

RED GIANT ENTERTAINMENT, INC.

FORM 10-Q (Quarterly Report)

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

FORM 10-Q

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

For the Quarterly Period May 31, 2015

or

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

or the transition period from _____ to _____

Commission File Number: 001-34039

RED GIANT ENTERTAINMENT, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation or organization)

98-0471928
(I.R.S. Employer Identification No.)

614 E. Hwy 50, Suite 235, Clermont, Florida
(Address of principal executive offices)

34711
(Zip Code)

Registrant's telephone number, including area code: (866) 926-6427

N/A

(Former name, former address and former fiscal year, if changed since last year)

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 and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of July 15, 2015, there were 3,195,513,279 shares of our common stock, \$0.0001 par value per share, issued and outstanding.

RED GIANT ENTERTAINMENT, INC.

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PART I INANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Red Giant Entertainment, Inc. Consolidated Balance Sheets

	<u>May 31,</u> <u>2015</u>	<u>August 31,</u> <u>2014</u>
	<u>(unaudited)</u>	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 11,679	\$ 5,953
Accounts receivable, net of allowance for doubtful accounts of \$1,253 and \$1,253, respectively	-	-
Inventory	6,280	6,990
Total Current Assets	<u>17,959</u>	<u>12,943</u>
Property and equipment, net of accumulated depreciation of \$7,940 and \$5,103, respectively	21,601	25,902
TOTAL ASSETS	<u>\$ 39,560</u>	<u>\$ 38,845</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable and accrued expenses	\$ 590,108	\$ 230,281
Shareholder loans	18,544	58,839
Convertible notes payable, net of discounts	668,357	447,032
Derivative liability, notes	3,233,991	3,518,650
Derivative liability, warrants	37,500	35,000
Total Current Liabilities	<u>4,548,500</u>	<u>4,289,802</u>
TOTAL LIABILITIES	<u>4,548,500</u>	<u>4,289,802</u>
Commitments and Contingencies (Note 9)	--	--
Stockholders' Deficit		
Preferred stock: 100,000,000 authorized; \$0.0001 par value 10,000,000 shares issued and outstanding	1,000	-
Common stock: 6,000,000,000 authorized; \$0.0001 par value 2,988,799,395 and 2,540,260,752 shares issued and outstanding	298,880	254,026
Additional paid in capital	7,781,721	6,863,020
Treasury stock, at cost; 1,785,900 shares	(55,000)	(55,000)
Accumulated deficit	(12,535,541)	(11,313,003)
Total Stockholders' Deficit	<u>(4,508,940)</u>	<u>(4,250,957)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	<u>\$ 39,560</u>	<u>\$ 38,845</u>

See accompanying notes to unaudited consolidated financial statements



Red Giant Entertainment, Inc.
Consolidated Statements of Operations
(unaudited)

	For the Three Months Ended May 31,		For the Nine Months Ended May 31,	
	2015	2014	2015	2014
Revenues	\$ 1,879	\$ 6,457	\$ 4,255	\$ 17,081
Cost of sales	<u>1,374</u>	<u>932</u>	<u>3,489</u>	<u>10,019</u>
	505	5,525	766	7,062
Operating Expenses				
Selling and marketing	9,355	140,385	31,402	212,234
Compensation	11,574	209,820	139,511	241,782
Professional	41,303	48,560	134,432	104,324
General and administration	54,273	87,851	217,728	197,183
Depreciation and amortization	<u>1,464</u>	<u>2,403</u>	<u>4,301</u>	<u>14,025</u>
Total operating expenses	<u>117,969</u>	<u>489,019</u>	<u>527,374</u>	<u>769,548</u>
Net loss from operations	(117,464)	(483,494)	(526,608)	(762,486)
Other income (expense)				
Interest expense	(357,908)	(693,061)	(834,044)	(867,114)
Change in derivative	<u>850,796</u>	<u>(3,913,772)</u>	<u>138,114</u>	<u>(4,903,971)</u>
Net loss	<u>\$ 375,424</u>	<u>\$ (5,090,327)</u>	<u>\$ (1,222,538)</u>	<u>\$ (6,533,571)</u>
Basic and dilutive loss per share	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>
Weighted average number of shares outstanding	<u>2,988,799,395</u>	<u>1,356,535,516</u>	<u>2,824,193,303</u>	<u>775,563,224</u>

See accompanying notes to unaudited consolidated financial statements

Red Giant Entertainment, Inc.
Consolidated Statements of Cash Flows
(unaudited)

	For the Nine Months Ended May 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (1,222,538)	\$ (6,533,571)
Adjustment to reconcile Net Income to net cash provided by operations:		
Depreciation and amortization	4,301	14,025
Stock based compensation for services	-	196,303
Amortization of debt discounts and financing costs	412,835	867,114
Change in derivatives	(138,114)	4,903,971
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Inventory	710	(24,738)
Prepaid expenses and other assets	-	71,000
Increase (decrease) in operating liabilities:		
Accrued expenses	359,827	3,271
Total adjustments	639,559	6,030,946
Net Cash (Used in) Provided By Operating Activities	(582,979)	(502,625)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	-	(14,011)
Net Cash (Used in) Investing Activities	-	(14,011)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Shareholder loans, net	(40,295)	2,064
Proceeds from Loan(s)	279,000	544,500
Proceeds from issuance of stock	350,000	-
Net Cash (Used in) Provided by Financing Activities	588,705	546,564
Net increase (decrease) in cash and cash equivalents	5,726	29,928
Cash and cash equivalents, beginning of period	5,953	14,937
Cash and cash equivalents, end of period	\$ 11,679	\$ 44,865
Supplemental cash flow information		
Cash paid for interest	\$ -	\$ -
Cash paid for taxes	\$ -	\$ -
Non-cash financing and investing transactions:		
Expenses paid from proceeds of debt	\$ 3,500	\$ -
Debt converted to equity	\$ 185,510	\$ 1,071,180
Accrued interest converted to equity	\$ -	\$ 2,520

See accompanying notes to unaudited consolidated financial statements

Red Giant Entertainment, Inc.
Notes to the Consolidated Financial Statements
For the Three and Nine Months Ending May 31, 2015 and 2014
(Unaudited)

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS

Red Giant Entertainment LLC (the “LLC”) was formed in the State of Florida, U.S.A., on January 1, 2011. On May 9, 2012, the LLC incorporated and changed its name to Red Giant Entertainment, Inc. (“RGE”). The LLC was originally a publishing company, but has expanded its operations to include mass media and graphic novel artwork development.

On March 4, 2013, the Company acquired ComicGenesis, LLC (“ComicGenesis”), a Nevada limited liability company that operates a user-generated comic site that hosts over 10,000 independent webcomics.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Financial Statements - Basis of Presentation

The Company prepares its financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”), which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Significant estimates include the allowance for doubtful accounts, inventory valuation, useful lives and valuation of property and equipment and intangible assets, stock based compensation, valuation of derivative liabilities, and the deferred tax assets valuation allowance. Actual results could differ from those estimates.

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, all adjustments consisting of normal recurring entries necessary for a fair presentation of the periods for: (a) the financial position; (b) the result of operations; and (c) cash flows, have been made in order to make the financial statements presented not misleading. The results of operations for such interim periods are not necessarily indicative of operations for a full year.

These consolidated financial statements should be read in conjunction with the financial statements for the fiscal year ended August 31, 2014, and the notes thereto and other pertinent information contained in our Form 10-K filed with the Securities and Exchange Commission on April 6, 2015.

Principles of Consolidation

The Company operates under the name Red Giant Entertainment, Inc. with its wholly owned subsidiaries RGE and ComicGenesis. The companies were incorporated for the intentions of developing brand names. Any activities of these subsidiaries or holdings have been included in the consolidated financial statements, with elimination of any intercompany accounts and transactions.

Fair Value Measurements

Topic 820 in the Accounting Standards Codification (ASC 820) defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. ASC 820 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, ASC 820 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy is as follows:

- Level 1 inputs — Unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.
- Level 2 inputs — Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3 inputs — Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

	As of May 31, 2015				Total
	Carrying Value	Level 1	Level 2	Level 3	
Derivative Liabilities	\$ 3,271,491	\$ -	\$ -	\$ 3,271,491	\$ 3,271,491
Total Derivative Liabilities	<u>\$ 3,271,491</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,271,491</u>	<u>\$ 3,271,491</u>
Balance, August 31, 2014					\$ 3,553,650
Total (gains) losses realized and included in net loss					(138,114)
Purchases, issuances and settlements					(144,045)
Transfers in (out)					-
Balance, May 31, 2015					<u>\$ 3,271,491</u>

Cash Flow Reporting

The Company follows ASC 230, Statement of Cash Flows, for cash flows reporting, classifies cash receipts and payments according to whether they stem from operating, investing, or financing activities and provides definitions of each category, and uses the indirect or reconciliation method ("Indirect method") as defined by ASC 230, Statement of Cash Flows, to report net cash flow from operating activities by adjusting net income to reconcile it to net cash flow from operating activities by removing the effects of (a) all deferrals of past operating cash receipts and payments and all accruals of expected future operating cash receipts and payments and (b) all items that are included in net income that do not affect operating cash receipts and payments.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid investments and short-term debt instruments with original maturities of three months or less to be cash equivalents. We had no cash equivalents during the periods presented.

Property and Equipment

Property and equipment are recorded at historical cost. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The Company currently has equipment being depreciated for estimated lives of three to five years.

Intangible Assets

Intangible assets, including intellectual property and a web site, have been recorded at their fair historical cost. Amortization is calculated on a straight-line basis over the estimated useful life of three years. The Company periodically tests the carrying value for impairment as noted below. As of May 31, 2015 and August 31, 2014, all intangible assets have been fully amortized or impaired.

Long-lived Assets Impairment

Long-lived assets of the Company are reviewed for impairment whenever events or circumstances indicate that the carrying amount of assets may not be recoverable, pursuant to guidance established in ASC 360, Property, Plant and Equipment. Management considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations (undiscounted and without interest charges). If impairment is deemed to exist, the assets will be written down to fair value. Fair value is generally determined using a discounted cash flow analysis.

Revenue Recognition

Revenue for the Company is recognized from three primary sources: Advertising Revenue, Publishing Sales and Creative Services. Revenue was processed through our Paypal Account and Project Wonderful accounts where applicable.

Advertising Revenue comes from the following sources and is stated at net after commissions:

- Keenspot: Revenue is earned on a net 90-day basis and is based upon traffic to Red Giant property Web sites. It is calculated on a Cost Per Thousand (CPM) of verified impressions and varies based upon bids by advertisers and other customary factors. In exchange for advertising, hosting, IT, and sales management, Keenspot takes 50% commission of ad revenue for their services.
- Project Wonderful: Revenue is recorded upon delivery of services and priced based upon bids by advertisers for a set amount of time at the prevailing highest winning rate. Project Wonderful takes a 25% commission of ad revenue for their services.

Publishing Revenue comes from the following sources:

- Kickstarter Campaigns: These are presales for books, and revenue is recognized when the books are shipped to the buyers.
- Direct Sales: Through our online store, we sell directly to clients and the transactions process through our Paypal account. All orders are shipped immediately and revenue is recognized upon shipment.

Creative Services are artwork, writing, advertising, and other creative endeavors we handle for outside clients. Revenue is recognized upon completion of the services.

Shipping and Handling for purchases are paid directly by the consumer through PayPal.

Cost of Sales

Cost of sales includes the cost of creating services or artwork, advertising and books.

Advertising

Advertising costs are expensed as incurred. The Company expensed advertising costs of \$226, \$86,105, \$2,626 and \$135,171 for the three and nine months ending May 31, 2015 and 2014, respectively.

Stock Based Compensation

The Company issues restricted stock to consultants for various services. The costs for these transactions are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The value of the common stock is measured at the earlier of (i) the date at which a firm commitment for performance by the counterparty to earn the equity instruments is reached or (ii) the date at which the counterparty's performance is complete. The Company recognized consulting expenses and a corresponding increase to additional paid-in-capital related to stock issued for services. For agreements requiring future services, the consulting expense is to be recognized ratably over the requisite service period.

Income Taxes

The Company accounts for income taxes pursuant to the provisions of ASC 740-10, "Accounting for Income Taxes," which requires, among other things, an asset and a liability approach to calculating deferred income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to offset any net deferred tax assets for which management believes it is more likely than not that the net deferred asset will not be realized.

The Company follows the provisions of ASC 740-10 related to accounting for uncertain income tax positions. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the positions that would be ultimately sustained. In accordance with the guidance of ASC 740-10, the benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be

sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable tax authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above should be reflected as a liability for uncertain tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company believes its tax positions are all highly certain of being upheld upon examination. As such, the Company has not recorded a liability for uncertain tax benefits.

The Company has adopted ASC 740-10-25, Definition of Settlement, which provides guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits and provides that a tax position can be effectively settled upon the completion of an examination by a taxing authority without being legally extinguished. For tax positions considered effectively settled, an entity would recognize the full amount of tax benefit, even if the tax position is not considered more likely than not to be sustained based solely on the basis of its technical merits and the statute of limitations remains open.

Earnings (Loss) Per Share

The Company follows ASC 260, Earnings Per Share, which provides for calculation of “basic” and “diluted” earnings per share. Basic earnings per share includes no dilution and is computed by dividing net income available to common stockholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity similar to fully diluted earnings per share. There were approximately 3,856,176,000 common stock equivalents outstanding at May 31, 2015, related to the convertible debt arrangements and an additional 25,000,000 options (with exercise price greater than market value as of May 31, 2015). Due to losses, dilutive earnings per share is not presented, as the effect would be anti-dilutive.

Recent Accounting Pronouncements

The Company has reviewed the FASB issued Accounting Standards Update (“ASU”) accounting pronouncements and interpretations thereof that have effectiveness dates during the periods reported and in future periods. The Company has carefully considered the new pronouncements that alter previous generally accepted accounting principles and does not believe that any new or modified principles will have a material impact on the corporation’s reported financial position or operations in the near term. The applicability of any standard is subject to the formal review of our financial management and certain standards are under consideration.

NOTE 3 - MANAGEMENT STATEMENT REGARDING GOING CONCERN

The Company’s revenues are insufficient to meet its operating expenses. The Company has incurred net losses of \$1,222,538 for the nine months ending May 31, 2015. Accumulated losses, to date, resulted in an accumulated deficit of \$12,535,541 as of May 31, 2015. The Company has a net working capital deficit of \$6,788,739, as of May 31, 2015, and cash used in operations of \$582,979 for the nine months ending May 31, 2015. The total stockholders’ deficit at May 31, 2015 was \$4,508,940. Due to the Company’s financial position, and given the current economic environment and the continuing need to strengthen its cash position, management believes that there is substantial doubt about the Company’s ability to continue as a going concern. Management is currently pursuing various funding options, including seeking debt or equity financing, licensing opportunities, as well as other strategic transactions, to obtain additional funding to continue the development of, and successfully commercialize, its products. There can be no assurance that the Company will be successful in its efforts and this raises substantial doubt about the Company’s future. Should the Company be unable to obtain adequate financing or generate sufficient revenue in the future, the Company’s business, results of operations, liquidity and financial condition would be materially and adversely harmed, and the Company would be unable to continue as a going concern.

The Company believes that its ability to execute its business plan, and therefore continue as a going concern, is dependent upon its ability to do the following:

- Obtain adequate sources of funding to fund long-term business operations;
- Enter into a licensing or other relationship that allows the Company to commercialize its products;
- Manage or control working capital requirements; and
- Develop new and enhance existing relationships with product distributors and other points of distribution for the Company's products.

There can be no assurance that the Company will be successful in achieving its short or long-term plans as set forth above, or that such plans, if consummated, will enable the Company to obtain profitable operations or continue in the long-term as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 4 - INVENTORY

As of May 31, 2015 and August 31, 2014, inventory consisted of physical copies of published books, as well as artwork used for digitally distributed works for advertising revenue and future publications. The inventory is valued at the lower of the cost to produce, on a first-in-first-out (FIFO) basis, or market value.

NOTE 5 - CONVERTIBLE NOTES PAYABLE

The Company entered into several lending arrangements with lenders, each with convertible features. The Company evaluated the terms of the convertible notes in accordance with ASC Topic No. 815 - 40, *Derivative and Hedging Contracts – Contracts in Entities' Own Stock* and the underlying conversion features that are indexed to the Company's common stock. The Company determined that the conversion features meet the definition of a derivative liability and therefore bifurcated the conversion feature and accounted for it as a separate derivative liability. Therefore, the Company recorded a derivative liability and recognized a debt discount on the notes on the origination date. The debt discount was recorded as reduction (contra-liability) to the Convertible Notes Payable. The debt discount is being amortized over the life of the notes. Additionally, the notes called for an immediate withholding for service charges, which has been treated as an original issue discount or deferred financing costs, a contra-liability charge, which is amortized as finance cost over the life of the loan. Interest expense, in the amount of \$412,835 and \$867,114 was recognized for the amortization of derivative debt discounts and deferred financing costs for the nine months ended May 31, 2015 and 2014, respectively.

A derivative liability, in the amount of \$3,233,991 and \$3,518,650 has been recorded, as of May 31, 2015 and August 31, 2014, respectively, related to the notes. The derivative value was calculated using the Black-Scholes method. Assumptions used in the derivative valuation were as follows:

Weighted Average:	
Dividend rate	0.0%
Risk-free interest rate	0.069%
Expected lives (years)	0.069
Expected price volatility	497.25%
Forfeiture Rate	0.0%

Summary of Convertible Notes Payable:

Original remaining outstanding principal	776,490
Unamortized deferred finance costs	(3,784)
Unamortized debt discounts	(104,349)
Total	668,357
Current portion of debt	668,357
Long-term debt	-

NOTE 6 - CAPITAL STOCK

Preferred Stock

The Company has 100,000,000 shares of preferred stock authorized and designated a class of preferred stock as "Series Z." Each Series Z Preferred Share is entitled to a liquidation preference equal to the original purchase price of the Series Z Preferred Shares (\$0.03 per share). In addition, subject to the applicable rules and published guidance of a national securities exchange or automated inter-dealer quotation system on which our common stock may in the future be listed or quoted (the "Listing Rules"), and for so long as investor continues to hold Series Z Preferred Shares, the holder will be entitled to 100:1 super-voting rights on all matters submitted to a vote of our stockholders, subject to adjustment. The Company retains the option of redeeming the Series Z Shares to the extent that we reasonably determine that the above rights would impede our ability to be listed or quoted under the Listing Rules.

As of November 6, 2014, the Company entered into a Securities Purchase Agreement (the "SPA") with Mark Fischbach under which we agreed to issue to Mr. Fischbach (i) 30,000,000 shares of our common stock (the "Common Shares"); and (ii) 5,000,000 shares of our proposed Series Z Preferred Stock, with rights, privileges and preferences as set forth above (the "Series Z Preferred Shares") (collectively with the Common Shares, the "Shares") for an aggregate price of \$200,000 (the "Purchase Price"). We closed on this transaction on November 12, 2014. Mr. Fischbach is entitled appoint one member of our Board. Mr. Fischbach has been appointed to our Board.

As of November 30, 2014, we entered into an oral agreement with our director and officer Benny R. Powell under which we agreed to issue to Mr. Powell 5,000,000 shares of our Series Z Preferred Stock, with rights, privileges and preferences as set forth above in exchange for payment of \$150,000. The transaction was reduced to writing and closed on December 22, 2014.

Common Stock

On April 16, 2015, the Company amended its Articles of Incorporation, increasing the number of authorized common shares to 6,000,000,000. All shares of common stock are non-assessable and non-cumulative, with no preemptive rights. The balance sheet, as of May 31, 2015 retroactively reflects the authorized shares, as amended.

During the year ending August 31, 2013 the Company entered into a stock buy-back plan, whereby 1,785,900 shares were repurchased for \$55,000 cost. The shares remain in the name of the Company until such time as they are cancelled.

On March 27, 2014, the Company issued non-statutory stock options to officers and directors to purchase 20 million shares of common stock at an exercise price of \$.0048, the trading price at the date of the issuance. These options were valued at \$95,958 using the Black-Scholes Model. On the same day an additional 5 million Incentive Stock Options (as defined in Section 422A of the Internal Revenue Code of 1986) ("ISOs") were issued to the Chief Executive Officer at an exercise price of \$.0053. The ISOs were valued at \$23,989. Assumptions in the model used in both issuances: historical volatility of 313.78%; life of 5 years; and a risk free rate of 1.7%.

During the nine month period ending May 31, 2014, the Company issued 1,202,602,616 shares of its common stock in satisfaction of obligation to \$666,180 of convertible notes payable.

During the nine month period ending May 31, 2015, the Company issued 418,538,643 shares of its common stock, upon conversion of \$185,510 of convertible notes payable at the contractual rate. Accordingly, \$429,048 of derivative liability was charged to additional paid in capital.

NOTE 7 - RELATED PARTIES

Benny Powell is an officer and director of Red Giant Entertainment, Inc., a Florida corporation, which is a subsidiary and operating company of Red Giant Entertainment, Inc., a Nevada corporation.

The Company purchases print materials through Active Media Publishing, Inc. ("AMPI"), an entity wholly owned by Mr. Powell. AMPI has certain arrangements with overseas printing companies, whereby the printing is provided to the Company. The agreement with AMPI provides for printing at cost prices on a non-exclusive basis. During the nine month periods ended May 31, 2015 and 2014, the Company purchased print media in the amount of \$13,008 and \$109,614, respectively.

Keenspot Entertainment, LLC, a company owned by our director Chris Crosby, has been paid or accrued commissions in the amount of approximately \$1,872 and \$1,409 during the nine month periods ended May 31, 2015 and 2014, respectively.

The Company also from time to time has retained Glass House Graphics, a sole proprietorship owned by David Campiti, our Chief Operating Officer and a member of the Board, to provide creative services for us. The Company paid an aggregate of \$68,500 and \$14,435 to Glass House Graphics during the nine month periods ended May 31, 2015 and 2014, respectively.

The Company does not have employment contracts with its controlling shareholder who also is the Company's president and chief executive officer, although it has independent contractor agreements with its other officers.

The amounts and terms of the above transactions may not necessarily be indicative of the amounts and terms that would have been incurred had comparable transactions been entered into with independent third parties.

NOTE 8 - BUSINESS SEGMENTS

The Company generates revenues from three service offerings: Advertising, Book publishing and Creative. The Company's management measures its performance by revenue lines and does not allocate its selling, general and administrative expenses to each revenue offering. A summary of the lines of revenue are as follows:

	May 31,	
	2015	2014
Revenues		
Advertising	\$ 2,481	\$ 2,321
Book publishing	1,774	8,303
Creative	-	6,457
TOTAL:	<u>\$ 4,255</u>	<u>\$ 17,081</u>
Cost of Sales		
Advertising	\$ 2,679	\$ 2,379
Book publishing	710	6,708
Creative	100	932
TOTAL:	<u>\$ 3,489</u>	<u>\$ 10,019</u>
Gross Margin		
Advertising	\$ (198)	\$ (58)
Book publishing	1,064	1,595
Creative	(100)	5,525
TOTAL:	<u>\$ 766</u>	<u>\$ 7,062</u>

NOTE 9 - COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company may become a party to litigation matters involving claims against the Company.

On May 13, 2013, George Sharp (“Plaintiff”) filed a Complaint in San Diego Superior Court, Central District, Case No. 37-2013-00048310-CU-MC-CTL, against 14 companies, including us (collectively, “Defendants”). We were served with the Complaint on May 23, 2013. The Complaint alleges that the Plaintiff received unsolicited promotional emails being sent by Defendant, Victory Mark Corp. Ltd., discussing the other 13 corporate Defendants, including us. The Plaintiff is seeking liquidated damages in the amount of \$1,000 for each email he received for a total of \$1,204,000 collectively for all Defendants. The Company is defending this action vigorously and believes that the matter is without legal merit. The Company cannot determine the ultimate outcome of this matter at this time.

Our convertible note agreements contain default provisions, which include the provision that we are in default if we are delinquent in our filings of our annual and quarterly reports. As of December 15, 2014, the Company was in default under these provisions because we were delinquent in the required financial filings. We estimate these default costs are approximately \$327,000, as of May 31, 2015, which satisfaction will require additional issuance of common stock, in accordance with conversion terms of those agreements. We estimate that an additional 576,000,000 shares of common stock will be required to be issued in satisfaction of these terms. The estimated default costs have been accrued with the associated derivative liability. Through the date of filing, we estimate default provisions to be \$366,000 with 645,000,000 common shares required for satisfaction.

NOTE 10 - SUBSEQUENT EVENTS

Subsequent to May 31, 2015, we have issued 206,713,884 shares of common stock, at the fair market value of \$245,776, in accordance with conversion terms of our Convertible Promissory Note agreements, reducing the outstanding principal and interest of approximately \$74,188 and reducing the derivative liability by approximately \$171,588..

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.

This Quarterly Report on Form 10-Q (this "Quarterly Report") includes "forward-looking statements." All statements, other than statements of historical facts, included in this Quarterly Report that address activities, events or developments which we expect, believe or anticipate will or may occur in the future are forward-looking statements. The word "believes," "intends," "expects," "anticipates," "projects," "estimates," "predicts" and similar expressions are also intended to identify forward-looking statements. Consequently, all of the forward-looking statements made in this Quarterly Report are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences or effects on our business operations. We assume no obligation to update publicly, except as required by law, any such forward-looking statements, whether as a result of new information, future events or otherwise.

CRITICAL ACCOUNTING POLICIES

There have been no material changes in our critical accounting policies from those reported in our Annual Report on Form 10-K for our fiscal year ended August 31, 2014, filed with the SEC on April 6, 2015. For more information on our critical accounting policies, see Part II, Item 7 of our fiscal 2014 Annual Report on Form 10-K.

RESULTS OF OPERATIONS

THREE AND NINE MONTHS ENDED MAY 31, 2015 COMPARED TO THE THREE AND NINE MONTHS ENDED MAY 31, 2014

REVENUES. During the three and nine months ended May 31, 2015 and 2014, revenues were \$1,879, \$6,457, \$4,255 and \$17,081, respectively. We continue to engage with potential business partners, but have not had any significant volume.

COST OF SALES. During the three and nine months ended May 31, 2015 and 2014, we incurred cost of sales of \$1,374, \$932, \$3,489 and \$10,019, respectively.

OPERATING EXPENSES. During the three and nine months ended May 31, 2015, we incurred operating expenses of \$117,969, \$489,019, \$527,374 and \$769,548. The increase occurred in the comparative nine month periods were primarily due to payroll management fees and professional costs as we try to expand our business. Additionally, we incurred \$196,303 of stock based compensation costs for the nine months ending May 31, 2014.

OTHER INCOME (EXPENSES). Other expenses included interest expense (loan interest, default charges and amortization of financing costs and debt discounts), which remain consistently accounted for the comparative nine month periods ending May 31, 2015 and 2014, were \$834,044 and \$867,114, respectively. These costs are proportional to the amounts outstanding under our debt arrangements; however, we have incurred approximately \$327,000, included in interest expense, on default provisions. We anticipate that interest will be disproportionate to our lending rates due to these default provisions until such time that we return to compliance with the covenants of the arrangements. Other expenses consist of recognition for (increases) and decreases in derivative liabilities resulting from our convertible note arrangements, which were a decrease of \$138,114 and an increase of \$4,903,971 for the comparative nine month periods ending May 31, 2015 and 2014, respectively.

NET INCOME (LOSS). Results of our operations for the three and nine months ended May 31, 2015 and 2014 were \$375,424, \$(5,090,327), \$(1,222,538) and \$(6,533,571), respectively.

LIQUIDITY AND CAPITAL RESOURCES

We financed ourselves during the reporting period largely through the issuance of securities to lenders in stock-based loan transactions. We dealt with several lenders.

Our net cash used by operating activities was \$582,979 for the nine month period ended May 31, 2015. Cash used in investing activities was \$0 for the nine month period ended May 31, 2015. Cash provided by financing activities for the nine month period ended May 31, 2015 was \$588,705, consisting primarily of proceeds from convertible notes payable of \$279,000 (net of \$6,000 financing charges) and proceeds from the issuance of preferred and common stock, in the amount of \$350,000.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are a "smaller reporting company" as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide information under this item.

ITEM 4. CONTROLS AND PROCEDURES.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

In connection with the preparation of this quarterly report on Form 10-Q, an evaluation was carried out by our Chief Executive Officer and the Chief Financial Officer of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 ("Exchange Act")) as of May 31, 2015. Disclosure controls and procedures are designed to ensure 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 rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures.

Based on the evaluation, our Chief Executive Officer/Chief Financial Officer concluded disclosure controls and procedures were not effective as of May 31, 2015.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and Rule 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, our principal executive and principal financial officers, or persons performing similar functions, and effected by our Board of Directors, management and other personnel, 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. Our internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Our management assessed the effectiveness of our internal control over financial reporting as of May 31, 2015. In making this assessment, it used the criteria set forth in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). While this assessment is not formally documented, management concluded that, as of May 31, 2015, our internal control over financial reporting is not effective based on those criteria.

Because of its inherent limitations, however, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses identified are disclosed below.

- We do not have an audit committee or any other governing body to oversee management.
- Documentation of proper accounting procedures is not present and fundamental elements of an effective control environment were not present as of May 31, 2015, including formalized monitoring procedures.
- While we now have five officers, there is still no segregation of duties with respect to internal controls, no management oversight, and no additional persons reviewing control documentation, and no control documentation is being produced at this time.

NO CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have not been any changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

On May 13, 2013, George Sharp ("Plaintiff") filed a Complaint in San Diego Superior Court, Central District, Case No. 37-2013-00048310-CU-MC-CTL, against 14 companies, including us (collectively, "Defendants"). We were served with the Complaint on May 23, 2013. The Complaint alleges that the Plaintiff received unsolicited promotional emails being sent by Defendant, Victory Mark Corp. Ltd., discussing the other 13 corporate Defendants, including us. The Plaintiff is seeking liquidated damages in the amount of \$1,000 for each email he received for a total of \$1,204,000 collectively for all Defendants. The Company is defending this action vigorously and believes that the matter is without legal merit. The Company cannot determine the ultimate outcome of this matter at this time.

We are not currently a party to, nor are any of our property currently the subject of, any other material legal proceeding. None of our directors, officers, or affiliates is involved in a proceeding adverse to our business or has a material interest adverse to our business.

In the ordinary course of business, we may be from time to time involved in various pending or threatened legal actions. The litigation process is inherently uncertain and it is possible that the resolution of such matters could have a material adverse effect upon our financial condition and/or results of operations.

ITEM 1A. RISK FACTORS.

We are a "smaller reporting company" as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information required under this item.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

In accordance with convertible note agreements, delinquent filings of our annual and quarterly reports are subject to default provisions. As of the date of filing, we were delinquent in filing our reports for the quarters ended November 30, 2014, and February 28, 2015 and were late in filing our annual report for the year ended August 31, 2014. These delinquencies trigger defaults in the terms of outstanding loan covenants for which monetary penalties are accruing. We estimate these costs to be approximately \$360,000, which satisfaction will require additional issuance of common stock, in accordance with conversion terms of those agreements. We estimate that an additional 1,807,095,000 shares of common stock will be required to be issued in satisfaction of these terms.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

Exhibit Number	Description
31.1	Certification by Principal Executive Officer pursuant to Rule 13a-14(a)/ 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Principal Financial and Accounting Officer pursuant to Rule 13a-14(a)/ 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32 (1)	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Cash Flows and (iv) related notes.

(1) Furnished herewith.

SIGNATURES

In accordance with Section 13 or 15(d) 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.

RED GIANT ENTERTAINMENT, INC.

Date: July 17, 2015

By: /s/ Benny R. Powell

Benny R. Powell
Chief Executive Officer & Principal Executive Officer,
Chief Financial Officer & Principal Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO THE SECURITIES EXCHANGE ACT OF 1934,
RULES 13a-14(a) AND 15d-14(a)
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Benny R. Powell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended May 31, 2015 of Red Giant Entertainment, Inc. (the “registrant”).
2. Based upon 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 upon 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. As the registrant’s sole certifying officer, I am 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 control and procedures, or caused such disclosure controls and procedures to be designed under my 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 my 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 my 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.
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrants’ board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weakness 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: July 17, 2015

/s/ Benny R. Powell

Benny R. Powell,
CEO

(Principal Executive Officer)



CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO THE SECURITIES EXCHANGE ACT OF 1934,
RULES 13a-14(a) AND 15d-14(a)
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Benny R. Powell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended May 31, 2015 of Red Giant Entertainment, Inc. (the “registrant”)
2. Based upon 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 upon 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. As the registrant’s sole certifying officer, I am 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 control and procedures, or caused such disclosure controls and procedures to be designed under my 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 my 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 my 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.
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrants’ board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weakness 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: July 17, 2015

/s/ Benny R. Powell

Benny R. Powell,
CFO

(Principal Financial Officer)



CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Red Giant Entertainment, Inc. (the "Company") on Form 10-Q for the period ending May 31, 2015 as filed with the Securities and Exchange Commission on the date hereof, the undersigned, Benny R. Powell, CEO, President, and Chief Financial Officer, of the Company, certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1. 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 result of operations of the Company.

Date: July 17, 2015

/s/ Benny R. Powell

Benny R. Powell,
CEO, President, Chief Financial Officer
(Principal Executive and Financial Officer)

This certification accompanies the Report pursuant to Rule 13a-14(b) or Rule 15d-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liability of that section. This certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates it by reference.
