Common Stock for Accounts Payable Settlement | 3,866,247 | 4 | – | – | 3,015 | – | – | – | – | – | 3,019 |
| Stock Options Granted to Consultants | – | – | – | – | 43 | – | – | – | – | – | 43 |
| Non-cash Share Exchange | (348,127) | – | – | – | – | 348,127 | (263) | – | – | – | (263) |
| Proceeds from Securities Purchase Agreement, Net | 3,000,000 | 3 | – | – | 7,043 | – | – | – | – | – | 7,046 |
| Placement Agent Fee Paid in Cash | – | – | – | – | (511) | – | – | – | – | – | (511) |
| Warrant Exercise | 1,462,000 | 1 | – | – | – | – | – | – | – | – | 1 |
| Share-Based Compensation | – | – | – | – | 331 | – | – | – | – | – | 331 |
| Warrant Reclassification | – | – | – | – | 5,709 | – | – | – | – | – | 5,709 |
| Realized Loss Reclassified from AOCI to Earnings, net change in Unrealized Loss | – | – | – | – | – | – | – | – | 111 | – | 111 |
| Currency Translation Adjustment | – | – | – | – | – | – | – | – | 30 | – | 30 |
| Net Loss | – | – | – | – | – | – | – | (24,532) | – | (166) | (24,698) |
| **Balance, December 31, 2025** | **54,857,000** | **$ 55** | **–** | **$ –** | **$ 793,814** | **425,150** | **$ (604)** | **$ (763,817)** | **$ (3,238)** | **$ 1,323** | **$ 27,533** |

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

**Kartoon Studios, Inc.**
**Consolidated Statements of Cash Flows**
**(in thousands)**

| | Year Ended December 31, | |
|---|---|---|
| | **2025** | **2024** |
| **Cash Flows from Operating Activities:** | | |
| Net Loss | $ (24,698) | $ (20,941) |
| | | |
| Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities: | | |
| Amortization of Film and Television Costs | 904 | 231 |
| Depreciation and Amortization of Property, Equipment and Intangible Assets | 2,585 | 2,408 |
| Amortization of Right-of-Use Asset | 1,091 | 1,737 |
| Amortization of Premium on Marketable Securities | 7 | 67 |
| Share-Based Compensation Expense | 331 | 667 |
| Impairment of Film and Television Costs | 28 | – |
| Impairment of Intangible Assets | 767 | – |
| Loss on Debt Settlement | 1,753 | – |
| Gain on Early Lease Termination | (4) | – |
| Loss on Share Exchange | 286 | – |
| Deferred Income Taxes | (135) | 7 |
| Loss on Partial Disposal of Equity Investment in Your Family Entertainment AG | 1,518 | – |
| Loss on Revaluation of Equity Investments in Your Family Entertainment AG | 9,830 | 1,627 |
| Unrealized (Gain) Loss on Foreign Currency of Equity Investments in Your Family Entertainment AG | (1,775) | 1,038 |
| Loss (Gain) on Warrant Revaluation | 232 | (63) |
| Accounts Payable Balance Settled in Stock | 2,209 | – |
| Loss on Transaction | – | 985 |
| Realized Loss on Marketable Securities | 37 | 611 |
| Non-cash Interest Expense | 73 | – |
| Stock Issued for Services | 228 | 306 |
| Stock Options Issued to Consultants | 43 | 30 |
| Credit Loss Expense | 135 | 232 |
| Other Non-Cash Items | 34 | – |
| | | |
| Decrease (Increase) in Operating Assets: | | |
| Accounts Receivable | 2,098 | 5,912 |
| Other Receivable | (58) | (36) |
| Tax Credits Earned (less capitalized) | (11,639) | (9,071) |
| Tax Credits Received | 9,252 | 15,979 |
| Employee Retention Tax Credit Receivable | – | (1,232) |
| Film and Television Costs, net | (3,858) | (1,731) |
| Prepaid Expenses and Other Assets | (244) | 118 |
| | | |
| Increase (Decrease) in Operating Liabilities: | | |
| Accounts Payable | 108 | (4,897) |
| Accrued Salaries and Wages | 114 | (627) |
| Accrued Expenses | 334 | (280) |
| Accrued Production Costs | 233 | 1,679 |
| Participations Payable | (415) | (449) |
| Deferred Revenue | (1,887) | 3,106 |
| Lease Liability | (911) | (788) |
| Due to Related Party | 3 | (1) |
| Other Liabilities | (15) | (113) |
| Net Cash Used in Operating Activities | (11,406) | (3,489) |
| | | |
| **Cash Flows from Investing Activities:** | | |
| Repayments from Related Party for Note Receivables | 400 | 83 |

| | | |
|---|---|---|
| Proceeds from Sales and Maturities of Marketable Securities | 4,841 | 10,046 |
| Investment in Marketable Securities | (6,722) | – |
| Purchase of Property and Equipment | (151) | (117) |
| Net Cash (Used in) Provided by Investing Activities | (1,632) | 10,012 |
| | | |
| **Cash Flows from Financing Activities:** | | |
| Proceeds from Margin Loan | 5,915 | 11,021 |
| Repayments of Margin Loan | (6,811) | (10,901) |
| Proceeds from Production Facilities | 10,251 | 8,852 |
| Repayments of Production Facilities | (8,584) | (14,756) |
| Repayments of Bank Indebtedness, net | – | (2,810) |
| Proceeds from Factoring Transaction | 484 | – |
| Principal Payments on Finance Lease Obligations | (393) | (1,661) |
| Debt Issuance Costs | (79) | (2) |
| Proceeds from Sale of Investment | 829 | – |
| Placement Agent Fee Paid in Cash | (511) | (390) |
| Proceeds from Securities Purchase Agreement, net | 7,046 | 7,515 |
| Shares Withheld for Taxes on Vested Restricted Shares | (1) | (1) |
| Proceeds from Warrant Exercise | 1 | 2 |
| Net Cash Provided by (Used in) Financing Activities | 8,147 | (3,131) |
| | | |
| Effect of Exchange Rate Changes on Cash | (551) | 898 |
| | | |
| Net (Decrease) Increase in Cash and Restricted Cash | (5,442) | 4,290 |
| Beginning Cash and Restricted Cash | 8,385 | 4,095 |
| **Ending Cash and Restricted Cash** | **$ 2,943** | **$ 8,385** |
| | | |
| *Supplemental Disclosures of Cash Flow Information* | | |
| | | |
| Cash Paid for Interest | $ 40 | $ 129 |
| Cash Paid for Taxes | $ – | $ – |
| | | |
| *Non-Cash Operating Activities* | | |
| Reduction in Leased Asset Due to Modified Lease Liability | $ 106 | $ – |
| | | |
| *Non-Cash Financing and Investing Activities* | | |
| Leased Assets Obtained in Exchange for New Finance Lease Liabilities | $ 356 | $ – |

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

## Note 1: Organization and Business

*Organization and Nature of Business*

Kartoon Studios, Inc. (formerly, Genius Brands International, Inc.) (the "Company," "Kartoon Studios," "we," "us" or "our") is a global content and brand management company focused on the creation, production, licensing, and distribution of multimedia animated content for children. Led by experienced industry personnel, the Company's core business includes original intellectual property ("IP") development, third-party IP production services, media agency, and content monetization through licensing and owned distribution platforms.

Kartoon Studios' owned and produced titles include *Stan Lee's Superhero Kindergarten* (starring Arnold Schwarzenegger), *Llama Llama* (starring Jennifer Garner), *Rainbow Rangers*, *KC! Pop Quiz*, and *Shaq's Garage* (starring Shaquille O'Neal). The Company's library also includes titles such as *Baby Genius*, *Thomas Edison's Secret Lab*, *Warren Buffett's Secret Millionaires Club*, *Team Zenko Go!*, *Reboot*, *Bee & PuppyCat: Lazy in Space*, and *Castlevania*. The Company maintains a strategy of leveraging owned IP and third-party relationships to expand distribution and consumer product licensing.

Kartoon Studios also owns Wow Unlimited Media Inc. ("Wow"), through which the Company operates Mainframe Studios - one of the *largest* animation production studios globally. Mainframe Studios is a producer-for-hire for several major streaming platforms and IP holders. To date, Mainframe has produced over 1,200 television episodes, 70 movies, and 3 feature films, including titles such as *Barbie Dreamhouse Adventures*, *Octonauts: Above & Beyond*, *Cocomelon*, *SuperKitties*, *It's Andrew!,* and *Unicorn Academy*, in partnership with leading global media companies. In addition, Wow owns Frederator Networks Inc. ("Frederator"). Frederator operates a leading animation-focused creator network, Channel Frederator Network, on YouTube encompassing over 2,500 channels. Frederator Studios has developed and produced original programming in partnership with Cartoon Network, Nickelodeon, Nick Jr., Netflix, Sony Pictures Animation, and Amazon.

The Company distributes its content across streaming platforms, linear television, and its ad-supported and subscription-based video-on-demand ("VOD") services and apps, including *Kartoon Channel!* and *Ameba TV*. Distribution partners include YouTube, YouTube Kids, Amazon Prime Video, Amazon Fire, Roku, Apple TV, iOS, Android TV, Android mobile, Pluto TV, Xumo, Tubi, Samsung TV Plus, Google TV, Cox, DISH, Sling TV, KartoonChannel.com, and smart TVs from Samsung and LG. The Company also licenses content to third-party networks and streaming services globally, including Netflix, Paramount+, HBO Max, and Nickelodeon.

The Company also owns The Beacon Media Group, LLC and The Beacon Communications Group, Ltd. (collectively, "Beacon"), a specialized media and marketing agency focused on children's and family audiences. Beacon represents over 20 established and emerging brands across the toy, consumer products, and family entertainment sectors, including Bandai Namco, Moose Toys, Bazooka Brands, Goliath Games, Playmates Toys, and Cepia LLC. The agency has developed a strong reputation within the toy industry, supported by long-standing client relationships, deep category expertise, and a consistent track record of campaign execution. The Company believes that Beacon's positioning within a niche, relationship-driven market provides barriers to entry and supports durable demand for its services.

The Company owns Ameba Inc. which operates Ameba TV, a subscription streaming service with a focus on educational and entertainment content for younger children. As a cornerstone of the Company's subscription offerings, Ameba delivers a vast library of engaging and educational content, accessible across multiple platforms.

Through its investment in Germany-based Your Family Entertainment AG ("YFE"), a publicly listed company on the Frankfurt Stock Exchange (RTV: FWB), the Company holds a strategic interest in one of Europe's leading independent children's content providers, with a catalog of approximately 150 titles and 3,500 half-hour episodes.

The Company holds a controlling interest in Stan Lee Universe, LLC ("SLU"), which owns the IP rights to Stan Lee's name, likeness, signature, and associated IP assets.

**Recent Transactions**

*ERTC Sale*

On July 31, 2025, the Company entered into an agreement to sell its rights to its $0.9 million outstanding Employee Retention Tax Credit ("ERTC") refund claims to a third party in exchange for cash consideration. Under the agreement, the Company received an upfront payment of $0.5 million equal to 55% of the claim amount upon execution, with an additional payment of $0.1 million equal to 15% to be paid upon collection from the IRS. The Company is entitled to receive any interest earned on the 15% claim amount if it is collected from the IRS within nine months of signing the agreement. Any interest received from the IRS after the nine-month period will be retained by the lender. Pursuant to the agreement, the Company retains legal title and remains obligated in the event of any disallowance, modification, or reduction of the claim by the IRS. The arrangement includes a recourse provision under which the Company remains obligated to repay amounts advanced in the event of any disallowance, modification, or reduction of the claim by the IRS.

*October Financing*

On October 22, 2025, pursuant to the terms of a securities purchase agreement (the "October 2025 Purchase Agreement") entered into with an institutional investor (the "October 2025 Investor"), the Company closed a registered direct offering (the "Registered Direct Offering") of 3,000,000 shares (the "October 2025 Shares") of its common stock, and pre-funded warrants (the "October 2025 Pre-Funded Warrants") to purchase up to 6,903,049 shares of common stock to the October 2025 Investor. In a concurrent private placement (the "Concurrent Private Placement" and, together with the Registered Direct Offering, the "October Offerings"), pursuant to the October 2025 Purchase Agreement, the Company also sold to the October 2025 Investor unregistered warrants (the "October 2025 Common Warrants") to purchase up to 9,903,049 shares of common stock, with an exercise price of $0.738 per share. Each October 2025 Share and privately placed October 2025 Common Warrant was sold at a combined public offering price of $0.738, and each October 2025 Pre-Funded Warrant and privately placed October 2025 Common Warrant was sold at a combined public offering price of $0.737, for aggregate gross proceeds at closing of approximately $7.3 million, prior to deducting placement agent fees and other offering expenses. In connection with the October Offerings, the Company paid to the placement agent a cash fee equal to 7% of the aggregate gross proceeds from the sale of the securities sold in this offering, plus $75,000 as a reimbursement of certain out-of-pocket expenses. The placement agent is also entitled to receive 7% of the gross proceeds received from the exercise of any of the October 2025 Common Warrants, if any. In addition, the Company issued warrants (the "Placement Agent Warrants") to purchase 693,213 shares of common stock to the placement agent and its designees with an exercise price of $0.8118 per share.

*Section 3(a)(10) Accounts Payable Settlement*

On August 27, 2025, the Company entered into an agreement to engage in a transaction under Section 3(a)(10) of the Securities Act of 1933, as amended (the "Securities Act") with Continuation Capital, Inc. ("CCI"), to settle $1.8 million of outstanding accounts payable, in exchange for issuing 3,148,535 shares of common stock. Under the terms of the agreement, CCI makes payments to the Company's vendors in cash and, in exchange, the Company issues shares of common stock to CCI. The settlement was valued at 1.75 shares of common stock per $1 of accounts payable, pursuant to the terms of the agreement. The transaction was approved by a court after a public hearing on the fairness of the terms and conditions. The transaction was carried out in stages and as of December 31, 2025, the Company had completed the arrangement, settling a total of $1.8 million, and issuing an aggregate of 3,148,535 shares of common stock. The Company recognized a loss of $0.7 million on the settlement, representing the difference between the carrying value of liabilities extinguished and the fair value of shares issued, included in Other Income (Expense), net, on the Company's consolidated statements of operations.

On November 18, 2025, the Company entered into a new agreement to settle an additional $1.0 million of accounts payable under Section 3(a)(10) of the Securities Act with CCI, in exchange for issuing 1,695,072 shares of common stock. The terms were consistent with the original arrangement. During the three months ended December 31, 2025 the Company settled $0.4 million of accounts payable and issued 717,712 shares of common stock to CCI. The Company recognized a loss of $0.1 million on the settlement, representing the difference between the carrying value of liabilities extinguished and the fair value of shares issued, included in Other Income (Expense), net, on the Company's consolidated statements of operations.

## Liquidity and Capital Resources

As of December 31, 2025, the Company had cash of $2.9 million which decreased by $5.4 million as compared to December 31, 2024. The decrease was primarily due to cash used in operating activities of $11.4 million, cash used in investing activities of $1.6 million, and the effect of exchange rate of $0.6 million, offset by cash provided by financing activities of $8.1 million. The cash used in investing activities was primarily due to investment of financing proceeds in marketable securities of $6.7 million, and purchase of property and equipment of $0.2 million, offset by the proceeds received from sales of marketable securities of $4.8 million and proceeds of $0.4 million from repayment of a loan from related party. The cash provided by financing activities was primarily due to the proceeds of $6.5 million, net of placement agent fees and other offering expenses, received from the October Offerings, proceeds of $0.8 million received from sale of equity investment, drawdowns, net of repayments and debt issuance costs, of $1.6 million from production facilities, and proceeds of $0.5 million received from factoring transaction, offset by the margin loan repayment of $0.9 million and finance lease payments of $0.4 million.

As of December 31, 2025, the Company held available-for-sale marketable securities with a fair value of $4.0 million, an increase of $1.9 million as compared to December 31, 2024 due to the investment of a portion of the net proceeds from October Offerings during the year ended December 31, 2025. The available-for-sale securities consist principally of government debt securities and are also available as a source of liquidity.

As of December 31, 2025 the Company had no outstanding margin loan balance. As of December 31, 2024, the Company's margin loan balance was $0.9 million. During the year ended December 31, 2025, the Company borrowed an additional $5.9 million from its investment margin account and repaid $6.8 million primarily with cash received from sales and maturities of marketable securities. The borrowed amounts were primarily used for operational costs. The interest rates for the borrowings fluctuate based on the Fed Funds Upper Target plus 0.60%. The weighted average interest rates were 0.20% and 0.46%, respectively, on average margin loan balances of $0.2 million and $1.0 million as of December 31, 2025 and December 31, 2024

During the years ended December 31, 2025 and December 31, 2024, the Company incurred interest expense on the margin loan of $8,392 and $0.1 million, respectively. The investment margin account borrowings do not mature but are collateralized by the marketable securities held by the same custodian and the custodian can issue a margin call at any time, effecting a payable on demand loan. Due to the call option, the margin loan is recorded as a current liability on the Company's consolidated balance sheets.

## Going Concern

In accordance with Accounting Standards Codification ("ASC") 205, *Presentation of Financial Statements - Going Concern (Subtopic 205-40),* the Company has evaluated whether there are conditions and events that raise substantial doubt about the Company's ability to continue as a going concern for at least one year after the date the condensed consolidated financial statements are issued.

Historically, the Company has incurred net losses. For the years ended December 31, 2025 and December 31, 2024, the Company reported net losses of $24.7 million and $20.9 million, respectively. The Company reported net cash used in operating activities of $11.4 million, and cash used in operating activities of $3.5 million for the years ended December 31, 2025 and December 31, 2024, respectively. As of December 31, 2025, the Company had an accumulated deficit of 763.8 million and total stockholders' equity of $27.5 million. As of December 31, 2025, the Company had total current assets of $35.8 million, including cash of $2.9 million, and marketable securities of $4.0 million, and total current liabilities of $33.5 million. The Company had working capital of $2.3 million as of December 31, 2025, compared to working capital of $1.2 million as of December 31, 2024. Management has evaluated the significance of these conditions in relation to the Company's ability to meet its obligations and concluded, that there is substantial doubt about our ability to continue as a going concern for a period of at least one year subsequent to the issuance of the accompanying condensed consolidated financial statements. Historically, the Company has financed its operations primarily through revenue generated from operations, loans and sales of its securities, and the Company expects to continue to seek and obtain additional capital in a similar manner. In order to address the Company's capital needs, the Company intends to consider multiple alternatives, including, but not limited to, the sale of equity or debt securities, financing arrangements or entering into collaborative, strategic, and/or licensing transactions. There can be no assurance that the Company will be able to complete any such financing, collaborative or strategic transaction in a timely manner or on acceptable terms. As a result, the Company may have to significantly limit its operations and its business, financial condition and results of operations would be materially harmed.

During the year ended December 31, 2025, the Company was successful in raising net proceeds of $6.5 million in connection with the October Offerings, which closed on October 22, 2025, strengthening its cash position. Despite this, macroeconomic conditions continue to present challenges in the animation and advertising industries, primarily due to ongoing government tariffs and intensified competition. In parallel, management also plans to preserve liquidity, as needed, by implementing cost saving measures. For example, during the year ended December 31, 2025, in order to improve liquidity, the Company sold certain assets, including ERTC receivables and 1,500,000 YFE shares, and settled $2.2 million of outstanding accounts payable in a transaction under Section 3(a)(10) of the Securities Act.

While management is taking these steps to improve liquidity, due to the uncertainty surrounding the successful execution and timing of these plans, substantial doubt continues to exist regarding the Company's ability to meet its obligations as they become due within one year after the date the financial statements are issued.

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

*Basis of Presentation*

The accompanying consolidated financial statements have been prepared in conformity with U.S. Generally Accepted Accounting Principles ("U.S. GAAP") and the applicable rules and regulations of the U.S. Securities and Exchange Commission ("SEC").

*Principles of Consolidation and Basis of Presentation*

The Company's consolidated financial statements include the accounts of Kartoon Studios, Inc. and its wholly-owned subsidiaries. The Company also consolidates all majority-owned subsidiaries and variable interest entities where the Company has been determined to be the primary beneficiary. The interests in a variable interest entity which the Company does not control are recorded as non-controlling interests. Non-consolidated investments are accounted for using the equity method or the fair value option and recorded at fair value with changes recognized within Other Income (Expense), net on the consolidated statements of operations and comprehensive loss. All significant intercompany accounts and transactions have been eliminated upon consolidation.

*Segments*

The Company determines its operating segments on the same basis as it assesses performance and makes operating decisions. The Company principally operates in two distinct business segments: the Content Production and Distribution Segment, which produces and distributes children's content, and the Media Advisory and Advertising Services Segment, which provides media and advertising services. These segments are reflective of how the Company's Chief Operating Decision Maker ("CODM") reviews operating results for the purposes of allocating resources and assessing performance. The Company has identified its Chief Executive Officer as the CODM. The segments are organized around the products and services provided to customers and represent the Company's reportable segments.

The accounting policies for each segment are the same as for the Company as a whole. Refer to Note 21 for additional information.

*Variable Interest Entities*

The Company holds an interest in Stan Lee University, LLC ("SLU"), an entity that is considered a variable interest entity ("VIE"). The variable interest relates to 50% ownership in the entity that is comprised of the Stan Lee Assets and that requires additional financial support from the Company to continue operations. The Company is considered the primary beneficiary and is required to consolidate the VIE.

In evaluating whether the Company has the power to direct the activities of a VIE that most significantly impact its economic performance, the Company considers the purpose for which the VIE was created, the importance of each of the activities in which it is engaged and the Company's decision-making role, if any, in those activities that significantly determine the entity's economic performance as compared to other economic interest holders. This evaluation requires consideration of all facts and circumstances relevant to decision-making that affects the entity's future performance and the exercise of professional judgment in deciding which decision-making rights are most important.

In determining whether the Company has the right to receive benefits or the obligation to absorb losses that could potentially be significant to the VIE, the Company evaluates all of its economic interests in the entity, regardless of form (debt, equity, management and servicing fees, and other contractual arrangements). This evaluation considers all relevant factors of the entity's design, including: the entity's capital structure, contractual rights to earnings (losses), subordination of the Company's interests relative to those of other investors, contingent payments, as well as other contractual arrangements that have the potential to be economically significant. The evaluation of each of these factors in reaching a conclusion about the potential significance of the Company's economic interests is a matter that requires the exercise of professional judgment. The Company continuously assesses whether it is the primary beneficiary of a variable interest entity as changes to existing relationships or future transactions may result in the Company consolidating its collaborators or partners.

*Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates in our consolidated financial statements, include, but are not limited to: content inventory; income taxes; initial valuation and subsequent impairment testing of intangible assets; fair value of financial instruments; share-based payment arrangements; and commitments and contingencies. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis.

*Foreign Currency*

The Company considers the USD to be its functional currency for its United States and certain Canadian based operations. The CAD is the functional currency of Wow, a wholly-owned subsidiary of the Company. Accordingly, the financial information is translated from CAD to USD for inclusion in the Company's consolidated financial statements. Revenue and expenses are translated at average exchange rates prevailing during the period, and assets and liabilities are translated at exchange rates in effect at the balance sheet date. Resulting translation adjustments are included as a component of Accumulated Other Comprehensive Loss, net in stockholders' equity.

Foreign exchange ("FX") transaction gains and losses are included in Other Income (Expense), net on the consolidated statements of operations.

*Foreign Currency Forward Contracts*

The Company's wholly-owned subsidiary, Wow, is exposed to fluctuations in various foreign currencies against its functional currency, the Canadian dollar. Wow uses foreign currency derivatives, specifically foreign currency forward contracts ("FX forwards"), to manage its exposure to fluctuations in the CAD-USD exchange rates. FX forwards involve fixing the foreign currency exchange rate for delivery of a specified amount of foreign currency on a specified date. The FX forwards are typically settled in CAD for their fair value at or close to their settlement date. The Company does not currently designate any of the FX forwards under hedge accounting and therefore reflects changes in fair value as unrealized gains or losses immediately in earnings as part of the revenue generated from the transactions hedged. The Company does not hold or use these instruments for speculative or trading purposes.

Per Financial Accounting Standards Board ("FASB") ASC 815-10-45, *Derivatives and Hedging*, the Company has elected an accounting policy to offset the fair value amounts recognized for eligible forward contract derivative instruments. Therefore, the Company presents the asset or liability position of the FX forwards that are with the same counterparty net as either an asset or liability in its consolidated balance sheets.

As of December 31, 2025 and December 31, 2024, the gross amounts of FX forward contracts in an asset and liability position subject to a master netting arrangement resulted in a net liability of $43,438 and $0.6 million, respectively, recorded within Other Current Liabilities on the consolidated balance sheets.

For the years ended December 31, 2025 and December 31, 2024, the Company recorded a realized loss of $0.3 million and $0.2 million, respectively, on FX forward contracts within Production Services Revenue on the consolidated statements of operations.

*Cash and Cash Equivalents*

The Company considers all highly liquid debt instruments with initial maturities of three months or less to be cash equivalents. As of December 31, 2025 and December 31, 2024, the Company had cash and restricted cash of $2.9 million and cash and restricted cash of $8.4 million, respectively, that at times could exceed Federal Deposit Insurance Corporation ("FDIC") or Canadian Deposit Insurance Corporation ("CDIC") limits. Any loss incurred or a lack of access to such funds could have a significant adverse impact on the Company's financial condition, results of operations, and cash flows. The availability of certain short-term lines of credit is dependent on the Company maintaining compensating balances. The compensating balances are not legally restricted and may be withdrawn; therefore, the Company classifies them as cash on the consolidated balance sheets. The Company did not hold any compensating balance as of December 31, 2025. As of December 31, 2024, the total compensating balance maintained was $0.5 million. The Company did not have any cash equivalents as of the periods presented. As of December 31, 2025, the Company did not hold any restricted cash balance. As of December 31, 2024 the Company held $0.5 million in restricted cash. This balance primarily represented collateral pledged in connection with the Company's subsidiary's corporate American Express program. As of December 31, 2025, the Company has no cash minimum requirements.

*Trade Accounts Receivable and Allowance for Credit Loss*

Accounts receivables are presented on the consolidated balance sheets, net of estimated credit losses. The carrying amounts of trade accounts receivable and unbilled accounts receivable represent the maximum credit risk exposure of these assets. On a quarterly basis, in accordance with FASB ASC 326, *Measurement of Credit Losses on Financial Instruments* ("ASC 326"), the Company evaluates the collectability of outstanding accounts receivable balances to determine an allowance for credit loss that reflects its best estimate of the lifetime expected credit losses. The allowance for credit loss is based on an assessment of past events, current economic conditions, and forecasts of future events. Individual uncollectible accounts are written off against the allowance when collection of the individual accounts does not appear probable.

As of December 31, 2025 and December 31, 2024, the Company had net accounts receivable balances of $9.6 million and $12.0 million, respectively. The beginning balance of net accounts receivable as of January 1, 2024 was $18.1 million. As of December 31, 2025 and December 31, 2024, the Company recorded an allowance for credit loss of $2,956 and $0.2 million, respectively.

The following table summarizes the activity in the allowance for credit losses related to trade accounts receivable as of December 31, 2025 and December 31, 2024 (in thousands):

| | | |
|---|---|---|
| **Balance, net as of December 31, 2023** | **$** | **189** |
| Charged to costs and expenses | | 64 |
| Recoveries | | (14) |
| Write-offs | | – |
| **Balance, net as of December 31, 2024** | | **239** |
| Charged to costs and expenses | | 179 |
| Recoveries | | (39) |
| Write-offs | | (376) |
| **Balance, net as of December 31, 2025** | **$** | **3** |

The Company limits its exposure to this credit risk through a credit approval process and credit monitoring procedures. In addition, Wow's contracts with customers usually require upfront and milestone payments throughout the production process. The Company's customer base is mainly comprised of major Canadian, American, and worldwide studios, distributors, broadcasters, toy companies and advertising-supported video on demand ("AVOD") and subscription video on demand ("SVOD") platforms that have been customers for several years.

*Tax Credits Receivable*

The Canada Revenue Agency ("CRA") and certain provincial governments in Canada provide programs that are designed to assist film and television production in the form of refundable tax credits or other incentives.

Estimated amounts receivable in respect of refundable tax credits are recorded as an offset to the related production operating cost, or to investment in film and television costs when the conditions for eligibility of production assistance based on the government's criteria are met, the qualifying expenditures are made and there is reasonable assurance of realization. Determination of when and if the conditions of eligibility have been met is based on management's judgment, and the amount recognized is based on management's estimates of qualifying expenditures. The ultimate collection of previously recorded estimates is subject to ordinary course audits from the CRA and provincial agencies. Changes in administrative policies by the CRA or subsequent review of eligibility documentation may impact the collectability of these estimates. The Company continuously reviews the results of these audits to determine if any circumstances arise that in management's judgment would result in a previously recognized amount to be considered no longer collectible.

The Company classifies the tax credits receivable as current based on their normal operating cycle. Government assistance, in the form of refundable tax credits, is relied upon as a key component of production financing. These amounts are claimed from the CRA through the submission of income tax returns and can take up to 18 to 24 months from the date of the first tax credit dollar being earned to being received. As this financing is fundamental to the Company's ability to produce animated productions and generate revenue in the normal course of business, the normal operating cycle for such assets is considered to be a 12 to 24-month period, or the time it takes for the CRA to assess and refund the tax credits earned.

As of December 31, 2025 and December 31, 2024, the Company had $16.8 million and $12.7 million in tax credit receivables related to Wow's film and television productions, respectively, net of corresponding allowance for credit loss of $0.4 million and $0.6 million, respectively. The Company did not have any non-current tax credits receivable as of December 31, 2025. As of December 31, 2024, $2.4 million, in tax credits receivable, net of $0.4 million allowance for credit loss was presented as non-current asset due to uncertainty regarding the timing of obtaining the necessary certifications required to process the tax credits.

*Employee Retention Tax Credit (ERTC)*

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act was signed into law, providing numerous tax provisions and other stimulus measures, including the Employee Retention Tax Credit. The Taxpayer Certainty and Disaster Tax Relief Act of 2020 and the American Rescue Plan Act of 2021 extended the availability of the ERTC. The Company accounted for the ERTC as a gain contingency in accordance with ASC 450-30, *Gain Contingencies*. Under this standard, the ERTC was recognized only after the contingency was resolved and deemed realizable.

During the year ended December 31, 2024, we recognized an ERTC benefit totaling $1.2 million. This amount was included in Other Income (Expense), net in the consolidated statements of operations for the year ended December 31, 2024. During the year ended December 31, 2024, we had not received any refunds related to the ERTC and we had an outstanding receivable of $1.2 million which was recorded in other current assets in the consolidated balance sheet. During the year ended December 31, 2025, we received $0.2 million of ERTC refunds from the IRS. As of December 31, 2025, the outstanding ERTC receivable balance was $1.0 million. The Company did not record any ERTC benefits in the year ended December 31, 2025.

*Factoring Liability*

On July 31, 2025, the Company entered into an arrangement to transfer its ERTC refund claim ("ERTC receivable") of $0.9 million to a financing counterparty on a recourse basis. Because the Company retained exposure to the transferred asset through the recourse provisions and otherwise did not relinquish control, the transaction did not qualify for sale accounting under ASC 860*, Transfers and Servicing*, and has been accounted for as a secured borrowing. Accordingly, the ERTC receivable remains recognized in Other Receivables, and a corresponding liability is recognized for the cash proceeds received (net of any direct issuance costs). The related factoring liability of $0.7 million represents approximately 75% of the ERTC underlying receivable amount and is presented in the consolidated balance sheet within Noncurrent Liabilities. Management does not anticipate any repayment obligation within twelve months and expects full collection of the ERTC refund by the financing counterparty. No gain or loss was recognized at inception. The ERTC receivable serves as collateral for the borrowing. The difference between the ERTC receivable and the cash proceeds was recorded as borrowing discount, which is deferred and accreted to interest expense using the effective interest method (26.84%) over the expected term of the borrowing. Collections on the ERTC receivable are remitted to the lender pursuant to the agreement and reduce the outstanding loan principal when applied. The Company evaluates the ERTC receivable for collectability each reporting period.

*Marketable Debt Securities*

The Company purchases high quality, investment grade securities from diverse issuers. Management determines the appropriate classification of securities at the time of purchase and reevaluates such designation as of each balance sheet date. Currently, the Company classifies its investments in marketable securities as available-for-sale (“AFS”) and records these investments at fair value. The securities are available to support current operations and, accordingly, the Company classifies the investments as current assets without regard to their contractual maturity.

Unrealized gains or losses on available-for-sale securities for which the Company expects to fully recover the amortized cost basis are recognized in Accumulated Other Comprehensive Loss, a component of stockholders’ equity. Gains and losses as a result of sales of securities are reclassified from previously unrealized gains and losses on AFS securities in Accumulated Other Comprehensive Loss to Other Income (Expense), net, in the consolidated statements of operations.

On a quarterly basis, the Company reviews its AFS securities to assess declines in fair value for credit losses. For each AFS security with an amortized cost that exceeds its fair value, the Company first determines if it intends to sell or is more-likely-than-not required to sell the debt security before the expected recovery of its amortized cost. If it intends to sell or will more-likely-than-not be required to sell the security, the Company recognizes the impairment as a credit loss in the consolidated statements of operations by writing down the security’s amortized cost to its fair value. For AFS securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss. The portion of the decline in fair value that is due to factors other than a credit loss is recognized in Accumulated Other Comprehensive Loss as an unrealized loss.

The Company reports accrued interest receivable separately from the AFS securities and has elected not to measure an allowance for credit losses for accrued interest receivables. Uncollectible accrued interest is written off when the Company determines that no additional interest payments will be received. Classified within Other Receivables on the consolidated balance sheets, no interest income was receivable as of December 31, 2025, compared to approximately $8,830 as of December 31, 2024.

Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums accounted for over the life of the security or, in the case of callable securities, through the first call date, using the level yield method, with no prepayment anticipated.

*Equity-Method Investments*

When the Company does not have a controlling financial interest in an entity but can exert significant influence over the entity’s operating and financial policies, the investment is accounted for either (i) under the equity method of accounting or (ii) at fair value by electing the fair value option available under U.S. GAAP. Significant influence generally exists when the firm owns 20% to 50% of the entity’s common stock or in-substance common stock.

In general, the Company accounts for investments acquired at fair value. See Note 4 for further information about the Company’s investment in YFE’s equity securities, which is accounted for under the fair value option.

*Property and Equipment*

Property and equipment are recorded at cost, less accumulated depreciation. Depreciation on property and equipment is computed using the straight-line method over the estimated useful lives of the assets, which range from two to seven years. Maintenance, repairs, and renewals, which neither materially add to the value of the assets nor appreciably prolong their lives, are charged to expense as incurred. Gains and losses from any dispositions of property and equipment are reflected in the consolidated statements of operations. Whenever events or circumstances change, an assessment is made as to whether there has been impairment to the value of long-lived assets by determining whether projected undiscounted cash flows generated by the applicable asset exceed its net book value as of the assessment date. Refer to Note 6 for details on the Company’s assessments of fair value as of December 31, 2025 and December 31, 2024.

*Right-of-Use Leased Assets*

The Company determines at contract inception whether the arrangement is a lease based on its ability to control a physically distinct asset and determines the classification of the lease as either operating or finance under FASB ASC 842, *Leases* ("ASC 842"). For all leases, the Company combines all components of the lease including related nonlease components as a single component. Operating leases are reflected as Operating Lease Right-of-Use ("ROU") Assets and Operating Lease Liabilities and finance leases are reflected as Finance Lease ROU assets and Finance Lease Liabilities on the consolidated balance sheets.

Lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Company's operating leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The Company estimates the incremental borrowing rate to reflect the profile of collateralized borrowing over the expected term of the leases based on the information available on the lease commencement date or for leases existing upon the date of initial adoption of ASC 842, the date of adoption. The implicit rates within the Company's existing finance leases are determinable and therefore used to determine the present value of finance lease payments.

The operating lease ROU assets also include any lease payments made prior to lease commencement date and excludes lease incentives. Specific lease terms used in computing the ROU assets and lease liabilities may include options to extend or terminate the lease when the Company is reasonably certain that it will exercise the option. The Company will reassess expected lease terms based on changes in circumstances that indicate options may be more or less likely to be exercised. Lease expense is recognized on a straight-line basis over the lease term within General and Administrative Expenses on the consolidated statements of operations. Lease incentives are recognized as a reduction to the lease expense on a straight-line basis over the underlying lease term. Refer to Notes 7 and 19 for details of the Company's leases.

*Film and Television Costs*

The Company capitalizes production costs for episodic series produced in accordance with FASB ASC 926-20, *Entertainment-Films - Other Assets - Film Costs*. Accordingly, production costs are capitalized at actual cost and amortized using the individual-film-forecast method, whereby these costs are amortized, and participations costs are accrued based on the ratio of the current period's revenues to management's estimate of ultimate revenue expected to be recognized from each production. There are usually three stages for production projects with different costs incurred at each stage:

*Productions in Development*

Development costs include the costs of acquiring film rights to books, scripts or original screenplays and the third-party costs to adapt such projects, including visual development and design. Advances or contributions received from third parties to assist in development are deducted from these costs.

*Productions in Progress*

Capitalized development costs are reclassified to productions in progress once the project is approved and physical production of the film or television program commences. Capitalized costs include all direct production and financing costs incurred during production that are expected to provide future economic benefit to the Company. Borrowing costs and depreciation are capitalized to the cost of a film or television program until substantially all of the activities necessary to prepare the film or television program for its use intended by management are complete.

*Completed Productions*

Completed productions are carried at the cost of proprietary film and television programs which have been produced by the Company or to which the Company has acquired distribution rights, less accumulated amortization and accumulated impairment losses.

Due to the inherent uncertainties involved in making such estimates of ultimate revenues and expenses, these estimates have differed in the past from actual results and are likely to differ to some extent in the future from actual results. In addition, in the normal course of business, some titles are more successful or less successful than anticipated. Management reviews the ultimate revenue and cost estimates on a title-by-title basis, when an event or change in circumstances indicates that the fair value of the production may be less than its unamortized cost. This may result in a change in the rate of amortization of film costs and participations and/or a write-down of all or a portion of the unamortized costs of the film or television production to its estimated fair value. An impairment charge is recorded in the amount by which the unamortized costs exceed the estimated fair value. These write-downs are included in amortization expense within Direct Operating Costs on the consolidated statements of operations.

All capitalized costs that exceed the initial market firm commitment revenue are expensed in the period of delivery of the episodes. Additionally, for episodic series, from time to time, the Company develops additional content, improved animation and bonus songs/features for its existing content. After the initial release of the episodic series, the costs of significant improvement to existing products are capitalized while routine and periodic alterations to existing products are expensed as incurred. Refer to Note 8 for details.

*Intangible Assets*

Intangible assets have been acquired, either individually or with a group of other assets, and were initially recognized and measured based on fair value. The Company's intangible assets consist of trademarks, trade names, customer relations and other assets. Annual amortization of these intangible assets is computed based on the straight-line method over the remaining economic life of the asset. The useful lives of intangible assets are reviewed periodically to determine whether adjustments are necessary based on changes in business conditions.

Indefinite-lived intangible assets are assessed for impairment annually or when a triggering event suggests their fair value may have fallen below their carrying amount. Impairment analysis of indefinite-lived intangible assets is evaluated using the relief-from-royalty method under the income approach, incorporating estimated future revenues attributable to the asset, assumed growth and royalty rates, based on comparable industry data, and an appropriate discount rate, reflecting risk-adjusted returns. Definite-lived intangible assets are reviewed for impairment when triggering events occur, using an entity-specific recoverability test based on undiscounted cash flows. If recoverability is not met, a fair value analysis is performed.

Changes in future results, assumptions, and estimates after the measurement date may lead to an outcome where additional impairment charges would be required in future periods. Specifically, actual results may vary from the Company's forecasts and such variations may be material and unfavorable, thereby triggering the need for future impairment tests where the conclusions may differ in reflection of prevailing market conditions. Further, continued adverse market conditions could result in the recognition of additional impairment if the Company determines that the fair values of its reporting units have fallen below their carrying values.

Refer to Note 9 for details on the Company's assessments of fair value as of December 31, 2025 and December 31, 2024.

*Debt*

We measure issued debt at amortized cost, net of any debt premiums, discounts, and debt issuance costs. These amounts are amortized over the life of the debt using the effective interest rate method, ensuring that interest expense reflects the underlying borrowing costs. In cases where the straight-line method results in an immaterial difference compared to the effective interest rate method, we may apply the straight-line method.

*Equity-Linked Instruments*

We analyze freestanding equity-linked instruments including warrants to conclude whether the instrument meets the definition of the derivative and whether it is considered indexed to our own stock. If the instrument is not considered indexed to our stock, it is classified as an asset or liability recorded at fair value. If the instrument is considered indexed to our stock, we analyze additional equity classification requirements per ASC 815-40, *Contracts in Entity's Own Equity*. When the requirements are met, the instrument is recorded as part of our equity, initially measured based on its relative fair value with no subsequent re-measurement. When the equity classification requirements are not met, the instrument is recorded as an asset or liability and is measured at fair value with subsequent changes in fair value recorded in earnings.

When required, we also consider the bifurcation guidance for embedded derivatives per ASC 815-15, *Embedded Derivatives*.

*Treasury Stock*

The Company records the repurchase of shares of its common stock at cost on the trade date of the transaction. These shares are considered treasury stock, which is a reduction to stockholders' equity. Treasury stock is included in authorized and issued shares but excluded from outstanding shares.

*Revenue Recognition*

The Company accounts for revenue according to FASB ASC 606, *Revenue from Contracts with Customers* ("ASC 606").

Revenue is measured based on the consideration specified in a contract with a customer. Revenue is recognized when a customer obtains control of the products or services in a contract. Judgment is required in determining the timing of whether the transfer of control occurs at a point in time or over time and is discussed below. The Company evaluates each contract to identify separate performance obligations as a contract with a customer may have one or more performance obligations. Consideration in a contract with multiple performance obligations is allocated to the separate performance obligations based on their stand-alone selling prices. If a stand-alone selling price is not determinable, the Company estimates the stand-alone selling price using an adjusted market assessment approach. The Company's main sources of revenue are derived from animation production services provided to third parties, the sale of licenses for the distribution of films and television programs, advertising revenues, and merchandising and licensing sales.

The Company has identified the following material and distinct performance obligations:

- Providing animation production services
- Licensing rights to exploit Functional Intellectual Property ("functional IP" is defined as intellectual property that has significant standalone functionality, such as the ability to be played or aired. Functional IP derives a substantial portion of its utility from its significant standalone functionality)
- Licensing rights to exploit Symbolic Intellectual Property ("symbolic IP" is intellectual property that is not functional as it does not have significant standalone use and substantially all of the utility of symbolic IP is derived from its association with the entity's past or ongoing activities, including its ordinary business activities, such as the Company's licensing and merchandising programs associated with its animated content)
- Providing media advisory and advertising services to clients
- Fixed and variable fee advertising and subscription-based revenue generated from the Kartoon Studios *Kartoon Channel!, Ameba TV,* the Frederator owned and operated YouTube channels and revenues generated from the operation of its creator network, *Channel Frederator Network,* on YouTube
- Options to renew or extend a contract at fixed terms (while this performance obligation is not significant for the Company's current contracts, it could become significant in the future)
- Options on future seasons of content at fixed terms (while this performance obligation is not significant for the Company's current contracts, it could become significant in the future)

**Production Services**

*Animation Production Services*

For revenue from animation production services, the customer controls the output throughout the production process. Each production is made to an individual customer's specifications and if the contract is terminated by the customer, the Company is entitled to be reimbursed for any costs incurred to date, and for any prepaid commitments made, plus the agreed contractual mark-up. Revenue and the associated costs of such contracts are recognized over time on a percentage of completion basis - i.e., as the project is being produced, prior to it being delivered to the customer. The percentage-of-completion is calculated based upon the proportion of costs incurred cumulatively to total expected costs. Changes in revenue recognized as a result of adjustments to total expected costs are recognized in profit or loss on a prospective basis. Invoices related to these projects are issued based on the achievement of milestones during the project or other contractual terms. The difference between contractual payments received and revenue recognized is recorded as deferred revenue when receipts exceed revenue. When revenue exceeds milestone billings, the Company recognizes this difference as unbilled accounts receivable within Other Receivable on the Company's consolidated balance sheets. Unbilled accounts receivables are transferred to accounts receivable when the Company has an unconditional right to consideration.

When the outcome of an arrangement cannot be estimated reliably, revenue is recognized only to the extent of the expenses incurred that are recoverable.

**Content Distribution**

*Film and Television Licensing*

The Company recognizes revenue related to licensed rights to exploit functional IP in two ways: for minimum guarantees, the Company recognizes fixed revenue upon delivery of content and the start of the license period, and for functional IP contracts with a variable component, the Company estimates revenue such that it is probable there will not be a material reversal of revenue in future periods. The Company recognizes revenue related to licensed rights to exploit symbolic IP substantially similarly to functional IP. Although it has a different recognition pattern from functional IP, the valuation method is substantially the same, depending on the nature of the license.

Invoices related to these projects are issued based on the achievement of milestones during the project or other contractual terms. The difference between contractual payments received and revenue recognized is recorded as deferred revenue when receipts exceed revenue. When revenue exceeds milestone billings, the Company recognizes this difference as unbilled accounts receivable within Other Receivable on the Company's consolidated balance sheets. Unbilled accounts receivables are transferred to accounts receivable when the Company has an unconditional right to consideration.

*Advertising Revenues*

The Company received advertising revenue through its wholly-owned VOD services, *Kartoon Channel!* and *Ameba TV*. Additionally, advertising revenue is derived from *Kartoon Channel!* branded channels on Free Ad Supported Streaming TV services. Advertising sales are generated on advertising impressions served. For impressions served, the Company delivers a certain minimum number of impressions on the channel to the advertiser for which the advertiser pays a contractual cost per 1000 (mille) impressions ("CPM"). Impressions served are reported on a monthly basis, and revenue is reported in the month the impressions are served.

Upon the acquisition of Wow in 2021, the Company generates advertising revenue from Frederator's owned and operated YouTube channels as well as revenues generated from the operation of its creator network, Channel Frederator Network, on YouTube. Revenue is recognized when services are provided in accordance with the Company's agreement with YouTube, the price is fixed or determinable, and collection of the related receivable is probable. Receivables related to the advertising services are usually collectable within 30 days.

**Licensing and Royalties**

*Merchandising and Licensing*

The Company enters into merchandising and licensing agreements that allow licensees to produce merchandise utilizing certain of the Company's intellectual property. For minimum guaranteed amounts that make up a contract, revenue is recognized over time, over the term of the license period commencing on the date at which the licensees can use and benefit from the licensed content. Variable consideration in excess of non-refundable guaranteed amounts, such as royalties and other contractual payments are recognized as revenue when the amounts are known and become due provided collectability is reasonably assured. Invoices are issued based on the contractual terms of an agreement and are usually payable within 30-45 days.

*Product Sales*

The Company recognizes revenue related to product sales (e.g., apparel and collectibles) when the Company completes its performance obligation, which is when the goods are transferred to the buyer.

**Media Advisory and Advertising Services**

The Company provides media advisory and advertising consulting services to clients. Revenue is recognized when the services are performed or as paid through the monthly retainer. When the Company purchases advertising for clients on linear and across digital and streaming platforms and receives a commission, the commissions are recognized as revenue in the month the advertising is displayed.

**Gross Versus Net Revenue Presentation**

The Company evaluates individual arrangements with third parties to determine whether the Company acts as principal or agent under the terms. To the extent that the Company acts as the principal in an arrangement, revenues are reported on a gross basis, resulting in revenues and expenses being classified in their respective financial statement line items. To the extent that the Company acts as the agent in an arrangement, revenues are reported on a net basis, resulting in revenues being presented net of any expenses incurred in providing agency services. Determining whether the Company acts as principal or agent is based on an evaluation of which party has substantial risks and rewards of ownership under the terms of an arrangement. The most significant factors that the Company considers include identification of the primary obligor, as well as which party has credit risk, general and inventory risk and the latitude or ability in establishing prices.

*Direct Operating Costs*

Direct operating costs include costs of the Company's product sales, non-capitalizable film costs, film and television cost amortization expense, impairment expenses related to film and television costs, and participation expense related to agreements with various animation studios, post-production studios, writers, directors, musicians or other creative talent with which the Company is obligated to share net profits of the properties on which they have rendered services. Upon the acquisition of Wow, the Company also includes the salaries and related service production employee costs of Wow as part of its direct operating costs.

*Sales and Marketing*

Sales and marketing expenses consist of primarily costs associated with promotional and advertising activities, including digital advertising, social media promotion, publicity initiatives, cooperation with public relations service providers and costs related to promotional events. Marketing and advertising costs are expensed as incurred.

*Share-Based Compensation*

The Company issues stock-based awards to employees and non-employees that are generally in the form of stock options or restricted stock units (“RSUs”). Share-based compensation cost is recorded for all options and RSUs based on the grant-date fair value of the award.

The fair value of stock options is estimated at the date of grant using the Black-Scholes-Merton (“BSM”) option pricing model, which requires management to make assumptions with respect to the fair value on the grant date. The assumptions are as follows: (i) the expected term assumption of the award is based on the Company’s historical exercise and post-vesting behavior (ii) the expected volatility assumption is based on historical and implied volatilities of the Company’s common stock calculated based on a period of time generally commensurate with the expected term of the award; (iii) the risk-free interest rates are based on the implied yield available on U.S. treasury zero-coupon issues with an equivalent expected term; (iv) and the expected dividend yields of the Company’s stock are based on history and expectations of future dividends payable. In the case of RSUs, the fair value is calculated based on the Company’s underlying common stock on the date of grant.

The Company recognizes compensation expense over the requisite service period ratably, using the graded attribution method, which is in-substance, recognizing multiple awards based on the vesting schedule. The Company has elected to account for forfeitures when they occur. The Company issues authorized shares available for issuance under the Company’s 2020 Incentive Plan upon employees’ exercise of their stock options.

*Debt Issuance Costs*

Debt issuance costs relate to the issuance of Wow’s Production Facilities and are recorded as a reduction to the carrying amount of debt and amortized to interest expense using the effective interest method over the respective terms of the facilities. Debt issuance costs directly attributable to the acquisition or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time the assets are substantially ready for their intended use or sale.

*Earnings Per Share*

Basic earnings (loss) per share of common stock (“EPS”) is calculated by dividing net income (loss) applicable to common stockholders by the weighted average number of shares of common stock outstanding for the period. Diluted EPS is calculated by dividing net income (loss) applicable to common stockholders by the weighted average number of shares of common stock outstanding, plus the assumed exercise of all dilutive securities using the treasury stock or “as converted” method, as appropriate. For purposes of the calculation of dilutive net loss per share applicable to common stockholders, stock options, unvested restricted stock units, and warrants are considered to be common stock equivalents but are excluded from the calculation of diluted net loss per share applicable to common stockholders, as their effect would be anti-dilutive; therefore, basic and diluted net loss per share applicable to common stockholders were the same for all periods presented.

The 6,903,049 October 2025 Pre-Funded Warrants issued in the October Offerings and outstanding as of December 31, 2025 were included in the calculation of basic and diluted net loss per share.

The following common stock equivalents were excluded from the calculation of diluted net loss per share applicable to common stockholders for the periods indicated because including them would have had an anti-dilutive effect:

| | |
|---|---|
| Stock Options | 969,130 |
| Restricted Stock Units | 1,605,417 |
| Warrants | 34,719,455 |

*Income Taxes*

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

*Concentration of Risk*

The Company maintains its cash in bank deposit accounts which, at times, may exceed the Federal Deposit Insurance Corporation's ("FDIC") or the Canadian Deposit Insurance Corporation's ("CDIC") insured amounts. Balances on interest bearing deposits at banks in the United States are insured by the FDIC up to $250,000 per account and deposits in banks in Canada are insured by the CDIC up to CAD $0.1 million. As of December 31, 2025 and December 31, 2024, the Company had six and twelve bank deposit accounts with an aggregate uninsured balance of $1.9 million and $6.7 million, respectively.

The Company has a managed account with a financial institution. The managed account maintains its investments in marketable securities of approximately $4.0 million and $2.0 million as of December 31, 2025 and December 31, 2024, respectively. Assets in the managed account are protected by the Securities Investor Protection Corporation ("SIPC") up to $500,000 (with a limit of $250,000 for cash). In addition, the financial institution provides additional "excess of SIPC" coverage which insures up to $1.0 billion. As of December 31, 2025 and December 31, 2024, the Company did not have account balances held at this financial institution that exceed the insured balances. As of December 31, 2025 the Company's investment portfolio consisted exclusively of U.S. Treasury bonds. Although this results in concentration by security type and issuer, U.S. Treasury bonds are considered investment-grade securities with minimal credit risk, and the Company does not believe this concentration represents a significant credit risk.

During the year ended December 31, 2025, four customers each accounted for more than 10% of the Company's total consolidated revenue. These customers accounted for an aggregate of 81.9% of the Company's total revenue. As of December 31, 2025, the Company had three customers, the accounts receivable for each of which exceeded 10% of the total accounts receivable. These customers accounted for an aggregate of 54.5% of the total accounts receivable as of December 31, 2025.

During the year ended December 31, 2024, four customers each accounted for more than 10% of the Company's total consolidated revenue. These customers accounted for an aggregate of 75.7% of the Company's total revenue. As of December 31, 2024, the Company had three customers, the accounts receivable for each of which exceeded 10% of our total accounts receivable. These customers accounted for an aggregate of 53.2% of the total accounts receivable as of December 31, 2024.

The table below presents each customer's balance as a proportion of the total accounts receivable balance:

| | **As of December 31,** | |
|---|---|---|
| | **2025** | **2024** |
| **Customer A** | 26.1% | * |
| **Customer B** | 17.3% | 17.9% |
| **Customer C** | 11.1% | 24.5% |
| **Customer D** | * | 10.7% |

* Less than 10%

There is significant financial risk associated with a dependence upon a small number of customers. The Company periodically assesses the financial strength of these customers and establishes allowances for any anticipated credit losses.

*Fair Value of Financial Instruments*

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

- Level 1 - Observable inputs such as quoted prices for identical instruments in active markets

- Level 2 - Inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active

- Level 3 - Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable

The carrying amounts of cash, restricted cash, receivables, payables, accrued liabilities, and the margin loan approximate fair value due to the short-term nature of the instruments. The investment in YFE is revalued at the end of each reporting period based on the trading price of YFE (Level 2). Refer to Note 4 for additional details. Upon the acquisition of Wow in 2021, foreign currency forward contracts that are not traded in active markets were assumed. These are fair valued using observable forward exchange rates at the measurement dates and interest rates corresponding to the maturity of the contracts (Level 2).

The fair values of the AFS securities are generally based on quoted market prices, where available. These fair values are obtained primarily from third-party pricing services, which generally use Level 1 or Level 2 inputs for the determination of fair value to facilitate fair value measurements and disclosures. Level 2 securities primarily include corporate securities, securities from states, municipalities and political subdivisions, mortgage-backed securities, United States Government securities, foreign government securities, and certain other asset-backed securities. For securities not actively traded, the pricing services may use quoted market prices of comparable instruments or a variety of valuation techniques, incorporating inputs that are currently observable in the markets for similar securities.

The following table summarizes the marketable securities measured at fair value on a recurring basis by level within the fair value hierarchy as of December 31, 2025 (in thousands):

| | Level 1 | Level 2 | Total Fair Value |
|---|---|---|---|
| **Investments in Marketable Securities:** | | | |
| U.S. Treasury | $ 3,978 | $ – | $ 3,978 |
| **Total** | **$ 3,978** | **$ –** | **$ 3,978** |
| | | | |
| **Investment in Equity Interest:** | | | |
| Investment in YFE | $ – | $ 5,481 | $ 5,481 |
| **Total** | **$ –** | **$ 5,481** | **$ 5,481** |
| | | | |
| **Foreign Currency Forward Contracts:** | | | |
| Foreign Currency Forward Contracts, net: | $ – | $ (43) | $ (43) |
| **Total** | **$ –** | **$ (43)** | **$ (43)** |

Fair values were determined for each individual security in the investment portfolio. The Company's marketable securities are considered to be available-for-sale investments as defined under FASB ASC 320, ***Investments - Debt and Equity Securities***. An allowance for credit loss was not recorded for the marketable securities as of December 31, 2025 and December 31, 2024. Refer to Note 5 for additional details.

Financial and nonfinancial assets and liabilities measured on a non-recurring basis are those that are adjusted to fair value when a significant event occurs and include the Company's intangible assets and film and television costs.

*Recently Adopted Accounting Pronouncements*

In December 2023, the FASB issued Accounting Standard Update ("ASU") No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which requires that an entity, on an annual basis, disclose additional income tax information, primarily related to the rate reconciliation and income taxes paid. The amendment in the ASU is intended to enhance the transparency and decision usefulness of income tax disclosures. The amendments in this ASU are effective for annual periods beginning after December 15, 2024. The adoption of this ASU in the year ended December 31, 2024, resulted in updated disclosures within our consolidated financial statements, but did not impact the consolidated financial statements. Refer to Note 18 for additional details.

*New Accounting Standards Issued but Not Yet Adopted*

In November, 2024 the FASB issued ASU 2024-03, *Income Statement — Reporting Comprehensive Income — Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expense.* This update mandates that public companies provide more detailed information about specific expenses in their financial statement notes. The effective date for this guidance is annual reporting periods beginning after December 15, 2026, with interim reporting periods beginning after December 15, 2027. Early adoption is permitted. The Company is in the process of evaluating the impact that the adoption of this ASU will have to the consolidated financial statements and related disclosures, which is expected to result in enhanced disclosures.

In December 2025, the FASB issued ASU 2025-10, *Government Grants (Topic 832)*: *Accounting for Government Grants Received by Business Entities*, which establishes authoritative guidance on the recognition, measurement, presentation, and disclosure of government grants. Under ASU 2025-10, government grants are recognized when it is probable that the entity will both comply with the conditions of the grant and the grant will be received. The ASU provides specific accounting models for grants related to assets and grants related to income, including options to recognize government grants as deferred income or as a reduction of the asset's cost basis. The ASU also requires enhanced disclosures regarding the nature of government grants, significant terms and conditions, accounting policies applied, and amounts recognized in the financial statements. ASU 2025-10 is effective for fiscal years beginning after December 15, 2028, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of adopting ASU 2025-10.

**Note 3: Variable Interest Entity**

In July 2020, the Company entered into a binding term sheet with POW! Entertainment, LLC. ("POW") pursuant to which the Company agreed to form an entity with POW to exploit certain rights in intellectual property created by Stan Lee, as well as the name and likeness of Stan Lee. The entity is called "Stan Lee Universe, LLC" ("SLU"). POW and the Company executed an Operating Agreement for the joint venture, effective as of June 1, 2021. The purpose of the acquisition was to enable the Company to assume the worldwide rights, in perpetuity, to the name, physical likeness, physical signature, live-action and animated motion picture, television, online, digital, publishing, comic book, merchandising and licensing rights to Stan Lee and over 100 original Stan Lee creations, from which the Company plans to develop and license multiple properties each year.

During the years ended December 31, 2025 and December 31, 2024, SLU generated a net loss of $0.3 million and $0.4 million, respectively. There were no contributions or distributions during the years ended December 31, 2025 and 2024, and there were no changes in facts and circumstances that would result in a re-evaluation of the VIE assessment.

**Note 4: Investment in Equity Interest**

When the Company does not have a controlling financial interest in an entity but has the ability to exert significant influence over the entity's operating and financial policies, the investment is accounted for under the equity method or, if elected, at fair value pursuant to the fair value option under U.S. GAAP. Significant influence is generally presumed to exist when the Company owns 20% to 50% of the common stock or in-substance common stock of the investee. At the time of the initial investment in 2021, it was determined that the Company had significant influence over the entity. Therefore, under the equity method of accounting, the Company elected to account for the investment at fair value under the fair value option. Under the fair value option, the investment is remeasured and recorded at fair value each reporting period, with the change recorded through earnings.

On July 14, 2025, the Company sold 1,500,000 YFE shares to a single foreign investor for total proceeds of €750,000 ($0.8 million) as part of its ongoing strategy to optimize its portfolio of assets. Subsequently, the Company's ownership in YFE decreased from 44.8% to 35.0%. Before the transaction, the Company owned 6,857,132 shares of YFE.

On September 25, 2025, the Company executed a share exchange agreement with F&M Film und Medien Beteiligungs GmbH (“F&M”), pursuant to which the Company agreed to transfer 348,127 shares of YFE previously held by the Company, to F&M, in exchange for 348,127 shares of the Company’s common stock previously held by F&M, on a one-for-one basis. Subsequently, the Company’s ownership in YFE decreased from 35.0% to 32.7% as of transaction date. Management concluded that the Company continues to exercise significant influence over the investee and, therefore, continues to account for the investment at fair value under the fair value option. As of December 31, 2025, the Company owned 5,009,005 shares of YFE.

As of December 31, 2025, the fair value of the investment was determined to be $5.5 million recorded within noncurrent assets on the Company’s consolidated balance sheet. As of December 31, 2024, the fair value of the investment was determined to be $16.4 million recorded within noncurrent assets on the Company’s consolidated balance sheet. The fair value as of December 31, 2025 decreased by net $10.9 million, as compared to December 31, 2024. The net decrease is comprised of the net impact of a decrease in YFE’s stock price, the share sale and exchange transactions completed in the quarter, and the effect of foreign currency remeasurement from EURO to USD. The total change in fair value is recorded within Other Income (Expense), net on the Company’s consolidated statements of operations.

As of December 31, 2025 and December 31, 2024, the Company’s ownership in YFE was 32.5% and 44.8%, respectively.

**Note 5: Marketable Securities**

The Company classifies and accounts for its marketable debt securities as AFS and the securities are stated at fair value in accordance with ASC 326, *Financial Instruments - Credit Losses*.

The investments in marketable securities had an adjusted cost basis of $4 million and a market value of $4 million as of December 31, 2025. The balances consisted of the following securities (in thousands):

| | Amortized Cost | Unrealized Gain/(Loss) | Fair Value |
|---|---|---|---|
| U.S. Treasury | $ 3,953 | $ 25 | $ 3,978 |
| **Total** | **$ 3,953** | **$ 25** | **$ 3,978** |

The investments in marketable securities as of December 31, 2024 had an amortized cost basis of $2.1 million and a market value of $2.0 million. The balances consisted of the following securities (in thousands):

| | Amortized Cost | Unrealized Gain/(Loss) | Fair Value |
|---|---|---|---|
| Corporate Bonds | $ 559 | $ (22) | $ 537 |
| U.S. Agency and Government Sponsored Securities | 1,155 | (48) | 1,107 |
| U.S. States and Municipalities | 402 | (17) | 385 |
| **Total** | **$ 2,116** | **$ (87)** | **$ 2,029** |

The Company holds two AFS securities, all of which were in an unrealized gain position and none had been in an unrealized loss position for a period longer than 12 months as of December 31, 2025. The AFS securities held by the Company as of December 31, 2024 had been in an unrealized loss position for a period greater than 12 months. The Company reported the net unrealized losses in accumulated other comprehensive loss, a component of stockholders’ equity. As of December 31, 2025 and December 31, 2024, an allowance for credit loss was not recognized as the issuers of the securities had not established a cause for default, various rating agencies had reaffirmed each security's investment grade status and the Company did not have the intent, nor is it required to sell its securities prior to recovery.

Realized losses of $36,674 and $0.6 million were recognized in earnings during the years ended December 31, 2025 and December 31, 2024, respectively, primarily due to selling securities prior to maturity to prevent further market condition losses on the securities.

The contractual maturities of the Company's marketable investments as of December 31, 2025 were as follows (in thousands):

| | Fair Value |
|---|---|
| Due within 1 year | $ 3,978 |
| **Total** | **$ 3,978** |

The Company may sell certain of its marketable debt securities prior to their stated maturities for reasons including, but not limited to, managing liquidity, credit risk, duration and asset allocation.

**Note 6: Property and Equipment, net**

The Company has property and equipment as follows (in thousands):

| | As of December 31, | |
|---|---|---|
| | 2025 | 2024 |
| Furniture and Equipment | $ 98 | $ 117 |
| Computer Equipment | 827 | 817 |
| Leasehold Improvements | 2,230 | 2,200 |
| Software | 316 | 250 |
| Property and Equipment, Gross | 3,471 | 3,384 |
| Less Accumulated Depreciation | (1,626) | (1,078) |
| Foreign Currency Translation Adjustment | (210) | (253) |
| **Property and Equipment, net** | **$ 1,635** | **$ 2,053** |

The Company identified a disclosure error in the presentation of the Note 6 *Property and Equipment, net* reported in its Annual Report on Form 10-K for the year ended December 31, 2024. While the balance sheet correctly reflected the net book value of property and equipment, the footnote disclosure overstated by $0.7 million both the gross asset cost and accumulated depreciation as of December 31, 2024. The disclosure error did not impact the total net carrying amount of property and equipment or the consolidated financial statements as a whole. The comparative balances as of December 31, 2024 have been revised to reflect the correct gross cost and accumulated depreciation amounts.

During the years ended December 31, 2025 and December 31, 2024, the Company recorded depreciation expense of $0.6 million and $0.3 million, respectively.

During the years ended December 31, 2025 and December 31, 2024, the Company did not incur any impairment charges or write-downs.

## Note 7: Leased Right-of-Use Assets, net

Leased right-of-use assets consisted of the following (in thousands):

| | As of December 31, | |
|---|---|---|
| | 2025 | 2024 |
| **Operating Lease** | | |
| Office Lease Assets | $ 9,331 | $ 9,437 |
| Accumulated Amortization | (3,601) | (2,740) |
| **Finance Lease** | | |
| Equipment Lease Assets | 4,570 | 4,214 |
| Accumulated Amortization | (3,975) | (3,643) |
| Right-of-Use Assets, Gross | 6,325 | 7,268 |
| Foreign Currency Translation Adjustment | (899) | (1,143) |
| **Leased Right-of-Use Assets, net** | **$ 5,426** | **$ 6,125** |

Refer to Note 19 for details on the Company's lease commitments.

As of December 31, 2025, the weighted-average lease term for the Company's operating leases was 64 months and the weighted-average discount rate was 11.3%. As of December 31, 2024, the weighted-average lease term for operating leases was 73 months and the weighted-average discount rate was 11.1%.

Effective April 1, 2025, the Company executed a lease reassignment agreement with the landlord for its Toronto office, resulting in the reassignment of one of its suites to a new tenant. The Company continues to lease and occupy the remaining space under the original terms of the lease agreement. The reassignment reduced the Company's leased space from 570 square feet to 74 square feet, and reduced the associated rent obligations, but did not change any other conditions of the lease. The modification was accounted for as a partial termination of the lease under ASC 842. Accordingly, the Company remeasured the lease liability as of the effective date of the modification using the discount rate based on the remaining lease term and payments. Based on the modified lease payment terms, the discount rate was determined to be 8.96%, and the remeasured lease liability was $16,042. This represented a reduction of $0.1 million compared to the pre-modification lease liability. The Company adjusted the right-of-use asset based on the proportion of the reduction in the remeasured lease liability, resulting in a reduction of $0.1 million. The Company recognized a gain on lease modification of $4,253 in the condensed consolidated statements of operations. The remaining lease costs of $16,770 is recognized on a straight-line basis over the remaining lease term.

Operating lease costs during the years ended December 31, 2025 and December 31, 2024 were $1.5 million and $1.6 million, respectively, recorded within General and Administrative Expenses on the Company's consolidated statements of operations.

During the year ended December 31, 2025, the Company recorded finance lease costs of $0.4 million, comprised of ROU amortization of $0.3 million and $21,612 of interest accretion. During the year ended December 31, 2024, the Company recorded finance lease costs of $1.7 million comprised of ROU amortization of $1.6 million and $0.1 million of interest accretion. ROU amortization is recorded within General and Administrative Expenses and accretion of interest expense is recorded within Other Income (Expense), net on the Company's consolidated statements of operations.

**Note 8: Film and Television Costs, net**

The following table highlights the activity in Film and Television Costs as of December 31, 2025 and December 31, 2024 (in thousands):

| | | |
|---|---|---|
| Film and Television Costs, net as of December 31, 2023 | **$** | **1,295** |
| Additions to Film and Television Costs | | 1,653 |
| Disposals | | (75) |
| Film Amortization Expense | | (231) |
| Foreign Currency Translation Adjustment | | (21) |
| Film and Television Costs, net as of December 31, 2024 | | **2,621** |
| Additions to Film and Television Costs | | 3,259 |
| Disposals | | (88) |
| Film Amortization Expense and Impairment Losses | | (932) |
| Foreign Currency Translation Adjustment | | 18 |
| **Film and Television Costs, net as of December 31, 2025** | **$** | **4,878** |

During the year ended December 31, 2025, the Company recorded amortization expense of $0.9 million, which included impairment charges of $28,239. During the year ended December 31, 2024, the Company recorded amortization expense of $0.2 million and did not record any impairment charges.

For the years ended December 31, 2025 and December 31, 2024, the Company recorded film and television cost write-downs of $0.1 million and $0.1 million, respectively. These write-downs were recognized following executive management review of inactive projects that were not advancing to the production stage, primarily due to limited interest from potential partners and the broader economic environment affecting the entertainment industry.

**Note 9: Intangible Assets, net**

*Intangible Assets, net*

The Company had the following intangible assets (in thousands) with their weighted average remaining amortization period (in years):

**Intangible Assets, net**

| | **Weighted Average Remaining Amortization Period** | **As of December 31,** | | | |
|---|---|---|---|---|---|
| | | **2025** | | **2024** | |
| Customer Relationships | 4.5 | $ | 17,325 | $ | 17,325 |
| Digital Networks | 12.3 | | 803 | | 803 |
| Trade Names | 65.4 | | 9,198 | | 9,970 |
| Intangible Assets, gross | | | 27,326 | | 28,098 |
| | | | | | |
| Less Accumulated Amortization | | | (7,833) | | (5,822) |
| Foreign Currency Translation Adjustment | | | (1,889) | | (2,554) |
| **Intangible Assets, net** | | **$** | **17,604** | **$** | **19,722** |

During the years ended December 31, 2025 and December 31, 2024, the Company recorded intangible asset amortization expense of $2.0 million and $2.0 million, respectively.

Pursuant to ASC 350-30*, General Intangibles Other than Goodwill*, the Company evaluates its intangible assets periodically to determine whether events or changes in circumstances indicate that their carrying values may not be recoverable. During the year ended December 31, 2025, changes in the Company's financial projections triggered a reassessment of both its definite- and indefinite-lived intangible assets for potential impairment. Based on this analysis, the Company recorded an impairment charge of $0.8 million, recognized as Impairment of Intangible Assets within Operating Expenses in the consolidated statement of operations. The impairment related to the Frederator and Wow Tradenames, which are indefinite-lived intangible assets, due to a reduction in the estimated present value of their expected future cash flows. No impairment charges were recognized in the prior year ended December 31, 2024.

Expected future amortization of intangible assets subject to amortization as of December 31, 2025 is as follows (in thousands):

| | | |
|---|---|---|
| **Fiscal Year:** | | |
| 2026 | $ | 2,039 |
| 2027 | | 2,039 |
| 2028 | | 2,039 |
| 2029 | | 2,039 |
| 2030 | | 669 |
| Thereafter | | 4,054 |
| **Total** | **$** | **12,879** |

As of December 31, 2025, $4.7 million of the Company's intangible assets related to the acquired trade names from the Wow acquisition had indefinite lives and are not subject to amortization.

**Note 10: Deferred Revenue**

As of December 31, 2025 and December 31, 2024, the Company had deferred revenue of $7.8 million and $9.4 million, respectively. The decrease in deferred revenue is primarily related to production on various shows advancing to later stages of execution of the projects as of December 31, 2025, compared to the progress as of December 31, 2024. Wow's deferred revenue balance relates to cash received from customers for productions in progress. For fixed-fee production contracts, revenue is generally recognized upon completion and delivery of the production or upon achievement of specified contractual delivery milestones during the production process, depending on the terms of the underlying agreement. As production progresses and the Company satisfies its performance obligations, the related deferred revenue is recognized as revenue. Deferred revenue also includes both (i) variable fee contracts with licensees and customers in which the Company collected advances and minimum guarantees against future royalties and (ii) fixed fee contracts. The Company recognizes revenue related to these contracts when all revenue recognition criteria have been met.

**Note 11: Margin Loan**

As of December 31, 2025, the Company had no outstanding margin loan balance. As of December 31, 2024, the Company's margin loan balance was $0.9 million. During the year ended December 31, 2025, the Company borrowed an additional $5.9 million from its investment margin account and repaid $6.8 million, primarily with cash received from sales and maturities of marketable securities. The borrowed amounts were primarily used for operational costs. The interest rates for the borrowings fluctuate based on the Fed Funds Upper Target plus 0.60%. The weighted average interest rates were 0.20% and 0.46%, respectively, on average margin loan balances of $0.2 million and $1.0 million as of December 31, 2025 and December 31, 2024, respectively.

During the years ended December 31, 2025 and December 31, 2024, the Company incurred interest expense on the margin loan of $8,392 and $0.1 million, respectively. The investment margin account borrowings do not mature but are collateralized by the marketable securities held by the same custodian and the custodian can issue a margin call at any time, effecting a payable on demand loan. Due to the call option, the margin loan is recorded as a current liability on the Company's consolidated balance sheets.

**Note 12: Bank Indebtedness and Production Facilities**

The Company had the following credit facilities during the fiscal years ended December 31, 2025 and December 31, 2024:

*Production Facilities, net*

The production facilities are used for financing specific productions. The Company's production facilities bear interest at rates ranging from bank prime plus 1.00% - 1.25% per annum. The production facilities are generally repayable on demand. Any borrowings under the production facilities are collateralized by a security interest in substantially all of the relevant production company's tangible and intangible assets, including a combination of federal and provincial tax credits, other government incentives, production service agreements and license agreements as well as those of certain of the Company's subsidiaries and related entities acting as guarantors of the production facilities.

As of December 31, 2025 and December 31, 2024, the Company had an outstanding net balance of $11.8 million (CAD $16.2 million), including $1.1 million (CAD $1.5 million) of interest and $9.2 million (CAD $13.3 million), including $0.8 million (CAD $1.2 million) of interest, respectively, recorded as Production Facilities, net within current liabilities on the Company's consolidated balance sheets.

As of December 31, 2025 and December 31, 2024, Production Facilities, net included unamortized debt issuance costs related to the issuance of production facilities of $0.1 million, which were presented as a direct reduction of the carrying amount of the Production Facilities.

*Equipment Lease Facility*

In the fourth quarter of 2022, the Company entered into an equipment lease agreement with a Canadian bank. This equipment lease facility allows the Company to finance equipment purchases of up to $1.0 million (CAD $1.4 million) in total. Each transaction under the equipment lease facility has specific financing terms in respect of the leased equipment such as term, finance amount, rate, and payment terms.

As of December 31, 2025, the Company has one lease remaining under this facility with finance rates of 8.20%, and a remaining lease term of 8 months.

As of December 31, 2025 and December 31, 2024, the outstanding balances, net of repayments, of $0.1 million (CAD $0.1 million) and $0.3 million (CAD $0.4 million), respectively, were included within current and noncurrent Finance Lease Liabilities, net on the Company's consolidated balance sheets.

*Revolving Demand Facility*

On December 19, 2024, the Company fully repaid its outstanding revolving demand facility balance and its revolving demand facility with the lender was terminated. The final payment to close out the revolving demand facility was $0.6 million (CAD $0.8 million).

*Equipment Lease Line*

Under the equipment lease line, the Company could borrow up to $2.9 million (CAD $4.0 million) in total for equipment leases. In the first quarter of 2024, the equipment lease line was terminated, however, the Company continued to make the regular principal and interest payments under the specific financing terms of the existing equipment lease agreements. On November 29, 2024, the Company made equipment lease line repayments of $0.6 million (CAD $0.8 million) in total to extinguish the remaining equipment lease line obligations.

## Note 13: Stockholders' Equity

*Common Stock*

As of December 31, 2025 and December 31, 2024, the total number of authorized shares of common stock was 190,000,000.

As of December 31, 2025 and December 31, 2024, there were 54,857,000 and 46,209,081 shares of common stock outstanding, respectively.

During the years ended December 31, 2025 and December 31, 2024, the Company issued 340,340 and 362,568 shares of common stock as compensation for services, respectively.

During the years ended December 31, 2025 and December 31, 2024, the Company issued 327,459 and 166,033 shares of common stock in connection with vested RSUs, net of shares withheld for tax obligations, respectively.

On March 5, 2025, the Company issued 1,462,000 shares of common stock to an investor upon the exercise of outstanding pre-funded warrants. The pre-funded warrants were exercised at a price of $0.001 per share, which represented par value, resulting in total proceeds of $1,462. The issuance was completed in accordance with the terms of the warrant agreements, and the shares issued are fully paid and non-assessable.

On August 27, 2025, the Company entered into an agreement to engage in a transaction under Section 3(a)(10) of the Securities Act with CCI to settle $1.8 million of outstanding accounts payable, in exchange for issuing 3,148,535 shares of common stock. Under the terms of the agreement, CCI makes payments to the Company's vendors in cash and, in exchange, the Company issues shares of common stock to CCI. The settlement was valued at 1.75 shares of common stock per $1 of accounts payable, pursuant to the terms of the agreement. The transaction was approved by a court after a public hearing on the fairness of the terms and conditions. The transaction was carried out in stages and as of December 31, 2025, the Company had completed the arrangement, settling a total of $1.8 million, and issuing an aggregate of 3,148,535 shares of common stock. The Company recognized a loss of $0.7 million on the settlement, representing the difference between the carrying value of liabilities extinguished and the fair value of shares issued, included in Other Income (Expense), net, on the Company's consolidated statements of operations.

On November 18, 2025, the Company entered into a new agreement to settle an additional $1.0 million of accounts payable under Section 3(a)(10) of the Securities Act with CCI, in exchange for issuing 1,695,072 shares of common stock. The terms were consistent with the original arrangement. During the three months ended December 31, 2025, the Company settled $0.4 million of accounts payable and issued 717,712 shares of common stock to CCI. The Company recognized a loss of $0.1 million on the settlement, representing the difference between the carrying value of liabilities extinguished and the fair value of shares issued, included in Other Income (Expense), net, on the Company's consolidated statements of operations.

On October 22, 2025, pursuant to the terms of the October 2025 Purchase Agreement, the Company closed the registered direct offering of the 3,000,000 October 2025 Shares and the October 2025 Pre-Funded Warrants to purchase up to 6,903,049 shares of common stock to the October 2025 Investor. In the Concurrent Private Placement, pursuant to the October 2025 Purchase Agreement, the Company also sold to the October 2025 Investor unregistered October 2025 Common Warrants to purchase up to 9,903,049 shares of common stock, with an exercise price of $0.738 per share. Each October 2025 Share and privately placed October 2025 Common Warrant was sold at a combined public offering price of $0.738, and each October 2025 Pre-Funded Warrant and privately placed October 2025 Common Warrant was sold at a combined public offering price of $0.737, for aggregate gross proceeds at closing of approximately $7.3 million, prior to deducting placement agent fees and other offering expenses. In connection with the October Offerings, the Company paid to the placement agent a cash fee equal to 7% of the aggregate gross proceeds from the sale of the securities sold in this offering, plus $75,000 as a reimbursement of certain out-of-pocket expenses. The placement agent is also entitled to receive 7% of the gross proceeds received from the exercise of any of the October 2025 Common Warrants, if any. In addition, the Company issued Placement Agent Warrants to purchase 693,213 shares of common stock to the placement agent and its designees with an exercise price of $0.8118 per share.

*Preferred Stock*

The Company has 10,000,000 shares of preferred stock authorized with a par value of $0.001 per share, including 9,944,000 shares of undesignated preferred stock, 6,000 shares designated as 0% Series A Convertible Preferred Stock and 50,000 shares as Series C Preferred Stock. The board of directors is authorized, subject to any limitations prescribed by law, without further vote or action by the Company's stockholders, to issue from time-to-time shares of preferred stock in one or more series. Each series of preferred stock will have such number of shares, designations, preferences, voting powers, qualifications and special or relative rights or privileges as shall be determined by the board of directors, which may include, among others, dividend rights, voting rights, liquidation preferences, conversion rights and preemptive rights.

As of December 31, 2025 and December 31, 2024, there were 0 shares of Series A Convertible Preferred Stock outstanding. As of December 31, 2025 and December 31, 2024, there were 0 of Series B Preferred Stock outstanding. As of December 31, 2025 and December 31, 2024, there were 0 shares of Series C Preferred Stock outstanding.

*Treasury Stock*

During the years ended December 31, 2025 and December 31, 2024, 1,026 and 524 shares of common stock with a cost of $765 and $504, respectively, were withheld to cover taxes owed by certain employees, all of which were included as treasury stock outstanding and recorded at cost within Treasury Stock on the consolidated balance sheets.

On September 25, 2025, the Company executed a share exchange agreement with F&M Film und Medien Beteiligungs GmbH ("F&M"), pursuant to which the Company agreed to transfer 348,127 shares of YFE previously held by the Company, to F&M, in exchange for 348,127 shares of the Company's common stock previously held by F&M, on a one-for-one basis. The shares received from F&M were returned to the Company's treasury and recorded at their cost of approximately $0.3 million within Treasury Stock on the consolidated balance sheet.

**Note 14: Stock Options**

On August 27, 2020, the Company's stockholders approved the adoption of the Kartoon Studios, Inc. 2020 Equity Incentive Plan (as amended, the "2020 Plan"). The 2020 Plan replaced the previously adopted 2015 Incentive Plan (the "2015 Plan"). The maximum number of shares available for issuance was initially equal to the sum of (i) 3,000,000 shares of common stock and (ii) the number of shares of common stock remaining available for issuance under the 2015 Plan, which was then equal to 216,767 shares. On May 23, 2023, the Company's stockholders approved the adoption of an Amended and Restated 2020 Equity Incentive Plan, which provided for the maximum number of shares of common stock available for issuance under the 2020 Plan to be increased by 5,000,000 shares. Subsequently, on May 14, 2025, the Company's stockholders approved a further amendment and restatement of the 2020 Plan, providing for an additional increase of 5,000,000 shares of common stock authorized for issuance under the 2020 Plan. As of December 31, 2025, the number of shares remaining available for issuance was 8,481,135, out of a maximum of 13,216,767 shares available under the 2020 Plan.

During the year ended December 31, 2025, the Company granted options to purchase 100,000 shares of common stock to a consultant, with weighted-average grant-date fair market value of $39,260. The options vested immediately upon grant and related expense was capitalized to production costs related to the project. During the year ended December 31, 2024, the Company granted options to purchase 35,000 shares of common stock with a weighted-average grant-date fair market value of $24,210.

The fair value of the options granted during the years ended December 31, 2025 and December 31, 2024 were calculated using the BSM option pricing model based on the following assumptions:

| | Year Ended December 31, | |
|---|---|---|
| | 2025 | 2024 |
| Exercise Price | $ 0.82 | $ 0.95 |
| Dividend Yield | –% | –% |
| Volatility | 68.9% | 92.1% |
| Risk-free interest rate | 3.6% | 4.3% |
| Expected life of options | 3.0 years | 5.0 years |

The following table summarizes the stock option activity during the years ended December 31, 2025 and 2024:

| | Number of Shares | Weighted- Average Remaining Contractual Life | Weighted- Average Exercise Price |
|---|---|---|---|
| **Outstanding at December 31, 2023** | **1,183,908** | **5.56** | **$ 14.96** |
| Granted | 35,000 | 4.47 | 0.95 |
| Exercised | – | – | – |
| Forfeited/Cancelled | (260,968) | – | – |
| Expired | (5,800) | – | – |
| **Outstanding at December 31, 2024** | **952,140** | **4.79** | **12.72** |
| Granted | 100,000 | 2.72 | 0.82 |
| Exercised | – | – | – |
| Forfeited/Cancelled | (38,730) | – | – |
| Expired | (44,280) | – | – |
| **Outstanding at December 31, 2025** | **969,130** | **3.96** | **$ 11.58** |
| Vested and exercisable December 31, 2025 | 969,130 | 3.96 | $ 11.58 |

During the years ended December 31, 2025 and December 31, 2024, the Company recognized $24,699 and $0.2 million, respectively, in share-based compensation expense related to stock options included in General and Administrative Expense on the Company's consolidated statements of operations. As of December 31, 2025, there was no unrecognized stock-based compensation expense related to stock options, as all outstanding stock options were fully vested. The outstanding stock options as of December 31, 2025 had an aggregated intrinsic value of zero.

**Note 15: Restricted Stock Units**

RSUs are granted under the Company's 2020 Plan. During the year ended December 31, 2025, the Company granted 575,305 fully vested RSUs to the Company's board members and consultants, with a fair value of $0.4 million. During the year ended December 31, 2025, the Company granted 750,000 RSUs to an executive employee with an aggregate grant-date fair value of approximately $0.5 million. These RSUs vest ratably over three years from the grant date, subject to continued employment.

An aggregate of 588,864 shares of common stock were issued during the year ended December 31, 2025 as a result of RSUs that vested during the current and prior periods.

The following table summarizes the Company's RSU activity during the years ended December 31, 2025 and 2024:

| | Restricted Stock Units | Weighted-Average Grant Date Fair Value per Share |
|---|---|---|
| **Unvested at December 31, 2023** | **982,625** | **$ 13.42** |
| Granted | 372,745 | 1.00 |
| Vested | (484,953) | 3.68 |
| Forfeited/Cancelled | – | – |
| **Unvested at December 31, 2024** | **870,417** | **13.53** |
| Granted | 1,325,305 | 0.67 |
| Vested | (588,639) | 0.74 |
| Forfeited/Cancelled | (1,666) | – |
| **Unvested at December 31, 2025** | **1,605,417** | **$ 7.62** |

During the year ended December 31, 2025, upon termination of certain employees, the Company accelerated the vesting of any unvested RSUs held by such employees pursuant to their employment agreements. This resulted in 1,667 RSUs becoming immediately vested and 1,045 shares issued, net of withheld taxes on the separation date. The Company recognized expense of $1,137 related to the accelerated vesting of RSUs during the year ended December 31, 2025.

During the years ended December 31, 2025 and December 31, 2024, the Company recognized $0.3 million and $0.5 million, respectively, in share-based compensation expense related to RSU awards included in General and Administrative Expense on the Company's consolidated statements of operations. The unvested share-based compensation as of December 31, 2025 was $0.4 million which will be recognized through the fourth quarter of 2028 assuming the underlying grants are not cancelled or forfeited. The total fair value of shares vested during the year ended December 31, 2025 was $0.4 million.

**Note 16: Warrants**

The following table summarizes the activity in the Company's outstanding warrants during the years ended December 31, 2025 and December 31, 2024:

| | Warrants Outstanding Number of Shares | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price Per Share |
|---|---|---|---|
| **Balance at December 31, 2023** | **6,852,952** | **4.16** | **$ 8.19** |
| Granted | 21,067,103 | 0.39 | 0.48 |
| Exercised | (2,157,736) | – | 0.001 |
| Expired | (27,567) | – | – |
| Forfeitures | – | – | – |
| **Balance at December 31, 2024** | **25,734,752** | **1.16** | **2.19** |
| Granted | 17,499,311 | 3.21 | 0.45 |
| Exercised | (1,462,000) | – | 0.001 |
| Expired | (149,559) | – | – |
| Forfeitures | – | – | – |
| **Balance at December 31, 2025** | **41,622,504** | **2.86** | **$ 1.52** |
| | | | |
| Exercisable December 31, 2025 | 41,622,504 | 2.86 | $ 1.52 |

The outstanding warrant balance as of December 31, 2024, as previously erroneously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2024, included 100,000 warrants that had been exercised in April 2024. This exercised amount was identified in the Q1 2025 review and the prior period balance has been corrected accordingly. The correction was not material to the financial statements, did not result in any adjusting entry, and had no impact on the Company's results of operations or financial position.

On March 5, 2025, 1,462,000 pre-funded warrants were exercised at a price of $0.001 per share, which represented par value, resulting in total proceeds of $1,462. The issuance was completed in accordance with the terms of the warrant agreements, and the shares issued are fully paid and non-assessable.

On March 13, 2025, 89,286 derivative warrants classified as a liability as issued with convertible notes in 2020 to purchase shares of the Company's common stock expired and were no longer outstanding as of December 31, 2025. In addition, 60,273 warrants previously classified as equity expired during the year ended December 31, 2025.

On May 14, 2025, the Company's shareholders approved the exercise of the Series A warrants and Series B warrants under all settlement scenarios, thereby satisfying the conditions for equity classification. These warrants were issued in connection with the Company's December 2024 offering, presented in a later section of this Note. Based on this approval, the Company reevaluated the classification of the warrants under ASC 815-40 and determined that equity classification is appropriate. The warrants were remeasured to fair value immediately before the reclassification. As of May 13, 2025, the warrants were revalued at approximately $5.7 million, resulting in a recognition of a $0.7 million decrease in the liability. The change in value was recorded as a Gain on Revaluation of Warrants within Other Income (Expense), net on the consolidated statements of operations and within the Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities on the consolidated statements of cash flows. Subsequently, the total liability of approximately $5.7 million was reclassified to additional paid-in capital.

The fair value of the outstanding Series A derivative warrants, prior to their reclassification to equity, was determined by using the BSM based on the following assumptions as of May 13, 2025:

| | May 13, 2025 |
|---|---|
| Market Price | $ 0.65 |
| Exercise Price | 0.57 |
| Dividend Yield | –% |
| Volatility | 86.3% |
| Risk-free Interest Rate | 4.1% |
| Expected Life of Warrants | 5.00 |

The fair value of the outstanding Series A derivative warrants was determined by using the BSM option pricing model based on the following assumptions as of December 31, 2024:

| | December 31, 2024 |
|---|---|
| Market Price | $ 0.59 |
| Exercise Price | 0.57 |
| Dividend Yield | –% |
| Volatility | 101.6% |
| Risk-free Interest Rate | 4.0% |
| Expected Life of Warrants | 5.00 |

The fair value of the outstanding Series B derivative warrants, prior to their reclassification to equity, was determined by using the BSM option pricing model based on the following assumptions as of May 13, 2025:

| | May 13, 2025 |
|---|---|
| Market Price | $ 0.65 |
| Exercise Price | 0.57 |
| Dividend Yield | –% |
| Volatility | 68.9% |
| Risk-free Interest Rate | 4.1% |
| Expected Life of Warrants | 1.50 |

The fair value of the outstanding Series B derivative warrants was determined by using the BSM option pricing model based on the following assumptions as of December 31, 2024:

| | December 31, 2024 |
|---|---|
| Market Price | $ 0.59 |
| Exercise Price | 0.57 |
| Dividend Yield | –% |
| Volatility | 82.5% |
| Risk-free Interest Rate | 4.0% |
| Expected Life of Warrants | 1.50 |

As of December 31, 2025, the 7,894,736 Series A warrants and 7,894,736 Series B warrants remain outstanding as equity-classified instruments.

*October 2025 Offerings*

On October 22, 2025, pursuant to the terms of the October 2025 Purchase Agreement, the Company closed the registered direct offering of the 3,000,000 October 2025 Shares and the October 2025 Pre-Funded Warrants to purchase up to 6,903,049 shares of common stock to the October 2025 Investor. In the Concurrent Private Placement, pursuant to the October 2025 Purchase Agreement, the Company also sold to the October 2025 Investor unregistered October 2025 Common Warrants to purchase up to 9,903,049 shares of common stock, with an exercise price of $0.738 per share. Each October 2025 Share and privately placed October 2025 Common Warrant was sold at a combined public offering price of $0.738, and each October 2025 Pre-Funded Warrant and privately placed October 2025 Common Warrant was sold at a combined public offering price of $0.737, for aggregate gross proceeds at closing of approximately $7.3 million, prior to deducting placement agent fees and other offering expenses. In connection with the October Offerings, the Company paid to the placement agent a cash fee equal to 7% of the aggregate gross proceeds from the sale of the securities sold in this offering, plus $75,000 as a reimbursement of certain out-of-pocket expenses. The placement agent is also entitled to receive 7% of the gross proceeds received from the exercise of any of the October 2025 Common Warrants, if any. In addition, the Company issued Placement Agent Warrants to purchase 693,213 shares of common stock to the placement agent and its designees with an exercise price of $0.8118 per share.

*April 2024 Offering*

On April 23, 2024 the Company issued pre-funded warrants to purchase up to 100,000 shares of Common Stock to an institutional investor at price of $0.99 per pre-funded warrant, which were exercised immediately. Additionally, in connection with the April 2024 Offering, the exercise price of certain warrants to purchase 4,784,909 shares of common stock, previously issued by the Company in June 2023, was reduced from $2.50 per share to $1.00 per share pursuant to anti-dilution provisions contained in such warrants. The reduction in exercise price reduced the Weighted-Average Exercise Price per Share from $8.19 before the reprice to $7.14 after the reprice.

*December 2024 Offering*

On December 18, 2024, the Company closed an offering (the "December 2024 Offering") for aggregate gross proceeds of approximately $4,496,480 from one institutional investor and issued to such investor 4,375,000 shares of common stock, pre-funded warrants to purchase up to 3,519,736 shares of common stock, Series A common stock purchase warrants to purchase up to 7,894,736 shares of common stock, and Series B common stock purchase warrants to purchase up to 7,894,736 shares of common stock. Each share of common stock and each pre-funded warrant was issued together with one Series A warrant and one Series B warrant as part of an integrated offering. The combined purchase price per share of common stock, together with the accompanying Series A and Series B warrants, was $0.57, while the combined purchase price per pre-funded warrant, together with the accompanying Series A and Series B warrants, was $0.569. The Company incurred a placement agent fee of approximately $389,754 and issued warrants to purchase 1,657,895 shares of common stock to the placement agent with an exercise price of $0.71 per share. Following an analysis under applicable accounting guidance, the Company determined that the pre-funded warrants and placement agent warrants met the criteria for equity classification, while the Series A and Series B warrants required classification as liabilities due to settlement provisions requiring shareholder approval. The Series A and Series B warrants were initially measured at fair value and remeasured at each reporting period, with changes in fair value recorded in earnings. Additionally, in connection with the December 2024 Offering, the exercise price of certain warrants to purchase 4,784,909 shares of common stock, previously issued by the Company in June 2023, was reduced from $1.00 per share to $0.57 per share pursuant to anti-dilution provisions contained in such warrants. The reduction in exercise price reduced the Weighted-Average Exercise Price per Share from $7.14 before the reprice to $6.85 after the reprice.

On December 26, 2024, 2,057,736 of the pre-funded warrants were exercised at a price of $0.001 per share, which represented par value, resulting in total proceeds of $2,058. The issuance was completed in accordance with the terms of the warrant agreements, and the shares issued are fully paid and non-assessable.

**Note 17: Supplemental Financial Statement Information**

*Other Income (Expense), net*

Components of Other Income (Expense), net, are summarized as follows (in thousands):

| | Year Ended December 31, | |
|---|---|---|
| | 2025 | 2024 |
| **Interest Expense (a)** | **$ (656)** | **$ (779)** |
| | | |
| Gain (Loss) on Revaluation of Warrants (b) | (232) | 63 |
| Loss on Revaluation of Equity Investment in YFE (c) | (9,830) | (1,627) |
| Loss on Partial Disposal of Equity Investment and Share Exchange (d) | (1,755) | – |
| Loss on Transaction (e) | – | (985) |
| Realized Loss on Marketable Securities Investments (f) | (37) | (611) |
| Gain (Loss) on Foreign Exchange (g) | 2,313 | (2,138) |
| Loss on Debt Settlement (h) | (1,753) | – |
| Interest Income (i) | 76 | 168 |
| Finance Lease Interest Expense (j) | (22) | (87) |
| Gain on Lease Modification (k) | 4 | – |
| Other (l) | (25) | 2,008 |
| **Other Expense, net** | **$ (11,261)** | **$ (3,209)** |

(a) Interest expense during the year ended December 31, 2025 primarily consisted of $0.1 million of interest incurred on the factoring liability and $0.5 million of interest incurred on production facilities. Interest expense during the year ended December 31, 2024 primarily consisted of $0.1 million of interest incurred on the margin loan and $0.7 million of interest incurred on production facilities and bank indebtedness.

(b) The loss on revaluation of warrants during the year ended December 31, 2025 consists of a $0.7 million loss recorded at remeasurement offset by a $0.4 million fair value gain in the period ended March 31, 2025 of the outstanding 7,894,736 Series A warrants and 7,894,736 Series B warrants issued in December 2024. These warrants were classified as a liability in the quarter ended March 31, 2025 and a change in their fair value resulted in a recorded gain due to a decrease of the expiration period. In the quarter ended June 2025, these warrants were reclassified to equity. During the year ended December 31, 2024, the recorded gain on revaluation of warrants was related to the remeasurement of 89,286 outstanding warrants classified as liability, which expired in March 2025.

(c) As the investment in YFE is accounted for under the fair value option, the Company recognized a loss on revaluation of its equity investment in YFE of approximately $9.8 million and $1.6 million for the years ended December 31, 2025 and December 31, 2024, respectively. The loss reflected decreases in YFE's stock price during the current reporting periods compared to the respective prior reporting periods. The impact of foreign currency translation is excluded and presented separately.

(d) The $1.8 million loss consists of a $1.5 million loss recognized on the disposal of 1,500,000 shares of YFE completed on July 14, 2025, and a $0.3 million loss recognized in connection with the share exchange executed on September 25, 2025.

(e) The Company allocated the total December 2024 offering transaction proceeds among the instruments issued, recognizing the Series A and Series B warrants as a liability at their full fair value. As a result of this allocation, the Company recorded a non-cash loss of $1.0 million.

(f) The realized loss on marketable securities investments of $36,674 recorded in the year ended December 31, 2025, reflects the loss on the sale of marketable securities prior to maturity date. The realized loss on marketable securities investments of $0.6 million recorded in the year ended December 31, 2024, reflected the loss that was not recovered from the investments due to selling securities and issuers' prepayments of principals on certain mortgage-backed securities.

(g) The gain on foreign exchange during the year ended December 31, 2025 primarily related to the remeasurement of the YFE investment, resulting in a gain of $1.8 million, due to the depreciation of the U.S. dollar against the Euro relative to prior periods. The remaining balance of $0.5 million represents the remeasurement of foreign currency transactions of the Company's non-U.S. subsidiary that remained outstanding as of the consolidated balance sheet date. The loss on Foreign Exchange during the year ended December 31, 2024 primarily related to the revaluation of the YFE investment, resulting in a loss of $1.0 million due to the Euro depreciating against the U.S. dollar as compared to prior period and a loss of $1.1 million due to the remeasurement of foreign currency transactions of the Company's non-U.S. subsidiary.

(h) The loss on debt settlement recorded during the year ended December 31, 2025 includes a loss of $0.9 million related to the loan settlement agreement with YFE finalized in April 2025 and a loss of $0.8 million arising from the Section 3(a)(10) transaction completed during the year.

(i) Interest income during the year ended December 31, 2025 primarily consisted of income from investments in marketable securities, net of premium amortization expense, as well as other transactions, including interest income related to an Employee Retention Tax Credit ("ERTC") receivable and interest income related to the shareholder loan (see Note 20 of the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K). Each of these sources was individually immaterial. Interest income during the year ended December 31, 2024 primarily consisted of interest income of $0.1 million, net of premium amortization expense, recorded for the investments in marketable securities, and $0.1 million related to the shareholder loan.

(j) The finance lease interest expense represents the interest portion of the finance lease obligations for equipment purchased under an equipment lease line.

(k) On April 1, 2025, Beacon executed a rent reassignment agreement relinquishing one floor of its office space in Toronto to a new tenant who assumed the lease obligation for that floor. This transaction resulted in a gain of $4,253 on lease modification recorded during the year ended December 31, 2025.

(l) During the year ended December 31, 2025, a net loss of $0.1 million was recognized in connection with the reversal of previously accrued other income related to ERTC claims. Other income had initially been recorded based on anticipated recoveries from submitted claims. Recent legislative developments reduced the expected recoverable amounts, resulting in a partial reversal of the accrued other income. The amount also included approximately $0.1 million of other income, primarily consisting of late fees from select clients on payment plans and credit card rewards. The difference between these amounts is reflected in the net balance presented in thousands. During the year ended December 31, 2024, we recorded $1.2 million in other income related to the ERTC receivable, $0.6 million late fees contract interest income, $0.1 million domain sale income, and $0.1 million income related to credit card rewards and other rebates.

**Note 18: Income Taxes**

For financial reporting purposes, Loss Before Income Tax Benefit (Expense) includes the following components (in thousands):

| | Year Ended December 31, | |
|---|---|---|
| | 2025 | 2024 |
| United States | $ (19,217) | $ (14,812) |
| Foreign | (5,616) | (6,172) |
| **Loss Before Income Tax Benefit** | **$ (24,833)** | **$ (20,984)** |

The significant components of Income Tax Benefit (Expense) are as follows (in thousands):

| | Year Ended December 31, | |
|---|---|---|
| | 2025 | 2024 |
| Current: | | |
| Federal | $ – | $ – |
| State | – | (12) |
| Foreign | – | 62 |
| | – | 50 |
| Deferred: | | |
| Federal | 21 | (7) |
| State | 46 | – |
| Foreign | 68 | – |
| | 135 | (7) |
| | | |
| **Income Tax Benefit** | **$ 135** | **$ 43** |

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Deferred Tax Liability, net consists of the following components (in thousands):

| | As of December 31, | |
|---|---|---|
| | 2025 | 2024 |
| Deferred Tax Assets: | | |
| Net Operating Loss Carryover | $ 47,937 | $ 52,747 |
| Capital Loss Carryover | 2,127 | – |
| Lease Liability | 1,564 | 1,811 |
| Stock Compensation | 523 | 765 |
| Investments | 3,774 | – |
| Marketable Securities | 1,647 | 24 |
| Other | 1,598 | 3,300 |
| Total Gross Deferred Tax Assets | 55,396 | 58,647 |
| Less: Valuation Allowance | (51,547) | (54,046) |
| Deferred Tax Assets, net | 3,849 | 4,601 |
| Deferred Tax Liabilities: | | |
| Right-of-Use Assets | (1,449) | (1,663) |
| Intangible Assets | (3,618) | (4,239) |
| Other | (7) | – |
| Total Gross Deferred Tax Liabilities | (5,074) | (5,902) |
| **Deferred Tax Liability, net** | **$ (1,225)** | **$ (1,301)** |

The income tax provision differs from the amount of income tax determined by applying the U.S. federal tax rate to pretax income from continuing operations due to the following (in thousands):

| | Year Ended December 31, 2025 | |
|---|---|---|
| | Dollars | Percentages |
| U.S. Federal Statutory Tax Rate | $ (5,215) | 21.0% |
| State and Local Income Taxes, Net of Federal Income Tax Effect (1) | (46) | 0.2% |
| Foreign Tax Effects | | |
| Canada | | |
| Statutory tax rate difference between Canada and U.S. | (186) | 0.7% |
| Changes in valuation allowances | 607 | (2.4)% |
| Other | 197 | (0.8)% |
| Provincial tax | 494 | (2.0)% |
| Changes in Valuation Allowances | (1,402) | 5.6% |
| Nontaxable or Nondeductible Items | | |
| Other | 600 | (2.4)% |
| Other Adjustments | | |
| Intercompany Transactions | 4,071 | (16.4)% |
| Adjustments to Deferred Items | 754 | (3.0)% |
| Other | (9) | 0.0% |
| **Effective Tax Rate** | **$ (135)** | **0.5%** |

(1) State taxes in California and New Jersey made up the majority (greater than 50 percent) of the tax effect in this category.

As previously disclosed for the years ended December 31, 2024, prior to the adoption of ASU 2023-09, the table below is a reconciliation of the components that caused the Company's (provision) benefit for income taxes to differ from amounts computed by applying the U.S. federal statutory rate:

| | Year Ended December 31, 2024 | |
|---|---|---|
| Income Tax Benefit Computed at the Statutory Federal Rate | $ | 4,406 |
| State Income Taxes, Net of Federal Tax Effect | | 716 |
| Stock Compensation | | (895) |
| Goodwill Impairment | | – |
| Warrants | | (207) |
| Other | | (165) |
| Non-U.S. operations | | 368 |
| Valuation Allowance | | (4,180) |
| **Income Tax Benefit** | **$** | **43** |

On July 4, 2025, the President signed H.R. 1 the One Big Beautiful Bill Act into law. The legislation includes several changes to federal tax law that generally allow for more favorable deductibility of certain business expenses beginning in 2025, including the restoration of immediate expensing of domestic research and development expenditures, reinstatement of 100% bonus depreciation, and more favorable rules for determining the limitation on business interest expense. These changes were reflected in the income tax provision for the period ended December 31, 2025, as enactment occurred before the balance sheet date. The Company determined, there was no material impact to our income tax expense or effective tax rate, due to the full valuation allowance against the net deferred tax asset.

At December 31, 2025, the Company had Federal, state, and foreign net operating loss carry forwards of approximately $118.4 million, $114.2 million, and $56.1 million, respectively, that may be offset against future taxable income, and will begin to expire in 2026 (Federal) and in 2028 (state and Canada), if not utilized. No tax benefit related specifically to operating loss has been reported in the December 31, 2025 financial statements since the potential tax benefit from net operating loss carryforward is offset by a valuation allowance of the same amount. At December 31, 2025, the Company had gross realized capital loss carryforwards of $8.7 million, which expire beginning in 2027 if not utilized. A full valuation allowance has been recorded against this amount.

For the years ended December 31, 2025 and 2024, the Company reflects a deferred tax liability in the amount of $1.2 million and $1.3 million, respectively, due to the future tax liability from assets with indefinite lives known as a "naked credit." The future tax liability created by this indefinite lived asset can be offset by up to 80% of net operating loss carryforwards created after 2017. The remaining portion of the future tax liability from indefinite lived assets cannot be used to offset definite lived deferred tax assets.

The Company did not record foreign withholding taxes on undistributed earnings of its foreign subsidiaries based on its intention to permanently reinvest those earnings at December 31, 2025 or 2024, except for Frederator, wholly owned by WOW. During 2025, management reevaluated and determined that it will no longer assert permanent reinvestment with respect to Frederator. As of December 31, 2025, Frederator has a cumulative deficit in earnings and profits. Accordingly, the change in assertion does not expect to generate a deferred tax liability or applicable withholding taxes.

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carry forwards for Federal income tax reporting purposes are subject to annual limitations. Should a change in ownership occur, net operating loss carry forwards may be limited as to use in future years.

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

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

The Company includes interest and penalties arising from the underpayment of income taxes in the statements of operation in the provision for income taxes. As of December 31, 2025, 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 states of California, Florida, Massachusetts, New Jersey, New York, as well as Canada. To the extent allowed by law, the taxing authorities may have the right to examine prior periods where net operating losses were generated and carried forward to make adjustments up to the amount of the net operating losses. The Company is currently subject to U.S. federal, state and local and foreign tax examinations by tax authorities. The Company is no longer subject to audits by U.S. federal, state, local or foreign authorities for years prior to 2021.

Kartoon Studios, Inc. and its wholly-owned U.S. subsidiaries are subject to U.S. income taxes and file a consolidated and separate tax returns in the U.S. The Beacon Communications Group, Ltd., Ameba Inc. and Wow Unlimited Media Inc. are subject to Canadian income taxes on a stand-alone basis and file separate tax returns in Canada.

**Note 19: Commitments and Contingencies**

The following is a schedule of future minimum cash contractual obligations as of December 31, 2025 (in thousands):

| | 2026 | 2027 | 2028 | 2029 | 2030 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Operating Leases | $ 1,570 | $ 1,402 | $ 1,058 | $ 1,096 | $ 1,123 | $ 1,123 | $ 7,372 |
| Finance Leases | 169 | 116 | 29 | – | – | – | 314 |
| Employment Contracts | 3,331 | 2,887 | 1,712 | 444 | – | – | 8,374 |
| Consulting Contracts | 4,007 | 361 | – | – | – | – | 4,368 |
| Production Facilities | 11,819 | – | – | – | – | – | 11,819 |
| | $ 20,896 | $ 4,766 | $ 2,799 | $ 1,540 | $ 1,123 | $ 1,123 | $ 32,247 |

*Leases*

On January 30, 2019, the Company entered into an operating lease for 5,838 square feet of general office space at 190 N. Canon Drive, Suite 400, Beverly Hills, CA 90210 pursuant to a 96-month lease that commenced on August 1, 2019. The Company pays rent of $0.5 million annually, subject to annual escalations of 3.5%.

On February 1, 2021, as part of the acquisition of Beacon, the Company assumed an operating lease that was entered into on May 19, 2019. Pursuant to a lease reassignment agreement executed on April 1, 2025, one floor of its office space in Toronto was relinquished to a new tenant, who assumed the lease obligation for that floor. The reassignment reduced Beacon's leased space from 570 square feet to 74 square feet. The Company's uses 74 square feet of general office space located at 245 Fairview Mall Drive, Suites 202 and 301, Toronto, Ontario M2J 4T1 pursuant to an 84-month lease which commenced on October 1, 2019. As of December 31, 2025, the remaining lease payments were $9,153.

On April 6, 2022, as part of the Wow acquisition, the Company assumed an operating lease for 45,119 square feet of general office space located at 2025 West Broadway, Suite 300, Vancouver, B.C., V6J 1Z6. As of December 31, 2025, the operating lease had a remaining lease term of 72 months and payments of $0.1 million per month, subject to escalations of 7% each of the third and fifth years. In addition, the Company also assumed a parking lease for 80 parking spaces which had a remaining lease term of 72 months as of December 31, 2025, and payments of $5,728 per month.

The present value discount of the minimum operating lease payments above was $1.8 million which when deducted from the cash commitments for the leases included in the table above, equates to the operating lease liabilities of $5.6 million recorded as of December 31, 2025 on the Company's consolidated balance sheet.

*Employment Contracts*

The Company has entered into employment agreements with certain key executives, which remain in effect for fixed terms. Under these agreements, the executives receive a base salary, subject to potential reviews at the discretion of the Board of Directors. Some of these agreements also include provisions for severance benefits in certain circumstances. As a result, the Company's commitments under these agreements represent future salary or severance payments obligations.

*Other Funding Commitments*

The Company enters into various agreements associated with its individual properties. Some of these agreements call for the potential future payment of royalties or "profit" participations for either (i) the use of third party IP, in which the Company is obligated to share net profits with the underlying rights holders on a certain basis as defined in the respective agreements, or (ii) services rendered by animation studios, post-production studios, writers, directors, musicians or other creative talent for which the Company is obligated to share with these service providers a portion of the net profits of the properties on which they have rendered services, as defined in each respective agreement.

*Litigation*

From time to time, the Company may be subject to various legal proceedings and claims that arise in the ordinary course of its business activities. As of December 31, 2025, there were no material pending legal proceedings to which the Company is a party or as to which any of its property is subject, other than as described below.

*Securities Litigation:*

On February 4, 2025, the District Court issued an order granting in part and denying in part the renewed motion to dismiss and denying Plaintiffs' motion for leave to file a sur-reply. The District Court dismissed all claims against Mr. Denton, and claims against the Company and Mr. Heyward based on all but one of the complained-of statements. However, the District Court determined that Plaintiffs had adequately pled a Section 10(b) claim based on March 2020 statements concerning the number of times that the Rainbow Rangers cartoon was airing on Nickelodeon. As to the other alleged misstatements that were dismissed, and as to any claims against Mr. Denton, the District Court granted Plaintiffs leave to amend their pleading another time. On March 3, 2025, Plaintiffs filed a Third Amended Complaint, seeking again to assert claims against the Company and Mr. Heyward related to the four alleged misstatements that survived the Ninth Circuit appeal; they did not replead any claims against Mr. Denton. On April 14, 2025, defendants filed a motion to dismiss the Third Amended Complaint. On August 5, 2025, the District Court issued a decision that granted in part and denied in part Defendants' motion to dismiss Plaintiffs' Third Amended Complaint. Two of the four alleged misstatements were dismissed with prejudice. Plaintiffs were granted leave to amend as to one of the alleged misstatements, and the Court denied the motion as to the fourth misstatement. Plaintiffs elected not to further amend their complaint, leaving only one alleged misstatement at issue in the case. This one alleged misstatement, which appeared in a press release issued March 17, 2020, and repeated in a shareholder letter issued March 20, 2020, stated that the Nickelodeon cable platform Nick, Jr., had increased its airing of the Company's cartoon series Rainbow Rangers to 26 times a week. Plaintiffs claim this was false, and that the misstatement was issued with an intent to deceive investors. Defendants have denied and continue to deny any wrongdoing. Given that only a small portion of the Third Amended Complaint remains, and with no case schedule in place, Defendants filed a request with the Court to set a status conference pursuant to Federal Rule of Civil Procedure 16 to limit the scope of discovery, to phase discovery, and to modify the normal rule requiring an allegation-by-allegation response to the Third Amended Complaint. The Court granted the request and held the conference on January 12, 2026. At that time, the Court determined that Defendants did not need to file an Answer to the Third Amended Complaint for now, denied the request to phase discovery, and agreed that merits discovery should be limited to the narrow issues that remain in the case. The Court referred the specifics concerning the scope of discovery to Magistrate Judge Oliver. She has held an initial conference and ordered that the parties submit letter-briefs regarding outstanding disputes concerning the scope of discovery by March 20, 2026, with responses due by April 3, 2026. Once letter briefing is complete, the parties anticipate that the Magistrate will issue proposed orders setting bounds on the scope of discovery, which will then be considered by the Court. The Court is also expected to set a schedule for the case. In the meantime, defendants are engaged in document-collection efforts and fact-development work. The Company cannot predict the outcome of the securities class action.

Meanwhile, as previously reported, the parties elected to mediate the dispute, as well as the shareholder derivative actions referenced below, before Phillips ADR. The mediation was held December 9, 2024. The case did not settle during the mediation. In light of the District Court's February 4, 2025, order, however, the mediator has reached out to the parties to determine whether there is a basis now to resolve the dispute. While the Company has advised that it would like to settle the lawsuit, the mediator has not reported back concerning his discussions with Plaintiffs' counsel. We cannot predict whether the parties will decide to continue with mediation or, if they do, whether they will be able to reach a settlement of the case and of related shareholder derivative litigation on terms acceptable to the parties.

As previously disclosed, the Company, its Chief Executive Officer Andy Heyward, and its former Chief Financial Officer Robert Denton were named as defendants in a putative class action lawsuit filed in the U.S. District Court for the Central District of California and styled In re *Genius Brands International, Inc. Securities Litigation, Master File No. 2:20-cv-07457 DSF (RAOx)*. Lead plaintiffs alleged generally that the defendants violated Sections 10(b) and 20(a) of the Exchange Act of 1934 by issuing allegedly false or misleading statements about the Company, initially over an alleged class period running from March into early July 2020. Plaintiffs sought unspecified damages on behalf of the alleged class of persons who invested in the Company's common stock during the alleged class period. Defendants moved to dismiss lead plaintiffs' amended complaint, and in a decision issued on August 30, 2021, the Court dismissed the amended complaint but granted lead plaintiffs a further opportunity to plead a claim.

In September 2021, lead plaintiffs filed a second amended complaint, naming the same defendants. The new complaint alleged again that the Company made numerous - depending on how one counted, more than two dozen - false or misleading statements about the Company's business and business prospects, this time over an expanded alleged class period that extended into March 2021. They again alleged that these misstatements violated Section 10(b) and 20(a) of the Exchange Act. Lead plaintiffs again sought unspecified damages on behalf of an alleged class of persons who invested in the Company's common stock during the expanded alleged class period. In November 2021, the defendants filed a motion to dismiss the second amended complaint. On July 15, 2022, the Court issued a decision dismissing the second amended complaint in its entirety and with prejudice.

On August 12, 2022, lead plaintiffs filed a notice of appeal to the United States Court of Appeals for the Ninth Circuit. After a full briefing of the appeal, a panel of the Court of Appeals held oral argument on the appeal on November 6, 2023, and took the matter under submission.

On April 5, 2024, the Appellate Court issued its opinion, affirming in part and reversing in part the decision of the District Court. The Appellate Court affirmed the dismissal of certain claims pertaining to Company statements where it found that Plaintiffs failed to adequately plead a 10(b) cause of action but reversed the lower court's dismissal of claims related to four of the Company's alleged misstatements, finding that, in three of those instances, the Plaintiffs adequately pleaded loss causation, and in one instance adequately alleged a misleading statement. The Court of Appeals did not address other elements of any claims based on these four complained-of statements, noting that the District Court should address those issues on remand.

The matter was remanded to the District Court in May 2024. By order entered June 4, 2024, the Court directed the defendants to file a renewed motion to dismiss on a schedule to be proposed by the parties. Consistent with that order, Defendants filed their renewed motion on July 29, 2024. Plaintiffs filed the opposition to the motion on September 16, 2024, and Defendants filed a reply brief on October 16, 2024. The District Court subsequently vacated the hearing on the renewed motion to dismiss (including plaintiffs' motion for leave to file a sur-reply) that had been scheduled for November 4, 2024, determining that the matter could be resolved by the Court based on the parties' written submissions.

*Shareholder Derivative Actions:*

Since the Company's last quarterly report, there have been no developments in the shareholder derivative actions involving the Company, which were previously disclosed. Related to the securities class action, the Company's directors (other than Dr. Cynthia Turner-Graham and Michael Hirsh), together with Messrs. Heyward and Denton and former director Michael Klein, have been named as defendants in several putative stockholder derivative lawsuits. As previously disclosed, these include a consolidated proceeding pending in the U.S. District Court for the Central District of California and styled *In re Genius Brands Stockholder Derivative Litigation*, C*ase No. 2:20-cv-08277 DSF (RAOx);* an action filed in the Los Angeles County Superior Court captioned *Ly, etc. v. Heyward, et al.*, Case *No. 20STCV44611;* and an additional case pending in the U.S. District Court for the District of Nevada, styled *Miceli, etc. v. Heyward, et al., Case No. 3:21-cv-00132-MMD-WGC*. While the allegations and legal claims vary somewhat among the derivative actions, they all generally allege that the defendants breached fiduciary duties owed to the Company. The plaintiffs, all alleged stockholders of the Company, purport to sue on behalf and for the benefit of the Company. Accordingly, the derivative plaintiffs seek no recovery from the Company. Instead, as a stockholder derivative action, the Company is named as a nominal defendant. Pursuant to agreements among the parties, the courts in all of the derivative lawsuits have stayed proceedings pending the outcome of the securities litigation.

On October 2, 2025, a new shareholder derivative action, *Cohen v. Heyward, et al., Case No. A-25-929617-C* was filed in the District Court of Clark County, Nevada, making substantially similar allegations to the derivative actions already pending, and the Company expects, that the Cohen action will be similarly stayed pending the outcome of the securities class action. As the Company cannot predict the outcome of the securities class action, it is likewise unable to predict the outcome of the shareholder derivative lawsuits.

*Section 16(b) Litigation:*

As previously disclosed, the Company is also a nominal defendant in an action filed on January 11, 2022, in the U.S. District Court for the Southern District of New York and styled Todd Augenbaum v. Anson Investments Master Fund LP, et al., Case No. 1:22-cv-00249 AS. The action, which again purports to be brought on behalf and for the benefit of the Company, seeks the recovery under Section 16(b) of the Exchange Act of supposed short-swing profits allegedly realized by roughly a dozen persons and entities that participated as investors in certain of the Company's private placements of securities in 2020. Plaintiff Augenbaum, who purports to be a Company stockholder, filed his lawsuit after issuing a demand to the Company's Board of Directors asking that the Company sue the investor defendants. The Company rejected the demand in late December 2021, and Mr. Augenbaum sued a few weeks later, as Section 16(b) permits him to do. No Company officer or director is among the defendants. The defendant investors filed motions to dismiss the action. After full briefing, the court, by order entered March 30, 2023, granted the motion to dismiss with leave to amend. Plaintiff subsequently filed his First Amended Complaint on May 1, 2023. Defendants moved to dismiss again. After a full briefing and oral argument, the Court (with a new judge now sitting) denied the motion to dismiss by order entered on January 24, 2024. The parties then engaged in extensive fact discovery, which closed in October 2024. The parties proceeded with expert discovery. Following the completion of expert discovery in December 2024, Plaintiff and the various Defendants filed cross-motions for summary judgment in mid-January 2025. On September 30, 2025, the Court denied all cross-motions for summary judgment. The Court has set trial in the action for June 8, 2026, and has set various pretrial dates as well. As previously noted, Plaintiff seeks no relief from the Company; indeed, he seeks monetary relief for the Company.

The Company desires a resolution of the case. To that end, Company counsel attempted to engage the parties in settlement discussions after a mediation attempt in March 2025, which had excluded the Company, proved unsuccessful. While Defendants expressed interest in discussions, Plaintiffs declined. The Company thereafter submitted a request to the Court that the Court direct the parties to mediation, with a direction that the Company could participate fully in the mediation. That request was denied without prejudice. Since then, the Company's Board of Directors has established a special committee to attempt to negotiate a settlement with the Defendants. The special committee has engaged counsel and is in discussions with the mediator who oversaw the March 2025 mediation session. To the extent a settlement proposal acceptable to the Company and Defendants can be reached, the parties plan to seek Plaintiffs' approval of the settlement and, potentially, to seek Court intervention into the settlement process or settlement approval. The Company cannot predict the outcome of these settlement efforts, or of the case should the matter go to trial.

In connection with the Augenbaum lawsuit and as previously reported, six of the investor/investor-group Defendants (the "demanding defendants") have made demands on the Company for indemnification pursuant to terms of an indemnity provision of the securities purchase agreements under which they invested in the Company.

Regarding these demands (and the potential for additional demands from other Defendants), the Company has rejected each of the demands on multiple grounds. Two of the demanding defendants, the Iroquois investors and the Empery investors, have filed lawsuits alleging breach of contract and seeking declaratory relief in the Supreme Court of New York, Commercial Division, seeking damages of more than $5 million, and more than $3.5 million, respectively, which the Iroquois plaintiffs and Empery investors say represent the defense expenses they have incurred in Augenbaum through the date of filing. The investor plaintiffs also seek a declaration that the Company is obliged to advance their defense expenses on an ongoing basis. These lawsuits are captioned *Iroquois Master Fund Ltd., et al. v. Kartoon Studios, Inc., No. 650077/2026* and *Empery Asset Master, Ltd., et al. v. Kartoon Studios, Inc., No. 650906/2026*. After the Company removed the Iroquois lawsuit to federal district court in Manhattan and sought to have it related to Augenbaum and assigned to the same judge, the Iroquois investors voluntarily dismissed their lawsuit, noting an intention to join the Empery lawsuit in state court; as of this writing, the Iroquois investors have not done so. The Company also removed the Empery lawsuit to federal court, where it is styled *Empery Asset Master Ltd. et al. v. Kartoon Studios, Inc., Case No. 1:26-cv-01872 (S.D.N.Y.)*. After receiving information bearing on diversity jurisdiction, the Company stipulated to remand the Empery action to state court; as of this writing, however, the federal court has not yet entered an order of remand. The Company cannot predict the outcome of the Iroquois or Empery lawsuits, or whether other demanding defendants will file similar actions.

Finally, as previously reported, the Company's placement agent for the offerings at issue, Special Equities Group ("SEG"), has also demanded indemnification from the Company for its legal fees incurred in connection with the Augenbaum lawsuit. SEG has presented bills for legal expenses totaling several hundred thousand dollars, a figure that the Company views as excessive. The Company has reserved all rights. We are unable to predict the outcome of this dispute.

In all of the above-mentioned active proceedings, the Company has denied and continues to deny any wrongdoing and intends to defend the claims vigorously. The Company maintains a program of directors' and officers' liability insurance that, subject to the insurers' reservations of rights, has offset a portion of the costs of defending the securities class action litigation, and that the Company expects will afford coverage for some costs of the other shareholder litigation should any of those cases proceed.

**Note 20: Related Party Transactions**

Pursuant to his initial employment agreement dated December 7, 2020, Andy Heyward, the Company's CEO, was previously entitled to receive a quarterly bonus. Mr. Heyward was paid a quarterly bonus of $55,000 for each of the first three quarters during the year ended December 31, 2025 and each quarter during the year ended December 31, 2024.

On July 19, 2022, the Company entered into a Shareholder Loan Agreement with YFE in the amount of EURO 1.3 million, accruing interest at the fixed annualized rate of 5%, with successive interest periods of three months due on the last day of each calendar quarter. The principal plus interest were to be repaid to the Company by YFE no later than June 30, 2026. On April 27, 2025, the Company entered into a settlement agreement with YFE to resolve the outstanding obligations under the Shareholder Loan Agreement. Pursuant to the settlement agreement, the Company accepted a reduced repayment amount of $0.4 million, payable in two installments no later than June 2025, in full satisfaction of the loan balance. The settlement agreement became effective in April 2025 and the Company recorded an adjustment to the balance of the loan and recognized FX adjusted loss of approximately $0.9 million. As of December 31, 2025, all terms of the settlement agreement were fulfilled.

During 2022, the Company entered into a sublease agreement with a related party to lease one office in the general office space at 190 N. Canon Drive, Suite 400, Beverly Hills, CA 90210. The monthly income was $595 during the years ended December 31, 2025 and December 31, 2024 and recorded within Other Income (Expense), net in the Company's consolidated statements of operations.

On February 27, 2023, Mr. Heyward's prior employment agreement was amended to provide him a creative producer fee of $100,000 per quarter, for services rendered to Wow. Mr. Heyward was paid creative producer fees of $100,000 for each of the first three quarters during the year ended December 31, 2025 and each quarter during the year ended December 31, 2024.

During the quarter ended September 30, 2024, the Company entered into a consulting agreement with a related party for office space interior design services. The agreement was subject to an initial fee of $6,545 and a monthly fee of $595 that commenced on September 1, 2024. The monthly expense was $595 and $595, during the years ended December 31, 2025 and December 31, 2024, respectively, and was recorded within General and Administrative expenses in the Company's consolidated statements of operations.

On February 6, 2025, certain members of the Company's executive management team, including the Chief Operating Officer, established a nonprofit organization The Stan Lee Foundation (the "Foundation"), which was granted tax-exempt status under Section 501(c)(3). The Foundation is not owned, governed, or controlled by the Company. The Company may reference the Foundation in connection with reputational or community engagement efforts. The Company provided limited administrative support totaling approximately $805 during the year ended December 31, 2025. This support was not part of an ongoing funding commitment and is not considered material to the Company's consolidated financial statements. The Foundation is not consolidated in the Company's financial statements.

On August 25, 2025, the Company entered into a new employment agreement with Mr. Heyward, the Company's CEO, which replaced and superseded all prior employment agreements. The agreement revised certain compensation terms, including a new performance-based bonus structure contingent on market capitalization and net income thresholds as of December 31, 2025. The agreement further provides that Mr. Heyward will receive an award of 2,000,000 RSUs under the 2020 Plan and shall not be eligible to receive any other equity-based awards during the employment term. Subsequent to entering into the Heyward Employment Agreement, the Company and Mr. Heyward determined to revisit the terms of such equity grant. The Company and Mr. Heyward have not yet made a determination regarding the revised terms of such equity grant. Therefore, the RSUs issuable pursuant to his employment agreement were not issued to Mr. Heyward during the year ended December 31, 2025. No bonuses were earned or accrued under this arrangement as of December 31, 2025.

Pursuant to the terms of the agreement, Mr. Heyward is entitled to an executive producer fee of $12,500 per episode for each episode he provides services as an executive producer, up to maximum 52 episodes per calendar year. During the years ended December 31, 2025 and December 31, 2024, Mr. Heyward has not earned or was not paid any producer fees.

**Note 21: Segment Reporting**

ASC Topic 280, *Segment Reporting* establishes standards for companies to report in their financial statement information about operating segments, products, services, geographic areas, and major customers. Operating segments are defined as components of an enterprise that engage in business activities from which it may recognize revenues and incur expenses, and for which separate financial information is available that is regularly evaluated by the Company's chief operating decision maker ("CODM"), or group, in deciding how to allocate resources and assess performance.

Our Chief Executive Officer, as the CODM, organizes our company, manages resource allocations and measures performance among two operating and reportable segments, which were identified based on the nature of the products and services offered:

- Content Production and Distribution segment includes the operations of Kartoon Studios, Inc, Mainframe Studios, and Frederator Studios. These entities are aggregated due to their similar economic characteristics, nature of products and services, production processes, customer types, and distribution methods. This segment is focused on the creation, production, and distribution of animated and live-action content, as well as licensing and royalty revenue from intellectual property.

- Media Advisory and Advertising Services segment includes the Beacon Media Group and the Beacon Communications Group. These entities provide media advisory and advertising services and marketing services.

The Company's CODM decides on resource allocation predominantly based on the annual budget and forecasting process. The CODM considers budget-to-actual variances on a periodic basis when making decision about allocating resources to the segments.

The CODM uses revenue and net income (loss) to evaluate the profitability and performance of each operating segment, because it provides insight to operational leverage and other operational metrics for each segment. The CODM reviews revenue and net operating results, as allocated based on the nature of the business activity.

The CODM does not evaluate the operating segments using asset information and it is therefore not disclosed.

Segment operating expenses include operating expenses directly attributable to the segment as well as certain shared corporate administration services and other costs which are allocated to the reportable segments, such as legal expenses, human resources expenses, accounting expenses, insurance expenses, and corporate facilities expenses. Segment operating expenses exclude certain non-recurring items and other costs, such as interest expense, interest income, share-based compensation expense and taxes.

The following table presents the revenue and net income (loss) within the Company's two operating segments (in thousands):

| | Year Ended December 31, | |
|---|---|---|
| | **2025** | **2024** |
| **Total Revenues:** | | |
| Content Production and Distribution | $ 35,201 | $ 27,755 |
| Media Advisory and Advertising Services | 4,152 | 4,836 |
| **Total Revenues** | **$ 39,353** | **$ 32,591** |
| | | |
| **Net Loss:** | | |
| Content Production and Distribution | $ (22,432) | $ (21,160) |
| Media Advisory and Advertising Services | (2,100) | 421 |
| **Total Net Loss Attributable to Kartoon Studios, Inc.** | **$ (24,532)** | **$ (20,739)** |

*Geographic Information*

The following table provides information about disaggregated revenue by geographic area (in thousands):

| | Year Ended December 31, | |
|---|---|---|
| | **2025** | **2024** |
| **Total Revenues:** | | |
| United States | $ 18,119 | $ 17,805 |
| Canada | 13,208 | 5,769 |
| United Kingdom | 7,888 | 8,637 |
| Other | 138 | 380 |
| **Total Revenues** | **$ 39,353** | **$ 32,591** |

Additional considerations include the use of segment-level budgets and forecasts created by Mainframe Studios, Frederator and Kartoon Studios at the entity level. The additional financial information prepared by the segment managers is discussed at length in meetings with the CODM. The Company determines that the revenue information reviewed by the CODM, combined with the financial information discussed with the segment managers is sufficiently detailed to allow the CODM to assess each component’s performance and make resource allocation decisions. Kartoon Studios, Frederator and Mainframe Studios are separate entities, although according to ASC 280-10-50-11 all criteria are met in order to present result in aggregation.

When evaluating the Company's performance and making key decisions regarding resource allocation, the CODM reviews several metrics included in net income or loss, which also include the following:

| | December 31, 2025 | | |
|---|---|---|---|
| | Content Production and Distribution | Media Advisory and Advertising | Total |
| **Revenues** | $ 35,201 | $ 4,152 | $ 39,353 |
| **Less Operating Expenses:** | | | |
| Selling, Marketing and Direct Operating Costs | 27,167 | 343 | 27,510 |
| General and Administrative Expenses | 15,108 | 5,672 | 20,780 |
| Other Expenses | – | 7 | 7 |
| **Segment results:** | **(7,074)** | **(1,870)** | **(8,944)** |
| *Reconciliation of net (loss) income:* | | | |
| Depreciation Expense | 2,697 | 177 | 2,874 |
| Interest Expense | 656 | – | 656 |
| Share-Based Compensation | 331 | – | 331 |
| Tax provision | (135) | – | (135) |
| Loss on Debt Settlement | 1,753 | – | 1,753 |
| Impairment of Intangible Assets | 767 | – | 767 |
| Other | 9,455 | 53 | 9,508 |
| Net Loss Attributable to Non-Controlling Interests | (166) | – | (166) |
| **Net Income (Loss)** | **$ (22,432)** | **$ (2,100)** | **$ (24,532)** |

| | December 31, 2024 | | |
|---|---|---|---|
| | Content Production and Distribution | Media Advisory and Advertising | Total |
| **Revenues** | $ 27,755 | $ 4,836 | $ 32,591 |
| **Less Operating Expenses:** | | | |
| Selling, Marketing and Direct Operating Costs | 24,103 | 274 | 24,377 |
| General and Administrative Expenses | 16,351 | 4,868 | 21,219 |
| Other Expenses | – | 3 | 3 |
| **Segment results:** | **(12,699)** | **(309)** | **(13,008)** |
| *Reconciliation of net (loss) income:* | | | |
| Depreciation Expense | 3,120 | 199 | 3,319 |
| Interest Expense | 778 | 1 | 779 |
| Share-Based Compensation | 669 | – | 669 |
| Tax provision | 19 | (62) | (43) |
| Other | 4,077 | (868) | 3,209 |
| Net Loss Attributable to Non-Controlling Interests | (202) | – | (202) |
| **Net Income (Loss)** | **$ (21,160)** | **$ 421** | **$ (20,739)** |

In evaluating segment expenses, the CODM primarily focuses on cash operating costs and budget-to-actual variances, as these measures are most relevant to assessing operating performance and making resource allocation decisions. All other segment items included in net income or loss are reported on the consolidated statements of operations and described within their respective disclosures.

**Note 22: Subsequent Events**

The Company evaluated subsequent events and transactions that occurred after the balance sheet date up to March 31, 2026, the date that the consolidated financial statements were issued.

Subsequent to December 31, 2025, the Company granted 500,000 RSUs, with an aggregate grant-date fair value of approximately $0.4 million to an executive employee under the 2020 Plan. These RSUs vest over a three-year service period, and are subject to continued employment. Subsequent to December 31, 2025, the Company granted an additional 370,000 RSUs, with an aggregate grant-date fair value of approximately $0.3 million, to certain employees under the 2020 Plan. The RSUs vest over a three year service period and are subject to continued employment.

Subsequent to December 31, 2025, the Company redeemed a portion of its marketable securities for proceeds of $3.0 million.

Subsequent to December 31, 2025, the fair value of the Company's investment in YFE experienced a decline due to a decrease in YFE's stock price. As of March 31, 2026, the share price of YFE was €0.42 ($0.36) compared to €1.09 ($0.93) as of December 31, 2025. The Company will continue to monitor the investment for any further developments and assess any potential accounting implications.