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

FORM 10-Q

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

For the quarterly period ended September 30, 2026

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

For the transition period from _____ to _____

Commission file number: 001-37950

KARTOON STUDIOS, INC.

(Exact name of registrant as specified in its charter)

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

190 N. Canon Drive, 4th FL
Beverly Hills, CA 90210
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: **310-273-4222**

_____

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001 per share	**TOON**	**The NYSE American**
Preferred Stock Purchase Rights	**N/A**	**The NYSE American**

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o

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

Large accelerated filer	o	
Non-accelerated filer	x	
Accelerated filer		o
Smaller reporting company		x
Emerging growth company		o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

As of November 16, 2026, the registrant had 62,447,886 shares of common stock outstanding.

Kartoon Studios, Inc.
FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	As of	
	September 30, 2026	**December 31, 2025**
	(Unaudited)	
ASSETS		
Current Assets:		
Cash	$ 3,498	$ 2,943
Investments in Marketable Securities (amortized cost of $29,780 and $3,953, respectively)	29,529	3,978
Accounts Receivable (net of allowance of $5 and $3, respectively)	8,489	9,632
Tax Credits Receivable (net of allowance of $435 and $423, respectively)	11,049	16,800
Other Receivable	1,246	1,571
Prepaid Expenses and Other Assets	795	841
Total Current Assets	54,606	35,765
Noncurrent Assets:		
Property and Equipment, net	1,255	1,635
Operating Lease Right-of-Use Assets, net	4,280	5,114
Finance Lease Right-of-Use Assets, net	170	312
Film and Television Costs, net	8,362	4,878
Investment in Your Family Entertainment AG	966	5,481
Intangible Assets, net	13,983	17,604
Other Assets	114	118
Total Assets	**$ 83,736**	**$ 70,907**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$ 11,477	$ 12,115
Participations Payable	984	1,024
Accrued Expenses	1,639	744
Accrued Salaries and Wages	1,271	1,370
Deferred Revenue	2,841	4,391
Margin Loan	445	–
Production Facilities, net	6,690	11,819
Current Portion of Operating Lease Liabilities	1,067	1,077
Current Portion of Finance Lease Liabilities	105	156
Due to Related Party	–	5
Other Current Liabilities	750	750
Total Current Liabilities	27,269	33,451
Noncurrent Liabilities:		
Deferred Revenue	3,401	3,369
Operating Lease Liabilities, net of Current Portion	3,590	4,488
Finance Lease Liabilities, net of Current Portion	60	144
Deferred Tax Liability, net	1,100	1,225
Factoring Liability	522	689
Other Noncurrent Liabilities	18	8
Total Liabilities	**35,960**	**43,374**
Commitments and Contingencies (Note 19)		
Stockholders' Equity:		
Preferred Stock, $0.001 par value, 10,000,000 shares authorized, 0 shares issued and outstanding as of September 30, 2026 and December 31, 2025	–	–
0% Series A Convertible Preferred Stock, $0.001 par value, 6,000 shares authorized, 0 shares issued and outstanding as of September 30, 2026 and December 31, 2025	–	–
Series B Preferred Stock, $0.001 par value, 0 shares authorized, 0 shares issued and outstanding as of September 30, 2026 and December 31, 2025	–	–
Series C Preferred Stock, $0.001 par value, 50,000 shares authorized, 0 shares issued and outstanding as of September 30, 2026 and December 31, 2025	–	–
Series D Participating Preferred Stock, $0.001 par value, 300,000 shares authorized, 0 shares issued and outstanding as of September 30, 2026 and December 31, 2025	–	–
Common Stock, $0.001 par value, 190,000,000 shares authorized, 62,684,804 and 55,282,150 shares issued and 62,259,654 and 54,857,000 shares outstanding as of September 30, 2026 and December 31, 2025, respectively	62	55
Additional Paid-in Capital	799,494	793,814
Treasury Stock at Cost, 425,150 shares of common stock as of September 30, 2026 and December 31, 2025	(604)	(604)
Accumulated Deficit	(748,919)	(763,817)
Accumulated Other Comprehensive Loss	(3,478)	(3,238)
Total Kartoon Studios, Inc. Stockholders' Equity	46,555	26,210
Non-Controlling Interests in Consolidated Subsidiaries	1,221	1,323
Total Stockholders' Equity	**47,776**	**27,533**
Total Liabilities and Stockholders' Equity	**$ 83,736**	**$ 70,907**

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

Kartoon Studios, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except for share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	**2025**	**2026**	**2025**
Revenues:				
Production Services	$ 3,340	$ 7,105	$ 10,892	$ 21,036
Content Distribution	589	1,787	4,715	5,760
Licensing and Royalties	55	73	189	243
Media Advisory and Advertising Services	1,379	912	2,626	2,621
Total Revenues	5,363	9,877	18,422	29,660
Operating Expenses:				
Marketing and Sales	121	209	452	562
Direct Operating Costs	2,966	6,922	12,318	20,719
General and Administrative	5,091	5,642	14,680	17,569
Impairment of Intangible Assets	897	–	897	–
Total Operating Expenses	9,075	12,773	28,347	38,850
Loss from Operations	(3,712)	(2,896)	(9,925)	(9,190)
Interest Expense	(188)	(157)	(596)	(450)
Loss on Deconsolidation of a Subsidiary	(302)	–	(302)	–
Other Income (Expense), net	(1,124)	(3,462)	26,614	(9,733)
Profit (Loss) Before Income Tax Expense	(5,326)	(6,515)	15,791	(19,373)
Income Tax Expense	(422)	–	(995)	–
Net Income (Loss)	(5,748)	(6,515)	14,796	(19,373)
Net Loss Attributable to Non-Controlling Interests	26	(55)	102	114
Net Income (Loss) Attributable to Kartoon Studios, Inc.	**$ (5,722)**	**$ (6,570)**	**$ 14,898**	**$ (19,259)**
Net Income (Loss) per Share (Basic)	**$ (0.08)**	**$ (0.14)**	**$ 0.23**	**$ (0.41)**
Net Income (Loss) per Share (Diluted)	**$ (0.08)**	**$ (0.14)**	**$ 0.22**	**$ (0.41)**
Weighted Average Shares Outstanding (Basic)	69,115,099	48,143,516	66,027,076	47,552,798
Weighted Average Shares Outstanding (Diluted)	69,115,099	48,143,516	69,143,262	47,552,798

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

Kartoon Studios, Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)
(in thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	**2025**	**2026**	**2025**
Net Income (Loss)	$ (5,748)	$ (6,515)	$ 14,796	$ (19,373)
Change in Accumulated Other Comprehensive Income (Loss):				
Change in Unrealized (Loss) Gain on Marketable Securities	(238)	4	(254)	50
Realized (Gains) Losses on Marketable Securities Reclassified from AOCI into Earnings	(22)	9	(22)	36
Foreign Currency Translation Adjustments	(30)	(16)	36	52
Total Change in Accumulated Other Comprehensive Income (Loss)	(290)	(3)	(240)	138
Total Comprehensive Income (Loss)	**$ (6,038)**	**$ (6,518)**	**$ 14,556**	**$ (19,235)**
Net Loss Attributable to Non-Controlling Interests	26	(55)	102	114
Total Comprehensive Income (Loss) Attributable to Kartoon Studios, Inc.	**$ (6,012)**	**$ (6,573)**	**$ 14,658**	**$ (19,121)**

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

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

	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
December 31, 2025	**54,857,000**	**$ 55**	**–**	**$ –**	**$ 793,814**	**425,150**	**$ (604)**	**$ (763,817)**	**$ (3,238)**	**$ 1,323**	**$ 27,533**
Issuance of Common Stock for Services	625,346	1	–	–	583	–	–	–	–	–	584
Issuance of Common Stock for Vested Restricted Stock Units, Net of Shares Withheld for Taxes	69,122	–	–	–	–	–	–	–	–	–	–
Issuance of Common Stock for Accounts Payable Settlement	977,360	1	–	–	682	–	–	–	–	–	683
Share Based Compensation	–	–	–	–	191	–	–	–	–	–	191
Realized Loss Reclassified from AOCI to Earnings, net change in Unrealized Loss	–	–	–	–	–	–	–	–	(10)	–	(10)
Foreign Currency Translation Adjustment	–	–	–	–	–	–	–	–	9	–	9
Net Loss	–	–	–	–	–	–	–	(6,365)	–	(40)	(6,405)
Balance, March 31, 2026	**56,528,828**	**$ 57**	**–**	**$ –**	**$ 795,270**	**425,150**	**$ (604)**	**$ (770,182)**	**$ (3,239)**	**$ 1,283**	**$ 22,585**
Issuance of Common Stock for Services	2,087,519	2	–	–	1,503	–	–	–	–	–	1,505
Issuance of Common Stock for Vested Restricted Stock Units, Net of Shares Withheld for Taxes	34,711	–	–	–	–	–	–	–	–	–	–
Issuance of Common Stock for Accounts Payable Settlement	2,553,047	2	–	–	1,770	–	–	–	–	–	1,772
Share Based Compensation	–	–	–	–	193	–	–	–	–	–	193
Warrant exercise	1,000,000	1	–	–	569	–	–	–	–	–	570
Realized Loss Reclassified from AOCI to Earnings, net change in Unrealized Loss	–	–	–	–	–	–	–	–	(6)	–	(6)
Foreign Currency Translation Adjustment	–	–	–	–	–	–	–	–	57	–	57
Net Income (Loss)	–	–	–	–	–	–	–	26,985	–	(36)	26,949
Balance, June 30, 2026	**62,204,105**	**$ 62**	**–**	**$ –**	**$ 799,305**	**425,150**	**$ (604)**	**$ (743,197)**	**$ (3,188)**	**$ 1,247**	**$ 53,625**
Issuance of Common Stock for Vested Restricted Stock Units, Net of Shares Withheld for Taxes	55,549	–	–	–	–	–	–	–	–	–	–
Share Based Compensation	–	–	–	–	189	–	–	–	–	–	189
Realized Loss Reclassified from AOCI to Earnings, net change in Unrealized Loss	–	–	–	–	–	–	–	–	(260)	–	(260)
Foreign Currency Translation Adjustment	–	–	–	–	–	–	–	–	(30)	–	(30)
Net Loss	–	–	–	–	–	–	–	(5,722)	–	(26)	(5,748)
Balance, September 30, 2026	**62,259,654**	**$ 62**	**–**	**$ –**	**$ 799,494**	**425,150**	**$ (604)**	**$ (748,919)**	**$ (3,478)**	**$ 1,221**	**$ 47,776**

	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
December 31, 2024	**46,209,081**	**$ 46**	**–**	**$ –**	**$ 777,930**	**75,997**	**$ (340)**	**$ (739,286)**	**$ (3,379)**	**$ 1,489**	**$ 36,460**
Issuance of Common Stock for Services	14,990	–	–	–	3	–	–	–	–	–	3
Issuance of Common Stock for Vested Restricted Stock Units, Net of Shares Withheld for Taxes	99,177	1	–	–	27	134	–	–	–	–	28
Share Based Compensation	–	–	–	–	87	–	–	–	–	–	87
Stock Options Granted to Consultants	–	–	–	–	8	–	–	–	–	–	8
Warrant exercise	1,462,000	1	–	–	–	–	–	–	–	–	1
Realized Loss Reclassified from AOCI to Earnings, net change in Unrealized Loss	–	–	–	–	–	–	–	–	30	–	30
Foreign Currency Translation Adjustment	–	–	–	–	–	–	–	–	31	–	31
Net Loss	–	–	–	–	–	–	–	(6,526)	–	(65)	(6,591)
Balance, March 31, 2025	**47,785,248**	**$ 48**	**–**	**$ –**	**$ 778,055**	**76,131**	**$ (340)**	**$ (745,812)**	**$ (3,318)**	**$ 1,424**	**$ 30,057**
Issuance of Common Stock for Services	77,292	–	–	–	52	–	–	–	–	–	52
Issuance of Common Stock for Vested Restricted Stock Units, Net of Shares Withheld for Taxes	44,029	–	–	–	–	135	–	–	–	–	–
Share Based Compensation	–	–	–	–	48	–	–	–	–	–	48
Stock Options Granted to Consultants	–	–	–	–	(4)	–	–	–	–	–	(4)
Warrant Reclassification	–	–	–	–	5,709	–	–	–	–	–	5,709
Realized Loss Reclassified from AOCI to Earnings, net change in Unrealized Loss	–	–	–	–	–	–	–	–	43	–	43
Foreign Currency Translation Adjustment	–	–	–	–	–	–	–	–	37	–	37
Net Loss	–	–	–	–	–	–	–	(6,163)	–	(104)	(6,267)
Balance, June 30, 2025	**47,906,569**	**$ 48**	**–**	**$ –**	**$ 783,860**	**76,266**	**$ (340)**	**$ (751,975)**	**$ (3,238)**	**$ 1,320**	**$ 29,675**
Issuance of Common Stock for Services	134,451	–	–	–	95	–	–	–	–	–	95
Issuance of Common Stock for Vested Restricted Stock Units, Net of Shares Withheld for Taxes	39,781	–	–	–	–	135	–	–	–	–	–
Issuance of Common Stock for Accounts Payable Settlement	1,180,956	1	–	–	941	–	–	–	–	–	942
Non-cash Share Exchange	(348,127)	–	–	–	–	348,127	(263)	–	–	–	(263)
Share Based Compensation	–	–	–	–	42	–	–	–	–	–	42
Stock Options Granted to Consultants	–	–	–	–	39	–	–	–	–	–	39
Realized Loss Reclassified from AOCI to Earnings, net change in Unrealized Loss	–	–	–	–	–	–	–	–	13	–	13
Foreign Currency Translation Adjustment	–	–	–	–	–	–	–	–	(16)	–	(16)
Net Loss (1)	–	–	–	–	–	–	–	(6,570)	–	55	(6,515)
Balance, September 30, 2025	**48,913,630**	**$ 49**	**–**	**$ –**	**$ 784,977**	**424,528**	**$ (603)**	**$ (758,545)**	**$ (3,241)**	**$ 1,375**	**$ 24,012**

(1) Includes out-of-period adjustment of Q1 and Q2 2025 NCI attribution resulted from deferral of terms under a production financing agreement. The adjustment had no impact on consolidated revenue, total consolidated net loss, total equity, or cash flows.

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

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

	Nine Months Ended September 30,	
	2026	**2025**
Cash Flows from Operating Activities:		
Net Income (Loss)	$ 14,796	$ (19,373)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Amortization of Film and Television Costs	602	153
Depreciation and Amortization of Property, Equipment and Intangible Assets	1,937	1,928
Amortization of Right-of-Use Assets	826	806
Share Based Compensation Expense	573	177
Impairment of Intangible Assets	897	–
Loss on Deconsolidation of a Subsidiary	302	–
Loss on Debt Settlement	754	1,212
Loss on Revaluation of Equity Investments in Your Family Entertainment AG	4,357	8,593
Unrealized Loss (Gain) on Foreign Currency of Equity Investments in Your Family Entertainment AG	157	(1,753)
Accounts Payable Settled in Stock	1,702	675
Realized (Gain) Loss on Marketable Securities	(22)	37
Stock Issued for Services	2,089	176
Credit Loss Expense	29	101
Non-cash Interest Expense	131	29
Loss on Partial Disposal of Equity Investment in Your Family Entertainment AG	–	1,518
Loss on Share Exchange	–	286
Loss on Warrant Revaluation	–	232
Stock Options Issued for Services	–	43
Amortization of Premium on Marketable Securities	–	7
Gain on Early Lease Termination	–	(4)
Other Non-Cash Items	–	13
Decrease (Increase) in Operating Assets:		
Accounts Receivable	1,112	3,357
Other Receivable	26	215
Tax Credits Earned (less capitalized)	(5,661)	(8,917)
Tax Credits Received, net	10,856	5,776
Film and Television Costs, net	(4,182)	(2,626)
Prepaid Expenses and Other Assets	28	(534)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(607)	(3,736)
Accrued Salaries and Wages	(73)	528
Accrued Expenses	904	1,113
Accrued Production Costs	431	73
Participations Payable	(34)	(492)
Deferred Revenue	(1,386)	(707)
Lease Liability	(755)	(678)
Due From Related Party	–	3
Other Liabilities	(58)	(18)
Net Cash Provided by (Used in) Operating Activities	$ 29,731	$ (11,787)

Cash Flows from Investing Activities:		
Proceeds from Sales and Maturities of Marketable Securities	8,441	3,843
Investment in Marketable Securities	(34,245)	(1,771)
Purchase of Property and Equipment	(106)	(116)
Proceeds from Sale of Subsidiary	500	–
Repayments from Related Party for Notes Receivable	–	400
Net Cash (Used in) Provided by Investing Activities	$ (25,410)	$ 2,356
Cash Flows from Financing Activities:		
Proceeds from Margin Loan	6,396	5,921
Repayments of Margin Loan	(5,943)	(6,817)
Proceeds from Production Facilities	5,045	7,776
Repayment of Production Facilities	(10,179)	(4,994)
Principal Payments on Finance Lease Obligations	(135)	(309)
Debt Issuance Costs	(11)	(70)
Proceeds from Warrant Exercise	570	1
Proceeds from Sale of Equity Investment in Your Family Entertainment AG	–	829
Proceeds from ERTC Factoring Transaction	–	484
Net Cash (Used in) Provided by Financing Activities	$ (4,257)	$ 2,821
Effect of Exchange Rate Changes on Cash	491	(345)
Net Increase (Decrease) in Cash	555	(6,955)
Beginning Cash	2,943	8,385
Ending Cash	**$ 3,498**	**$ 1,430**
Supplemental Disclosures of Cash Flow Information		
Cash Paid for Interest	$ 20	$ 37
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	$ 10	$ 356

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

Note 1: Organization and Business

Kartoon Studios, 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. The Company is also developing *Hundred Acre Wood's: Winnie and Friends,* a new franchise property inspired by A.A. Milne's *Winnie the Pooh*, consisting of 78 full-length streaming episodes, over 200 short-form episodes, holiday specials, and a global consumer products program. The main launch is anticipated in Q1 2027, with plans to expand across experiential activations and live events.

Kartoon Studios also owns Wow Unlimited Media Inc. ("Wow"), through which the Company holds its interest in Mainframe Studios, one of North America's *largest* animation production studios. Founded in 1993 and headquartered in Vancouver, British Columbia, Mainframe created *ReBoot*, the first fully CG-animated television series. Mainframe operates primarily as a producer-for-hire for major streaming platforms, broadcasters, and intellectual property holders. To date, Mainframe has produced over 1,200 television episodes, 70 movies, and 3 feature films, including titles such as *It's Andrew!, Phoebe & Jay, Barbie Dreamhouse Adventures*, *Octonauts: Above & Beyond*, *Cocomelon*, *SuperKitties*, and *Unicorn Academy*, in partnership with leading global media companies.

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 (ticker symbol "RTV"), the Company holds a significant 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. Existing licensing arrangements include a non-exclusive license with Marvel for Stan Lee's likeness to appear in Marvel films and a separate non-exclusive license with the Walt Disney Company for use of Stan Lee's likeness in Walt Disney theme parks. Additional brand partnerships include an agreement with Madame Tussauds. The Company considers the SLU to be a core component of its IP portfolio and continues to pursue opportunities to expand commercialization of the Stan Lee brand across animation, publishing, licensing, and global consumer products.

Kartoon Studios' common stock is listed on the NYSE American LLC ("NYSE American") under the ticker symbol "TOON."

Recent Transactions

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 made payments to the Company's vendors in cash and, in exchange, the Company issued 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 completed in the year ended December 31, 2025.

On November 18, 2025, the Company entered into a new agreement to settle an additional $1.0 million of outstanding 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 and were approved by a court after a public hearing. The settlement arrangement was carried out in stages and completed through the first quarter of 2026, settling a total of $1.0 million of accounts payable and issuing an aggregate of 1,695,072 shares of common stock to CCI. During the nine months ended September 30, 2026, the Company settled an aggregate of $0.6 million of accounts payable, issued 977,360 shares of common stock to CCI, and 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 condensed consolidated statements of operations.

On April 8, 2026, the Company entered into a new agreement to settle an additional $1.1 million of accounts payable under Section 3(a)(10) of the Securities Act with CCI, in exchange for issuing 2,001,797 shares of common stock, and to settle additional obligations up to $0.3 million in exchange for issuing 551,250 shares of common stock. The terms were consistent with the original arrangement. The settlement arrangement was carried out in stages and completed as of June 30, 2026. During the nine months ended September 30, 2026, the Company recognized a loss of $0.6 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 condensed consolidated statements of operations.

October 2025 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 purchase price of $0.738, and each October 2025 Pre-Funded Warrant and privately placed October 2025 Common Warrant was sold at a combined purchase 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 also is 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. A registration statement on Form S-1 registering the resale of common stock to be issued upon exercise of the Placement Agent Warrants and the October 2025 Common Warrants was declared effective on December 9, 2025.

Section 16(b) Litigation Settlement

Between May 29, 2026 and June 11, 2026, the Company entered into settlement agreements with six defendants (the "Settling Parties") in the action styled *Todd Augenbaum v. Anson Investments Master Fund LP, et al., Case No. 1:22-cv-00249 (S.D.N.Y.)*, an action brought under Section 16(b) of the Securities Exchange Act of 1934 by a stockholder on behalf of and for the benefit of the Company, in which the Company is named only as a nominal defendant, seeking disgorgement of alleged short-swing profits realized by certain investors in the Company's 2020 private placements. The Settling Parties agreed to pay the Company aggregate settlement amounts of $78.5 million minus fees and expenses of plaintiff's counsel (in an amount not yet determined), subject to certain terms and conditions, and the parties agreed to mutual releases. Pursuant to the settlement agreements, 50% of each settlement amount, or $39.2 million in the aggregate, was paid directly to the Company during Q2 2026, and the remaining 50% was deposited into escrow to fund the court-awarded fees and expenses of plaintiff's counsel, with any residual balance payable to the Company after the applicable approval orders become final. The Company recognized the $39.2 million received as a non-recurring, non-operating gain, included in Other Income (Expense), net, on the Company's condensed consolidated statements of operations for the nine months ended September 30, 2026. In accordance with Accounting Standards Codification ("ASC") 450-30-25-1, any residual amounts distributable to the Company from escrow constitute a gain contingency and will be recognized if and when realized. In connection with the settlement with the Anson Investments Master Fund LP and its affiliates (collectively, the "Anson Parties"), on June 10, 2026, the Company entered into a standstill and voting agreement with the Anson Parties, under which the Company agreed to pay the Anson Parties $4.0 million and the Anson Parties agreed to certain voting commitments and standstill restrictions through June 11, 2027. The Company recognized this amount as a non-operating loss, included in Other Income (Expense), net, on the Company's condensed consolidated statements of operations for the nine months ended September 30, 2026.

Adoption of Stockholder Rights Plan and Related Measures

On July 1, 2026, the Board of Directors adopted a Preferred Stock Rights Agreement (a stockholder rights plan), filed a related Certificate of Designation designating 300,000 shares of a new Series D Participating Preferred Stock, and adopted amendments to the Company's Bylaws. The stockholder rights plan is intended as a protective measure to guard against coercive or unfair takeover tactics and the accumulation of a controlling interest in the Company without negotiation with our Board. The Series D Participating Preferred Stock was designated solely to support the stockholder rights plan; no shares have been issued, and the rights issued under the plan become exercisable only upon the occurrence of certain triggering events. These actions did not affect the Company's financial condition, results of operations or shares of common stock outstanding as of or for the period covered by this report. For additional information, see Note 13, *Stockholders' Equity,* to the Company's condensed consolidated financial statements.

Sale of Frederator Networks, Inc.

On July 8, 2026, the Company sold all of the issued and outstanding common stock of Frederator Networks, Inc. ("Frederator Networks"), which operated the Frederator Network channel business, to Project Robot LLC, an unaffiliated third party, pursuant to a stock purchase agreement dated June 18, 2026. Upon closing, the Company ceased to have a controlling financial interest in Frederator Networks. The base purchase price under the purchase agreement was $0.5 million in cash, subject to customary post-closing adjustments for net working capital, indebtedness, and cash and cash equivalents, on a cash-free, debt-free basis. The Company recognized a non-operating loss on deconsolidation of $0.3 million, which is presented as a non-operating loss on the Company's condensed consolidated statements of operations for the three months and nine months ended September 30, 2026 (in thousands).

Purchase Price	**$**	**500**
Net Working Capital Adjustment		(22)
Cash and Cash Equivalents		79
Final Adjustment Payment		(65)
Total Net Consideration		**492**
Frederator Networks, Inc. Net Assets		(809)
Cash Kept Adjustment		9
Foreign Currency Translation		6
Loss on Deconsolidation of Subsidiary	**$**	**(302)**

Frederator Networks' results of operations were reported in the Content Production and Distribution segment through the date of sale. Management concluded that the sale did not represent a strategic shift that has, or will have, a major effect on the Company's operations or financial results, and accordingly, the transaction did not qualify for discontinued-operations presentation under ASC 205-20. In connection with the closing, Frederator Networks, Inc. and Project Robot LLC entered into a three-year Channel Distribution Agreement with Frederator Studios, LLC. Under this arrangement, Frederator Networks administers and monetizes seven YouTube channels owned by Frederator Studios, LLC. Frederator Studios, LLC receives 85% of the net channel receipts in the first year, 90% in the second year and 95% in the third year. Frederator Studios, LLC and Frederator Networks each own a 50% interest in the Frederator trademark, and the Company agreed to provide post-closing transition assistance for three months. The buyer is not a related party of the Company, and Frederator Networks is not a related party of the Company following the sale. The transaction was part of the Company's realignment to focus on the monetization of premium intellectual property and franchise development. Kartoon Studios retained key intellectual property of Frederator Studios, LLC, a wholly owned subsidiary of the Company, including *Bee & PuppyCat, Bravest Warriors, Castlevania,* and *Catbug*, for distribution and product licensing opportunities.

Liquidity and Capital Resources

As of September 30, 2026, the Company had cash of $3.5 million (which does not include the cash held in escrow from the Section 16(b) litigation settlement described above), which increased by $0.6 million as compared to December 31, 2025. The increase was primarily due to net cash provided by operating activities of $29.7 million, and the effect of exchange rate of $0.5 million, partially offset by cash used in investing activities of $25.4 million, and cash used in financing activities of $4.3 million. The cash provided by operating activities of $29.7 million was primarily due to net income of $14.8 million, a favorable impact of net change in non-cash adjustments of $14.3 million, and net cash sourced from operating assets and liabilities of $0.6 million. Net income was driven primarily by a non-recurring and non-operating cash receipt of $39.2 million representing 50% of the court-approved settlement payments under the Section 16(b) litigation settlement agreements. The cash used in investing activities of $25.4 million was primarily due to the investment of settlement proceeds in marketable securities of $34.2 million, and purchases of equipment of $0.1 million, offset by the proceeds received from the redemption and sales of marketable securities purchased in prior periods of $8.4 million and proceeds from a sale of subsidiary of $0.5 million. The cash used in financing activities of $4.3 million was primarily due to the net repayments of production facilities of $5.1 million, and finance lease payments of $0.1 million, partially offset by proceeds from a warrant exercise of $0.6 million, and drawdown from margin loan of $0.5 million.

During the nine months ended September 30, 2026, the Company received aggregate cash of $39.2 million representing 50% of the court-approved settlement payments under the Section 16(b) litigation settlement agreements. The Settling Parties agreed to pay the Company aggregate settlement amounts of $78.5 million, minus fees and expenses of plaintiff's counsel (in an amount not yet determined), subject to certain terms and conditions, and the parties agreed to mutual releases. Pursuant to the settlement agreements, 50% of each settlement amount, or $39.2 million in the aggregate, was paid directly to the Company in June 2026, and the remaining 50% was deposited into escrow to fund the court-awarded fees and expenses of plaintiff's counsel, with any residual balance payable to the Company after the applicable approval orders become final. These receipts are non-recurring and non-operating in nature and do not represent a source of operating cash flow. The Company used a significant portion of these receipts to purchase $33.7 million of available-for-sale securities in June and July 2026, primarily U.S. Treasury securities. As a result, the settlement receipts are reflected principally in the Company's marketable securities balance rather than in its ending cash balance. The Company holds these securities as a source of liquidity and expects to draw on them to fund working capital and operating requirements. The Company has not received, and has not recognized, the portion of the settlement deposited into escrow. Any residual amounts distributable to the Company will become available as a source of liquidity if and when realized. On June 10, 2026, the Company entered into a standstill and voting agreement with the Anson Parties, under which the Company agreed to pay the Anson Parties $4.0 million and the Anson Parties agreed to certain voting commitments and standstill restrictions through June 11, 2027.

As of September 30, 2026, the Company held available-for-sale marketable securities with a fair value of $29.5 million, compared to $4.0 million as of December 31, 2025, representing an increase of $25.5 million. The increase was primarily due to purchases of $33.7 million of securities funded by the proceeds received under the Section 16(b) litigation settlement, together with $0.5 million of securities purchased in May 2026, partially offset by $4.5 million of securities sold, $4.0 million of securities redeemed upon maturity, and an unrealized loss of $0.2 million during the nine months ended September 30, 2026. The available-for-sale securities consist principally of U.S. Treasury securities and are available to the Company as a source of liquidity.

The unaudited condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States ("U.S. GAAP"), which contemplates continuation of the Company as a going concern. The evaluation was performed in accordance with ASC 205, *Presentation of Financial Statements - Going Concern (Subtopic 205-40)*. Historically, the Company has incurred net losses. For the nine months ended September 30, 2026 and September 30, 2025, the Company reported net income of $14.8 million and a net loss of $19.4 million, respectively. Net income for the period was driven primarily by a non-recurring, non-operating cash receipt of $39.2 million representing 50% of the court-approved settlement payments under the Section 16(b) litigation settlement agreements received during the second quarter. The Company reported net cash provided by operating activities of $29.7 million, and cash used in operating activities of $11.8 million for the nine months ended September 30, 2026 and September 30, 2025, respectively. As of September 30, 2026, the Company had an accumulated deficit of $748.9 million and total stockholders' equity of $47.8 million. As of September 30, 2026, the Company had total current assets of $54.6 million, including cash of $3.5 million, and total current liabilities of $27.3 million. The Company had working capital of $27.3 million as of September 30, 2026, compared to working capital of $2.3 million as of December 31, 2025. In October 2025, the Company closed an offering and received aggregate gross proceeds of approximately $7.3 million. During the nine months ended September 30, 2026, the Company continued to navigate macroeconomic challenges in the animation and advertising industries, including ongoing government tariffs and intensified competition. In prior periods, the Company demonstrated resilience in its financing activities, having successfully raised net proceeds through public offerings, and continued to explore opportunities to further strengthen its financial position. In parallel, management plans to preserve liquidity, as needed, by implementing cost-saving measures. For example, during the nine months ended September 30, 2026, in order to improve liquidity, the Company settled approximately $1.7 million of outstanding accounts payable in a transaction under Section 3(a)(10) of the Securities Act. In addition, during the nine months ended September 30, 2026, the Company received $39.2 million in direct cash proceeds from the settlement of the Section 16(b) litigation, which the Company has substantially deployed into available-for-sale marketable securities as a source of liquidity. Management has evaluated the significance of these conditions in relation to the Company's ability to meet its obligations and determined that the Company has sufficient cash, marketable securities and investments to fund operations for at least the next 12 months from the issuance date of this 10-Q.

Note 2: Basis of Presentation and Summary of Significant Accounting Policies

The accompanying interim condensed consolidated financial statements of the Company have been prepared in conformity with U.S. Generally Accepted Accounting Principles ("U.S. GAAP") and are consistent in all material respects with those applied in the Company's Annual Report on Form 10-K for the year ended December 31, 2025 filed with the Securities and Exchange Commission (the "SEC") on March 31, 2026. The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amount of assets, liabilities, revenue, costs, expenses and other comprehensive income/(loss) that are reported in the condensed consolidated financial statements and accompanying disclosures. These estimates are based on management's best knowledge of current events, historical experience, actions that the Company may undertake in the future and on various other assumptions that are believed to be reasonable under the circumstances. On a regular basis, the Company evaluates the assumptions, judgments and estimates. Actual results may differ from these estimates.

The accompanying interim condensed consolidated financial statements are unaudited, but in the opinion of management, contain all adjustments (which include normal recurring adjustments) considered necessary to present fairly the interim financial statements. Interim results are not necessarily indicative of financial results for a full year. The information included in this Form 10-Q should be read in conjunction with the Company's 2025 Annual Report.

The following is provided to update the Company's significant accounting policies previously described in the Company's Annual Report on Form 10-K for the year ended December 31, 2025 filed with the SEC on March 31, 2026.

Foreign Currency Forward Contracts

As of September 30, 2026, the Company had no outstanding foreign currency ("FX") forward contracts. As of December 31, 2025, 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 recorded within Other Current Liabilities on the condensed consolidated balance sheets.

For the three months ended September 30, 2026 and September 30, 2025, the Company recorded a realized loss of $4,816 and $14,946, respectively, on FX forward contracts within Production Services Revenue on the condensed consolidated statements of operations. For the nine months ended September 30, 2026 and September 30, 2025, the Company recorded a realized loss of $0.1 million and $0.2 million, respectively, on FX forward contracts within Production Services Revenue on the condensed consolidated statements of operations.

Trade Accounts Receivable and Allowance for Credit Loss

The following table summarizes the activity in the allowance for credit losses related to trade accounts receivable as of September 30, 2026 and December 31, 2025 (in thousands):

Balance, net as of December 31, 2024	**$**	**239**
Charged to costs and expenses		179
Recoveries		(39)
Write-offs		(376)
Balance, net as of December 31, 2025		**3**
Charged to costs and expenses		4
Write-offs		(2)
Balance, net as of September 30, 2026	**$**	**5**

Tax Credits Receivable

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 Canada Revenue Agency (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 September 30, 2026 and December 31, 2025, the Company had $11.0 million and $16.8 million, respectively, in tax credit receivables related to Mainframe's film and television productions, net of corresponding allowance for credit loss of $0.4 million and $0.4 million, respectively. The Company did not have any non-current tax credits receivable as of September 30, 2026 and December 31, 2025.

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 100,000. As of September 30, 2026 and December 31, 2025, the Company had nine and six bank deposit accounts with an aggregate uninsured balance of $2.3 million and $1.9 million, respectively.

The Company has a managed account with a financial institution. The managed account maintained its investments in marketable securities of approximately $29.5 million as of September 30, 2026, and $4.0 million as of December 31, 2025. 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 September 30, 2026 and December 31, 2025, the Company did not have account balances held at this financial institution that exceed the insured balances.

As of September 30, 2026, the Company had three customers, the accounts receivable for each of which exceeded 10% of the Company's total accounts receivable. These customers accounted for an aggregate of 76.2% of the Company's total accounts receivable as of September 30, 2026. As of December 31, 2025, the Company had three customers, the accounts receivable for each of which exceeded 10% of the Company's total accounts receivable. These customers accounted for an aggregate of 54.5% of the total accounts receivable as of December 31, 2025.

	As of	
	September 30, 2026	December 31, 2025
Customer A	41.3%	11.1%
Customer B	23.9%	26.1%
Customer C	11.0%	17.3%

During the three months ended September 30, 2026, two customers each accounted for more than 10% of the Company's total consolidated revenue. These customers accounted for an aggregate of 60.3% of the Company's total revenue for the three months ended September 30, 2026. During the three months ended September 30, 2025, four customers each accounted for more than 10% of the Company's total consolidated revenue. These customers accounted for an aggregate of 85.1% of the Company's total revenue for the three months ended September 30, 2025.

During the nine months ended September 30, 2026, two customers each accounted for more than 10% of the Company's total consolidated revenue. These customers accounted for an aggregate of 54.9% of the Company's total revenue for the nine months ended September 30, 2026. During the nine months ended September 30, 2025, four customers each accounted for more than 10% of the Company's total consolidated revenue. These customers accounted for an aggregate of 85.6% of the Company's total revenue for the nine months ended September 30, 2025.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	2026	2025
Customer D	49.5%	21.2%	42.0%	18.2%
Customer E	10.8%	14.1%	12.9%	17.7%
Customer F	*	36.7%	*	35.0%
Customer G	*	13.1%	*	14.7%

* 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

The following table presents the fair values of the Company's financial instruments measured on a recurring basis, categorized within the fair value hierarchy as of September 30, 2026 (in thousands):

	Level 1	Level 2	Total Fair Value
Investments in Marketable Securities:			
U.S. Treasury	$ 29,529	$ –	$ 29,529
Total	**$ 29,529**	**$ –**	**$ 29,529**
Investment in Equity Interest:			
Investment in YFE	$ –	$ 966	$ 966
Total	**$ –**	**$ 966**	**$ 966**

The following table presents the fair values of the Company's financial instruments measured on a recurring basis, categorized 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)**

There were no transfers between Level 1, Level 2, or Level 3 during the three months ended September 30, 2026. No allowance for credit losses was recorded for marketable securities as of September 30, 2026 or December 31, 2025.

Contingencies

Between May 29, 2026 and June 11, 2026, the Company entered into settlement agreements with six defendants in the action styled *Todd Augenbaum v. Anson Investments Master Fund LP, et al., Case No. 1:22-cv-00249 (S.D.N.Y.)*, an action brought under Section 16(b) of the Securities Exchange Act of 1934 by a stockholder on behalf of and for the benefit of the Company, in which the Company is named only as a nominal defendant, seeking disgorgement of alleged short-swing profits realized by certain investors in the Company's 2020 private placements. The Settling Parties agreed to pay the Company aggregate settlement amounts of $78.5 million, minus fees and expenses of plaintiff's counsel (in an amount not yet determined), subject to certain terms and conditions, and the parties agreed to mutual releases. Pursuant to the settlement agreements, 50% of each settlement amount, or $39.2 million in the aggregate, was paid directly to the Company in the second quarter of 2026, and the remaining 50% was deposited into escrow to fund the court-awarded fees and expenses of plaintiff's counsel, with any residual balance payable to the Company after the applicable approval orders become final. The Company recognized the $39.2 million received as a non-recurring, non-operating gain, included in Other Income (Expense), net, on the Company's condensed consolidated statements of operations for the nine months ended September 30, 2026. In accordance with ASC 450-30-25-1, any residual amounts distributable to the Company from escrow constitute a gain contingency and will be recognized if and when realized. In connection with the settlement with the Anson Investments Master Fund LP and its affiliates, on June 10, 2026, the Company entered into a standstill and voting agreement with the Anson Parties, under which the Company agreed to pay the Anson Parties $4.0 million and the Anson Parties agreed to certain voting commitments and standstill restrictions through June 11, 2027. The Company recognized this amount as a non-operating loss, included in Other Income (Expense), net, on the Company's condensed consolidated statements of operations for the nine months ended September 30, 2026.

Loss on Deconsolidation of Subsidiary

The Company deconsolidates a subsidiary as of the date on which it ceases to have a controlling financial interest in that subsidiary, in accordance with ASC 810, Consolidation. Upon deconsolidation, the Company derecognizes the carrying amounts of the subsidiary's assets and liabilities and recognizes a gain or loss in net income attributable to the Company. The gain or loss is measured as the difference between (i) the aggregate of the fair value of the consideration received, the fair value of any retained noncontrolling investment in the former subsidiary, and the carrying amount of any noncontrolling interest in the former subsidiary, and (ii) the carrying amount of the former subsidiary's assets and liabilities. Purchase price adjustments that increase or decrease the cash proceeds due to the Company, such as adjustments for closing net working capital, indebtedness, and cash and cash equivalents, are included in the consideration received. Gains and losses on the deconsolidation of a subsidiary that does not qualify for presentation as a discontinued operation under ASC 205-20 are presented as non-operating item, in the condensed consolidated statements of operations.

As described in Note 1, Organization and Business - Recent Transactions, on July 8, 2026, the Company sold all of the issued and outstanding common stock of Frederator Networks pursuant to a stock purchase agreement dated June 18, 2026. Control of Frederator Networks transferred to the buyer on the closing date. The Company determined that this disposal does not meet the criteria for classification as a discontinued operation under ASC 205-20, as it does not represent a strategic shift that has or will have a major effect on the Company's operations and/or financial results, however, it does represent the disposal of an individually significant component of the Company. Loss before income taxes for this individually significant component was $0.2 million for the period ended July 8, 2026.

Management considers the assets and liabilities of Frederator Networks transferred under the purchase agreement to be a disposal group. The following table summarizes the carrying amounts of the major classes of assets and liabilities of the disposal group as of the closing date (in thousands):

	As of July 8, 2026
Cash	$ 5
Prepaids	2
Other Receivable	298
Intangible Assets	826
Total Assets of Disposal Group	**1,131**
Accounts Payable	5
Accrued Liabilities	5
Other Payable	298
Deferred Tax Liability	14
Total Liabilities of Disposal Group	**322**
Net Carrying Value of Disposal Group	**$ 809**

Special Purpose Acquisition Company Investment

On September 17, 2026, the Company formed Toon Acquisition LLC, a Nevada limited liability company and wholly owned subsidiary of the Company. Toon Acquisition LLC is the sponsor to Toon Acquisition Corp (renamed Kartoon Studios Acquisition Corp ("KSAC") on October 15, 2026), a special purpose acquisition company, which was incorporated in the Cayman Islands on September 18, 2026, for the purpose of effecting a merger, share exchange, asset acquisition, share purchase, reorganization or similar business combination with one or more businesses. In September 2026, Toon Acquisition LLC purchased 8,625,000 Class B ordinary shares of a Kartoon Studios Acquisition Corp for an aggregate purchase price of $25,000, funded by the Company. The shares purchased by the Sponsor represented all of KSAC's outstanding shares as of September 30, 2026. KSAC will be managed by several members of the Company's management team.

Through September 30, 2026, the Company funded a total of $0.1 million to these subsidiaries, including $25,000 for the purchase of founder shares. These subsidiaries are included in the Company's condensed consolidated financial statements, and their assets, liabilities and results of operations were not material as of and for the three and nine months ended September 30, 2026. On November 5, 2026, Kartoon Studios Acquisition Corp publicly filed a registration statement on Form S-1 with the Securities and Exchange Commission relating to the proposed initial public offering. For additional information, see Note 22, *Subsequent Events,* to the Company's condensed consolidated financial statements.

New Accounting Standards Issued but Not Yet Adopted

In November 2024, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2024-03, *Income Statement - Reporting Comprehensive Income - Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*. 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 2025-11, *Interim Reporting (Topic 270) Narrow-Scope Improvements*. The update provides clarifications intended to improve the consistency and usability of interim disclosure requirements, including a comprehensive listing of required interim disclosures and a new disclosure principle for reporting material events occurring after the most recent annual period. The amendments do not change the underlying objectives of interim reporting but are designed to enhance clarity in application. This update is effective for interim periods within annual reporting periods beginning after December 15, 2027. The Company does not expect it to have a material effect on its condensed consolidated financial statements and 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 nine months ended September 30, 2026 and September 30, 2025, SLU generated a net loss of $0.2 million and $0.2 million, respectively. During the three months ended September 30, 2026 and September 30, 2025, SLU generated a net loss of $0.1 million and $0.1 million, respectively. There were no contributions or distributions during the nine months ended September 30, 2026 and September 30, 2025, and there were no changes in facts and circumstances that would result in a re-evaluation of the VIE assessment.

Note 4: Equity Investment

The Company holds an equity investment in Your Family Entertainment AG ("YFE"), a publicly listed company on the Frankfurt Stock Exchange (ticker symbol "RTV"), headquartered in Germany. YFE is 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 has significant influence over, but does not have a controlling financial interest in, YFE and accounts for the investment at fair value under the fair value option, with changes in fair value recorded through earnings.

When the Company does not have a controlling financial interest in an entity but has the ability to exert significant influence over its 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 between 20% and 50% of the common stock or in-substance common stock of the investee.

At the time of the Company's initial investment in 2021, the Company held a 28.7% ownership interest in YFE and determined that it had significant influence over the entity. Accordingly, the Company elected to account for the investment at fair value under the fair value option. Under this election, the investment is remeasured at fair value at each reporting period, with changes in fair value recorded through earnings.

Subsequent to the Company's initial investment, the Company's ownership interest increased to 44.8% through participation in a public tender offer, bond conversions, and the exercise of subscription rights. The Company's ownership interest was subsequently reduced to approximately 32.7% through a partial disposition of shares in July 2025 and an exchange of shares in September 2025. Throughout this period, management determined that the Company did not obtain a controlling financial interest in YFE, and that significant influence was maintained at all times.

As of September 30, 2026 and December 31, 2025, the Company owned 5,009,005 shares of YFE, representing ownership interests of 32.2% and 32.5%, respectively. The fair value of the investment is determined based on the quoted closing market price of YFE's shares on the Frankfurt Stock Exchange as of each reporting date, remeasured from Euro to U.S. dollars at the period-end exchange rate.

As of September 30, 2026, the fair value of the investment was $1.0 million, recorded within noncurrent assets on the Company's condensed consolidated balance sheet. The net decrease in fair value of $4.5 million for the nine months ended September 30, 2026 reflects the combined impact of a decline in YFE's quoted share price and the effect of foreign currency remeasurement from Euro to U.S. dollars. The total change in fair value is recorded within Other Income (Expense), net in the Company's condensed consolidated statements of operations.

Management concluded that the Company continues to exercise significant influence over YFE and therefore continues to account for the investment at fair value under the fair value option.

Note 5: Marketable Securities

The Company classifies and accounts for its marketable debt securities as available-for-sale ("AFS") and the securities are stated at fair value in accordance with ASC 320, *Investments - Debt Securities*.

During the nine months ended September 30, 2026, the Company redeemed marketable securities for proceeds of $4.0 million, sold marketable securities for proceeds of $4.5 million, and purchased an additional $34.2 million of U.S. Treasury securities, classified as available-for-sale. The increase from December 31, 2025 was primarily funded by proceeds received in the second quarter of 2026 from settlements reached with several defendants in the Section 16(b) litigation.

The investments in marketable securities as of September 30, 2026 had an adjusted cost basis of $29.8 million and a market value of $29.5 million. The balances consisted of the following securities (in thousands):

	Adjusted Cost	Unrealized Gain (Loss)	Fair Value
U.S. Treasury	$ 29,780	$ (251)	$ 29,529
Total	**$ 29,780**	**$ (251)**	**$ 29,529**

The investments in marketable securities as of December 31, 2025 had an adjusted cost basis of $4.0 million and a market value of $4.0 million. The balances consisted of the following securities (in thousands):

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

The Company holds five AFS securities, two of which were in an unrealized gain position and three were in an unrealized loss position. None had been in an unrealized loss position for a period longer than 12 months as of September 30, 2026. The Company reports the net unrealized gains and losses in accumulated other comprehensive income (loss), a component of stockholders' equity. As of September 30, 2026 and December 31, 2025, 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.

During the nine months ended September 30, 2026, the Company recorded realized gain related to its marketable securities of $22,193 primarily due to selling securities prior to maturity to provide additional liquidity for general operating needs. During the nine months ended September 30, 2025, the Company recorded realized losses related to its marketable securities of $36,674 primarily due to selling securities prior to maturity to provide additional liquidity for general operating needs.

The contractual maturities of the Company's marketable investments as of September 30, 2026 were as follows (in thousands):

	Fair Value
Due within 1 year	$ 3,493
Due after 1 year through 5 years	26,036
Total	**$ 29,529**

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	
	September 30, 2026	December 31, 2025
Furniture and Equipment	$ 98	$ 98
Computer Equipment	866	827
Leasehold Improvements	2,230	2,230
Software	384	316
Property and Equipment, gross	3,578	3,471
Less Accumulated Depreciation	(2,106)	(1,626)
Foreign Currency Translation Adjustment	(217)	(210)
Property and Equipment, net	**$ 1,255**	**$ 1,635**

During the three months ended September 30, 2026 and September 30, 2025, the Company recorded depreciation expense of $0.1 million and $0.1 million, respectively.

During the nine months ended September 30, 2026 and September 30, 2025, the Company recorded depreciation expense of $0.4 million and $0.4 million, respectively.

During the nine months ended September 30, 2026 and September 30, 2025, the Company did not incur any impairment charges on its property and equipment.

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

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

	As of	
	September 30, 2026	**December 31, 2025**
Operating Leases		
Office Lease Assets	$ 9,342	$ 9,331
Accumulated Amortization	(4,290)	(3,601)
Finance Leases		
Equipment Lease Assets	3,522	4,570
Accumulated Amortization	(3,058)	(3,975)
Right-of-Use Assets, Net	5,516	6,325
Foreign Currency Translation Adjustment	(1,066)	(899)
Leased Right-of-Use Assets, net	**$ 4,450**	**$ 5,426**

As of September 30, 2026, the weighted-average lease term for the Company's operating leases was 58 months and the weighted-average discount rate was 11.4%. As of December 31, 2025, the weighted-average lease term for operating leases was 64 months and the weighted-average discount rate was 11.3%.

During the three months ended September 30, 2026 and September 30, 2025, the Company recorded operating lease costs of $0.4 million and $0.4 million, respectively, included in General and Administrative Expenses on the Company's condensed consolidated statements of operations. During the nine months ended September 30, 2026 and September 30, 2025, the Company recorded operating lease costs of $1.1 million and $1.1 million, respectively, included in General and Administrative Expenses on the Company's condensed consolidated statements of operations.

During the three months ended September 30, 2026 and September 30, 2025, the Company recorded finance lease costs of $47,761 and $0.1 million, respectively, primarily comprised of ROU amortization of $44,297 and $0.1 million, respectively. During the nine months ended September 30, 2026 and September 30, 2025, the Company recorded finance lease costs of $0.1 million and $0.3 million, respectively, primarily comprised of ROU amortization of $0.1 million and $0.3 million, respectively. 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 condensed consolidated statements of operations.

Note 8: Film and Television Costs, net

The following table highlights the activity in Film and Television Costs as of September 30, 2026 and December 31, 2025 (in thousands):

Film and Television Costs, net as of December 31, 2024	**$**	**2,621**
Additions to Film and Television Costs		3,259
Disposals		(88)
Film Amortization Expense		(932)
Foreign Currency Translation Adjustment		18
Film and Television Costs, net as of December 31, 2025	**$**	**4,878**
Additions to Film and Television Costs		4,222
Disposals		(95)
Film Amortization Expense		(602)
Foreign Currency Translation Adjustment		(41)
Film and Television Costs, net as of September 30, 2026	**$**	**8,362**

During the three months ended September 30, 2026 and September 30, 2025, the Company recorded amortization expense of $0.1 million and $0.1 million, respectively.

During the nine months ended September 30, 2026 and September 30, 2025, the Company recorded amortization expense of $0.6 million and $0.2 million, respectively.

During the three months ended September 30, 2026 and September 30, 2025, the Company recorded write-downs of $0.1 million and $0.1 million, respectively, related to projects not advancing beyond the development stage. Based on the review performed by the executive team, it was determined that certain projects would no longer be pursued.

During the nine months ended September 30, 2026 and September 30, 2025, the Company recorded write-downs of $0.1 million and $0.1 million, respectively, related to projects not advancing beyond the development stage. Based on the review performed by the executive team, it was determined that certain projects would no longer be pursued.

The Company did not record any impairment charges on film costs during the nine months ended September 30, 2026 and September 30, 2025.

Note 9: Intangible Assets, net

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

	Weighted Average Remaining Amortization Period	**As of**	
		September 30, 2026	**December 31, 2025**
Customer Relationships	3.8	$ 17,325	$ 17,325
Digital Networks	0.0	–	803
Trade Names	64.7	8,064	9,198
Intangible Assets, gross		25,389	27,326
Less Accumulated Amortization		(9,096)	(7,833)
Foreign Currency Translation Adjustment		(2,310)	(1,889)
Intangible Assets, net		**$ 13,983**	**$ 17,604**

During the three months ended September 30, 2026 and September 30, 2025, the Company recorded intangible asset amortization expense of $0.5 million and $0.5 million, respectively. During the nine months ended September 30, 2026 and September 30, 2025, the Company recorded intangible asset amortization expense of $1.5 million and $1.5 million, respectively.

Pursuant to ASC 350-30, *General Intangibles Other than Goodwill*, the Company tests its indefinite-lived intangible assets for impairment annually, and more frequently if events or changes in circumstances indicate that it is more likely than not that an asset is impaired. Definite-lived intangible assets are tested for recoverability under ASC 360-10, *Property, Plant, and Equipment*, whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. During the three months ended September 30, 2026, a decline in the projected revenue of Mainframe Studios was identified as an indicator of impairment. As a result, the Company performed an interim quantitative impairment test of the Mainframe trade name as of September 30, 2026. The Mainframe trade name is an indefinite-lived intangible asset acquired in the Wow acquisition. The fair value of the trade name, estimated using the relief-from-royalty method under the income approach, was below its carrying amount. Accordingly, the Company recorded an impairment charge of $0.9 million during the three and nine months ended September 30, 2026. The charge is recognized as Impairment of Intangible Assets within Operating Expenses in the condensed consolidated statements of operations. No impairment charges were recognized during the nine months ended September 30, 2025.

On July 8, 2026, the Company completed the sale of Frederator Networks, Inc. business. On deconsolidation, the Company derecognized intangible assets of $0.8 million, consisting of digital networks of $0.6 million and the Frederator trade name of $0.2 million.

Expected future amortization of intangible assets subject to amortization as of September 30, 2026 is as follows (in thousands):

Fiscal Year:		
2026	$	481
2027		1,924
2028		1,924
2029		1,924
2030		822
Thereafter		3,471
Total	**$**	**10,546**

As of September 30, 2026 and December 31, 2025, $3.4 million and $4.7 million, respectively, 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 September 30, 2026 and December 31, 2025, the Company had deferred revenue of $6.2 million and $7.8 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 September 30, 2026, compared to the progress as of December 31, 2025. Deferred revenue balance mainly 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 September 30, 2026, the Company's margin loan balance was $0.4 million. As of December 31, 2025, the Company had no outstanding margin loan balance. As of September 30, 2026, the Company held $29.5 million of U.S. Treasury securities in its investment account, all of which serve as collateral for the Company's margin account with the same custodian. During the nine months ended September 30, 2026, the Company borrowed $6.4 million from its margin account and repaid $5.9 million, primarily with cash received from maturities and sales of marketable securities. The borrowed amounts were primarily used to manage the timing of its operational cash needs relative to the maturities and sales of its marketable securities. The interest rates for the borrowings fluctuate based on the Fed Funds Upper Target plus 0.60%. The weighted average interest rates on outstanding borrowing were 4.29% during the nine months ended September 30, 2026.

During the nine months ended September 30, 2026 and September 30, 2025, the Company incurred interest expense on the margin loan of $4,841 and $8,062, respectively. During the three months ended September 30, 2026 and September 30, 2025, the Company incurred interest expense on the loan of $2,408 and $3,195, respectively. Margin borrowings have no stated maturity. Because the custodian may demand repayment at any time, the margin loan is classified as a current liability on the Company's condensed consolidated balance sheets.

Note 12: Bank Indebtedness and Production Facilities

The Company has certain credit facilities that are comprised of the following:

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 our subsidiaries and related entities acting as guarantors of the production facilities.

As of September 30, 2026 and December 31, 2025, the Company had an outstanding net balance of $6.7 million (CAD 9.5 million), including $1.0 million (CAD 1.4 million) of interest, and $11.8 million (CAD 16.2 million), including $1.1 million (CAD 1.5 million) of interest, respectively, recorded as Production Facilities, net within current liabilities on the Company's condensed consolidated balance sheets.

As of September 30, 2026 and December 31, 2025, Production Facilities, net includes unamortized debt issuance costs related to the issuance of production facilities of $0.1 million and $0.1 million, respectively, which were included as a reduction to the carrying amount of production facilities.

Equipment Lease Facility

In the fourth quarter of 2022, the Company entered into an equipment lease agreement with a Canadian bank. This additional 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 September 30, 2026, the Company did not have any outstanding balances under this facility. As of December 31, 2025, the outstanding balances, net of repayments, $0.1 million (CAD 0.1 million), were included within current Finance Lease Liabilities on the Company's condensed consolidated balance sheets.

Note 13: Stockholders' Equity and Earnings per Share

Common Stock

As of September 30, 2026 and December 31, 2025, the total number of authorized shares of common stock was 190,000,000.

As of September 30, 2026 and December 31, 2025, there were 62,259,654 and 54,857,000 shares of common stock outstanding, respectively.

During the nine months ended September 30, 2026, the Company issued 2,712,865 shares of common stock for services, which included 2,424,146 shares of common stock in connection with immediately vested restricted stock units (RSUs) granted to consultants. During the nine months ended September 30, 2025, the Company issued 226,733 shares of common stock for services in connection with immediately vested restricted stock units (RSUs) granted to consultants.

During the nine months ended September 30, 2026, the Company issued 159,382 shares of common stock to employees and board members in connection with vested restricted stock units (RSUs), net of shares withheld for tax obligations, consisting of 150,631 shares related to RSUs that vested during the current period and 8,751 shares related to RSUs that vested in prior periods.

During the nine months ended September 30, 2025, the Company issued 182,987 shares of common stock to employees and board members in connection with vested restricted stock units (RSUs), net of shares withheld for tax obligations, consisting of 173,390 shares related to RSUs that vested during the current period and 9,597 shares related to RSUs that vested in prior periods.

On November 18, 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 an aggregate of $1.0 million of outstanding accounts payable in exchange for issuing 1,695,072 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. During the nine months ended September 30, 2026, the Company settled $0.6 million of accounts payable and issued an aggregate of 977,360 shares of common stock to CCI. During the nine months ended September 30, 2026, 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 condensed consolidated statements of operations. The transaction was carried out in stages and completed in the first quarter of 2026.

On April 8, 2026, the Company entered into a new agreement to settle an additional $1.1 million of outstanding accounts payable under Section 3(a)(10) of the Securities Act with CCI, in exchange for issuing 2,001,797 shares of common stock, and to settle additional obligations up to $0.3 million in exchange for issuing 551,250 shares of common stock. The terms were consistent with the original arrangement. The settlement arrangement was carried out in stages and completed in the second quarter of 2026. During the nine months ended September 30, 2026, the Company recognized a loss of $0.6 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 condensed consolidated statements of operations.

On June 16, 2026, the Company issued 1,000,000 shares of common stock upon the cash exercise of outstanding warrants at an exercise price of $0.57 per share, resulting in gross proceeds of approximately $0.6 million. The shares were issued in accordance with the terms of the underlying warrant agreements.

Preferred Stock

The Company has 10,000,000 shares of preferred stock authorized with a par value of $0.001 per share including 9,644,000 shares of undesignated preferred stock, 6,000 shares designated as 0% Series A Convertible Preferred Stock, 50,000 shares designated as Series C Preferred Stock, and 300,000 shares designated as Series D Participating Preferred Stock. The board of directors is authorized, subject to any limitations prescribed by law, without further vote or action by our stockholders, to issue from time-to-time shares of preferred stock in one or more series. Each series of preferred stock will have such number of shares, designations, preferences, voting powers, qualifications and special or relative rights or privileges as shall be determined by the board of directors, which may include, among others, dividend rights, voting rights, liquidation preferences, conversion rights and preemptive rights.

On July 1, 2026, the Company entered into a Preferred Stock Rights Agreement (the "Rights Agreement") with VStock Transfer, LLC, as rights agent. In connection with the Rights Agreement, the Board of Directors declared a dividend distribution of one right (a "Right") for each outstanding share of our common stock, payable to stockholders of record as of the close of business on July 13, 2026. In general terms, the Rights Agreement imposes significant dilution upon any person or group (other than the Company and certain other exempt persons) that is or becomes the beneficial owner of ten percent (10%) or more of the Company's common stock without the prior approval of the Board of Directors. Each Right entitles its registered holder, upon the occurrence of certain triggering events, to purchase from the Company one one-thousandth of a share of Series D Participating Preferred Stock at a purchase price of $3.75 per one one-thousandth of a share, subject to adjustment. The Rights become exercisable only if a person or group acquires, or commences a tender or exchange offer that would result in, beneficial ownership of 10% or more of our outstanding common stock without the approval of the Board of Directors, subject to certain exceptions. The Rights are redeemable by the Board of Directors at a price of $0.001 per Right at any time prior to the earlier of the time the Rights become exercisable and their final expiration, and will expire at the close of business on June 29, 2027, unless earlier redeemed or exchanged. The Board also adopted amendments to our Bylaws that, among other things, divide the Board of Directors into two classes with staggered terms, eliminate the ability of stockholders to act by written consent, provide that special meetings of stockholders may be called only by the Board of Directors, establish advance notice procedures for stockholder nominations of directors and other stockholder proposals, require the affirmative vote of the holders of at least two-thirds of the voting power of our outstanding stock to remove a director, and designate an exclusive forum for certain legal proceedings.

In connection with the Rights Agreement, the Company filed with the Secretary of State of the State of Nevada a Certificate of Designation designating 300,000 shares of our authorized preferred stock as Series D Participating Preferred Stock, par value $0.001 per share (the "Series D Participating Preferred Stock"). Each one one-thousandth of a share of Series D Participating Preferred Stock, if issued upon the exercise of the Rights, (i) will not be redeemable; (ii) will have the same voting power as one share of common stock and will vote together with the common stock; and (iii) will entitle holders to a payment per one one-thousandth of a share of Series D Participating Preferred Stock equal to the payment made on one share of common stock if the common stock is exchanged via merger, consolidation, or a similar transaction. Because of the nature of the Series D Participating Preferred Stock's dividend, liquidation, and voting rights, the value of one one-thousandth of a share of Series D Participating Preferred Stock is expected to approximate the value of one share of common stock.

As of September 30, 2026 and December 31, 2025, there were 0 shares of Series A Convertible Preferred Stock outstanding. As of September 30, 2026 and December 31, 2025, there were 0 shares of Series B Preferred Stock outstanding. As of September 30, 2026 and December 31, 2025, there were 0 shares of Series C Preferred Stock outstanding. As of September 30, 2026 and December 31, 2025, there were 0 shares of Series D Participating Preferred Stock outstanding.

Treasury Stock

Upon vesting of restricted stock unit awards, employees may elect to have the Company withhold shares of common stock to cover their tax obligations, which are included as treasury stock outstanding and recorded within Treasury Stock on the condensed consolidated balance sheets. During the nine months ended September 30, 2026, no employees elected this option and accordingly no shares were withheld. During the nine months ended September 30, 2025, the Company withheld 404 shares of common stock with a cost of $293 to cover taxes owed by certain employees.

Earnings (Loss) 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, and the assumed exercise of all dilutive securities using the treasury stock method.

The 6,903,049 October 2025 Pre-Funded Warrants issued in the October Offerings and outstanding as of September 30, 2026 were included in the calculation of basic and diluted earnings (loss) per share.

The table below sets forth the Company's calculated earnings (loss) per share, with net income (loss) presented in thousands:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	2026	2025
Net Income (Loss) Attributable to Kartoon Studios, Inc.	$ (5,722)	$ (6,570)	$ 14,898	$ (19,259)
Weighted-average shares of common stock outstanding	69,115,099	48,143,516	66,027,076	47,552,798
Basic earnings (loss) per share	**$ (0.08)**	**$ (0.14)**	**$ 0.23**	**$ (0.41)**
Net Income (Loss) Attributable to Kartoon Studios, Inc.	$ (5,722)	$ (6,570)	$ 14,898	$ (19,259)
Weighted-average shares of common stock outstanding	69,115,099	48,143,516	66,027,076	47,552,798
Effect of dilutive warrants and stock-based awards	–	–	3,116,186	–
Weighted-average shares of common stock outstanding - diluted	69,115,099	48,143,516	69,143,262	47,552,798
Diluted earnings (loss) per share	**$ (0.08)**	**$ (0.14)**	**$ 0.22**	**$ (0.41)**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	2026	2025
Stock Options	839,998	973,980	839,998	973,980
Restricted Stock Units	2,465,417	870,417	958,439	870,417
Warrants	32,056,955	24,150,943	11,929,943	24,150,943
	35,362,370	**25,995,340**	**13,728,380**	**25,995,340**

Note 14: Stock Options

On August 27, 2020, the Company's stockholders approved the adoption of the Kartoon Studios, Inc. 2020 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, 2024, the Company's stockholders approved an amendment and restatement of the 2020 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 an amendment (Amendment No. 2) to the 2020 Plan, providing for an additional increase of 5,000,000 shares of common stock authorized for issuance under the plan. As of September 30, 2026, the number of shares remaining available for issuance was 5,043,762, out of a maximum of 13,216,767 shares authorized under the 2020 Plan.

On October 21, 2026, at the Company's 2026 Annual Meeting of Stockholders, the Company's stockholders approved Amendment No. 4 to the Company's Amended and Restated 2020 Incentive Plan, that increased the number of shares of common stock available for awards under the 2020 Plan by 4,000,000 shares. For additional information, see Note 22, *Subsequent Events*, to the Company's condensed consolidated financial statements.

During the nine months ended September 30, 2026, the Company did not grant any stock options.

The following table summarizes the Company's option activity during the nine months ended September 30, 2026:

	Stock Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price per Share
Outstanding at December 31, 2025	**969,130**	**3.96**	**$ 11.58**
Granted	–	–	–
Exercised	–	–	–
Forfeited/Cancelled	(45,000)	–	12.26
Expired	(84,132)	–	15.70
Outstanding at September 30, 2026	**839,998**	**3.65**	**$ 11.12**
Vested and exercisable at September 30, 2026	839,998	3.65	$ 11.12

During the nine months ended September 30, 2026, the Company did not recognize any share-based compensation expense related to stock options. During the nine months ended September 30, 2025, the Company recognized $24,699 in share-based compensation expense related to stock options included in General and Administrative Expenses on the Company's condensed consolidated statements of operations.

As of September 30, 2026, the Company had no unrecognized share-based compensation expense related to outstanding stock options. The outstanding options as of September 30, 2026 had an aggregated intrinsic value of zero.

Note 15: Restricted Stock Units

Restricted stock units ("RSUs") are granted under the Company's 2020 Plan.

During the nine months ended September 30, 2026, the Company granted 2,574,777 fully vested RSUs to the Company's board members and consultants, with a fair market value of $1.9 million. During the nine months ended September 30, 2025, the Company granted 400,123 fully vested RSUs to the Company's board members and consultants, with a fair market value of $0.3 million.

During the nine months ended September 30, 2026, the Company granted 500,000 RSUs to an executive employee with an aggregate grant-date fair value of approximately $0.3 million. These RSUs vest ratably over three years from the grant date, subject to continued employment. In addition, the Company granted an additional 365,000 RSUs, with an aggregate grant-date fair value of approximately $0.3 million, to certain employees, and 5,000 RSUs to a consultant with a grant-date fair value of approximately $3,600. The RSUs vest over a three year service period and are subject to continued employment.

During the nine months ended September 30, 2026, the Company issued an aggregate of 2,583,528 shares of common stock as a result of RSUs vested during the current and prior periods, consisting of 2,574,777 shares issued upon RSUs that vested during the current period and 8,751 shares issued upon RSUs that vested in prior periods.

The following table summarizes the Company's RSU activity:

	Restricted Stock Units	Weighted-Average Grant Date Fair Value per Share
Unvested at December 31, 2025	**1,605,417**	**$ 7.62**
Granted	3,444,777	0.70
Vested	(2,574,777)	0.71
Forfeited	(10,000)	–
Unvested at September 30, 2026	**2,465,417**	**$ 5.19**

During the three months ended September 30, 2026 and September 30, 2025, the Company recognized $0.2 million and $41,847, respectively, in share-based compensation expense related to RSU awards included in General and Administrative Expenses on the Company's condensed consolidated statements of operations. During the nine months ended September 30, 2026 and September 30, 2025, the Company recognized $0.6 million and $0.2 million, respectively, in share-based compensation expense related to RSU awards included in General and Administrative Expenses on the Company's condensed consolidated statements of operations.

The unvested share-based compensation as of September 30, 2026 was $0.5 million which will be recognized through the first quarter of 2029 assuming the underlying grants are not cancelled or forfeited. The total fair value of shares vested during the nine months ended September 30, 2026 was $1.9 million.

Note 16: Warrants

The following table summarizes the activity in the Company's outstanding warrants during the nine months ended September 30, 2026:

	Warrants	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price per Share
Outstanding at December 31, 2025	**41,622,504**	**2.86**	**$ 1.52**
Granted	–	–	–
Exercised	(1,000,000)	–	0.57
Expired	(1,662,500)	–	23.70
Forfeitures	–	–	–
Outstanding at September 30, 2026	**38,960,004**	**2.37**	**$ 0.60**
Exercisable at September 30, 2026	38,960,004	2.37	$ 0.60

All outstanding warrants are classified as equity instruments in the Company's condensed consolidated balance sheet, as the warrants meet the criteria for equity classification under ASC 815-40.

On June 16, 2026, the Company issued 1,000,000 shares of common stock upon the cash exercise of outstanding warrants at an exercise price of $0.57 per share, resulting in gross proceeds of approximately $0.6 million. The shares were issued in accordance with the terms of the underlying warrant agreements.

During the nine months ended September 30, 2026, the Company did not grant or forfeit any warrants.

Note 17: Supplemental Financial Statement Information

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	2026	2025
Interest Expense (a)	**$ (188)**	**$ (157)**	**$ (596)**	**$ (450)**
Other Income (Expense), net (b-l)				
Loss on Revaluation of Warrants (b)	–	–	–	(232)
Loss on Revaluation of Equity Investment in YFE (c)	(887)	(2,930)	(4,358)	(10,348)
Realized Gain (Loss) on Marketable Securities Investments (d)	22	(9)	22	(37)
Gain (Loss) on Foreign Exchange (e)	87	(279)	(697)	2,101
Loss on Debt Settlement (f)	–	(268)	(754)	(1,212)
Interest Income (g)	265	5	347	71
Finance Lease Interest Expense (h)	(3)	(6)	(11)	(17)
Gain on Lease Modification (i)	–	–	–	4
Legal Settlement Income (j)	–	–	39,238	–
Loss on Standstill Agreement (k)	–	–	(4,000)	–
Other (l)	(608)	25	(3,173)	(63)
Other Income (Expense), net	**$ (1,124)**	**$ (3,462)**	**$ 26,614**	**$ (9,733)**

Three Months and Nine Months Ended September 30, 2026

(a) Interest Expense during the three months and nine months ended September 30, 2026, primarily consisted of $0.2 million and $0.4 million in interest, respectively, incurred on production facilities and the factoring liability.
(b) For the three months and nine months ended September 30, 2026, the Company did not record any gain related to warrant revaluation.
(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 $0.9 million and $4.4 million for the three months and nine months ended September 30, 2026, 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 realized gain on marketable securities investments of $22,193 recorded during the three months and nine months ended September 30, 2026, was related to the sale of certain securities prior to the maturity date.
(e) The gain on foreign exchange during the three months ended September 30, 2026, primarily related to the remeasurement of foreign currency transactions of the Company's non-U.S. subsidiary, resulting in a gain of $0.1 million. The loss on foreign exchange during the nine months ended September 30, 2026, primarily related to the revaluation of the YFE investment, resulting in a loss of $0.2 million due to the Euro depreciating against the U.S. dollar as compared to prior period and a loss of $0.5 million due to the remeasurement of foreign currency transactions of the Company's non-U.S. subsidiary.
(f) The loss on debt settlement recorded during the nine months ended September 30, 2026, includes a loss $0.8 million, arising from the Section 3(a)(10) transaction completed during the period.
(g) Interest Income during the three months and nine months ended September 30, 2026, primarily consisted of income from investments in marketable securities.
(h) The finance lease interest expense represents the interest portion of the finance lease obligations for equipment purchased under an equipment lease line.
(i) For the three months and nine months ended September 30, 2026, the Company did not record any gain related to lease modification.
(j) Between May 29, 2026 and June 11, 2026, the Company received aggregate cash of $39.2 million representing 50% of the court-approved settlement payments under the Section 16(b) litigation settlement agreements. For additional information, see Note 1, *Organization and Business - Recent Transactions,* to our condensed consolidated financial statements.
(k) In connection with the legal settlement with the Anson Investments Master Fund LP and its affiliates, on June 10, 2026, Kartoon Studios Inc. entered into a standstill and voting agreement with the Anson Parties, under which the Company agreed to pay the Anson Parties $4.0 million and the Anson Parties agreed to certain voting commitments and standstill restrictions through June 11, 2027. The amount was recognized as a non-operating loss for the nine months ended September 30, 2026. For additional information, see Note 1, *Organization and Business - Recent Transactions,* to our condensed consolidated financial statements.
(l) During the three months ended September 30, 2026, the Company recorded other expense of $0.6 million primarily related to timing of accrued legal fees directly attributable to the legal settlement. During the nine months ended September 30, 2026, the Company recorded a loss of $3.2 million primarily related to legal fees directly attributable to the legal settlement.

Three Months and Nine Months Ended September 30, 2025

(a) Interest Expense during the three and nine months ended September 30, 2025 was $0.2 million and $0.5 million, respectively, primarily due to interest incurred on production facilities.

(b) The loss on revaluation of warrants during the nine months ended September 30, 2025 consisted of $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. These warrants were classified as a liability in the period ended March 31, 2025 and a change in their fair value resulted in a recorded gain due to a decrease of expiration period. In the period ended June 2025, warrants were reclassified to equity.

(c) As accounted for under the fair value option, the Company recognized losses in its Equity Investment in YFE of $2.9 million and $10.3 million during the three months and nine months ended September 30, 2025, respectively. The losses were primarily driven by decreases in YFE's stock price as of the current reporting period when compared to the prior reporting period, and resulted in a revaluation loss of $1.0 million and $8.6 million during the three months and nine months ended September 30, 2025, respectively. Additionally, during the three months ended September 30, 2025, the Company recorded a $1.5 million loss on the sale of a portion of the investment and a $0.3 million loss on the share exchange transaction. This excludes the impact of foreign currency recorded separately.

(d) The realized loss on marketable securities investments of $8,983 and $36,674 recorded during the three months and nine months ended September 30, 2025, respectively, was related to the sale of certain securities prior to the maturity date.

(e) The gain on foreign exchange during the nine months ended September 30, 2025 primarily related to the revaluation 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 $0.3 million represents the remeasurement of foreign currency transactions of the Company's non-U.S. subsidiary that remained outstanding as of the condensed consolidated balance sheet date. The loss on foreign exchange during the three months ended September 30, 2025 of $0.3 million was related to the remeasurement of foreign currency transactions of the Company's non-U.S. subsidiary that remained outstanding as of the condensed consolidated balance sheet date.

(f) The loss on debt settlement recorded during the nine months ended September 30, 2025 included a loss of $0.9 million related to the loan settlement agreement with YFE finalized in April 2025 and a loss of $0.3 million arising from the Section 3(a)(10) transaction completed during the period. The loss on debt settlement of $0.3 million recorded during the three months ended September 30, 2025 was related to the Section 3(a)(10) transaction completed during the period.

(g) Interest Income during the three months and nine months ended September 30, 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 ERTC receivable and interest income related to the shareholder loan. Each of these sources was individually immaterial.

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

(i) On April 1, 2025, a subsidiary, Beacon Communications Group, Ltd ("Beacon Communications"), 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 period ended September 30, 2025.

(l) During the nine months ended September 30, 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 $75,568 of other income, primarily consisting of late fees from select clients on payment plans and credit card rewards. For the three months ended September 30, 2025, other income primarily related to such late fees totaled $22,323.

Note 18: Income Taxes

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

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

For the nine months ended September 30, 2026, the effective tax rate was 6.3%. The effective tax rate differed from the U.S. federal statutory rate primarily due to the tax impact from the net gain from the litigation settlement, state income taxes, a foreign tax rate differential, the intangible asset impairment, and a change in valuation allowance. For the nine months ended September 30, 2025, the effective tax rate was 0.0%. The effective tax rate differed from the U.S. federal statutory rate primarily due to state income taxes, a foreign tax rate differential, and a change in valuation allowance.

During the nine months ended September 30, 2026, the Company recorded an income tax expense of $1.0 million. As of September 30, 2026 and December 31, 2025, net deferred tax liability was $1.1 million and $1.2 million, respectively.

Kartoon Studios, Inc. and its wholly-owned U.S. subsidiaries are subject to U.S. income taxes and file 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.

The Company files income tax returns in the U.S. federal jurisdiction and in the states of California, Florida, Massachusetts, New Jersey and 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.

Note 19: Commitments and Contingencies

The following is a schedule of future minimum cash contractual obligations as of September 30, 2026 (in thousands):

	2026	2027	2028	2029	2030	Thereafter	Total
Operating Leases	$ 387	$ 1,373	$ 1,020	$ 1,058	$ 1,084	$ 1,084	$ 6,006
Finance Leases	28	112	28	–	–	–	168
Employment Contracts	824	2,626	1,987	540	–	–	5,977
Consulting Contracts	841	1,829	–	–	–	–	2,670
Production Facilities	7,135	–	–	–	–	–	7,135
	$ 9,215	**$ 5,940**	**$ 3,035**	**$ 1,598**	**$ 1,084**	**$ 1,084**	**$ 21,956**

Leases

The present value discount of the minimum operating lease payments above was $1.3 million which when deducted from the cash commitments for the leases included in the table above, equates to the lease liabilities of $4.7 million recorded as of September 30, 2026 on the Company's condensed 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.

Consulting Contracts and Other Commitments

The Company also enters into consulting contracts, primarily for production-related work, that commit the Company to future payments for services to be rendered under the terms of each respective agreement. These commitments are not recorded as liabilities on the Company's condensed consolidated balance sheets until the related services are performed. The Company also 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 intellectual property, 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.

Note 20: Related Party Transactions

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 nine months ended September 30, 2026 and September 30, 2025, and recorded within Other Income (Expense), net in the Company's condensed consolidated statements of operations.

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 during the nine months ended September 30, 2026 and September 30, 2025, and was recorded within General and Administrative Expenses in the Company's condensed consolidated statements of operations.

On February 6, 2025, certain members of the Company's executive management team, including the Chief Operating Officer, established The Stan Lee Foundation (the "Foundation"), a nonprofit organization that was granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. The Foundation operates independently and is not owned, governed, or controlled by the Company. The Company has no ongoing funding commitment to the Foundation and retains no financial interest in its operations or assets. From the Foundation's inception on February 6, 2025 through September 30, 2026, the Company provided administrative support to the Foundation totaling approximately $805. The Company does not expect to provide material financial support to the Foundation in future periods. The Company may engage with the Foundation in connection with community and reputational initiatives. The Foundation is not consolidated in the Company's condensed consolidated financial statements. The administrative support provided is not considered material to the Company's condensed consolidated 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 provided that Mr. Heyward would receive an award of 2,000,000 RSUs under the 2020 Plan and would not be eligible to receive any other equity-based awards during the employment term. Subsequent to entering into the 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 as of September 30, 2026. No bonuses were earned or accrued under this agreement as of September 30, 2026.

On August 10, 2026, the Company amended the agreement. The amendment extended the term to four years from August 15, 2025, carried the 2025 bonus targets forward to 2026, with a revised net income threshold, removed the requirement that productions be fully financed by a third party, and removed the 52-episode annual cap. It also requires greenlight committee approval of all new productions.

Pursuant to the terms of the agreement, Mr. Heyward was entitled to an executive producer fee of $12,500 per episode for each episode he provides services as an executive producer. During the nine months ended September 30, 2026, Mr. Heyward earned and was paid $0.2 million in producer fees. During the nine months ended September 30, 2025, Mr. Heyward did not earn and 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 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 earnings within the Company's two operating segments (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	2026	2025
Total Revenues:				
Content Production and Distribution	$ 3,984	$ 8,965	$ 15,796	$ 27,039
Media Advisory and Advertising Services	1,379	912	2,626	2,621
Total Revenues	**$ 5,363**	**$ 9,877**	**$ 18,422**	**$ 29,660**
Net Income (Loss):				
Content Production and Distribution	$ (6,125)	$ (6,201)	$ 15,437	$ (17,732)
Media Advisory and Advertising Services	403	(369)	(539)	(1,527)
Total Net Income (Loss) Attributable to Kartoon Studios, Inc.	**$ (5,722)**	**$ (6,570)**	**$ 14,898**	**$ (19,259)**

Geographic Information

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	2026	2025
Total Revenues:				
United States	$ 2,519	$ 4,123	$ 9,146	$ 13,738
Canada	153	3,626	1,432	10,387
United Kingdom	2,657	2,091	7,753	5,421
Other	34	37	91	114
Total Revenues	**$ 5,363**	**$ 9,877**	**$ 18,422**	**$ 29,660**

Additional considerations include the use of segment-level budgets and forecasts created by Mainframe Studios, Frederator Studios 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, Mainframe Studios and Frederator Studios are each separate operating segments. Because these operating segments have similar economic characteristics and are similar in the nature of their products and services, production processes, types of customers and methods of distribution, the Company aggregates them into the Content Production and Distribution reportable segment in accordance with ASC 280-10-50-11.

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 (in thousands):

	Three Months Ended September 30, 2026		
	Content Production and Distribution	Media Advisory and Advertising	Total
Revenues	$ 3,984	$ 1,379	$ 5,363
Less Operating Expenses:			
Selling, Marketing and Direct Operating Costs	(3,037)	(51)	(3,088)
General and Administrative Expenses	(3,383)	(883)	(4,266)
Segment results:	**$ (2,436)**	**$ 445**	**$ (1,991)**
Reconciliation of net income (loss):			
Depreciation Expense	$ (591)	$ (44)	$ (635)
Interest Expense	(188)	–	(188)
Share-Based Compensation	(189)	–	(189)
Impairment of Intangible Assets	(897)	–	(897)
Loss on Deconsolidation	(302)	–	(302)
Income Tax Expense	(422)	–	(422)
Other	(1,126)	2	(1,124)
Net Loss Attributable to Non-Controlling Interests	26	–	26
Net Income (Loss)	**$ (6,125)**	**$ 403**	**$ (5,722)**

	Three Months Ended September 30, 2025		
	Content Production and Distribution	Media Advisory and Advertising	Total
Revenues	$ 8,965	$ 912	$ 9,877
Less Operating Expenses:			
Selling, Marketing and Direct Operating Costs	(7,030)	(101)	(7,131)
General and Administrative Expenses	(3,716)	(1,153)	(4,869)
Other Segment Expenses	–	–	–
Segment results:	**$ (1,781)**	**$ (342)**	**$ (2,123)**
Reconciliation of net income (loss):			
Depreciation Expense	$ (688)	$ (43)	$ (731)
Interest Expense	(157)	–	(157)
Share-Based Compensation	(42)	–	(42)
Other	(3,478)	16	(3,462)
Net Loss Attributable to Non-Controlling Interests	(55)	–	(55)
Net Income (Loss)	**$ (6,201)**	**$ (369)**	**$ (6,570)**

	Nine Months Ended September 30, 2026		
	Content Production and Distribution	Media Advisory and Advertising	Total
Revenues	$ 15,796	$ 2,626	$ 18,422
Less Operating Expenses:			
Selling, Marketing and Direct Operating Costs	(12,605)	(166)	(12,771)
General and Administrative Expenses	(9,117)	(2,916)	(12,033)
Segment results:	**$ (5,926)**	**$ (456)**	**$ (6,382)**
Reconciliation of net income (loss):			
Depreciation Expense	$ (1,942)	$ (131)	$ (2,073)
Interest Expense	(596)	–	(596)
Share-Based Compensation	(573)	–	(573)
Legal Settlement Income	39,238	–	39,238
Loss on Standstill Agreement	(4,000)	–	(4,000)
Impairment of Intangible Assets	(897)	–	(897)
Loss on Deconsolidation	(302)	–	(302)
Income Tax Expense	(995)	–	(995)
Other	(8,672)	48	(8,624)
Net Loss Attributable to Non-Controlling Interests	102	–	102
Net Income (Loss)	**$ 15,437**	**$ (539)**	**$ 14,898**

	Nine Months Ended September 30, 2025		
	Content Production and Distribution	Media Advisory and Advertising	Total
Revenues	$ 27,039	$ 2,621	$ 29,660
Less Operating Expenses:			
Selling, Marketing and Direct Operating Costs	(21,032)	(249)	(21,281)
General and Administrative Expenses	(11,566)	(3,671)	(15,237)
Other Segment Expenses	–	(8)	(8)
Segment results:	**$ (5,559)**	**$ (1,307)**	**$ (6,866)**
Reconciliation of net income (loss):			
Depreciation Expense	$ (2,012)	$ (134)	$ (2,146)
Interest Expense	(450)	–	(450)
Share-Based Compensation	(178)	–	(178)
Other	(9,647)	(86)	(9,733)
Net Loss Attributable to Non-Controlling Interests	114	–	114
Net Income (Loss)	**$ (17,732)**	**$ (1,527)**	**$ (19,259)**

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.

Sale of Frederator Networks, Inc.

Frederator Networks operated within the Company's Content Production and Distribution segment, and its operating results are included in income from continuing operations within that segment for all periods through July 8, 2026. As described in Note 1, *Organization and Business - Recent Transactions*, control of Frederator Networks transferred to the buyer on July 8, 2026. Accordingly, its results were excluded from the segment beginning in the third quarter of 2026. Accordingly, the Content Production and Distribution segment includes the results of Frederator Networks through July 8, 2026 and does not include any results of Frederator Networks from July 9 to September 30, 2026. Prior periods have not been recast.

The disposal did not represent a strategic shift that would have a major effect on the Company's operations or financial results and therefore did not meet the criteria for discontinued operations under ASC 205-20, *Presentation of Financial Statements Discontinued Operations*. Frederator Networks was, however, an individually significant component of the Company, and its sale affects the comparability of the segment's results between periods. Frederator Networks contributed no revenues or results to the Content Production and Distribution segment for the three months ended September 30, 2026. For the nine months ended September 30, 2026, the segment included revenues of $1.8 million and a pretax loss of $0.2 million of Frederator Networks.

Because the substantial majority of the revenues of Frederator Networks was paid to third-party channel owners and recognized as creator network channel expenses within direct operating costs, its contribution to the segment's results was significantly smaller than its contribution to the segment's revenues. A one-time loss on deconsolidation of $0.3 million, was recognized in the third quarter of 2026, which is not allocated to segment operating income in accordance with the Company's segment reporting policies.

Note 22: Subsequent Events

Amendment to the Company's 2020 Incentive Plan

On October 21, 2026, at the Company's 2026 Annual Meeting of Stockholders, the Company's stockholders approved Amendment No. 4 to the Company's 2020 Plan. The amendment increased the number of shares of common stock available for awards under the 2020 Plan by 4,000,000 shares.

Sponsorship of Special Purpose Acquisition Company

On October 15, 2026, Toon Acquisition Corp changed its name to Kartoon Studios Acquisition Corp ("KSAC").

On October 29, 2026, the Sponsor transferred 50,000 founder shares to each of KSAC's two independent director nominees, or 100,000 founder shares in the aggregate, and now holds 8,525,000 founder shares, up to 1,125,000 of which will be surrendered to KSAC for no consideration after the closing of IPO (as defined below) depending on the extent to which the underwriter's over-allotment option is exercised.

On November 5, 2026, KSAC publicly filed a Registration Statement on Form S-1 ("KSAC Registration Statement") with the SEC in connection with the proposed initial public offering (the "IPO") of its units. The offering registers 30,000,000 units at $10.00 per unit, or $300 million in the aggregate. Each unit consists of one Class A ordinary share and one redeemable warrant. Each warrant entitles the holder thereof to purchase one Class A ordinary share at a price of $11.50 per share, subject to adjustment. The underwriter of the IPO has a 45-day option from the date of this prospectus to purchase up to an additional 4,500,000 units to cover over-allotments, if any.

The Sponsor has committed to purchase 5,750,000 private placement warrants of KSAC, each exercisable to purchase one Class A ordinary share at $11.50 per share, at $1.00 per warrant, or $5.8 million in the aggregate (up to 6,312,500 warrants, or $6.3 million in the aggregate, if the over-allotment option is exercised in full), in a private placement which would close simultaneously with the closing of the proposed IPO. The Company expects to fund the Sponsor's purchase. The Company is not obligated to provide financing for KSAC's initial business combination.

As of November 5, 2026, the Company had incurred approximately $0.2 million of offering related and organizational expenses in connection with the Sponsor and KSAC. The registration statement is currently under SEC review. There can be no assurance that the IPO will be completed on the proposed terms or at all.

If the IPO is completed, the Company expects to continue to consolidate KSAC. The IPO proceeds of $10.00 per unit sold would be held in a trust account, the use of which would be restricted to funding redemptions of KSAC's public shares, and KSAC's initial business combination, and would not be available to fund the Company's operations. KSAC's Class A ordinary shares held by public shareholders would be presented as redeemable noncontrolling interests outside of permanent equity.

A registration statement, including a prospectus, which is preliminary and subject to completion, relating to the units of KSAC has been filed with the SEC but has not yet become effective. The units may not be sold nor may offers to buy be accepted prior to the time the KSAC Registration Statement becomes effective. This Quarterly Report on Form 10-Q shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the units in any state or jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of any such state or jurisdiction. When available, copies of the prospectus related to the proposed initial offering by KSAC may be obtained for free by visiting EDGAR on the SEC's website at www.sec.gov or by sending a written request to EF Hutton, 745 Fifth Avenue, 34th Floor & PH, New York, NY, 10151, Attention: Syndicate Department, or by emailing a request to syndicate@efhutton.com or by calling (212) 970-3700.

Withdrawal of Series A, Series B and Series C Preferred Stock Designations

On November 11, 2026, the Company's Board of Directors approved, by unanimous written consent, the withdrawal of the Certificates of Designation for the Company's Series A Convertible Preferred Stock, Series B Preferred Stock and Series C Preferred Stock. On November 13, 2026, the Company filed a Certificate of Withdrawal for each series with the Nevada Secretary of State. No shares of any of these series were issued or outstanding when they were withdrawn. When the certificates were filed, the designations were eliminated. The shares that had been designated as Series A, Series B and Series C preferred stock returned to the status of authorized but unissued and undesignated shares of the Company's preferred stock. The withdrawals had no effect on the Company's condensed consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide readers of our consolidated financial statements with the perspectives of management. This should allow the readers of this report to obtain an understanding of our businesses, strategies, current trends, and future prospects. It should be noted that the following MD&A contains forward-looking statements that involve risks and uncertainties. The following discussion and analysis of our results of operations, financial condition and liquidity and capital resources should be read in conjunction with our financial statements and related notes for the three and nine months ended September 30, 2026 and September 30, 2025.

Certain statements made or incorporated by reference in this report and our other filings with the Securities and Exchange Commission, in our press releases and in statements made by or with the approval of authorized personnel constitute forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and are subject to the safe harbor created thereby. Forward-looking statements reflect intent, belief, current expectations, estimates or projections about, among other things, our industry, management's beliefs, and future events and financial trends affecting us. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "may," "will" and variations of these words or similar expressions are intended to identify forward looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Although we believe the expectations reflected in any forward-looking statements are reasonable, such statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors. These differences can arise as a result of the risks described in the section entitled "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2025, which was filed with the SEC on March 31, 2026 (the "2025 Annual Report"), and elsewhere in this Report, as well as other factors that may affect our business, results of operations, or financial condition. Forward-looking statements in this report speak only as of the date hereof, and forward-looking statements in documents incorporated by reference speak only as of the date of those documents. Unless otherwise required by law, we undertake no obligation to publicly update or revise these forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, we cannot assure you that the forward-looking statements contained in this report will, in fact, transpire.

Overview

We are a global content and brand management company focused on the creation, production, licensing, and distribution of multimedia animated content for children.

Our 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.

Production Services

Animation Production Services: Our production services business is centered on delivering original and third-party commissioned animated content with a focus on production efficiency and scalability. Mainframe Studios, our primary production entity, is undertaking operational enhancements through the adoption of flexible production workflows, strategic outsourcing, and the integration of new technologies. These initiatives aim to optimize cost structures and streamline the production pipeline. To date, Mainframe has produced over 1,200 television episodes, 70 movies, and three feature films, including titles such as *Barbie Dreamhouse Adventures*, *Octonauts: Above & Beyond*, *Cocomelon*, *SuperKitties*, and *Unicorn Academy*, in partnership with leading global media companies. Mainframe Studios is currently engaged in the production of numerous owned IP and for-hire projects spanning a range of formats and target audiences, including *Phoebe & Jay, It's Andrew!,* and *SuperKitties*. This content is being produced for leading platforms and broadcasters such as Disney Junior, PBS Kids, Netflix, CBC, and the Australian Broadcasting Corporation, among others. These projects are at various stages of production and delivery, with certain titles completed during the prior year and others expected to be delivered through 2026.

During 2025, we entered into active development and production on *Hundred Acre Wood's: Winnie and Friends,* an animated franchise series inspired by *Winnie the Pooh* by A.A. Milne. Structured as a serialized short-form series, the production is engineered for broad multi-platform distribution across AVOD, FAST, SVOD, in-store, and international platforms. Developed as a cornerstone franchise for Kartoon Studios, the series features an original yarn-based animation style combining digital tools with handcrafted textures to create a warm, storybook aesthetic enhanced by music and dance. The franchise includes a multi-phase rollout, consisting of major holiday specials, including Christmas, Halloween, Thanksgiving, and Easter, and is supported by an integrated global consumer products program spanning toys, apparel, home goods, publishing, collectibles, and retail partnerships. The series is scheduled to premiere with preliminary activities in the fourth quarter of 2026, with a full launch across main distribution channels anticipated in the first quarter of 2027. For example, we have contracted with Amazon Prime Video ("Amazon") to stream the series beginning on February 18, 2027. Amazon will promote the series and its episodes through the use of *Hero Banners*, and Amazon's *Shop the Show* program will enable viewers to purchase products featuring the *Hundred Acre Wood's: Winnie and Friends* characters while streaming the series. In addition, we have contracted with Walmart Marketplace to offer consumer products from our licensees based on the series, including toys, books, apparel and other products, beginning on January 18, 2027, and we expect such products to be available on Walmart Marketplace concurrent with the release of the series.

Content Distribution

Film and Television Licensing: We recognize revenue by licensing rights to exploit functional IP (IP that has significant standalone functionality, such as the ability to be played or aired). Our content distribution strategy is focused on scaling audience reach and monetization across a network of branded destinations, including *Kartoon Channel!*, *Kartoon Channel! Worldwide*, and Ameba. We plan to grow revenue through expanded licensing activity and increased utilization of owned IP assets such as *Rainbow Rangers*, Stan Lee brands, *Shaq's Garage*, and many more. To support margin expansion, we are actively implementing AI-driven tools designed to reduce operating costs in areas such as localization and video resolution enhancement.

Advertising Revenue: We receive advertising revenue through our wholly-owned VOD services, *Kartoon Channel!,* and Ameba. Additionally, advertising revenue is derived from *Kartoon Channel!* branded channels on Free Ad Supported Streaming TV services and YouTube. On July 8, 2026, the Company sold its interest in Frederator Networks, Inc. In connection with such sale, the Company retained, through Frederator Studios, LLC, ownership of seven YouTube channels and their content, which Frederator Networks, Inc. administers and monetizes under the three-year Channel Distribution Agreement in exchange for a declining share of net channel receipts. For additional information, see Recent Events, *Sale of Frederator Networks, Inc.*

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 symbolic IP (IP 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, such as a brand or logo). We believe the licensing and royalties business presents the most significant long-term growth opportunity. Strategic emphasis is being placed on the commercialization of the Stan Lee intellectual property portfolio and the launch of the *Hundred Acre Wood's: Winnie and Friends* property, with a focus on both digital and physical consumer products, as well as location-based fan experiences. We intend to expand the use of our broader IP catalog in licensing programs in 2026 and beyond.

Media Advisory and Advertising Services

Beacon, our specialized media and marketing agency, provides media advisory and advertising consulting services to clients. Revenue is recognized when the services are performed or are paid through a monthly retainer. Our media advisory and advertising operations are structured to generate recurring and diversified revenue through a combination of retainer-based engagements and commission-driven media planning and buying. This blended revenue model affords client flexibility and supports margin optimization through efficient resource utilization. Beacon has continued to invest in higher-value service offerings, including influencer-driven marketing programs, data-informed media planning, and customized campaign development. These capabilities have increased the scope and duration of client engagements and strengthened customer retention. As these services scale, we expect to benefit from operating leverage, as incremental revenue can be generated with comparatively limited increases in fixed costs. The group continues to build upon its established presence in the toy industry while expanding into adjacent sectors, including family entertainment and travel.

Recent Events

Section 3(a)(10) Accounts Payable Settlement

On November 18, 2025, we entered into an agreement to engage in a transaction under Section 3(a)(10) of the Securities Act with CCI, to settle an additional $1.0 million of accounts payable in exchange for issuing 1,695,072 shares of common stock. Under the terms of the agreement, CCI made payments to our vendors in cash and, in exchange, we issued 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 settlement arrangement was carried out in stages and completed through the first quarter of 2026, settling a total of $1.0 million of accounts payable and issuing an aggregate of 1,695,072 shares of common stock to CCI. During the nine months ended September 30, 2026, we settled $0.6 million of accounts payable and issued an aggregate of 977,360 shares of common stock to CCI. During the nine months ended September 30, 2026, we 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 our condensed consolidated statements of operations.

On April 8, 2026, we entered into a new agreement to settle an aggregate of $1.1 million of outstanding accounts payable under Section 3(a)(10) of the Securities Act with CCI, in exchange for issuing 2,001,797 shares of common stock, and to settle an additional past obligations up to $0.3 million in exchange for issuing 551,250 shares of common stock. The terms were consistent with the November 2025 arrangement. The transaction was carried out in stages and completed as of June 30, 2026. During the nine months ended September 30, 2026, we recognized a loss of $0.6 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 our condensed consolidated statements of operations.

Section 16(b) Litigation Settlement

Between May 29, 2026 and June 11, 2026, we entered into settlement agreements with six defendants (the "Settling Parties") in the action styled *Todd Augenbaum v. Anson Investments Master Fund LP, et al., Case No. 1:22-cv-00249 (S.D.N.Y.)*, an action brought under Section 16(b) of the Securities Exchange Act of 1934 by a stockholder on behalf of and for our benefit, in which we were named only as a nominal defendant, seeking disgorgement of alleged short-swing profits realized by certain investors in the 2020 private placements. The Settling Parties agreed to pay aggregate settlement amounts of $78.5 million minus fees and expenses of plaintiff's counsel (in an amount not yet determined), subject to certain terms and conditions, and the parties agreed to mutual releases. Pursuant to the settlement agreements, 50% of each settlement amount, or $39.2 million in the aggregate, was paid directly to us during June 2026, and the remaining 50% was deposited into escrow to fund the court-awarded fees and expenses of plaintiff's counsel, with any residual balance payable to us after the applicable approval orders become final. We recognized the $39.2 million received as a non-recurring, non-operating gain, included in Other Income (Expense), net, on our condensed consolidated statements of operations for the nine months ended September 30, 2026. In connection with the settlement with the Anson Investments Master Fund LP and its affiliates (collectively, the "Anson Parties"), on June 10, 2026, we entered into a standstill and voting agreement with the Anson Parties, under which we agreed to pay the Anson Parties $4.0 million and the Anson Parties agreed to certain voting commitments and standstill restrictions through June 11, 2027. We recognized this amount as a non-operating loss, included in Other Income (Expense), net, on the condensed consolidated statements of operations for the nine months ended September 30, 2026. In accordance with ASC 450-30-25-1, any residual amounts distributable to us from escrow constitute a gain contingency and will be recognized if and when realized.

Adoption of Stockholder Rights Plan and Related Measures

On July 1, 2026, the Board of Directors adopted a Preferred Stock Rights Agreement (a stockholder rights plan), filed a related Certificate of Designation designating 300,000 shares of a new Series D Participating Preferred Stock, and adopted amendments to our Bylaws. The stockholder rights plan is intended as a protective measure to guard against coercive or unfair takeover tactics and the accumulation of a controlling interest in the Company without negotiation with the Company's Board. The Series D Participating Preferred Stock was designated solely to support the stockholder rights plan; no shares have been issued, and the rights issued under the plan become exercisable only upon the occurrence of certain triggering events. These actions did not affect our financial condition, results of operations or shares of common stock outstanding as of or for the period covered by this report. For additional information, see Note 13, *Stockholders' Equity,* to our condensed consolidated financial statements included in this report, Part II, Item 1A, *Risk Factors*, and our Form 8-K filed with the SEC on July 2, 2026, as amended on July 6, 2026, and our Registration Statement on Form 8-A filed on July 2, 2026.

Sale of Frederator Networks, Inc.

On July 8, 2026, we sold all of the issued and outstanding common stock of Frederator Networks, Inc. ("Frederator Networks"), which operated the Frederator Channel network business, to Project Robot LLC, an unaffiliated third party, pursuant to a stock purchase agreement dated June 18, 2026. We retained key intellectual property of Frederator Studios, LLC, a wholly owned subsidiary, including *Bee & PuppyCat, Bravest Warriors, Castlevania,* and *Catbug*, for distribution and product licensing opportunities. The transaction was part of our strategic realignment to focus on monetization of premium intellectual property and franchise development. Upon closing, we ceased to have a controlling financial interest in Frederator Networks. The base purchase price under the purchase agreement was $0.5 million in cash, subject to customary post-closing adjustments for net working capital, indebtedness, and cash and cash equivalents, on a cash-free, debt-free basis. We recognized a loss on disposal of approximately $0.3 million (before income taxes), representing the excess of Frederator Networks' net carrying amount over the estimated net consideration to be received. Management concluded that the disposition did not represent a strategic shift that has, or will have, a major effect on our operations or financial results, and accordingly, the transaction did not qualify for discontinued-operations presentation under ASC 205-20. In connection with the closing, Frederator Networks, Inc. and Project Robot LLC entered into a three-year Channel Distribution Agreement with Frederator Studios, LLC. Under this arrangement, Frederator Networks administers and monetizes seven YouTube channels owned by Frederator Studios, LLC. Frederator Studios, LLC receives 85% of the net channel receipts in the first year, 90% in the second year and 95% in the third year. Frederator Studios, LLC and Frederator Networks, Inc. each retain a 50% ownership interest in the *Frederator* trademark. Management does not believe this continuing involvement affects the conclusions described above.

Results of Operations

Net income for the nine months ended September 30, 2026 was $14.8 million, compared to a net loss of $19.4 million for the nine months ended September 30, 2025. The increase was primarily attributable to a non-recurring, non-operating gain of $39.2 million from the Section 16(b) litigation settlement received in June 2026. Excluding this one-time gain, we would have incurred a net loss from operations for the nine months ended September 30, 2026. As a result, period-over-period comparisons of net income are not indicative of underlying operational performance. For additional information regarding the settlement, see Recent Events *Section 16(b) Litigation Settlement*.

On July 8, 2026, we sold Frederator Networks, our YouTube multi-channel network business, which was part of our Content Production and Distribution segment. The results of Frederator Networks are included in our results through July 8, 2026. Frederator Networks generated revenues of $1.8 million (approximately $0.3 million per month) and a pretax loss of $0.2 million for the period from January 1, 2026 to July 8, 2026. As a result of the sale, Content Production and Distribution revenues for the three months ended September 30, 2026, did not include revenues of Frederator Networks, which were $1.3 million for the three months ended September 30, 2025. Frederator Networks earned YouTube advertising revenue from approximately 2,500 channels, predominantly owned by third-party creators, and paid the substantial majority of that revenue to the channel owners. These payments are recognized as creator network channel expenses within direct operating costs. We expect the sale to impact Content Production and Distribution revenues compared with prior-year periods, however, we also expect the reduction in revenues to be largely offset by a corresponding reduction in direct operating costs. For additional information regarding the Frederator Networks sale, see Recent Events *Sale of Frederator Networks, Inc.*

Our summary results for the three months ended September 30, 2026 and 2025 are below:

Revenue

	Three Months Ended September 30,			
	2026	**2025**	**Change**	**% Change**
	(in thousands, except percentages)			
Production Services	$ 3,340	$ 7,105	$ (3,765)	(53)%
Content Distribution	589	1,787	(1,198)	(67)%
Licensing and Royalties	55	73	(18)	(25)%
Media Advisory and Advertising Services	1,379	912	467	51 %
Total Revenue	**$ 5,363**	**$ 9,877**	**$ (4,514)**	**(46)%**

*Pro*duction Services

Production services revenue was generated specifically by Mainframe Studios providing animation production services. Revenue for production services is recognized over time on a percentage of completion basis, therefore, as the projects are still in progress, we recognize revenue based upon the proportion of costs incurred cumulatively to total expected costs. Consequently, less revenue is recognized during the periods in which the projects are near completion or completed. The production services revenue for the three months ended September 30, 2026 was 53% lower than the production services revenue recognized during the three months ended September 30, 2025. The decrease was primarily due to the stage of production of Mainframe Studios' projects. Because revenue is recognized as costs are incurred, it is concentrated in the main production phase of a project and declines as the project nears completion. During the three months ended September 30, 2026, projects in progress were largely in later production phases, while the prior year period benefited from multiple projects simultaneously in peak production. Higher concentration of production activity corresponded to higher revenue recognized under the percentage of completion method.

Content Distribution

Revenue related to content distribution on advertising-supported video on demand ("AVOD") and subscription video on demand ("SVOD"), including advertising sales for the three months ended September 30, 2026, decreased by 67% as compared to the three months ended September 30, 2025. The decrease of $1.2 million was due to an exclusion of Frederator's creator network revenue from YouTube by $1.3 million following the sale of Frederator Networks, Inc on July 8, 2026. Frederator Networks, Inc. results are not included in our consolidated results after that date. This was partially offset by an increase in sales activity resulting in higher subscription and advertising revenue of Ameba and Kartoon Channel divisions by $0.1 million.

Licensing and Royalties

Revenue related to our licensing and royalties for the three months ended September 30, 2026 decreased by 25% as compared to the three months ended September 30, 2025, primarily attributable to timing differences in revenue recognition from our existing license deals.

Media Advisory and Advertising Services

Revenue generated by media advisory and advertising services for the three months ended September 30, 2026 increased by 51% as compared to the three months ended September 30, 2025, primarily due to increased demand for our services from existing customers reflecting an expanded scope of campaigns during the period.

Expenses

	Three Months Ended September 30,			
	2026	**2025**	**Change**	**% Change**
	(in thousands, except percentages)			
Marketing and Sales	$ 121	$ 209	$ (88)	(42)%
Direct Operating Costs	2,966	6,922	(3,956)	(57)%
General and Administrative	5,091	5,642	(551)	(10)%
Impairment of Intangible Assets	897	–	897	100 %
Total Expenses	**$ 9,075**	**$ 12,773**	**$ (3,698)**	**(29)%**

Marketing and Sales

Marketing and sales expenses for the three months ended September 30, 2026 decreased by approximately 42% as compared to the three months ended September 30, 2025. The decrease of $0.1 million was primarily due to the sale of Frederator Networks, Inc. on July 8, 2026. After that date, its marketing and sales expenses are no longer included in our consolidated results. Marketing and sales expenses related to our other divisions remained largely consistent period-over-period, reflecting no significant changes in the Company's corporate awareness initiatives or advertising activities.

Direct Operating Costs

Direct operating costs during the three months ended September 30, 2026 consisted primarily of salaries and related expenses for the animation production services employees of Wow. Creator network channel expenses, licensing and production of content costs, such as participation expenses related to profit sharing obligations with various animation studios, post-production studios, writers, directors, musicians or other creative talent that had rendered services and amortization, including any write-downs of film and television costs, make up the remainder of direct operating costs. The 57% decrease was primarily due to lower salary costs by $2.7 million driven by a lower headcount in Production Services related to the delivered projects, that were in the advanced production stages in the prior year quarter compared to the current period, and a decrease of $1.3 million due to the sale of Frederator Networks, Inc. on July 8, 2026. After that date, its direct operating costs, which primarily included payments to creators, are no longer included in our consolidated results.

General and Administrative

The $0.6 million decrease in general and administrative expenses for the three months ended September 30, 2026, as compared to the three months ended September 30, 2025, was driven by a decrease of $0.6 million in salaries and wages primarily due to the capitalization of certain wages associated with a new film project and reduced headcount, and a decrease of $0.5 million in various administrative costs, mainly IT infrastructure and other equipment costs. The decrease was partially offset by an increase of $0.5 million in professional fees reflecting timing of professional services billing and timing of the annual shareholder meeting costs.

Impairment Charge

During the three months ended September 30, 2026, we identified lower projected revenue for the Wow business as a triggering event and performed an impairment assessment of our intangible assets, including our definite-lived intangible assets and our indefinite-lived intangible assets. Pursuant to *ASC 350-30, General Intangibles Other than Goodwil*l, indefinite-lived intangible assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate that it is more likely than not that an asset is impaired. Definite-lived intangible assets are evaluated for recoverability under ASC 360-10, *Property, Plant, and Equipment,* whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The impairment related to the Wow trade names, which are indefinite-lived intangible assets, and resulted from their estimated fair value, determined using the relief-from-royalty method, falling below their carrying amount, primarily due to lower projected revenue, identified as a triggering event. Based on this analysis, we recorded an impairment charge of $0.9 million, recognized as an impairment of intangible assets within operating expenses in the condensed consolidated statement of operations.

No impairment charges were recognized during the three months ended September 30, 2025.

On July 8, 2026, we completed the sale of Frederator Networks, Inc. We assessed the Frederator Networks, Inc. asset group for recoverability using the executed Stock Purchase Agreement price as the primary evidence of fair value and determined that any impairment indicated as of date of sale would be limited to the aggregate shortfall on the transaction of approximately $0.3 million. Because the sale closed on July 8, 2026, this shortfall was reflected in the loss on deconsolidation of Frederator recognized during the three months ended September 30, 2026.

Our summary results for the nine months ended September 30, 2026 and 2025 are below:

Revenue

	Nine Months Ended September 30,			
	2026	2025	Change	% Change
	(in thousands, except percentages)			
Production Services	$ 10,892	$ 21,036	$ (10,144)	(48)%
Content Distribution	4,715	5,760	(1,045)	(18)%
Licensing and Royalties	189	243	(54)	(22)%
Media Advisory and Advertising Services	2,626	2,621	5	– %
Total Revenue	**$ 18,422**	**$ 29,660**	**$ (11,238)**	**(38)%**

Production Services

Production services revenue was generated specifically by Mainframe Studios providing animation production services. Revenue for production services is recognized over time on a percentage of completion basis, therefore, as the projects are still in progress, we recognize revenue based upon the proportion of costs incurred cumulatively to total expected costs. Consequently, less revenue is recognized during the periods in which the projects are near completion or completed. The production services revenue for the nine months ended September 30, 2026 was 48% lower than the production services revenue recognized during the nine months ended September 30, 2025. The decrease was primarily due to the timing of production deliveries at Mainframe Studios, with several projects shifting from the first quarter into later periods in 2026, reducing the proportion of costs incurred relative to total estimated project costs. In contrast, the comparable prior year period benefited from multiple projects simultaneously entering advanced production phases, resulting in a higher concentration of production activity and correspondingly higher revenue recognized under the percentage of completion method.

Content Distribution

Revenue related to content distribution on advertising-supported video on demand ("AVOD") and subscription video on demand ("SVOD"), including advertising sales for the nine months ended September 30, 2026, decreased by 18% as compared to the nine months ended September 30, 2025. The decrease of $1.0 million was primarily due to an exclusion of Frederator's creator network revenue from YouTube by $2.6 million following the sale of Frederator Networks, Inc. on July 8, 2026. Frederator Networks, Inc. results are not included in our consolidated results after that date. This was partially offset by revenue recognized from the delivery of episodes of Mainframe's *It's Andrew!* IP Project and distribution revenue from other Mainframe IP of $1.2 million, an increase in sales activity of Ameba and Kartoon Channel divisions by $0.4 million.

Licensing and Royalties

Revenue related to our licensing and royalties for the nine months ended September 30, 2026 decreased by 22% as compared to the nine months ended September 30, 2025, primarily attributable to timing differences in revenue recognition from our existing license deals.

Media Advisory and Advertising Services

Revenue generated by media advisory and advertising services for the nine months ended September 30, 2026 was consistent with the revenue generated during the nine months ended September 30, 2025.

Expenses

	Nine Months Ended September 30,			
	2026	2025	Change	% Change
	(in thousands, except percentages)			
Marketing and Sales	$ 452	$ 562	$ (110)	(20)%
Direct Operating Costs	12,318	20,719	(8,401)	(41)%
General and Administrative	14,680	17,569	(2,889)	(16)%
Impairment of Intangible Assets	897	–	897	100 %
Total Expenses	**$ 28,347**	**$ 38,850**	**$ (10,503)**	**(27)%**

Marketing and Sales

Marketing and sales expenses for the nine months ended September 30, 2026 decreased by approximately 20% as compared to the nine months ended September 30, 2025. The decrease of $0.1 million was primarily due to the sale of Frederator Networks, Inc. on July 8, 2026. After that date, its marketing and sales expenses are no longer included in our consolidated results. Marketing and sales expenses related to our other divisions remained largely consistent period-over-period, reflecting no significant changes in the Company's corporate awareness initiatives or advertising activities.

Direct Operating Costs

Direct operating costs during the nine months ended September 30, 2026 consisted primarily of salaries and related expenses for the animation production services employees of Wow. Creator network channel expenses, licensing and production of content costs, such as participation expenses related to profit sharing obligations with various animation studios, post-production studios, writers, directors, musicians, or other creative talent that had rendered services, and amortization, including any write-downs of film and television costs, make up the remainder of direct operating costs. The 41% decrease was primarily due to lower salary costs of $9.0 million driven by a lower headcount in Production Services related to the delivered projects, that were in the advanced production stages in the prior year period compared to the current period, and a decrease of $0.4 million due to the sale of Frederator Networks, Inc. on July 8, 2026. After that date, its direct operating costs, which primarily included payments to creators, are no longer included in our consolidated results. The decrease in direct operating costs was partially offset by an increase of $0.5 million in film amortization expense and an increase of $0.4 million in participation expenses arising from new contractual agreements entered into during the period as well as existing agreements, consistent with the corresponding increase in owned-IP revenue. Additionally, $0.1 million in product development costs was not capitalized.

General and Administrative

The $2.9 million decrease in general and administrative expenses for the nine months ended September 30, 2026, as compared to the nine months ended September 30, 2025, was driven by a decrease of $1.8 million in salaries and wages primarily due to the capitalization of certain wages associated with a new film project and reduced headcount, a decrease of $0.8 million in various administrative costs, mainly IT infrastructure and other equipment costs, a decrease of $0.6 million in professional fees, reflecting reduced use of external consulting services and timing of the annual shareholder meeting costs, and a decrease of $0.1 million in amortization expense of *It's Andrew!* project. The decrease was partially offset by an increase of $0.4 million in share-based compensation expense due to new awards granted in recent periods.

Impairment Charge

During the nine months ended September 30, 2026, we identified lower projected revenue for the Wow business as a triggering event and performed an impairment assessment of our intangible assets, including our definite-lived intangible assets and our indefinite-lived intangible assets. Pursuant to *ASC 350-30, General Intangibles Other than Goodwil*l, indefinite-lived intangible assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate that it is more likely than not that an asset is impaired. Definite-lived intangible assets are evaluated for recoverability under ASC 360-10, *Property, Plant, and Equipment,* whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The impairment related to the Wow trade names, which are indefinite-lived intangible assets, and resulted from their estimated fair value, determined using the relief-from-royalty method, falling below their carrying amount, primarily due to lower projected revenue, identified as a triggering event. Based on this analysis, we recorded an impairment charge of $0.9 million, recognized as an impairment of intangible assets within operating expenses in the condensed consolidated statement of operations.

No impairment charges were recognized during the nine months ended September 30, 2025.

On July 8, 2026, we completed the sale of Frederator Networks, Inc. We assessed the Frederator Networks, Inc. asset group for recoverability using the executed Stock Purchase Agreement price as the primary evidence of fair value and determined that any impairment indicated as of date of sale would be limited to the aggregate shortfall on the transaction of approximately $0.3 million. Because the sale closed on July 8, 2026, this shortfall was reflected in the loss on deconsolidation of Frederator recognized during the nine months ended September 30, 2026.

Other Income (Expense), net

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	2026	2025
Interest Expense (a)	**$ (188)**	**$ (157)**	**$ (596)**	**$ (450)**
Other Income (Expense), net (b-l)				
Loss on Revaluation of Warrants (b)	–	–	–	(232)
Loss on Revaluation of Equity Investment in YFE (c)	(887)	(2,930)	(4,358)	(10,348)
Realized Gain (Loss) on Marketable Securities Investments (d)	22	(9)	22	(37)
Gain (Loss) on Foreign Exchange (e)	87	(279)	(697)	2,101
Loss on Debt Settlement (f)	–	(268)	(754)	(1,212)
Interest Income (g)	265	5	347	71
Finance Lease Interest Expense (h)	(3)	(6)	(11)	(17)
Gain on Lease Modification (i)	–	–	–	4
Legal Settlement Income (j)	–	–	39,238	–
Loss on Standstill Agreement (k)	–	–	(4,000)	–
Other (l)	(608)	25	(3,173)	(63)
Other Income (Expense), net	**$ (1,124)**	**$ (3,462)**	**$ 26,614**	**$ (9,733)**

Three Months and Nine Months Ended September 30, 2026

(a) Interest Expense during the three months and nine months ended September 30, 2026, primarily consisted of $0.2 million and $0.4 million in interest, respectively, incurred on production facilities and the factoring liability.

(b) For the three months and nine months ended September 30, 2026, the Company did not record any gain related to warrant revaluation.

(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 $0.9 million and $4.4 million for the three months and nine months ended September 30, 2026, 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 realized gain on marketable securities investments of $22,193 recorded during the three months and nine months ended September 30, 2026, was related to the sale of certain securities prior to the maturity date.

(e) The gain on foreign exchange during the three months ended September 30, 2026, primarily related to the remeasurement of foreign currency transactions of the Company's non-U.S. subsidiary, resulting in a gain of $0.1 million. The loss on foreign exchange during the nine months ended September 30, 2026, primarily related to the revaluation of the YFE investment, resulting in a loss of $0.2 million due to the Euro depreciating against the U.S. dollar as compared to prior period and a loss of $0.5 million due to the remeasurement of foreign currency transactions of the Company's non-U.S. subsidiary.

(f) The loss on debt settlement recorded during the nine months ended September 30, 2026, includes a loss $0.8 million, arising from the Section 3(a)(10) transaction completed during the period.

(g) Interest Income during the three months and nine months ended September 30, 2026, primarily consisted of income from investments in marketable securities.

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

(i) For the three months and nine months ended September 30, 2026, the Company did not record any gain related to lease modification.

(j) Between May 29, 2026 and June 11, 2026, the Company received aggregate cash of $39.2 million representing 50% of the court-approved settlement payments under the Section 16(b) litigation settlement agreements. For additional information, see Note 1, Organization and Business - Recent Transactions, to our condensed consolidated financial statements.

(k) In connection with the legal settlement with the Anson Investments Master Fund LP and its affiliates, on June 10, 2026, Kartoon Studios Inc. entered into a standstill and voting agreement with the Anson Parties, under which the Company agreed to pay the Anson Parties $4.0 million and the Anson Parties agreed to certain voting commitments and standstill restrictions through June 11, 2027. The amount was recognized as a non-operating loss for the nine months ended September 30, 2026. For additional information, see Note 1, *Organization and Business - Recent Transactions* to our condensed consolidated financial statements.

(l) During the three months ended September 30, 2026, the Company recorded other expense of $0.6 million primarily related to timing of accrued legal fees directly attributable to the legal settlement. During the nine months ended September 30, 2026, the Company recorded a loss of $3.2 million primarily related to legal fees directly attributable to the legal settlement.

Three Months and Nine Months Ended September 30, 2025

(a) Interest Expense during the three and nine months ended September 30, 2025 was $0.2 million and $0.5 million, respectively, primarily due to interest incurred on production facilities.

(b) The loss on revaluation of warrants during the nine months ended September 30, 2025 consisted of $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. These warrants were classified as a liability in the period ended March 31, 2025 and a change in their fair value resulted in a recorded gain due to a decrease of expiration period. In the period ended June 2025, warrants were reclassified to equity.

(c) As accounted for under the fair value option, the Company recognized losses in its Equity Investment in YFE of $2.9 million and $10.3 million during the three months and nine months ended September 30, 2025, respectively. The losses were primarily driven by decreases in YFE's stock price as of the current reporting period when compared to the prior reporting period, and resulted in a revaluation loss of $1.0 million and $8.6 million during the three months and nine months ended September 30, 2025, respectively. Additionally, during the three months ended September 30, 2025, the Company recorded a $1.5 million loss on the sale of a portion of the investment and a $0.3 million loss on the share exchange transaction. This excludes the impact of foreign currency recorded separately.

(d) The realized loss on marketable securities investments of $8,983 and $36,674 recorded during the three months and nine months ended September 30, 2025, respectively, was related to the sale of certain securities prior to the maturity date.

(e) The gain on foreign exchange during the nine months ended September 30, 2025 primarily related to the revaluation 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 $0.3 million represents the remeasurement of foreign currency transactions of the Company's non-U.S. subsidiary that remained outstanding as of the condensed consolidated balance sheet date. The loss on foreign exchange during the three months ended September 30, 2025 of $0.3 million was related to the remeasurement of foreign currency transactions of the Company's non-U.S. subsidiary that remained outstanding as of the condensed consolidated balance sheet date.

(f) The loss on debt settlement recorded during the nine months ended September 30, 2025 included a loss of $0.9 million related to the loan settlement agreement with YFE finalized in April 2025 and a loss of $0.3 million arising from the Section 3(a)(10) transaction completed during the period. The loss on debt settlement of $0.3 million recorded during the three months ended September 30, 2025 was related to the Section 3(a)(10) transaction completed during the period.

(g) Interest Income during the three months and nine months ended September 30, 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 ERTC receivable and interest income related to the shareholder loan. Each of these sources was individually immaterial.

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

(i) On April 1, 2025, a subsidiary, Beacon Communications Group, Ltd ("Beacon Communications"), 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 period ended September 30, 2025.

(l) During the nine months ended September 30, 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 $75,568 of other income, primarily consisting of late fees from select clients on payment plans and credit card rewards. For the three months ended September 30, 2025, other income primarily related to such late fees totaled $22,323.

Liquidity and Capital Resources

As of September 30, 2026, we had cash of $3.5 million (which does not include cash held in escrow from the Section 16(b) litigation settlement), which increased by $0.6 million as compared to December 31, 2025. The increase was primarily due to net cash provided by operating activities of $29.7 million, and the effect of exchange rate of $0.5 million, partially offset by cash used in investing activities of $25.4 million, and cash used in financing activities of $4.3 million. The cash provided by operating activities of $29.7 million was primarily due to net income of $14.8 million, a favorable impact of net change in non-cash adjustments of $14.3 million, and net cash sourced from operating assets and liabilities of $0.6 million. Net income was driven primarily by a non-recurring and non-operating cash receipt of $39.2 million representing 50% of the court-approved settlement payments under the Section 16(b) litigation settlement agreements. The cash used in investing activities of $25.4 million was primarily due to the investment of settlement proceeds in marketable securities of $34.2 million, and purchases of equipment of $0.1 million, offset by the proceeds received from the redemption and sales of marketable securities purchased in prior periods of $8.4 million and proceeds from a sale of subsidiary of $0.5 million. The cash used in financing activities of $4.3 million was primarily due to the net repayments of production facilities of $5.1 million, and finance lease payments of $0.1 million, partially offset by proceeds from a warrant exercise of $0.6 million, and drawdown from margin loan of $0.5 million.

During the nine months ended September 30, 2026, we received aggregate cash of $39.2 million representing 50% of the court-approved settlement payments under the Section 16(b) litigation settlement agreements. The Settling Parties agreed to pay us aggregate settlement amounts of $78.5 million minus fees and expenses of plaintiff's counsel (in an amount not yet determined), subject to certain terms and conditions, and the parties agreed to mutual releases. Pursuant to the settlement agreements, 50% of each settlement amount, or $39.2 million in the aggregate, was paid directly to us during June 2026, and the remaining 50% was deposited into escrow to fund the court-awarded fees and expenses of plaintiff's counsel, with any residual balance payable to us after the applicable approval orders become final. These receipts are non-recurring and non-operating in nature and do not represent a source of operating cash flow. We used a significant portion of these receipts to purchase $33.7 million of available-for-sale securities, primarily U.S. Treasury securities. As a result, the settlement receipts are reflected principally in the marketable securities balance rather than in the ending cash balance. We hold these securities as a source of liquidity and expect to draw on them to fund working capital and operating requirements. We have not received, and have not recognized, the portion of the settlement deposited into escrow. Any residual amounts distributable to us will become available as a source of liquidity if and when realized. On June 10, 2026, we entered into a standstill and voting agreement with the Anson Parties, under which we agreed to pay the Anson Parties $4.0 million for certain voting commitments and standstill restrictions through June 11, 2027.

On July 8, 2026, we sold our interest in Frederator Networks, Inc. for $0.5 million, subject to customary post-closing adjustments for net working capital, indebtedness, and cash and cash equivalents, on a cash-free, debt-free basis. Frederator Networks was not a material contributor to our consolidated operating cash flows, and the sale is not expected to have a material adverse effect on our liquidity. In connection with the sale, we entered into a three-year Channel Distribution Agreement under which we will receive a share of net YouTube receipts generated by certain retained channels. For additional information, see Recent Events - *Sale of Frederator Networks, Inc.*

As of September 30, 2026, we held available-for-sale marketable securities with a fair value of $29.5 million, compared to $4.0 million as of December 31, 2025, representing an increase of $25.5 million. The increase was primarily due to purchases of $33.7 million of securities funded by the proceeds received under the Section 16(b) litigation settlement, together with $0.5 million of securities purchased in May 2026, partially offset by $4.5 million of securities sold, $4.0 million of securities redeemed upon maturity, and an unrealized loss of $0.2 million during the nine months ended September 30, 2026. The available-for-sale securities consist principally of U.S. Treasury securities and are available as a source of liquidity.

Working Capital

As of September 30, 2026, we had total current assets of $54.6 million, including cash of $3.5 million, and marketable securities of $29.5 million, and our total current liabilities were $27.3 million. We had working capital of $27.3 million as of September 30, 2026 as compared to working capital of $2.3 million as of December 31, 2025. The increase of $25.0 million was due to an increase of $18.8 million in current assets and a decrease of $6.2 million in current liabilities compared to the balances as of December 31, 2025. The increase in current assets was primarily driven by an increase of $25.5 million in marketable securities investments due to investments of a portion of the cash proceeds from the settlement of the Section 16(b) litigation in the marketable securities, an increase of $0.6 million in cash primarily due to the remaining settlement proceeds not allocated to marketable securities, offset by a decrease of $5.8 million in production tax credit receivable due to lower activity related to the ongoing projects, a decrease of $1.1 million in accounts receivable related to the timing of contractual billing milestones in production projects, a decrease of $0.3 million related to derecognized current assets of Frederator Networks, Inc, and a decrease of $0.1 million in prepaid and other current assets. The decrease in current liabilities was primarily driven by a decrease of $5.1 million in production facilities due to lower activity related to production projects, a decrease of $1.6 million in deferred revenue related to revenue recognized under the percentage-of-completion method on production projects, a decrease of $0.6 million in accounts payable primarily within the Media Advisory and Advertising Services segment, driven by the seasonality of the business, as sales peak during the holiday season, a decrease of $0.1 million in accrued salaries due to lower headcount, and a decrease of $0.1 million in lease liabilities driven by the expiration of certain of the Company's lease agreements. This was partially offset by an increase of $0.4 million in the margin loan due to the timing of a drawdown and an increase of $0.9 million in accrued expenses related mainly to the timing of billings and insurance policy renewals.

During the nine months ended September 30, 2026, we met our immediate cash requirements through existing cash balances. We continue to navigate macroeconomic challenges in the animation and advertising industries, including ongoing government tariffs and intensified competition. In the prior periods, we have demonstrated resilience in our financing activities, having successfully raised net proceeds through public offerings, and continue to explore opportunities to further strengthen our financial position. In parallel, management also plans to preserve liquidity, as needed, by implementing cost saving measures. For example, during the nine months ended September 30, 2026, in order to improve liquidity, we settled approximately $1.7 million of outstanding accounts payable in transactions under Section 3(a)(10) of the Securities Act. Additionally, we also used equity and equity-linked instruments to pay for services and compensation.

During the nine months ended September 30, 2026, we received $39.2 million in direct cash proceeds from the settlement of the Section 16(b) litigation, which we have substantially deployed into available-for-sale marketable securities as a source of liquidity. Management has evaluated the significance of these conditions in relation to our ability to meet our obligations and noted that we have sufficient cash, marketable securities and investments to fund operations for the next 12 months from the issuance date of this 10-Q.

As of September 30, 2026, we had access to production facilities with an outstanding balance of $6.7 million. Our production facilities are generally repayable on demand and bear interest at rates ranging from bank prime plus 1.00% to 1.25% per annum. Borrowings under these facilities are collateralized by a security interest in substantially all of the relevant production company's tangible and intangible assets, including federal and provincial tax credits and production service agreements. We expect to continue utilizing production facilities to finance specific productions as projects advance through the production pipeline. For additional information regarding our production facilities, see Note 12, Bank Indebtedness and Production Facilities, to our condensed consolidated financial statements.

Comparison of Cash Flows for the Nine Months Ended September 30, 2026 and September 30, 2025

Our total cash as of September 30, 2026 and September 30, 2025 was $3.5 million and $1.4 million, respectively.

	Nine Months Ended September 30,		
	2026	2025	Change
		(in thousands)	
Net Cash Provided by (Used in) Operating Activities	$ 29,731	$ (11,787)	$ 41,518
Net Cash (Used in) Provided by Investing Activities	(25,410)	2,356	(27,766)
Net Cash (Used in) Provided by Financing Activities	(4,257)	2,821	(7,078)
Effect of Exchange Rate Changes on Cash	491	(345)	836
Increase (Decrease) in Cash	**$ 555**	**$ (6,955)**	**$ 7,510**

Change in Operating Activities

Change in operating activities of $41.5 million during the nine months ended September 30, 2026, as compared to the nine months ended September 30, 2025, include an increase in net income of $34.2 million driven primarily by the legal settlement cash receipts, an increase of $0.1 million in net non-cash expense adjustments, an increase of $4.9 million in cash flows from operating assets activity, and an increase of $2.3 million in cash flows from operating liabilities activity.

Items necessary to reconcile net loss to cash provided by operating activities included net non-cash expenses of $14.3 million for the nine months ended September 30, 2026 as compared to net non-cash expenses of $14.2 million for the nine months ended September 30, 2025. The increase of $0.1 million in non-cash expenses compared to prior year was primarily due to an increase of $1.9 million non-cash adjustment due to stock issued for services, an absence of significant foreign currency YFE investment remeasurement recorded in the nine months ended September 30, 2025 resulting in a $1.9 million change compared to the prior year, a noncash reduction of $1.0 million in accounts payable due to corresponding stock issuances to CCI, an impairment of intangible assets of $0.9 million recorded in the nine months ended September 30, 2026, an increase of $0.4 million in Film and Television amortization related to the projects delivered in prior year, an increase of $0.4 million in stock-based compensation expense due to new awards granted, loss of $0.3 million related to the sale of subsidiary recorded in the nine months ended September 30, 2026, and an increase of $0.1 million in non-cash interest expense related to the factoring liability. These movements were partially offset by a decrease of $4.2 million in expense related to fair value adjustment of YFE investment, absence of loss on partial disposal of the equity investment of $1.5 million recorded in the comparative period, a decrease of $0.5 million in loss on debt settlement related to the transaction under Section 3(a)(10) of the Securities Act of 1933, absence of loss on share exchange of $0.3 million recorded in the comparative period, absence of loss on warrant revaluation of $0.2 million recorded in the comparative period, and a decrease in realized loss on marketable securities of $0.1 million as compared to the prior year period.

Change in cash provided by operating activities also includes fluctuations in working capital, including movements in operating assets and liabilities. Working capital adjustments reflect timing differences between the recognition of revenues and expenses and the related cash receipts or payments. Operating asset and liability activities resulted in a net increase of $0.6 million in cash during the nine months ended September 30, 2026, as compared to a net decrease of $6.6 million in cash during the nine months ended September 30, 2025. The changes resulted in an increase in cash flows related to operating asset and liability of $7.2 million compared to prior year. This was primarily due to an increase in net cash flows generated by the operating assets activity by $4.9 million and an increase in net cash flows generated by the operating liabilities by $2.3 million.

Net cash flows generated by the operating assets activity by $4.9 million compared to the prior year period was due to higher net receipts of tax credits during the current period by $8.3 million, and less cash spent on prepaid services by $0.6 million as compared to the prior year period, partially offset by generally lower net receipts of outstanding accounts receivable by $2.2 million, higher capitalized costs related to ongoing productions by $1.6 million, and unfavorable impact of $0.2 million attributable to other receivables as compared to the prior year period. The increase in cash flows generated by the operating liabilities by $2.3 million was primarily due to generally less accounts payable settled in cash by $3.1 million, favorable impact of accrued participation costs movement of $0.4 million due to timing of payment obligations, and an increase of $0.4 million related to timing of Mainframe production costs accruals, partially offset by an unfavorable impact of lower media purchases accrued expenses of $0.2 million, an unfavorable impact of deferred revenue movement of $0.7 million representing revenue recognized related to cash received in advance in prior periods, an unfavorable impact of lower accrued salaries and wages costs of $0.6 million, and a higher payments related to lease liabilities by $0.1 million as compared to the prior year period.

Change in Investing Activities

The cash used in investing activities increased by $27.8 million, primarily due to an increase of $32.5 million in investments in the marketable securities, mainly from cash received from the legal settlement, and absence of proceeds of $0.4 million from repayment of the related party loan received in prior year, partially offset by an increase in proceeds from the redemption and sales of marketable securities of $4.6 million, and proceeds of $0.5 million from the sale of the subsidiary during the nine months ended September 30, 2026.

Change in Financing Activities

The decrease in cash provided by financing activities of $7.1 million was primarily due to lower net proceeds from borrowing from production facilities and margin loan of $6.6 million during the nine months ended September 30, 2026 as compared to the nine months ended September 30, 2025, absence of proceeds of $0.8 million from sale of equity investment recorded in the prior period, and absence of proceeds of $0.5 million related to the factoring transaction recorded in the prior period. This was partially offset by the proceeds from warrants exercise of $0.6 million, and lower finance leases payments by $0.2 million.

Material Cash Requirements

We have entered into arrangements that contractually obligate us to make payments that will affect our liquidity and cash flows in future periods. Our material cash requirements from known contractual and other obligations primarily relate to our debt and lease obligations and our employment and consulting contracts. The aggregate amount of future minimum purchase obligations under these agreements over the period of next five years is approximately $22.0 million as of September 30, 2026, of which $9.2 million could be owed within one year. Included in the amount that could be due within one year is the production facilities balance of $6.7 million.

In addition, we expect to incur additional production costs in connection with the development and launch of *Hundred Acre Wood's: Winnie and Friends*, which is scheduled to premiere with preliminary activities in the fourth quarter of 2026 and a full launch anticipated in the first quarter of 2027. We expect to fund these production costs through a combination of existing cash and marketable securities, production facilities, and potential licensing and distribution advances.

On November 5, 2026, Kartoon Studios Acquisition Corp ("KSAC"), a corporation organized as a special purpose acquisition company, filed a registration statement on Form S-1 with the SEC for a proposed $300 million initial public offering (the "IPO"). Our wholly owned subsidiary, Toon Acquisition LLC (the "Sponsor"), is the sponsor of KSAC, and we funded the Sponsor's initial investment in KSAC. If the IPO is completed, we expect to fund the purchase by the Sponsor of $5.8 million of KSAC's private placement warrants (up to $6.3 million if the underwriter's over-allotment option is exercised in full) from existing cash and marketable securities. These funds would be used by KSAC and would not be available for our operations. We are not obligated to provide further financing to KSAC, and there can be no assurance that the IPO will be completed. See Note 22, *Subsequent Events* for additional details.

As of September 30, 2026, we had $0.2 million in commitments for capital expenditures, related to equipment leases.

Critical Accounting Policies and Estimates

The preparation of the financial statements and related disclosures in conformity with U.S. generally accepted accounting principles and our discussion and analysis of our financial condition and operating results require our management to make judgments, assumptions and estimates that affect the amounts reported. Management bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates, and such differences may be material.

Note 2, "Summary of Significant Accounting Policies" in Part I, Item 1 of this Form 10-Q and in the Notes to Consolidated Financial Statements in Part II, Item 8 of our 2025 Annual Report and "Critical Accounting Policies and Estimates" in Part II, Item 7 of the 2025 Annual Report describe the significant accounting policies and methods used in the preparation of our condensed consolidated financial statements.

Off Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As a "smaller reporting company", as defined by Item 10 of Regulation S-K, we are not required to provide information required by this Item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosures. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation, as of the end of the period covered by this report, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal controls over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2026 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations over Internal Controls

Control systems, no matter how well-conceived and operated, are designed to provide a reasonable, but not an absolute, level of assurance that the objectives of the control system are met. Furthermore, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements resulting from error or fraud may occur and not be detected. The Company conducts periodic evaluations of its internal controls to enhance, where necessary, its procedures and controls.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

As of September 30, 2026, 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. Each of the proceedings described below was previously reported in Part I, Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2025, filed with the SEC on March 31, 2026 (the "2025 Annual Report"), and in Part II, Item 1 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2026 (the "Q2 2026 Form 10-Q"), which descriptions are incorporated herein by reference. The following summarizes material developments during the quarter ended September 30, 2026.

Securities Litigation:

As previously reported, the Company and its Chief Executive Officer Andy Heyward are defendants in a putative securities class action pending in the U.S. District Court for the Central District of California, styled In re Genius Brands International, Inc. Securities Litigation, Master File No. 2:20-cv-07457 DSF (RAOx). Plaintiffs seek unspecified damages on behalf of a putative class of persons who invested in the Company's common stock during the alleged class period. Following the District Court's February 4, 2025 and August 5, 2025 orders, a single alleged misstatement under Plaintiffs' Third Amended Complaint remains at issue in the case. The alleged misstatement appeared in a press release issued March 17, 2020, and was repeated in a shareholder letter issued March 20, 2020. It 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 statement was false and was issued with an intent to deceive investors. Defendants have denied and continue to deny any wrongdoing.

As previously reported, the parties mediated the dispute, together with the shareholder derivative actions referenced below, before Phillips ADR in December 2024. The case did not settle during the mediation. In light of the District Court's February 4, 2025 order, the mediator reached out to the parties to determine whether there is a basis now to resolve the dispute. The mediator has not reported back concerning his discussions with Plaintiffs' counsel. The Company 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 the related shareholder derivative litigation on terms acceptable to the parties. The Company cannot predict the outcome of the securities class action.

At the status conference held January 12, 2026, the Court referred the case to Magistrate Judge Oliver to resolve questions about the scope of discovery and concerning proposals by Defendants to streamline the Defendants' formal Answer to the Third Amended Complaint, in both cases to focus on the small portion of the Third Amended Complaint remaining. Since that time, the parties have served discovery demands and responses, and Judge Oliver has resolved a number of discovery disputes in a manner that has limited the scope of discovery being sought by Plaintiffs. Additionally, Plaintiffs designated a few dozen paragraphs of their Third Amended Complaint that they felt should be formally answered by Defendants, and Defendants have filed their Answer. Discovery is ongoing, with both parties having substantially completed their document productions. On July 17, 2026, the parties submitted a further status report to Magistrate Judge Oliver advising on the status of document productions and raising a discovery dispute, which Magistrate Judge Oliver resolved by order issued July 20, 2026. The Court has not issued a scheduling order.

Shareholder Derivative Actions:

There have been no material developments during the quarter in the previously reported shareholder derivative actions, including Cohen v. Heyward, et al., Case No. A-25-929617-C (District Court of Clark County, Nevada). The Company is named only as a nominal defendant, and the plaintiffs seek no recovery from the Company. All of the derivative actions remain stayed, or are expected to be stayed, pending the outcome of the securities class action, whose outcome, and therefore the outcome of the derivative actions, the Company cannot predict.

Section 16(b) Litigation:

As previously reported, the Company is a nominal defendant in Todd Augenbaum v. Anson Investments Master Fund LP, et al., Case No. 1:22-cv-00249 AS (S.D.N.Y.), an action brought under Section 16(b) of the Exchange Act by a stockholder on behalf and for the benefit of the Company. The action seeks disgorgement of alleged short-swing profits realized by certain investors in the Company's 2020 private placements. No Company officer or director is among the defendants. The plaintiff seeks no relief from the Company, and the Company stands to receive any recovery obtained in the action.

Settlements with six of the eight defendants. As previously reported in the Q2 2026 Form 10-Q, between May 29, 2026 and June 11, 2026, the Company and plaintiff's counsel entered into settlement agreements with six of the eight defendants, resolving the plaintiff's claims against those defendants subject to the terms and conditions of the settlement agreements. The Settling Parties agreed to pay aggregate settlement amounts of approximately $78.5 million (gross of plaintiff's counsel's fees and expenses, which have not yet been awarded), and the parties agreed to mutual releases. The Settling Parties also waived any indemnity claims against the Company relating to the action. Fifty percent of each settlement amount, or $39.2 million in the aggregate, was paid directly to the Company during June 2026. The remaining fifty percent was deposited into escrow to fund the court-awarded fees and expenses of plaintiff's counsel, with any residual balance payable to the Company after the applicable approval orders become final. Plaintiff's application for attorneys' fees and expenses is expected to occur in the coming months. In connection with the settlement with the Anson Parties, on June 10, 2026, the Company entered into a standstill and voting agreement under which the Company agreed to pay the Anson Parties $4.0 million. This amount was paid in July 2026. For the accounting treatment of the settlement receipts, the escrowed balance, and the standstill and voting agreement, see Note 1 and Note 2 to the condensed consolidated financial statements.

Trial as to the non-settling defendants. As previously reported in the Q2 2026 Form 10-Q, the Court held trial beginning June 8, 2026 and concluding June 18, 2026, after which the jury returned a verdict in favor of the two non-settling defendants and awarded no damages. Following the verdict, plaintiff's counsel filed a motion for judgment as a matter of law and, in the alternative, for a new trial. If the motions are denied, the Company anticipates the plaintiff will appeal to the United States Court of Appeals for the Second Circuit. Should the Court of Appeals rule in the plaintiff's favor, the Company may have an opportunity to recover funds from the non-settling defendants, whether through a judgment as a matter of law or a favorable verdict in a second trial. If the jury verdict is instead upheld, the case will conclude with no further damages awarded. The Company cannot predict the outcome of the pending motions, any future appeal, or a potential second trial.

As previously reported in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2026 and the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2026, one of the non-settling defendants, Empery Asset Management and affiliated entities, filed an action against the Company styled *Empery Asset Master Ltd., et al. v. Kartoon Studios, Inc., Index No. 650906/2026* (Supreme Court of the State of New York, New York County). The action alleges breach of contract and seeks declaratory relief in connection with the Company's denial of their indemnification demands, with damages of approximately $3.5 million plus a declaration that the Company is obliged to advance their defense expenses on an ongoing basis. Following the parties' stipulation, the federal court entered an order on May 13, 2026 remanding the action to state court. On June 22, 2026, Empery filed an amended complaint adding the second non-settling defendant, Brio Capital Master Fund Ltd. and an affiliated entity, as additional plaintiffs and asserting damages of over $10 million. The Company filed its answer responding to the amended complaint on July 28, 2026. Subsequent to quarter end, on October 13, 2026, the state court granted the Company's motion to dismiss the amended complaint, ruling that the Company is not obligated to cover the legal fees that Empery and Brio incurred in defending the Augenbaum action. The plaintiffs may appeal the decision. The Company denies all liability.

As previously reported, the Company's indemnification matter with its placement agent, Special Equities Group ("SEG"), arising from a non-party subpoena in the Augenbaum litigation, was resolved by an amicable agreement between the parties. The Company's agreements with SEG differ in nature from those at issue in the Empery litigation and have no bearing on the outcome of the claims in that litigation. There were no further developments during the quarter.

In all of the aforementioned active proceedings, the Company has denied and continues to deny any allegations of wrongdoing directed against it. The Company intends to defend the claims asserted against it vigorously. The Company maintains a program of directors' and officers' liability insurance, which, subject to the insurers' reservations of rights, has to this point offset a substantial portion of the costs incurred in defending the Securities Litigation and the Shareholder Derivative Actions, as well as the Augenbaum lawsuit.

Item 1A. Risk Factors

Except as set forth below, there have been no material changes to the Risk Factors set forth in our 2025 Annual Report.

We have incurred net losses from operations since inception.

We have a history of operating losses and incurred net operating losses in each fiscal quarter since our inception. During the three months ended September 30, 2026, we generated total revenues of $5.4 million and incurred a net loss from operations of $3.7 million, while for the same period the previous year, we generated total revenue of $9.9 million and incurred a net loss from operations of $2.9 million. These operating losses, among other things, have had an adverse effect on our results of operations, financial condition, stockholders' equity, net current assets and working capital. Although we have net income for the nine months ended September 30, 2026, the net income is not derived from operations and is instead attributed to non-recurring and non-operating cash receipt of $39.2 million from the court approved cash settlement received by us.

We will need to generate additional revenue and/or reduce costs to achieve profitability. We are generating revenues derived from our existing properties, properties in production, and new brands being introduced into the marketplace. However, the ability to sustain these revenues and generate significant additional revenues and reduce our expenses or achieve profitability will depend upon numerous factors some of which are outside of our control.

Changes in U.S. trade policy, including current and proposed tariffs on foreign-produced content, could adversely impact our business operations, particularly due to our reliance on animation production services based in Canada and Asia.

The U.S. government has indicated its intent to adopt, and in certain cases has implemented, a new approach to trade policy and in some cases to renegotiate, or potentially terminate, certain existing bilateral or multilateral trade agreements. It has initiated or is considering the imposition of tariffs on certain foreign goods. Changes in U.S. trade policy could result in one or more U.S. trading partners adopting responsive trade policies, making it more difficult or costly for us to conduct our international and domestic operations. In May 2025, President Trump announced an intention to impose tariffs on films made outside of the United States, which he reiterated in September 2025 and again in January 2026. Although we are headquartered in the United States, our primary animation production operations are located in Canada. To date, no formal executive order or implementing regulations specific to filmed or animated content have been issued, and the scope and extent of any such proposed measures remain undefined.

The broader legal landscape governing U.S. tariff authority has continued to evolve materially. In February 2026, the U.S. Supreme Court held in Learning Resources, Inc. v. Trump that the International Emergency Economic Powers Act does not authorize the President to impose tariffs, invalidating a broad set of tariffs that had been imposed under that authority. Following the ruling, the administration imposed a temporary 10% global tariff under Section 122 of the Trade Act of 1974, which expired in July 2026 in accordance with that statute's 150-day limit. In parallel, the Office of the U.S. Trade Representative initiated investigations under Section 301 of the Trade Act of 1974 covering a substantial number of U.S. trading partners and, following one such investigation, imposed additional tariffs of 10% or 12.5%, effective July 24, 2026, on goods from approximately 60 trading partners, including Canada, reflecting the administration's stated intent to reestablish broad-based tariff measures under alternative statutory authorities. Those Section 301 tariffs are the subject of pending litigation in the U.S. Court of International Trade. In addition, a World Trade Organization moratorium on customs duties applicable to electronic transmissions, which had previously served as a potential constraint on the imposition of tariffs on digitally distributed content, expired in March 2026. The United States-Mexico-Canada Agreement (the "USMCA") prohibits customs duties on digital products transmitted electronically between the parties. At the USMCA's first joint review, held on July 1, 2026, the United States did not confirm that it wishes to extend the agreement's term. As a result, the USMCA, which remains in effect, is now subject to annual joint reviews and will expire in July 2036 unless the parties agree to extend it. In October 2026, USTR requested public comment in advance of the 2027 joint review. Any renegotiation or modification of that agreement's digital trade provisions, or any withdrawal by the United States from the agreement, could reduce or eliminate one of the remaining legal constraints on the imposition of duties on content produced by our Canadian operations. The full implications of these developments for the potential imposition of tariffs or fees on filmed or animated content remain uncertain.

There is a risk that tariff measures could be extended to include animated content produced internationally. Our business operations, financial condition, and results of operations could be significantly affected by such measures, as well as by the potential expansion of existing tariffs or the implementation of new tariffs, trade restrictions, or retaliatory measures by other countries that could disrupt our established operations. This in turn could require us to increase prices to our customers, which may reduce demand, or, if we are unable to increase prices, result in lower profit margins on certain services.

We cannot predict future trade policy or the terms of any renegotiated trade agreements and their impact on our business. The adoption and expansion of trade restrictions, the occurrence of a trade war, or other governmental action related to tariffs or trade agreements or policies has the potential to adversely impact demand for our services, our costs, our customers, our suppliers, and the U.S. economy, which in turn could adversely impact our business, financial condition, and results of operations.

We are subject to laws governing children's privacy and online safety, including the FTC's amended COPPA rule, which became fully enforceable in April 2026, and compliance requires ongoing operational measures.

Our digital distribution properties, including Kartoon Channel!, are directed to children, and we are subject to the Children's Online Privacy Protection Act (COPPA) and the FTC's implementing rule, which govern the online collection, use, disclosure, and retention of personal information from children under the age of 13. In April 2025, the FTC published significant amendments to the COPPA Rule, and operators were required to be in full compliance by April 22, 2026. Among other changes, the amended rule expanded the definition of personal information to include biometric identifiers, requires separate verifiable parental consent before disclosing children's personal information to third parties for purposes not integral to our service (including targeted advertising and training artificial intelligence technologies), and requires operators to maintain a written information security program and data retention policy applicable to children's personal information.

Because a portion of our revenue is derived from advertising on child-directed services, these requirements, particularly the separate consent requirement for third-party advertising disclosures, affect how we and our advertising partners may collect and use viewer data. Compliance involves ongoing operational, contractual, and technological measures, including monitoring third-party vendors' use of data collected through our services. In addition, a growing number of states have enacted laws imposing further restrictions on the processing of minors' personal information, and additional federal and state rulemaking, including with respect to age verification, remains under active consideration. The FTC has also stated that it intends to propose further amendments to the COPPA rule addressing age verification.

We implemented the changes intended to comply with the amended rule by the required date, and doing so has not to date had a material effect on our operations or advertising-supported revenue. However, because these requirements are not uniform across jurisdictions and continue to evolve, compliance with the most restrictive applicable standard could increase our costs or constrain our advertising-supported revenue model in the future. Failure to comply with COPPA or analogous state laws could result in investigations, enforcement actions, civil penalties, and reputational harm with parents, distributors, and advertisers, any of which could adversely affect our business, financial condition, and results of operations.

Our sponsorship of a special purpose acquisition company exposes us to risks, including the potential loss of our investment, diversion of management's attention and potential conflicts of interest.

Our wholly owned subsidiary, Toon Acquisition LLC, is the sponsor of KSAC, a special purpose acquisition company incorporated in the Cayman Islands, and we funded the Sponsor's initial investment in KSAC. On November 5, 2026, KSAC filed a registration statement on Form S-1 with the SEC for a proposed $300.0 million IPO. If the IPO is completed, we expect to fund the purchase by the Sponsor of $5.8 million of KSAC's private placement warrants (up to $6.3 million if the underwriter's over-allotment option is exercised in full) from existing cash and marketable securities. These funds would be used by KSAC and would not be available for our operations. The IPO is subject to market and other conditions, and there can be no assurance that it will be completed. If the IPO is not completed, we will not recover the offering-related and organizational expenses we have incurred in connection with the Sponsor and KSAC.

If the IPO is completed, KSAC will have a limited period, to complete an initial business combination. If KSAC does not complete a business combination within that period, the founder shares and private placement warrants held by the Sponsor are expected to expire worthless, and we would lose the entire amount of our investment in KSAC. Even if KSAC completes a business combination, the value of the Sponsor's interest in the combined company will depend on the performance of the target business and the trading price of its securities, which may be volatile and could decline significantly. Although we are not obligated to provide further financing to KSAC, we may elect to fund extension payments, working capital loans or other costs, which would further reduce the cash available for our operations.

Several members of our management team will also serve as officers or directors of KSAC. These individuals will owe fiduciary duties to KSAC and its shareholders, and their involvement with KSAC may divert their time and attention from our business. In addition, conflicts of interest may arise in determining whether a business opportunity should be presented to us or to KSAC, and in connection with any business combination, extension or financing involving KSAC. Our involvement with KSAC may also affect our consolidated financial statements, including as a result of changes in the consolidation or accounting treatment of KSAC following the IPO, and could subject us to litigation, regulatory scrutiny or reputational harm relating to KSAC's activities or any business combination it completes. Any of these risks could adversely affect our business, financial condition and results of operations.

The loss of one or a few significant customers could have a material adverse effect on us.

A small number of customers have in the past, and may in the future, account for a significant portion of our revenues in any one year or over a period of several consecutive years. During the three months ended September 30, 2026, two customers each accounted for more than 10% of our total consolidated revenue. These customers accounted for an aggregate of 60.3% of our total revenue for the three months ended September 30, 2026. During the nine months ended September 30, 2026, two customers each accounted for more than 10% of our total consolidated revenue. These customers accounted for an aggregate of 54.9% of our total revenue for the nine months ended September 30, 2026. As of September 30, 2026, we had three customers, the accounts receivable for each of which exceeded 10% of the total accounts receivable. These customers accounted for an aggregate of 76.2% of the total accounts receivable as of September 30, 2026. The loss of business from a significant customer could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Offers or availability for sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.

If our stockholders sell substantial amounts of our common stock in the public market or upon shares issued upon the exercise of outstanding options or warrants, it could create a circumstance commonly referred to as an "overhang" and, in anticipation of which, the market price of our common stock could fall. The existence of an overhang, whether or not sales have occurred or are occurring, also could make more difficult our ability to raise additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

As of November 16, 2026, approximately 59,937,805 shares of common stock of the 62,447,886 shares of common stock issued are outstanding and freely trading. As of September 30, 2026, there were 38,960,004 warrants outstanding. Lastly, as of September 30, 2026, there are 839,998 shares of common stock underlying outstanding options granted, 2,573,644 shares of common stock underlying outstanding restricted stock units ("RSUs") and 5,043,762 shares reserved for issuance under our Kartoon Studios, Inc. 2020 Incentive Plan.

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

Our Articles of Incorporation, as amended (our "Articles of Incorporation"), authorize us to issue up to 10,000,000 shares of blank check preferred stock without seeking approval of our shareholders. As of November 16, 2026, 300,000 shares were designated as Series D Participating Preferred Stock, none of which have been issued. Any preferred stock that we issue in the future may rank ahead of our common stock in terms of dividend priority or liquidation premiums and may have greater voting rights than our common stock. In addition, such preferred stock may contain provisions allowing those shares to be converted into shares of common stock, which could dilute the value of common stock to current stockholders and could adversely affect the market price, if any, of our common stock. In addition, the preferred stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of our company. Although we have no present intention to issue any additional shares of authorized preferred stock, other than shares of Series D Participating Preferred Stock that may become issuable upon exercise of the rights issued under our stockholder rights plan, there can be no assurance that we will not do so in the future.

Our stockholder rights plan and provisions of our amended Bylaws and Nevada law could discourage, delay or prevent a change in control and may adversely affect the market price of our common stock.

On July 1, 2026, our Board of Directors adopted a limited duration stockholder rights plan (the "Rights Agreement") and adopted amendments to our Bylaws. Under the Rights Agreement, if a person or group acquires beneficial ownership of 10% or more of our outstanding common stock (including through certain derivative arrangements) without the approval of our Board, the rights held by that person or group would become void and each other holder of a right would become entitled to purchase, at the then-current exercise price, shares of our common stock having a market value of twice the exercise price, resulting in significant dilution to the acquiring person or group. The rights will expire on June 29, 2027, unless earlier redeemed or exchanged by our Board. In connection with the Rights Agreement, on July 1, 2026 our Board also designated 300,000 shares of Series D Participating Preferred Stock. In addition, the amendments to our Bylaws adopted on July 1, 2026, among other things, divide our Board into two classes with staggered terms, eliminate the ability of stockholders to act by written consent, provide that special meetings of stockholders may be called only by the Board, establish advance notice procedures for stockholder nominations and proposals, require a two-thirds supermajority stockholder vote to remove a director, and designate an exclusive forum for certain disputes. We are also subject to provisions of Nevada law that may have anti-takeover effects.

These provisions, alone or in combination, could make it more difficult for a third party to acquire us, or for our stockholders to change the composition of our Board, even in a transaction that some or all of our stockholders might consider to be in their best interests or in which our stockholders might receive a premium over the then-current market price of our common stock. As a result, these provisions could limit the price that investors are willing to pay in the future for shares of our common stock and could adversely affect the market price of our common stock and the ability of our stockholders to realize a premium for their shares.

Actions of activist stockholders could be disruptive and costly and could adversely affect our results of operations, financial condition, and/or share price.

While we strive to maintain constructive communications with our stockholders, we may, from time to time, be subject to demands from activist stockholders. Any activist campaign against the Company that contests, conflicts with, or seeks to change, our board composition, leadership, strategic direction, or business mix could have an adverse effect on us because: (i) responding to actions by activist stockholders could disrupt our operations, be costly or time-consuming, or divert the attention of our board of directors and senior management from their regular duties, including diverting their attention from the operation of our business and the execution of our strategic plans, which could adversely affect our results of operations or financial condition; (ii) perceived uncertainties as to our future direction, including as a result of possible changes to the composition of our board, may lead to the perception of a change in the direction of the business or lack of continuity, any of which may be exploited by our competitors, cause concern to our customers, employees, and/or business partners and result in the loss of potential business opportunities, or make it more difficult to attract and retain qualified personnel and business partners, and may adversely affect our relationships with vendors, customers, business partners, and other third parties; (iii) these types of actions could cause significant fluctuations in our share price based on temporary or speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business; and (iv) if individuals are elected to our board of directors with a specific agenda, it may adversely affect our ability to effectively implement our business strategy and create additional value for our stockholders.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended September 30, 2026, the Company did not make any unregistered sales of equity securities that were not disclosed in SEC filings.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

(a) Disclosure in Lieu of Current Report on Form 8-K

Amendment to the Rights Plan

On November 12, 2026, the Company, entered into Amendment No. 1 to Rights Agreement ("Amendment No. 1"), by and between the Company and VStock Transfer, LLC, a California limited liability company, as rights agent (the "Rights Agent"), which amends the Rights Agreement.

Amendment No. 1 amends Exhibit C (Form of Summary of Rights) attached to the Rights Agreement to conform the summary description of the Series D Participating Preferred Stock to the terms and provisions set forth in the Company's existing Certificate of Designation of Series D Participating Preferred Stock on file with the Secretary of State of the State of Nevada. Specifically, Amendment No. 1 updates the summary description in Exhibit C to clarify that, in the event of liquidation, dissolution, or winding up of the Company, holders of Series D Participating Preferred Stock will be entitled to a minimum preferential liquidation payment of $1.00 per share (plus accrued and unpaid dividends) or, if greater, an aggregate payment per share equal to 1,000 times the payment made per share of Common Stock, thereby aligning the summary narrative with the $1.00 per share baseline liquidation floor established in the Certificate of Designation.

Except as expressly amended by Amendment No. 1, the Rights Agreement remains in full force and effect. The foregoing description of Amendment No. 1 does not purport to be complete and is qualified in its entirety by reference to the full text of Amendment No. 1, a copy of which is filed as Exhibit 4.2 to this Quarterly Report on Form 10-Q and is incorporated herein by reference.

Withdrawal of Series A, Series B and Series C Preferred Stock Designations

On November 12, 2026, the Company's Board of Directors approved, by unanimous written consent, the withdrawal of the Certificates of Designation for the Company's Series A Convertible Preferred Stock, Series B Preferred Stock and Series C Preferred Stock. On November 12, 2026, the Company filed a Certificate of Withdrawal for each series with the Nevada Secretary of State. No shares of any of these series were issued or outstanding when they were withdrawn. When the certificates were filed, the designations were eliminated. The shares that had been designated as Series A, Series B and Series C preferred stock returned to the status of authorized but unissued and undesignated shares of the Company's preferred stock. The withdrawals had no effect on the Company's condensed consolidated financial statements.

(b) Rule 10b5-1 Trading Plans

During the quarter ended September 30, 2026, none of the Company's directors or officers adopted, modified or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement (each as defined in Item 408 of Regulation S-K).

Item 6. Exhibits

EXHIBIT INDEX

3.1	Articles of Incorporation of the Company, as amended (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K, filed with the SEC on March 31, 2021)
3.2	Certificate of Change to the Articles of Incorporation of the Company, filed with the Secretary of State of the State of Nevada on February 9, 2023 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on February 10, 2023)
3.3	Bylaws of the Company, as amended (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q, filed with the SEC on August 19, 2019)
3.4	Amended and Restated Certificate of Designations, Preferences and Rights of the 0% Series A Convertible Preferred Stock, filed with the Secretary of State of Nevada on November 21, 2019 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on November 21, 2019)
3.5	Certificate of Designation of Series B Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on April 12, 2022)
3.6	Articles of Merger of Kartoon Studios, Inc. into the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 27, 2023).
3.7	Certificate of Designation of Series C Preferred Stock of the Company, dated September 25, 2023 (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form 8-A, filed on September 25, 2023)
3.8	First Amendment to the Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed on September 25, 2023)
3.9	Certificate of Change to the Articles of Incorporation of the Company, filed with the Secretary of State of the State of Nevada on November 9, 2023 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on November 14, 2023)
3.10	Amendment to Bylaws (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on July 2, 2026, Accession No. 0001683168-26-005250)
3.11	Certificate of Designation of Series D Participating Preferred Stock of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on July 2, 2026, Accession No. 0001683168-26-005235)
3.12*	Certificate of Withdrawal of Certificate of Designation of Series A Preferred Stock
3.13*	Certificate of Withdrawal of Certificate of Designation of Series B Preferred Stock
3.14*	Certificate of Withdrawal of Certificate of Designation of Series C Preferred Stock
4.1	Preferred Stock Rights Agreement (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on July 2, 2026, Accession No. 0001683168-26-005235)
4.2*	Amendment No. 1 to Rights Agreement
10.1†#	Form of Indemnification Agreement between the Company and each of its directors and executive officers (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on July 2, 2026, Accession No. 0001683168-26-005250)
10.2†	First Amendment to Heyward Employment Agreement dated as of August 10, 2026 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q, filed with the SEC on August 14, 2026)
10.3†	First Amendment to Jaffa Employment Agreement dated as of August 10, 2026 (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q, filed with the SEC on August 14, 2026)
10.4†	First Amendment to Parisi Employment Agreement dated as of August 10, 2026 (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q, filed with the SEC on August 14, 2026)
10.5†	Amendment No. 4 to the Kartoon Studios, Inc. 2020 Incentive Plan, effective October 21, 2026 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on October 27, 2026)
31.1*	Section 302 Certification of Chief Executive Officer
31.2*	Section 302 Certification of Chief Financial Officer
32.1**	Section 906 Certification of Chief Executive Officer
32.2**	Section 906 Certification of Chief Financial Officer
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted in inline XBRL and included in exhibit 101).

* Filed herewith.
** Furnished herewith.
† Management contract or compensatory plan or arrangement.

SIGNATURES

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

Kartoon Studios, Inc.

November 16, 2026 By: /s/ Andy Heyward
Andy Heyward
Chief Executive Officer (Principal Executive Officer)

November 16, 2026 By: /s/ Brian Parisi
Brian Parisi
Chief Financial Officer (Principal Financial and Accounting Officer)

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FRANCISCO V. AGUILAR
Secretary of State
401 North Carson Street
Carson City, Nevada 89701-4201
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Website: www.nvsos.gov

Certificate, Amendment or Withdrawal of Designation

NRS 78.1955, 78.1955(6)

☐ **Certificate of Designation**
Certificate of Amendment to Designation - Before Issuance of Class or Series
☐ **Certificate of Amendment to Designation - After Issuance of Class or Series**
☒ **Certificate of Withdrawal of Certificate of Designation**

TYPE OR PRINT - USE DARK INK ONLY - DO NOT HIGHLIGHT

1. Entity information:	Name of entity: KARTOON STUDIOS, INC. Entity or Nevada Business Identification Number (NVID): NV20111597664
2. Effective date and time:	For Certificate of Designation or Amendment to Designation Only (Optional): Date: Time: (must not be later than 90 days after the certificate is filed)
3. Class or series of stock: (Certificate of Designation only)	The class or series of stock being designated within this filing:
4. Information for amendment of class or series of stock:	The original class or series of stock being amended within this filing:
5. Amendment of class or series of stock:	Certificate of Amendment to Designation- Before Issuance of Class or Series As of the date of this certificate no shares of the class or series of stock have been issued.
	Certificate of Amendment to Designation- After Issuance of Class or Series The amendment has been approved by the vote of stockholders holding shares in the corporation entitling them to exercise a majority of the voting power, or such greater proportion of the voting power as may be required by the articles of incorporation or the certificate of designation.
6. Resolution: Certificate of Designation and Amendment to Designation only)	By resolution of the board of directors pursuant to a provision in the articles of incorporation this certificate establishes OR amends the following regarding the voting powers, designations, preferences, limitations, restrictions and relative rights of the following class or series of stock.*
7. Withdrawal:	Designation being Withdrawn: Series A Convertible Preferred Stock; Date of Designation: 05/14/2014, as amended on 11/21/2019 No shares of the class or series of stock being withdrawn are outstanding. The resolution of the board of directors authorizing the withdrawal of the certificate of designation establishing the class or series of stock: * See Attached Exhibit A
8. Signature: (Required)	X Signed by: Michael Jaffa D08EF542366B48D... Signature of Officer Date: 11/11/2026

* Attach additional page(s) if necessary
This form must be accompanied by appropriate fees.

Page 1 of 1
Revised: 8/1/2023

EXHIBIT A

UNANIMOUS WRITTEN CONSENT TO ACTION WITHOUT MEETING
OF
THE BOARD OF DIRECTORS OF
KARTOON STUDIOS, INC.

Pursuant to Section 78.315 of the Nevada Revised Statutes (the "NRS"), which authorizes the taking of action by the unanimous written consent of the Board of Directors of a Nevada corporation, without a meeting, the undersigned, being all of the members of the Board of Directors (the "Directors" or the "Board") of Kartoon Studios, Inc., a Nevada corporation (the "Company"), hereby acknowledge the following statements, give their unanimous written consent and take the following actions pursuant to this unanimous written consent to action without meeting (the "Consent"):

Withdrawal of the Series A Convertible Preferred Stock Designation

WHEREAS, there are no shares of the Company's Series A Convertible Preferred Stock issued or outstanding (the "Series A Preferred");

WHEREAS, the Series A Preferred were established by the filing of a Certificate of Designation with the Secretary of State of Nevada on May 14, 2014, as amended on November 21, 2019 (the "Series A Designation"); and

WHEREAS, the Board believes that it is in the best interests of the Company to authorize and approve the filing of a Certificate of Withdrawal with the Secretary of State of Nevada to affect the withdrawal and termination of the Series A Designation (the "Series A Certificate of Withdrawal").

NOW THEREFORE BE IT RESOLVED THAT, the withdrawal of the Series A Designation and the filing of the Series A Certificate of Withdrawal with the Secretary of State of Nevada, are hereby approved, confirmed, ratified, and acknowledged by the Board; and it is further

RESOLVED, that each officer of the Company be and hereby is authorized, empowered, and directed to execute and deliver, in the name of and on behalf of the Company, any and all documents, and to perform any and all acts necessary to reflect the Directors' approval and ratification of the resolutions set forth above; and it is further

RESOLVED, that this Consent may be executed in one or more counterparts, each of which will be deemed to be an original, but all of which taken together will constitute one and the same instrument. Any electronic signature of a signatory to this Consent is intended to authenticate such writing and shall be as valid, and have the same force and effect as a manual signature.

IN WITNESS WHEREOF, the undersigned, being all of the members of the Board of Directors of Kartoon Studios, Inc., do hereby execute this consent the 11th day of November 2026, to be effective as of the same date.

DIRECTORS:

/s/Andy Heyward
Andy Heyward
Director

/s/ Joseph “Gray Davis
Joseph “Gray” Davis
Director

/s/ David Neuman
David Neuman
Director

/s/ Jeffrey Schlesinger
Jeffrey Schlesinger
Director

/s/ Anthony Thomopoulos
Anthony Thomopoulos
Director

/s/ Dr. Cynthia Turner-Graham
Dr. Cynthia Turner-Graham
Director

Docusign Envelope ID: AE02D6B8-00A4-88B6-824A-4C8013F89F69

FRANCISCO V. AGUILAR
Secretary of State
401 North Carson Street
Carson City, Nevada 89701-4201
(775) 684-5708
Website: www.nvsos.gov

Certificate, Amendment or Withdrawal of Designation

NRS 78.1955, 78.1955(6)

☐ Certificate of Designation
Certificate of Amendment to Designation - Before Issuance of Class or Series
☐ Certificate of Amendment to Designation - After Issuance of Class or Series
☒ Certificate of Withdrawal of Certificate of Designation

TYPE OR PRINT - USE DARK INK ONLY - DO NOT HIGHLIGHT

1. Entity information:	Name of entity: KARTOON STUDIOS, INC. Entity or Nevada Business Identification Number (NVID): NV20111597664
2. Effective date and time:	For Certificate of Designation or Amendment to Designation Only (Optional): Date: Time: (must not be later than 90 days after the certificate is filed)
3. Class or series of stock: (Certificate of Designation only)	The class or series of stock being designated within this filing:
4. Information for amendment of class or series of stock:	The original class or series of stock being amended within this filing:
5. Amendment of class or series of stock:	Certificate of Amendment to Designation- Before Issuance of Class or Series As of the date of this certificate no shares of the class or series of stock have been issued. Certificate of Amendment to Designation- After Issuance of Class or Series The amendment has been approved by the vote of stockholders holding shares in the corporation entitling them to exercise a majority of the voting power, or such greater proportion of the voting power as may be required by the articles of incorporation or the certificate of designation.
6. Resolution: Certificate of Designation and Amendment to Designation only)	By resolution of the board of directors pursuant to a provision in the articles of incorporation this certificate establishes OR amends the following regarding the voting powers, designations, preferences, limitations, restrictions and relative rights of the following class or series of stock.*
7. Withdrawal:	Designation being Withdrawn: Series B Preferred Stock Date of Designation: 03/25/2022 No shares of the class or series of stock being withdrawn are outstanding. The resolution of the board of directors authorizing the withdrawal of the certificate of designation establishing the class or series of stock: * See Attached Exhibit A
8. Signature: (Required)	Signed by: X Michael Jaffa Date: 11/11/2026 Signature of Officer

* Attach additional page(s) if necessary
This form must be accompanied by appropriate fees.

Page 1 of 1
Revised: 8/1/2023

EXHIBIT A

UNANIMOUS WRITTEN CONSENT TO ACTION WITHOUT MEETING
OF
THE BOARD OF DIRECTORS OF
KARTOON STUDIOS, INC.

Pursuant to Section 78.315 of the Nevada Revised Statutes (the "NRS"), which authorizes the taking of action by the unanimous written consent of the Board of Directors of a Nevada corporation, without a meeting, the undersigned, being all of the members of the Board of Directors (the "Directors" or the "Board") of Kartoon Studios, Inc., a Nevada corporation (the "Company"), hereby acknowledge the following statements, give their unanimous written consent and take the following actions pursuant to this unanimous written consent to action without meeting (the "Consent"):

Withdrawal of the Series B Preferred Stock Designation

WHEREAS, there are no shares of the Company's Series B Preferred Stock issued or outstanding (the "Series B Preferred");

WHEREAS, the Series B Preferred were established by the filing of a Certificate of Designation with the Secretary of State of Nevada on March 25, 2022 (the "Series B Designation"); and

WHEREAS, the Board believes that it is in the best interests of the Company to authorize and approve the filing of a Certificate of Withdrawal with the Secretary of State of Nevada to affect the withdrawal and termination of the Series B Designation (the "Series B Certificate of Withdrawal").

NOW THEREFORE BE IT RESOLVED THAT, the withdrawal of the Series B Designation and the filing of the Series B Certificate of Withdrawal with the Secretary of State of Nevada, are hereby approved, confirmed, ratified, and acknowledged by the Board; and it is further

RESOLVED, that each officer of the Company be and hereby is authorized, empowered, and directed to execute and deliver, in the name of and on behalf of the Company, any and all documents, and to perform any and all acts necessary to reflect the Directors' approval and ratification of the resolutions set forth above; and it is further

RESOLVED, that this Consent may be executed in one or more counterparts, each of which will be deemed to be an original, but all of which taken together will constitute one and the same instrument. Any electronic signature of a signatory to this Consent is intended to authenticate such writing and shall be as valid, and have the same force and effect as a manual signature.

IN WITNESS WHEREOF, the undersigned, being all of the members of the Board of Directors of Kartoon Studios, Inc., do hereby execute this consent the 11th day of November 2026, to be effective as of the same date.

DIRECTORS:

/s/Andy Heyward
Andy Heyward
Director

/s/ Joseph “Gray Davis
Joseph “Gray” Davis
Director

/s/ David Neuman
David Neuman
Director

/s/ Jeffrey Schlesinger
Jeffrey Schlesinger
Director

/s/ Anthony Thomopoulos
Anthony Thomopoulos
Director

/s/ Dr. Cynthia Turner-Graham
Dr. Cynthia Turner-Graham
Director

Docusign Envelope ID: AE02D6B8-00A4-88B6-824A-4C8013F89F69

FRANCISCO V. AGUILAR
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(775) 684-5708
Website: www.nvsos.gov

Certificate, Amendment or Withdrawal of Designation

NRS 78.1955, 78.1955(6)

☐ Certificate of Designation
Certificate of Amendment to Designation - Before Issuance of Class or Series
☐ Certificate of Amendment to Designation - After Issuance of Class or Series
☒ Certificate of Withdrawal of Certificate of Designation

TYPE OR PRINT - USE DARK INK ONLY - DO NOT HIGHLIGHT

1. Entity information:	Name of entity: KARTOON STUDIOS, INC. Entity or Nevada Business Identification Number (NVID): NV20111597664
2. Effective date and time:	For Certificate of Designation or Amendment to Designation Only (Optional): Date: Time: (must not be later than 90 days after the certificate is filed)
3. Class or series of stock: (Certificate of Designation only)	The class or series of stock being designated within this filing:
4. Information for amendment of class or series of stock:	The original class or series of stock being amended within this filing:
5. Amendment of class or series of stock:	Certificate of Amendment to Designation- Before Issuance of Class or Series As of the date of this certificate no shares of the class or series of stock have been issued.
	Certificate of Amendment to Designation- After Issuance of Class or Series The amendment has been approved by the vote of stockholders holding shares in the corporation entitling them to exercise a majority of the voting power, or such greater proportion of the voting power as may be required by the articles of incorporation or the certificate of designation.
6. Resolution: Certificate of Designation and Amendment to Designation only)	By resolution of the board of directors pursuant to a provision in the articles of incorporation this certificate establishes OR amends the following regarding the voting powers, designations, preferences, limitations, restrictions and relative rights of the following class or series of stock.*
7. Withdrawal:	Designation being Withdrawn: Series C Preferred Stock Date of Designation: 09/25/2023 No shares of the class or series of stock being withdrawn are outstanding. The resolution of the board of directors authorizing the withdrawal of the certificate of designation establishing the class or series of stock: * See Attached Exhibit A
8. Signature: (Required)	X Signed by: Michael Jaffa 209EF5AF3C9F4B0... Signature of Officer Date: 11/11/2026

* Attach additional page(s) if necessary
This form must be accompanied by appropriate fees.

Page 1 of 1
Revised: 8/1/2023

EXHIBIT A

UNANIMOUS WRITTEN CONSENT TO ACTION WITHOUT MEETING
OF
THE BOARD OF DIRECTORS OF
KARTOON STUDIOS, INC.

Pursuant to Section 78.315 of the Nevada Revised Statutes (the "NRS"), which authorizes the taking of action by the unanimous written consent of the Board of Directors of a Nevada corporation, without a meeting, the undersigned, being all of the members of the Board of Directors (the "Directors" or the "Board") of Kartoon Studios, Inc., a Nevada corporation (the "Company"), hereby acknowledge the following statements, give their unanimous written consent and take the following actions pursuant to this unanimous written consent to action without meeting (the "Consent"):

Withdrawal of the Series C Preferred Stock Designation

WHEREAS, there are no shares of the Company's Series C Preferred Stock issued or outstanding (the "Series C Preferred");

WHEREAS, the Series C Preferred were established by the filing of a Certificate of Designation with the Secretary of State of Nevada on September 25, 2023 (the "Series C Designation"); and

WHEREAS, the Board believes that it is in the best interests of the Company to authorize and approve the filing of a Certificate of Withdrawal with the Secretary of State of Nevada to affect the withdrawal and termination of the Series C Designation (the "Series C Certificate of Withdrawal").

NOW THEREFORE BE IT RESOLVED THAT, the withdrawal of the Series C Designation and the filing of the Series C Certificate of Withdrawal with the Secretary of State of Nevada, are hereby approved, confirmed, ratified, and acknowledged by the Board; and it is further

RESOLVED, that each officer of the Company be and hereby is authorized, empowered, and directed to execute and deliver, in the name of and on behalf of the Company, any and all documents, and to perform any and all acts necessary to reflect the Directors' approval and ratification of the resolutions set forth above; and it is further

RESOLVED, that this Consent may be executed in one or more counterparts, each of which will be deemed to be an original, but all of which taken together will constitute one and the same instrument. Any electronic signature of a signatory to this Consent is intended to authenticate such writing and shall be as valid, and have the same force and effect as a manual signature.

IN WITNESS WHEREOF, the undersigned, being all of the members of the Board of Directors of Kartoon Studios, Inc., do hereby execute this consent the 11th day of November 2026, to be effective as of the same date.

DIRECTORS:

/s/Andy Heyward
Andy Heyward
Director

/s/ Joseph “Gray Davis
Joseph “Gray” Davis
Director

/s/ David Neuman
David Neuman
Director

/s/ Jeffrey Schlesinger
Jeffrey Schlesinger
Director

/s/ Anthony Thomopoulos
Anthony Thomopoulos
Director

/s/ Dr. Cynthia Turner-Graham
Dr. Cynthia Turner-Graham
Director

EXHIBIT 4.2

AMENDMENT NO. 1 TO RIGHTS AGREEMENT

This Amendment No. 1, dated as of November 12, 2026 (this "**Amendment**"), amends that certain Rights Agreement, dated as of July 1, 2026 (the "**Rights Agreement**"), by and between Kartoon Studios, Inc., a Nevada corporation (the "**Company**"), and VStock Transfer, LLC, a California limited liability company (the "**Rights Agent**"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Rights Agreement.

WHEREAS, the Company and the Rights Agent have executed and entered into the Rights Agreement;

WHEREAS, Section 27 of the Rights Agreement provides, among other things, that, for so long as the Rights are then redeemable, the Company may, in its sole and absolute discretion, and the Rights Agent shall, if the Company so directs, supplement or amend any provision of the Rights Agreement in any respect without the approval of any holders of Rights or Common Shares, and the Rights Agent shall, if the Company so directs, execute such supplement or amendment;

WHEREAS, to the knowledge of the Company, as of the date hereof, the Rights are still redeemable;

WHEREAS, the Board of Directors of the Company has (i) deemed it advisable and in the best interests of the Company and its stockholders to amend the Rights Agreement as set forth herein; (ii) approved this Amendment; and (iii) authorized the proper officers of the Company to execute and deliver the same to the Rights Agent;

WHEREAS, pursuant to and in accordance with Section 27 of the Rights Agreement, the Company desires to amend the Rights Agreement as set forth below.

NOW, THEREFORE, in consideration of the premises set forth above, the parties hereto, intending to be legally bound hereby, agree as follows

1. Amendment to Exhibit C. The last paragraph on the second page of Exhibit C to the Rights Agreement shall be replaced in its entirety with the following:
"Each share of Series D Preferred Stock purchasable upon exercise of the Rights will be entitled, when, as, and if declared, to a minimum preferential quarterly dividend payment of $1.00 per share or, if greater, an aggregate dividend equal to 1,000 times the dividend declared per share of Common Stock. In the event of liquidation, dissolution, or winding up of the Company, holders of Series D Preferred Stock will be entitled to a minimum preferential liquidation payment of $1.00 per share (plus accrued and unpaid dividends) or, if greater, an aggregate payment per share equal to 1,000 times the payment made per share of Common Stock. Each share of Series D Preferred Stock will carry 1,000 votes, voting together as a single class with holders of Common Stock on all matters. In any merger, consolidation, or other transaction in which Common Stock is exchanged, each share of Series D Preferred Stock will be entitled to receive 1,000 times the consideration paid per share of Common Stock. Shares of Series D Preferred Stock are non-redeemable and protected by customary anti-dilution adjustments. Because of these economic and voting features, the value of one one-thousandth of a share of Series D Preferred Stock purchasable upon exercise of each Right is intended to approximate the value of one share of Common Stock."

2. Governing Law. This Amendment shall be deemed to be a contract made under the laws of the State of Nevada and for all purposes shall be governed by and construed in accordance with the laws of such State applicable to contracts to be made and performed entirely within such State, without giving effect to the choice of law or conflict of law principles thereof or of any other jurisdiction to the extent that such principles would require or permit the application of the laws of another jurisdiction.

3. Severability. If any term, provision, covenant, or restriction of this Amendment, or the application thereof to any circumstance, is held by a court of competent jurisdiction or other authority to be invalid, null, void, or unenforceable, the remainder of the terms, provisions, covenants, and restrictions of this Amendment shall remain in full force and effect and shall in no way be affected, impaired, or invalidated.

4. Ratification; Full Force and Effect. Except as expressly set forth in this Amendment, the Rights Agreement shall not otherwise be supplemented or amended by virtue of this Amendment and shall remain in full force and effect and otherwise shall be unaffected by virtue of this Amendment, and the Rights Agreement, as amended hereby, is hereby ratified and confirmed in all respects.

5. Counterparts; Electronic Signatures. This Amendment may be executed in any number of counterparts, and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument. A signature to this Amendment executed and/or transmitted electronically shall have the same authority, effect, and enforceability as an original signature.

6. Effectiveness. This Amendment shall be effective as of the date first written above.

7. References. Upon and after the effectiveness of this Amendment, each reference in the Rights Agreement to “this Agreement,” “hereunder,” “hereof” or words of like import referring to the Rights Agreement, and each reference in any other document to “the Rights Agreement,” “thereunder,” “thereof” or words of like import referring to the Rights Agreement, shall mean and be a reference to the Rights Agreement as amended hereby.

8. Officer Certification. The undersigned officer of the Company, being duly authorized on behalf of the Company, hereby certifies in his or her capacity as an officer on behalf of the Company to the Rights Agent that this Amendment is in compliance with the terms of Section 27 of the Rights Agreement, and execution of this Amendment by the Company shall constitute delivery of any Officer's Certificate required pursuant to Section 27.

[*Signature Page Follows*]

IN WITNESS WHEREOF, this Amendment has been duly executed by the Company and the Rights Agent as of the date first written above.

KARTOON STUDIOS, INC.

By: _____
Name:_____
Title: _____

VSTOCK TRANSFER, LLC

By: _____
Name:_____
Title: _____

EXHIBIT 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Andy Heyward, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2026 of Kartoon Studios, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 16, 2026

By: */s/ Andy Heyward*
Andy Heyward
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Brian Parisi, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2026 of Kartoon Studios, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 16, 2026

By: */s/ Brian Parisi*
Brian Parisi
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Andy Heyward, Chief Executive Officer of Kartoon Studios, Inc., (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2026 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 16, 2026

By: */s/ Andy Heyward*
Andy Heyward
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Brian Parisi, Chief Financial Officer of Kartoon Studios, Inc., (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2026 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 16, 2026

By: */s/ Brian Parisi*
Brian Parisi
Chief Financial Officer
(Principal Financial and Accounting Officer)