MEXICAN ECONOMIC DEVELOPMENT INC
Form 6-K
July 28, 2005

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934

For the month of July 2005

FOMENTO ECONÓMICO MEXICANO, S.A. DE C.V.
(Exact name of Registrant as specified in its charter)

Mexican Economic Development, Inc.

(Translation of Registrant s name into English)

United Mexican States
(Jurisdiction of incorporation or organization)

General Anaya No. 601 Pte.
Colonia Bella Vista
Monterrey, Nuevo León 64410
México
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F x Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): _______

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): _______

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-_____________

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 of the undersigned, thereunto duly authorized.

FOMENTO ECONÓMICO MEXICANO, S.A. DE C.V.

By: /s/ FEDERICO REYES

Federico Reyes
Chief Financial Officer

Date: July 28, 2005

Latin America s Bevarage Leader

FEMSA achieves record revenues of
Ps. 26.886 billion (US$2.5 billion) in 2Q05

Monterrey, Mexico, July 28, 2005 Fomento Económico Mexicano, S.A. de C.V. (FEMSA) today announced its operational and financial results for the second quarter and first half of 2005.

Second Quarter 2005 Highlights

FEMSA:

Total revenues increased 11.2% to Ps. 26.886 billion (US$2.5 billion), led by double-digit growth at Oxxo and strong performance at Coca-Cola FEMSA and FEMSA Cerveza.

Income from operations increased 13.5% to Ps. 4.258 billion (US$396 million), driven by double-digit growth from Coca-Cola FEMSA and Oxxo.

Income before taxes increased 38.9%, while net income decreased 26.7% to Ps. 2.116 billion (US$197million) due to last year s comparison base that included a one-time tax credit at KOF.

In dollar terms, net debt decreased 20.0% compared with 1Q05, mainly due to the payment of US $500 million in bridge loans with cash obtained from our equity offering.

Business Units:

Record results at Coca-Cola FEMSA, with a 9.5% increase in total sales volume and 23.4% increase in income from operations in the quarter. Sales volume increased in all territories.

FEMSA Cerveza achieved solid domestic and export beer volume growth of 4.1% and 9.4%, respectively in the quarter. However, it experienced a 2.5% decline in income from operations.

Oxxo increased its total revenues by 23.5%, driven by 97 net new stores and a 6.3% increase in same-store sales. Oxxo s operating margin expanded 40 basis points in the quarter.

We are pleased with our performance for the quarter and the first half of 2005. Every one of our businesses delivered solid top-line results. Coca-Cola FEMSA, in particular, had impressive operating numbers as evidence of strong execution in an improved industry environment. At the consolidated level we achieved double-digit growth in operating income as well as margin expansion. Of equal importance, we are on track in our initiatives towards a more integrated beverage platform, commented José Antonio Fernández, Chairman and CEO of FEMSA.

FEMSA Consolidated

Total revenues increased 11.2% to Ps. 26.886 billion in 2Q05. This increase was driven by revenue growth in every one of our business divisions, with 23.5% total revenue growth at the Oxxo retail chain, 10.7% at Coca-Cola FEMSA, and 6.3% at FEMSA Cerveza.

For the first half of 2005, consolidated total revenues increased 9.2% to Ps. 49.733 billion.

Gross profit increased 11.0% to Ps. 12.778 billion in 2Q05, resulting in a stable gross margin of 47.5% of total revenues. The gross margin improvement of 40 basis points at Coca-Cola FEMSA compensated for the gross margin contraction of 40 basis points at FEMSA Cerveza and from the greater contribution of lower margin Oxxo retail operations in FEMSA s consolidated results.

For the first half of 2005, gross profit increased 8.2% to Ps. 23.211 billion. The gross margin decreased 40 basis points from the same period of 2004 to 46.7% of total revenues primarily due to the greater contribution of the lower margin Oxxo retail operations in FEMSA s consolidated results.

Income from operations increased 13.5% to Ps. 4.258 billion in 2Q05, resulting in a 30 basis point improvement in the operating margin, reaching 15.8% in the quarter. The operating margin growth was attributable to the improvement in the operating margin at Coca-Cola FEMSA, which compensated for a decline at FEMSA Cerveza and the greater contribution of Oxxo retail operations, which while expanding its margin has a lower margin than FEMSA consolidated.

For the first half of 2005, income from operations increased 9.0% to Ps. 6.995 billion. The consolidated operating margin remained stable at 2004 levels, reaching 14.1% of total revenues.

Net income decreased 26.7% to Ps. 2.116 billion in 2Q05 as a result of a one-time tax credit at Coca-Cola FEMSA recognized in 2Q04. Income before taxes increased 38.9% due to the net effect of (1) a 13.5% increase in income from operations as previously discussed, (2) a foreign exchange gain of Ps. 153 million, due to the strong appreciation of the peso against the dollar on our net dollar liabilities, (3) a 14.3% increase in net interest expense reaching Ps. 901 million due to debt issued for the repurchase of 30% of FEMSA Cerveza in July and August 2004, and (4) a monetary position loss of Ps. 22 million, which was a reduction from 2Q04. Taxes recognized during the quarter amounting to Ps. 1.260 billion compared to a tax credit of Ps. 457 million during 2Q04. As disclosed last year, the 2Q04 tax figure includes Ps. 1.313 billion of a non-recurring tax credit at Coca-Cola FEMSA. For comparability purposes, the effective tax rate for the quarter was 37.3%, versus 35.2% excluding this non-recurring tax gain related to Coca-Cola FEMSA obtained in 2Q04.

Net majority income per FEMSA Unit[1] was Ps. 1.186 in 2Q05. Net majority income per FEMSA ADS, using an exchange rate of Ps. 10.76 per dollar, was US$ 1.102 in the quarter.

Capital expenditures decreased 15.0% to Ps. 1.469 billion in 2Q05, mainly reflecting decreased investment at FEMSA Cerveza as well as a reduction at the Oxxo retail chain.

Consolidated net debt. As of June 30, 2005, FEMSA recorded a cash balance of Ps. 10.276 billion (US$ 955 million), short-term debt of Ps. 632 million (US$ 59 million) and long-term debt of Ps. 40.473 billion (US$ 3.760 billion), for a net debt balance of Ps. 30.829 billion (US$2.864 billion), 22.8% lower than on March 31, 2005 or a reduction of US$716 million.

[1] FEMSA Units consist of FEMSA BD Units and FEMSA B Units. Each FEMSA BD Unit is comprised of one Series B Share, two Series D-B Shares and two Series D-L Shares. Each FEMSA B Unit is comprised of five Series B Shares. The number of FEMSA Units outstanding as of June 30, 2005 was 1,192,742,090 equivalent to the total number of FEMSA Shares outstanding as of the same date, divided by 5.

Soft Drinks Coca-Cola FEMSA

Coca-Cola FEMSA s financial results and discussion are incorporated by reference from Coca-Cola FEMSA s press release attached to this press release.

Beer FEMSA Cerveza

Domestic sales volume increased 4.1% to 6.528 million hectoliters in 2Q05 due to increased sales throughout all of Mexico led by our *Tecate Light, Sol,* and *Indio* brands. This was achieved while lapping a strong 2Q04 where we outgrew industry volumes and had a positive calendar effect from Holy Week, which occurred in the first quarter of this year.

For the first half of 2005, domestic sales volume increased 4.0% to 11.853 million hectoliters.

Export sales volume increased 9.4% to 0.765 million hectoliters in 2Q05, fueled by strong volume growth in the United Sates from our *Dos Equis* and *Tecate* brands. The second quarter began with normalized inventory levels as compared to the moderate inventory buildup during the end of 2004 that negatively impacted the first quarter results, giving way to solid growth in volumes for the full second quarter. In the US market, we remain focused on improving our coverage towards the on-premise segment and increasing the overall availability of our brands.

For the first half of 2005, export sales volume increased 3.3% to 1.218 million hectoliters, primarily due to the strong volume growth in the US market in the second quarter, which more than compensated for the first quarter decline.

Total revenues increased 6.3% to Ps. 7.372 billion in 2Q05. This was driven by a 36.1% increase in export beer sales due to the new agreement with Heineken USA, and a 3.0% increase in domestic beer sales. As mentioned in the first quarter results, the increase in export beer sales is not comparable to the previous year due to the differences between our commercial agreement with Heineken USA versus the equity partnership with our previous US importer. The domestic real price per hectoliter, while down 1.0% from 2Q04, increased 2.8% in real terms from 1Q05, reflecting a price increase by package, brand, and point of sale that was implemented during the month of April.

For the first half of 2005, total revenues increased 5.1% to Ps. 13.053 billion due to the 5.3% increase in beer sales. Domestic beer sales volume represented 90.7% of total beer sales volume, with the remaining 9.3% from exports.

Cost of sales increased 7.2% to Ps. 2.946 billion in 2Q05. This increase is a result of (1) increased prices for raw materials to produce cans and crown caps in excess of the offsetting strengthening of the Mexican peso versus the US dollar in real terms, (2) a shift in mix towards non-returnable glass and can presentations, and (3) increased shipping costs. Gross profit increased 5.6% to Ps. 4.426 billion in 2Q05, resulting in a 40 basis points decline in the gross margin reaching 60.0% for the quarter, due to a 1.0% year over year decline in real domestic price per hectoliter and increased cost of sales.

For the first half of 2005, cost of sales increased 3.8% to Ps. 5.330 billion. The gross margin improved by 50 basis points, reaching 59.2% of total revenues. This improvement is a result of the net effect of operating efficiencies combined with the strengthening of the Mexican peso versus the US dollar in real terms, which for the entire first half of 2005 more than compensated for the price increases of certain important raw materials such as aluminum, energy, and steel.

Income from operations (before deduction of management fees) decreased 2.5% to Ps. 1.706 billion in 2Q05. This decrease reflects increased administr

ative and selling expenses in the quarter. Specifically, administrative expenses increased 8.5% to Ps. 727 million in 2Q05 primarily due to (1) ERP related expenses as we near completion of the nationwide roll-out in our direct volume, and (2) the new agreement for our US exports.

Selling expenses increased 12.5% to Ps. 1.993 billion, due to the new agreement for our US exports and to increased marketing initiatives that were relatively front-loaded towards the first half of 2005. In the second quarter of 2005 we introduced marketing efforts to (1) expand *Sol Brava* across Central Mexico, (2) re-launch *Tecate* nationwide, (3) expand the presentation base for *Tecate Ligh*t, and (4) promote *Coors Light*; none of which existed in 2Q04.

For the remainder of the year, we expect reduced pressure on operating income as expenses related to marketing initiatives are pared down.

In the second quarter, FEMSA Cerveza s operating margin decreased 210 basis points to 23.1% of total revenues. This margin contraction is due to the combination of a reduction in the domestic price per hectoliter, increased cost of sales, front-loaded marketing initiatives in Mexico, and ERP related expenses, which were partially offset by a more profitable quarter on the export front.

For the first half of 2005, income from operations decreased 1.4% to Ps. 2.589 billion, reaching 19.8% of total revenues.

Oxxo Stores FEMSA Comercio

Total revenues increased 23.5% to Ps. 7.040 billion in 2Q05. The primary reason for the increase was the opening of 97 net new Oxxo stores in the quarter, and a total of 644 net new Oxxo stores since 2Q04 for a total of 3,660 Oxxos nationwide. For the first half of 2005, total revenues increased 24.7% to Ps. 13.174 billion.

Oxxo same-store sales increased an average of 6.3% in 2Q05, reflecting an increase in store traffic of 7.1%, which more than compensated for a slight decline in the average ticket of 0.8%. This increased traffic reflects stronger promotional activity and category management practices that are enabling Oxxo to drive more traffic into the store. Oxxo s scale and pace of growth is allowing us to develop unique promotions with our suppliers on a nationwide basis that are proving to be effective traffic drivers.

For the first half of 2005, Oxxo same store sales increased an average of 7.6%. This reflects an increase in store traffic of 7.3% and an increase in average ticket of 0.3%.

Income from operations (before deduction of management fees) increased 33.6%, above total revenue growth, to Ps. 322 million. Operating margin increased 40 basis points, reaching 4.6% of total revenues in 2Q05. This increase resulted from stable cost of sales in relation to total revenues and a lower level of operating expenses as a percentage of total revenues. Cost of sales increased 23.8% to Ps. 5.205 billion, reaching a gross margin of 26.1% of total revenues in 2Q05. Operating expenses increased 20.6% to Ps. 1.513 billion in 2Q05. Operating expenses increased below sales growth primarily due to better absorption of fixed expenses due to economies of scale.

For the first half of 2005, income from operations increased 23.3% contributing to a stable operating margin of 3.9% in-line with the previous year.

CONFERENCE CALL INFORMATION:
Our Second Quarter and First Half 2005 Conference Call will be held on: Thursday July 28, 2005, 4:00 P.M. New York Time (3:00 PM Mexico City Time). To participate in the conference call, please dial: Domestic U.S.: 1-800-811-8830, International: 913-981-4904. This Conference Call will also be transmitted through live webcast at www.femsa.com/investor

If you are unable to participate live, an instant replay of the conference call will be available through August 3, 2005. To listen to the replay please dial: Domestic U.S.: 1-888-203-1112; International: 719-457-0820, Passcode: 3020674.

Set forth in this press release is certain unaudited financial information for FEMSA for the second quarter and first half of 2005 compared to the second quarter and first half of 2004. We are a holding company whose principal activities are grouped under the following sub-holding companies and carried out by their respective operating subsidiaries: Coca-Cola FEMSA, S.A. de C.V., which engages in the production, distribution and marketing of non-alcoholic beverages; FEMSA Cerveza, S.A. de C.V., which engages in the production, distribution and marketing of beer; and FEMSA Comercio, S.A. de C.V., which engages in the operation of convenience stores.

All of the figures in this report were prepared in accordance with Mexican generally accepted accounting principles (Mexican GAAP) and have been restated in constant Mexican pesos (Pesos or Ps.) with purchasing power as of June 30, 2005. As a result, all percentage changes are expressed in real terms.

FORWARD LOOKING STATEMENTS
This report may contain certain forward-looking statements concerning our future performance that should be considered as good faith estimates made by us. These forward-looking statements reflect management s expectations and are based upon currently available data. Actual results are subject to future events and uncertainties, which could materially impact our actual performance.

Six pages of tables and Coca-Cola FEMSA s press release to follow

FEMSA

Consolidated Income Statement
Expressed in Millions of Pesos

	For the second quarter of:					For the six months of:				
	2005	**% Integration**	**2004**	**% Integration**	**% Increase**	**2005**	**% Integration**	**2004**	**% Integration**	**% Increase**
Net sales	**26,762**	99.5	**24,072**	99.6	11.2	**49,472**	99.5	**45,321**	99.5	9.2
Other operating revenues	**124**	0.5	**100**	0.4	24.8	**261**	0.5	**217**	0.5	20.4
Total revenues	**26,886**	100.0	**24,171**	100.0	11.2	**49,733**	100.0	**45,538**	100.0	9.2
Cost of sales	**14,108**	52.5	**12,656**	52.4	11.5	**26,522**	53.3	**24,084**	52.9	10.1
Gross profit	**12,778**	47.5	**11,515**	47.6	11.0	**23,211**	46.7	**21,454**	47.1	8.2
Administrative expenses	**1,706**	6.3	**1,707**	7.1	(0.1)	**3,338**	6.7	**3,333**	7.3	0.2
Selling expenses	**6,814**	25.4	**6,056**	25.0	12.5	**12,878**	25.9	**11,703**	25.7	10.0
Operating expenses	**8,520**	31.7	**7,763**	32.1	9.8	**16,216**	32.6	**15,036**	33.0	7.8
Income from operations	**4,258**	15.8	**3,752**	15.5	13.5	**6,995**	14.1	**6,418**	14.1	9.0
Interest expense	**(1,064)**		**(886)**		20.1	**(2,092)**		**(1,688)**		23.9
Interest income	**163**		**98**		66.3	**280**		**197**		42.1
Interest expense, net	**(901)**		**(788)**		14.3	**(1,812)**		**(1,491)**		21.5
Foreign exchange (loss) gain	**153**		**(322)**		N.S.	**170**		**(172)**		N.S.
Gain (loss) on monetary position	**(22)**		**37**		N.S.	**287**		**552**		(48.0)
Integral result of financing	**(770)**		**(1,073)**		(28.2)	**(1,355)**		**(1,111)**		22.0
Other (expenses) income	**(112)**		**(248)**		(54.8)	**(228)**		**(403)**		(43.4)
Income before taxes	**3,376**		**2,431**		38.9	**5,412**		**4,904**		10.4
Taxes	**(1,260)**		**457**		N.S.	**(2,140)**		**(612)**		N.S.
Net income	**2,116**		**2,888**		(26.7)	**3,272**		**4,292**		(23.8)
Net majority income	**1,415**		**1,676**		(15.6)	**2,182**		**2,540**		(14.1)
Net minority income	**701**		**1,212**		(42.2)	**1,090**		**1,752**		(37.8)
EBITDA & CAPEX										
Income from operations	**4,258**	15.8	**3,752**	15.5	13.5	**6,995**	14.1	**6,418**	14.1	9.0
Depreciation	**803**	3.0	**830**	3.4	(3.3)	**1,666**	3.3	**1,646**	3.6	1.2
Amortization & other	**912**	3.4	**883**	3.7	3.3	**1,656**	3.3	**1,614**	3.6	2.6
EBITDA	**5,973**	22.2	**5,465**	22.6	9.3	**10,317**	20.7	**9,678**	21.3	6.6
CAPEX	**1,469**		**1,728**		(15.0)	**2,499**		**3,028**		(17.5)

	2005	2004	Var. p.p.
FINANCIAL RATIOS			
Liquidity(2)	**1.49**	**1.30**	0.19
Interest coverage(3)	**5.69**	**6.49**	(0.80)
Leverage(4)	**1.02**	**1.11**	(0.09)
Capitalization(5)	**39.85**%	**41.48**%	(1.64)

(1) Includes the norecurrent fiscal benefit of Ps. 1,313 million of Coca-Cola FEMSA, obtained in the second quater of 2004.
(2) Total current assets / total current liabilities.
(3) Income from operations + depreciation + amortization & other / interest expense, net.
(4) Total liabilities / total stockholders equity.
(5) Total debt / long-term debt + stockholders´ equity.

Total debt = short-term bank loans + current maturities long-term debt + long-term bank loans and notes payable.
Long-term debt = long-term bank loans and notes payable.

FEMSA

Consolidated Balance Sheet
As of June 30:
(Expressed in Millions of Pesos as of June 30, 2005)

	2005	2004	% Increase
ASSETS			
Cash and cash equivalents	**10,276**	**8,247**	24.6
Accounts receivable	**5,815**	**6,086**	(4.5)
Inventories	**8,066**	**7,298**	10.5
Prepaid expenses and other	**989**	**777**	27.3
Total current assets	**25,146**	**22,408**	12.2
Property, plant and equipment, net	**43,589**	**44,894**	(2.9)
Intangible assets(1)	**47,279**	**36,562**	29.3
Deferred assets	**6,881**	**7,497**	(8.2)
Other assets	**2,578**	**2,116**	21.8
TOTAL ASSETS	**125,473**	**113,477**	10.6
LIABILITIES & STOCKHOLDERS´ EQUITY			
Bank loans	**632**	**2,112**	(70.1)
Current maturities long-term debt	**3,320**	**2,734**	21.4
Interest payable	**349**	**445**	(21.6)
Operating liabilities	**12,604**	**11,966**	5.3
Total current liabilities	**16,905**	**17,257**	(2.0)
Bank loans and notes payable	**37,153**	**33,207**	11.9
Deferred income taxes	**3,872**	**4,350**	(11.0)
Other liabilities	**5,487**	**4,981**	10.2
Total liabilities	**63,417**	**59,795**	6.1
Total stockholders equity	**62,056**	**53,682**	15.6
LIABILITIES AND STOCKHOLDERS EQUITY	**125,473**	**113,477**	10.6

(1) Includes mainly the intangible assets generated by the acquisition of Panamco and 30% of FEMSA Cerveza.

	June 30, 2005			**March 31, 2005**		
DEBT MIX	***Ps.***	***% Integration***	***Average Rate***	***Ps.***	***% Integration***	***Average Rate***
Denominated in:						
Mexican pesos	**33,001**	80.3%	10.0%	**31,571**	68.9%	9.8%
Dollars	**7,045**	17.1%	7.0%	**13,422**	29.3%	5.3%
Colombian pesos	**669**	1.7%	9.6%	**681**	1.5%	9.8%
Argentine pesos	**300**	0.7%	6.7%	**132**	0.3%	4.2%
Guatemalan Quetzals	**52**	0.1%	6.8%		0.0%	0.0%
Venezuelan bolivars	**38**	0.1%	11.8%		0.0%	0.0%
Total debt	**41,105**	100.0%	9.5%	**45,806**	100.0%	8.4%
Fixed rate(1)	**31,740**	77.2%		**27,575**	60.2%	

Variable rate(1)	**9,365**	22.8%		**18,231**	39.8%	

% of Total Debt	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011+**
DEBT MATURITY PROFILE (2)	9.6%	9.9%	6.9%	18.8%	19.5%	13.6%	21.7%

(1) Includes the effect of interest rate swaps.
(2) Excludes bridge financing.

Coca-Cola FEMSA

Results of Operations
Expressed in Millions of Pesos

	For the second quarter of:					For the six months of:				
	2005	% Integration	2004	% Integration	% Increase	2005	% Integration	2004	% Integration	% Increase
Net sales	**12,640**	99.4	**11,408**	99.3	10.8	**23,766**	99.3	**22,356**	99.2	6.3
Other revenues	**74**	0.6	**76**	0.7	(2.7)	**165**	0.7	**186**	0.8	(11.5)
Total revenues	**12,714**	100.0	**11,484**	100.0	10.7	**23,931**	100.0	**22,542**	100.0	6.2
Cost of sales	**6,408**	50.4	**5,836**	50.8	9.8	**12,217**	51.1	**11,536**	51.2	5.9
Gross profit	**6,306**	49.6	**5,648**	49.2	11.7	**11,714**	48.9	**11,006**	48.8	6.4
Administrative expenses	**672**	5.3	**710**	6.2	(5.5)	**1,333**	5.6	**1,369**	6.1	(2.7)
Sales expenses	**3,380**	26.6	**3,111**	27.1	8.6	**6,418**	26.7	**6,157**	27.3	4.2
Operating expenses	**4,052**	31.9	**3,821**	33.3	6.0	**7,751**	32.3	**7,526**	33.4	3.0
Income from operations	**2,254**	17.7	**1,827**	15.9	23.4	**3,963**	16.6	**3,480**	15.4	13.9
Depreciation	**316**	2.5	**314**	2.7	0.6	**622**	2.6	**644**	2.9	(3.4)
Amortization & other	**289**	2.3	**304**	2.7	(4.9)	**564**	2.3	**587**	2.6	(3.9)
EBITDA	**2,859**	22.5	**2,445**	21.3	16.9	**5,149**	21.5	**4,711**	20.9	9.3
Capital expenditures	**388**		**315**		23.2	**574**		**754**		(23.9)

Sales volumes (Millions of unit cases)

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable

<u>Item 4. Controls and Procedures.</u>

Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the ‘‘Exchange Act’’). Disclosure controls and procedures include, without limitation, controls and procedures that are designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective, for the three months ended March 31, 2013, in ensuring that information that we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

Internal Control Over Financial Reporting

There were no changes in our system of internal controls over financial reporting during the three months ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

<u>Item 1. Legal proceedings.</u>

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

<u>Item 1a. Risk factors.</u>

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

<u>Item 2. Unregistered sales of equity securities and use of proceeds.</u>

On February 1, 2013, the Company issued 470,588 shares of common stock in exchange for interest payable on the debenture due on that date in the amount of $40,000, or $0.085 per share. Hillair agreed to waive any anti-dilutive provisions contained in the debenture for this transaction.

Item 3. Defaults upon senior securities.

There were no reportable events under this Item 3 during the three months ended March 31, 2013.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other information.

None.

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Item 6. Exhibits.

Exhibit No.	Description
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	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	

XBRL
Presentation
Linkbase
Document

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SIGNATURES

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

GENIUS BRANDS INTERNATIONAL, INC.

Date: May 15, 2013

By: *<u>/s/ Klaus Moeller</u>*

Klaus Moeller, Chief Executive Officer

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