AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 13, 2011
File No. 000-54389

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

Amendment No. 2

FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES
Pursuant to Section 12(b) or (g) of The Securities Exchange Act of 1934

PACIFIC ENTERTAINMENT CORPORATION

(Exact name of registrant as specified in its charter)

California	20-4118216
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5820 Oberlin Drive, Ste 203, San Diego, California	92121
(Address of principal executive offices)	(Zip Code)

Copies to:

Gretchen Cowen, Esq.
Law Offices of Gretchen Cowen, APC
6100 Innovation Way
Carlsbad, California 92009
(760) 931-0903

Registrant's telephone number, including area code (858) 450-2900

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

Title of each class to be so registered	Name of each exchange on which each class is to be registered
None	n/a

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

Common stock, no par value
(Title of class)

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One).

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

Table of Contents

You should consider the areas of risk described in connection with any forward-looking statements that may be made herein, which address additional factors that could cause our actual results to differ from those set forth in the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements and readers should carefully review this registration statement in its entirety. Except for our ongoing obligations to disclose material information under the Federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. These forward-looking statements speak only as of the date of this registration statement, and you should not rely on these statements without also considering the risks and uncertainties associated with these statements and our business.

Forward Looking Statements

There are statements in this Registration Statement that are not historical facts. These "forward-looking statements" can be identified by use of terminology such as "believe," "hope," "may," "anticipate," "should," "intend," "plan," "will," "expect," "estimate," "project," "positioned," "strategy" and similar expressions. You should be aware that these forward-looking statements are subject to risks and uncertainties that are beyond our control. Although we believe that the expectations reflected in such forward-looking statements, including those regarding future operations, are reasonable, we can give no assurance that such expectations will prove to be correct. Forward-looking statements are not guarantees of future performance and they involve various risks and uncertainties. Forward-looking statements contained in this document include statements regarding our proposed products, market opportunities and acceptance, expectations for revenues, cash flows and financial performance, and intentions for the future. Such forward-looking statements are included under Item 1. “Business” and Item 2. “Financial Information - Management’s Discussion and Analysis of Financial Condition and Results of Operation.” All forward-looking statements included in this document are made as of the date hereof, based on information available to us as of such date, and we assume no obligation to update any forward-looking statement. It is important to note that such statements may not prove to be accurate and that our actual results and future events could differ materially from those anticipated in such statements. Among the factors that could cause actual results to differ materially from our expectations are those described under Item 1. “Business” and Item 2. “Financial Information - Management’s Discussion and Analysis of Financial Condition and Results of Operations.” All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this section and other factors included elsewhere in this document. You should assume that the information contained in this document is accurate as of the date of this Form 10 only.

Item 1. Business.

General

Pacific Entertainment Corporation (“we”, “us”, “our” or the “Company”) was formed and commenced operations in January 2006. The primary business focus of the Company is the development and production of family and children’s DVDs and CD music products under the “Baby Genius” and related brands, including “Kid Genius,” “Wee Worship,” “123 Favorite Music,” “Child Genius” and “Little Genius”. We also have third party licensing agreements to develop musical products under other brands, such as “Guess How Much I Love You,” “The Snowman,” and “Precious Moments”. The Company also licensed eight DVDs created by Precious Moments Inc., for which we pay royalties based on the net sales of the products.

In addition to the distribution of our CD and DVD products, we have developed and will continue to develop multiple revenue streams which include worldwide licensing and merchandising opportunities for toys, books, shoes, socks, infant and toddler layette items, and other customer products that have been inspired by our brands or which we feel we can market and sell through our distribution channels. The Company is committed to providing the very best in children's education and developmental entertainment, as well as quality items based on our brand and licensed characters. Following is a summary of our revenues, assets and net losses for our two most recent fiscal year and the three month periods ended March 31, 2011 and 2010:

	Years Ended December 31,	
	2010	2009
Total Revenue	$ 3,972,663	$ 3,303,038
Net Loss	$ (692,883)	$ (1,850,891)
Total Assets	$ 2,299,748	$ 2,374,133
Total Liabilities	$ 3,590,964	$ 3,286,123
Accumulated Deficit	$ (6,768,156)	$ (6,075,273)

	Three Months Ended March 31,	
	2011	2010
Total Revenue	$ 1,307,177	$ 975,598
Net Loss	$ (172,806)	$ (316,252)
Total Assets	$ 2,000,740	$ 2,299,748
Total Liabilities	$ 3,231,745	$ 3,590,964
Accumulated Deficit	$ (6,940,962)	$ (6,768,156)

We anticipate a reduction in royalty revenue during the remaining quarters of 2011 and the first and second quarters of 2012 from 2010 levels due to the termination of one license agreement for toys and the anticipated commencement of sales of a new licensed toy line in Fall 2012. See "Products" below. We are unable to predict the amount of the overall reduction as we cannot know how many toys would have been sold under the old agreement or predict sales of the new line.

Our management team continues to evaluate new opportunities and revenue streams for the Company and, in 2010, we launched a line of DVDs containing classic movies and television programs (films or shows that were made during the Hollywood studio system era (pre-1970s) or which have received significant recognition, either at the time they were released or subsequently), under the brand "Pacific Entertainment Presents". We also occasionally provide remainder sales services to entertainment studios and select retailers seeking to sell overstocked or discontinued merchandise such as DVD, CDs, electronic games and other merchandise, for which we receive commissions.

Of course, all of our products will need to be accepted by our target audience, the licensees and the retailers.

Distribution

The "Baby Genius," "Kid Genius," "Wee Worship," "123 Favorite Music," "Child Genius" and "Little Genius" brands were acquired by the Company in January 2006 when it assumed all of the rights and obligations of its Chief Executive Officer, Klaus Moeller, under an asset purchase agreement between Mr. Moeller and Genius Products, Inc. ("Genius Products") for the purchase of all rights, copyrights and trademarks to the brands as well as all then existing DVD and CD releases under these titles, rights to original music, and DVD footage. The purchase price of $3,000,000 for the assets was payable over a term of five years subject to two 4.5% full-recourse, secured promissory notes. At the same time, the Company was required to execute an exclusive distribution agreement with Genius Products for a distribution fee equal to 20% of net sales until the full purchase price had been paid.

In 2008, the Company and Genius Products entered into certain settlement agreements for the early satisfaction of the notes through the extinguishment of all monetary obligations between the parties and the relinquishment of existing inventory to the Company, as well as for the early termination of the distribution agreement. Since that time, these DVD and CD products have been primarily self-distributed by the Company through direct relationships with customers. However, we also continue to utilize third party distributors for U.S. and international sales of these products. Total aggregate sales of these products through third party distributors for the twelve month period ended December 31, 2010 was approximately 11%.

Where we have licensed our brands for production of additional product lines, such as toys, books and clothing products, the products are primarily distributed by the licensee through the licensee's marketing channels, although we may have opportunities for direct distribution through our website at www.babygenius.com.

We also have third party licensing agreements to develop musical products under other brands, such as "Guess How Much I Love You" and receive revenue and pay a royalty for distributing those products through our distribution channels.

Most of our CDs and DVDs are self distributed and we experience a significant risk of concentration of customers on our self-distributed products because two of our customers each represented in excess of 10% of sales during our last fiscal year. In the event we were to lose one of these accounts, it could have an adverse impact on our results of operations or financial condition to the extent we could not replace sales through distribution to other customers, new or existing. CD and DVD products are also distributed through third party distributors, the largest of which represented 3.9% of gross sales in 2010.

To the extent we enter into license agreements that are exclusive as to particular products or territories or both, it creates a risk of concentration because we will have only one licensor distributing their products in those territories and will be substantially dependent upon their marketing efforts to increase sales. The loss of an exclusive licensee, or the failure of an exclusive licensee to adequately market and sell products produced by them in those exclusive territories, could adversely impact our revenue and, consequently, have an adverse impact on our results of operations and financial condition. We currently have only one exclusive license agreement, which is with Jakks Pacific. See "Products" below. That license gives Jakks Pacific the sole right to manufacture, market and distribute certain products, including learning and developmental toys based on our brand and characters, on a world-wide basis for a period of five years. To the extent it does not successfully sell the toys in each market, we will experience less royalty income from the license of our brand for those products and will be unable to offset the reduced royalties through licenses of such products to other parties or by directly manufacturing and distributing competing products.

Products

Our products consist primarily of family and children's DVD and CD music products. These products are manufactured and sold under brand names such as "Baby Genius", "Kid Genius", "Wee Worship", "123 Favorite Music" and "Pacific Entertainment Presents". The Company released two new music products, "50 Classic Lullabies & Soothing Songs" and "Favorite Guitar and Piano Melodies" for pre-order in June 2010. We released another new music title, "Best of Baby Genius" in January 2011. We also began production of a new DVD based on the concept of shapes and colors, scheduled for release in 2011. The entire library of Baby Genius DVD and CD music products includes both English and Spanish versions.

We also license our Baby Genius brand for various product lines including toys, books, games and puzzles, clothing and layette items, sippy cups, and early learning aids, as well as others, and receive royalties based on sales of these products.

On December 17, 2009, we signed an agreement with Battat Incorporated whereby our brand was licensed to Battat for development and introduction to retail stores of a line of 24 toys in August 2009. The license granted Battat an exclusive license for the manufacture, marketing and distribution of a toy line based on the Baby Genius brand in the United States and Canada, and non-exclusive rights of distribution in other parts of the world. When it became clear that minimum sales requirements for 2011 would not be met, this license was terminated according to its terms in December 2010. At that time, we extended the sell-off period to allow Battat the right to continue to distribute the existing line of toys through late Spring 2011, although there is no guarantee that there will be additional sales of the products during the second quarter of 2011.

On January 11, 2011, the Company signed a five-year, world-wide license agreement with Jakks Pacific's Tollytots® division for a new toy line to be distributed world-wide. As a result of the agreement, Tollytots® immediately began development on a comprehensive line of musical and early learning toys, incorporating the music, characters and themes associated with our *Baby Genius* series of videos and music CDs. As described above under "Distribution", the new toy line will cover a broad range of exclusive categories including learning and developmental toys, most plush toys, and musical toys which Jakks Pacific has the sole right to manufacture, market and distribute on a world-wide basis. It also allows Jakks Pacific a non-exclusive right to manufacture, market and distribute products in several non-exclusive categories, including board games, puzzles, electronic learning aids and amusement plush toys, where we may already have other licenses who produce similar products or may grant licenses for such products to new parties in addition to Jakks Pacific. We will receive quarterly royalties from sales of products developed under the agreement by Tollytots. The Company will have rights to sell product developed under the license agreement directly via its website subject to availability of inventory from Tollytots. The agreement provides for certain guaranteed minimum payments to the Company for each contract year. The agreement is subject to early termination by the Company in specified territories in the event minimum sales requirements in those territories have not been met in any contract year. Currently, Tolltots has several toys in development for the line, including musical and early learning toys, and we anticipate that these toys will be ready for retail sales in the third quarter of 2012.

We anticipate a reduction in revenues during the remaining quarters of 2011 and the first and second quarters of 2012 from 2010 levels due to the gap between the cessation of sales by Battat in Spring 2011 and the anticipated commencement of sales of the Tollytot line in Fall 2012. We are unable to predict the amount of the reduction in revenue with certainty as we could not predict the amount of sales that would have been made by Battat during the period had the line had not been cancelled and cannot predict with certainly the degree to which the loss in sales of the Battat line will be offset by other royalty income.

We will continue to explore the potential for derivative products under the Baby Genius brand to expand brand awareness and sales. For instance, we have created custom products using the Baby Genius brand for several book and music premiums, including Taco Bell and Gerber. For example, through an agreement with a third party licensee, we created small books based on our characters specifically for Taco Bell which could be inserted as a gift in kids meals purchased at Taco Bell locations.

During June 2010, the Company introduced a line of DVDs including classic movies and television programs (films or shows that were made during the Hollywood studio system era (pre-1970s) or which have received significant recognition, either at the time they were released or subsequently), "Pacific Entertainment Presents". Initially consisting of seven titles, each focusing on a specific genre such as Horror, Western, SciFi, Action, Mystery, War, and Gangster, an additional six titles were added in late 2010 expanding the line with the Super Hero's collection as well as Family Favorites.

On September 20, 2010, the Company entered into a joint venture agreement between the Company and Dr. Shulamit Ritblatt to form Circle of Education, LLC (COE), a California limited liability company, for the purpose of creation and distribution of a curriculum to promote school readiness for children ages 0-5 years. The Company commissioned research into the use of music-based curriculum through San Diego State University over the past two to two and a half years based on certain unregistered copyrights and trademarks, confidential information, designs, ideas, discoveries, inventions, processes, research results and work product it had developed. Dr. Ritblatt, who holds a Doctorate of Philosophy in Child Development and Family Relations has conducted research into child development and has experience developing early learning curriculum for children. To date, COE continues to develop its product concept and has not introduced any products to market. We currently anticipate that the initial product will be ready for presentation to retailers in the third quarter of 2011 and be available for sale in the fourth quarter of 2011. However, we cannot guarantee a schedule for introduction, as the final product is still in development. For more information regarding the terms of the joint venture agreement between the Company and Dr. Ritblatt, see the sub-heading "Circle of Education Joint Venture Agreement" below.

We have third party licensing agreements to develop musical products under other brands, such as "Guess How Much I Love You," "The Snowman" and "Precious Moments". The Company also licensed the rights to eight DVDs created by Precious Moments in exchange for royalty payments on net sales of the DVD products. Through an exclusive licensing agreement with the San Diego Zoological Society, we created a series of Baby Genius DVD's featuring footage from the San Diego Zoo and San Diego Wild Animal Park. We will continue to investigate partnerships which may lead to valuable additions to our product lines.

Circle of Education Joint Venture Agreement

Circle of Education, LLC ("COE") was formed pursuant to the joint venture agreement between the Company and Dr. Shulamit Ritblatt referenced above. Although the agreement provides the Company with a 75% voting interest in the Company, with the remaining 25% being held by Dr. Ritblatt, the Company holds only 10,000,000 of the 15,000,000 currently issued and outstanding units of COE. The Company agreed to allow COE to hold 5,000,000 of the units which would otherwise have been issued to it in reserve and to allow the sale of those units to raise additional capital for COE if needed. On the two-year anniversary of the agreement, any remaining portion of the reserved units will be issued to the Company. To the extent the reserved units are issued to any third party, the Company's voting interest in COE will be adjusted accordingly.

To date, none of the reserved units has been sold and COE has no current plans to conduct a private offering to raise additional funds. The Company has continued to fund product development and operations for COE and anticipates that it will continue to do so at least until COE generates sufficient cash flow from operations to fund future cash requirements for its general operations and additional product development. The Company cannot estimate the amount of cash expenditures or the duration of its continued support at this time. The Company provided approximately $53,008 in funding to COE during the fiscal year ended December 31, 2010, and an additional $22,700 during the first quarter of 2011.

Until the combined ownership interest of the Company and Dr. Ritblatt in COE is reduced to 50% or less of all outstanding units, certain actions require a supermajority vote of the members of COE equal to 90%. These actions include the merger, consolidation or other business combination of COE, material changes in the business of COE, amendment of the charter documents, removal of managers or an action that would result in reclassification of COE for tax purposes.

Pursuant to the joint venture agreement, COE was established with a board of managers consisting of three managers appointed by the Company and one manager appointed by Dr. Ritblatt. In the event any of the reserved units or any additional units are sold to third parties, an additional manager will be appointed to the board. Each member of the board of managers may only be replaced by the party who appointed that member. Pursuant to the agreement, each of the Company and Dr. Ritblatt have agreed to vote their units in favor of the appointment of the other partner's nominees to the board of managers.

The agreement provided for the initial appointment of Mr. Larry Balaban as the Chief Executive Officer of COE. In April 2011, Mr. Balaban resigned that position and was replaced by Mr. David Ritblatt, who is also the husband of Dr. Shulamitt Ritblatt. The agreement includes buy-sell provisions between the partners (including rights of first refusal, tag-along rights (forcing the selling partner to include you) and drag-along rights (forcing the other partner to sell)). Drag-along rights are only triggered under the agreement in the event of receipt of an offer to purchase 90% or more of the outstanding units of COE at fair market value. All such rights will terminate in the event of a public offering by or a change of control of COE. Following the two-year anniversary of the agreement, either of the partners may convert their units in COE into shares of the Company's common stock. We are unable to determine at this time how many shares would be issued upon such a conversion since the conversion price is tied to the fair market value of our common stock on the date of conversion as well as the value of the units.

The operating agreement for COE, which will control the Company's relationship with any new investors in the limited liability company, includes rights of first refusal in favor of COE and all remaining members, including the Company, in the event any member sells an interest in the limited liability company. The operating agreement incorporates the governance terms of the joint venture agreement, including the composition of the board of managers.

Marketing

We market our products in a variety of ways, including through our website at www.babygenius.com. The website was completely redesigned and packaged with new interactive features, and launched the Baby Genius Club in Spring 2009. The club offers ways for parents and caregivers to enrich their child's Baby Genius experience with exclusive, members-only promotions, merchandise discounts, opportunities to earn points toward future purchases and a membership kit.

Other features on the website include a dedicated "Circle of Education" section, games and activities, and a room for parents to share their experience with other parents, read testimonials, gets tips on parenting and link to external websites for important information.

We are developing the "Circle of Education" musical based system for early learning to help prepare children for socialization and education. The curriculum and songs are being developed in conjunction with Dr. Shulamit Ritblatt, Ph.D., Department Chair at the San Diego University Department of Child and Family Development, who is spearheading a research project that exposes young children through music to behavior and knowledge that they will need to succeed in kindergarten. We presented a live concert, featuring Grammy winner Patti Austin, to promote the introduction of the program, in addition to media appearances by Larry Balaban, our Chief Creative Officer.

During the introduction of the Baby Genius toy line in 2009, the Company conducted marketing programs that included print and online advertising, marketing programs targeting mothers with children one to five years old, DVD and CD inserts cross-promoting the product lines, on-air spots running on Comcast and Cox VOD, and a dedicated national publicity campaign, including a television media tour hosted by C.O.O., Larry Balaban. We anticipate that sales will continue to be made by Battat through Spring 2011; however, we cannot guarantee that any sales will be made by Battat in the second quarter of 2011.

We make 12-minute segments of our DVD products available "On-Demand" through Comcast and Cox Communications. We neither pay nor receive royalties for the airing of these segments, which are geared toward gaining exposure of our products.

We utilize multiple forms of media to market our brand for all products. We engage in print campaigns and our Chief Creative Officer, Larry Balaban, has made a number of appearances on television in an effort to create and expand consumer awareness of our products, including appearances on Good Morning America Now, the Today Show, Health Corner, ABC Now, Money Matters, Fox Business, Comcast Babyboost, CN8 PHIL, Dr. Lisa and NBC 4 NY. Our print advertising has reached consumers through a number of English and Spanish publications in the United States, including *Today's Family Magazine*, *The Parent Guide*, *Parents Magazine*, *Parenting Magazine*, and WomansDay.com, among others. Through distributors, promotional partners and direct marketing, we plan to market our brand worldwide. Currently, we have licensed broadcast deals in over one hundred countries around the world, audio deals in five countries, DVD deals in fourteen countries, and VOD deals in three countries.

Competition

Our Baby Genius brand competes with other brands in the 0 to 60 month age range that produce DVDs and CDs, books and other branded, licensed products, including toys. Some of our main competitors are Baby Einstein, Brainy Baby, So Smart, The Wiggles and Sesame Baby.

The main competition for our DVD and CD products comes from the major studios, such as Disney and Universal Studios that produce a large volume of children's programming, including our main competition, the "Baby Einstein" brand. The next level of competition is from other independent production companies, distributors and content producers/owners. To be competitive, we must produce high quality creative productions and must develop the reputation and contacts to meet with the principal players in this industry.

We believe that our Baby Genius brand is positioned in the market as a high quality, value brand. Each Baby Genius DVD includes all tracks in both English and Spanish. The DVDs are packaged with companion music CDs. We believe this additional music CD with no additional cost to the consumer adds value to our products and, with our broad, multi-media marketing campaign, we believe we are positioned competitively to reach both English and Spanish consumers. Although many of our competitors have more resources than we do, we have specifically designed our marketing campaign to reach consumers in the preschool entertainment and education market even if our exposure is not as broad as some of our competitors.

We also introduced a toy line in August 2009 through a licensing arrangement with toy manufacturer, Battat Incorporated, which Battat has a right to sell through Spring 2011, and have launched a series of books based on the Baby Genius brand through Meadowbrook Press and distributor Simon & Schuster. Our primary competitors for these products are Playskool, Fisher Price, Little Tykes and Leapfrog. However, we will also face intense competition for retail shelf space for these products and will compete with a variety of other toys and books offered by those retailers in addition to products produced by our primary competitors in the DVD and CD markets.

During 2010, the Company introduced a line of classic movies and television programs, "Pacific Entertainment Presents". The primary competition for this line of products is various studios that also have lines of products considered in the public domain.

Customers and Licensees

For fiscal year 2010, the revenue from three customers or licensees comprised 27.6%, 16.3% and 14.1% of the Company's total revenue, one of which reflects royalty income from Battat Incorporated. Those three accounts made up 39.1%, 0%, and 0% of the total accounts receivable balance at December 31, 2010, respectively. For fiscal year 2009, the Company had revenue from three accounts comprised of 28.5%, 13.7% and 11.5% of the Company's total revenue, which are not necessarily the same as those reflected for 2010. Those three accounts made up 24.2%, 0%, and 0% of the total accounts receivable balance at December 31, 2009, respectively. As indicated above under "Distribution," there is significant financial risk associated with a dependence upon a small number of customers or licensees. The license agreement with Battat Incorporated was terminated when it became clear that Battat would not meet certain minimum sales requirements stated in the agreement. As a result of the loss of that revenue stream from Spring 2011 (when Battat is required to cease making sales) to the introduction of the new toy line by Tollytots in Fall 2012, we will experience a significant gap in revenue from royalties which we may not be able to offset with increased sales from our DVD and CD products or from other licensees. If we were to lose one of the customers for our DVD and CD products, the loss in revenue could also adversely impact our results of operations and financial condition to the extent we were unable to offset the loss in sales with additional sales to new or existing customers. The Company periodically assesses the financial strength of these customers and establishes allowances for any anticipated bad debt. At December 31, 2010 and 2009, no allowance for bad debt has been established for the these customers as these amounts are believed to be fully collectible.

Seasonality

Our business has reacted to seasonal influence, such as the holiday season. We generally anticipate increased sales in the third and fourth quarters principally due to sales from the holiday season. Due to the seasonality of our sales, we expect quarterly results to fluctuate. Our results of operations may also fluctuate significantly as a result of a variety of other factors, including changing consumer tastes and the marketing efforts of our distributors.

Government Regulation

We are currently subject to regulations applicable to businesses generally, including numerous federal and state laws that impose disclosure and other requirements upon the origination, servicing, enforcement and advertising of credit accounts, and limitations on the maximum amount of finance charges that may be charged by a credit provider. Although credit to our customers is provided by third parties without recourse to us based upon a customer's failure to pay, any restrictive change in the regulation of credit, including the imposition of, or changes in, interest rate ceilings, could adversely affect the cost or availability of credit to our customers and, consequently, our results of operations or financial condition.

Licensed toy products are subject to regulation under the Consumer Product Safety Act and regulations issued thereunder. These laws authorize the Consumer Product Safety Commission (the "CPSC") to protect the public from products which present a substantial risk of injury. The CPSC can require the manufacturer of defective products to repurchase or recall such products. The CPSC may also impose fines or penalties on manufacturers or retailers. Similar laws exist in some cities and other countries in which we plan to market our products. Although we do not manufacture and may not directly distribute the toy products, a recall of any of the products may adversely affect our business, financial condition, results of operations and prospects.

We also maintain websites, including our website located at www.babygenius.com, and are subject to laws and regulations directly applicable to Internet communications and commerce, which is a currently developing area of the law. The United States has enacted Internet laws on children's privacy, copyrights and taxation. However, laws governing the Internet remain largely unsettled. The growth of the market for Internet commerce may result in more stringent consumer protection laws, both in the United States and abroad, that place additional burdens on companies conducting business over the Internet. We cannot predict with certainty what impact such laws will have on our business in the future. In order to comply with new or existing laws regulating Internet commerce, we may need to modify the manner in which we conduct our website business, which may result in additional expense.

Because our products are manufactured by third parties and licensees, the Company is not significantly impacted by federal, state and local environmental laws and does not have significant costs associated with compliance with such laws and regulations.

Research and Development

The Company engages in the development of new products as part of its ongoing business. In accordance with FASB Accounting Standards Codification regarding the topics of Intangible Assets (350) and Research and Development (730), the costs of new product development and significant improvement to existing products are capitalized while routine and periodic alterations to existing products are expensed as incurred. We capitalized as intangible assets and capitalized product development in process $210,742 and $166,227 for the years ending December 31, 2010 and December 31, 2009, respectively. The amount expensed for product development in the years ending December 31, 2010 and December 31, 2009 are $7,796 and $46,531, representing updates to existing products which may include changes to artwork and/or content. The Company is responsible for the entire expenditure of any research and development of new products, with the exception of licensed product development costs borne by the licensee. Research and development costs are generally passed on to customers through pricing of our products.

Employees

We currently have twelve employees, all of whom are full-time employees.

Insurance

We currently maintain commercial general liability and directors and officers insurance in levels deemed to be appropriate for the size and complexity of the Company.

We currently maintain no insurance coverage against trademark and copyright infringement protection. Although there have been no claims made against the Company, there is no assurance that the Company would have sufficient insurance to cover such claims or that we would prevail against any future claim. Successful claims could have a serious adverse effect upon our financial condition and our future viability.

The Company maintains workman's compensation coverage as required by the laws of the states in which we have employees.

Intellectual Property

We strive to obtain ownership rights in the content included in our DVD and CD products, and currently own the majority of sing-a-long and instrumental (non-classical) songs included in those products. However, because there are many songs which are not available in the public domain and which we think make desirable additions to our products (for instance, classical music), we license some songs included in our products from third party licensors such as the Harry Fox Agency and NAXOS. Currently, we are licensing approximately 25 songs through these agencies under terms generally available to the market. We pay royalties on licensed songs and, should any of the songs no longer be available for licensing, we would need to make adjustments to our exiting products to remove or replace them. Other songs could be used and the cost of the change would be minimal.

We own the trademarks "Baby Genius", "Kid Genius", "Child Genius", "Wee Worship" and "Little Genius," as well as trademarks on characters developed for our DVD releases and associated with our different brands. We will obtain trademarks for any additional titles. We currently hold fourteen registered trademarks in multiple classes in the United States. We hold additional trademarks in the United States that are associated with our other brands and we also have a number of registered and pending trademarks in Europe and other countries in which our products are sold.

We currently hold eleven motion picture and thirteen sound recording copyrights related to our DVD and CD products. However, we do not generally file for copyright protection for our productions, but rely on common law principles and agreements with our vendors and content providers to secure our rights in the intellectual property aspects of our products. We do not currently hold patents with respect to any of our products.

The Company had commissioned research into the use of music-based curriculum through San Diego State University and had developed certain unregistered copyrights and trademarks, confidential information, designs, ideas, discoveries, inventions, processes, research results and work product based on the research results. The Company obtained an initial voting and economic interest of seventy-five percent of the outstanding units of the newly formed limited liability company, Circle of Education, LLC, in exchange for the contribution of all of these rights and any other interests of the Company in the Circle of Education program. COE is in the process of registering trademarks associated with its name.

Item 1A. Risk Factors.

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

Item 2. Financial Information.

Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion and analysis of our results of operations, financial condition and liquidity and capital resources should be read in conjunction with our audited financial statements and related notes for the fiscal years ended December 31, 2010 and 2009 and the unaudited consolidated financial statements for the three month periods ended March 31, 2011 and 2010. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements.

Safe Harbor for Forward-Looking Statements

When used in this statement, the words "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," and similar expressions are intended to identify forward-looking statements regarding events, conditions, and financial trends that may affect the Company's future plans of operations, business strategy, operating results, and financial position. Persons reviewing this report are cautioned that any forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties and those actual results may differ materially from those included within the forward looking statements as a result of various factors. Such factors include, among other things, uncertainties relating to our success in judging consumer preferences, financing our operations, entering into strategic partnerships, engaging management, seasonal and period-to-period fluctuations in sales, failure to increase market share or sales, inability to service outstanding debt obligations, dependence on a limited number of customers, increased production costs or delays in production of new products, intense competition within the industry, inability to protect intellectual property in the international market for our products, changes in market condition and other matters disclosed by us in our public filings from time to time. Forward-looking statements speak only as to the date they are made. The Company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

Our Business

Pacific Entertainment Corporation ("we", "us", "our" or the "Company") commenced operations in January 2006, assuming all of the rights and obligations of its Chief Executive Officer, Klaus Moeller, under an Asset Purchase Agreement between the Company and Genius Products, Inc., in which we obtained all rights, copyrights, and trademarks to the brands "Baby Genius", "Little Genius", "Kid Genius", and "Wee Worship", and all then existing productions under those titles. We provide family entertainment and music-based products that we believe will be entertaining, educational and beneficial to the well-being of infants and young children. We create, market and sell children's DVDs, CD music, toy, and book products in the United States by distribution at wholesale to retail stores and outlets. We also license the use of our brands internationally to others to manufacture, market and sell the products, whereby we receive advances and royalties. This includes approximately seven active licenses to produce children's games and puzzles, electronic learning aids, "sippy cups," shoes, socks and infant and toddler layette items pursuant to which we receive royalties on sales made by the licensees. We will continue to explore new licensing opportunities for our brands to increase brand awareness and to develop additional revenue streams through royalties.

The Company released two new music products, "50 Classic Lullabies & Soothing Songs" and "Favorite Guitar and Piano Melodies" for pre-order in June 2010. We have released another new music title, "Best of Baby Genius" in January 2011. We also began production of a new DVD based on the concept of shapes and colors, scheduled for release in 2011.

In August 2009, the Company launched a line of Baby Genius pre-school toys. The line of 24 Baby Genius toys, manufactured by toy manufacturer, Battat Incorporated, includes musical, activity, and role-play toys that incorporate the Baby Genius principle of music as a core learning tool to engage and encourage children to communicate, connect, discover, and use their imagination. The Company cancelled the agreement in December 2010 according to the terms of the contract, permitting Battat to continue selling the current line of toys until late Spring 2011.

On January 11, 2011, the Company signed a world-wide license agreement with Jakks Pacific's Tollytots® division for a new toy line. As a result of the five-year agreement, Tollytots® immediately began development on a comprehensive line of musical and early learning toys, incorporating the music, characters and themes from the *Baby Genius* series of videos and music CDs. The new toy line will cover a broad range of exclusive categories including learning and developmental toys, most plush toys and musical toys, as well as several non-exclusive categories, including board games, puzzles, electronic learning aids and amusement plush toys.

The Company, in partnership with Dr. Shulamit Ritblatt, has developed "Circle of Education," an early childhood education curriculum using music as the basis for skills required to prepare pre-school children for Kindergarten. This product is designed to assist teachers and parents in providing their pre-school children with the skills required to succeed in their first steps of education. Circle of Education, LLC was formed on September 24, 2010, pursuant to a joint venture agreement between the Company and Dr. Ritblatt. The Company obtained an initial voting and economic interest of seventy-five percent of the outstanding units of the newly formed company in exchange for the contribution of all intellectual property rights the Company had in the Circle of Education program. As of December 31, 2010, we have recognized an investment in the new property of $53,008. There is no income or expenses consolidated in the financial statements of the Company for the year ending December 31, 2010. In 2009, research and development costs were expensed by the Company in the amount of $28,455, in accordance with FASB Codification Topic 730, Research and Development.

The Company also obtains licenses for other select brands we feel we can market and sell through our distribution channels, including "Guess How Much I Love You," "The Snowman" and "Precious Moments".

During 2010, the Company launched a line of classic movies and television programs, "Pacific Entertainment Presents". Initially consisting of seven titles, each focusing on a specific genre such as Horror, Western, SciFi, Action, Mystery, War, and Gangster, an additional six titles were added in late 2010 expanding the line with the Super Hero's collection as well as Family Favorites.

Results of Operations

Please refer to the financial statements, including references to notes in the financial statements, which are included in this Form 10 and are incorporated herein by reference, for further information regarding the results of operations of the Company.

Fiscal Year Ended December 31, 2010 Compared to December 31, 2009

Our summary results are presented below:

	2010	2009
Revenues	$ 3,972,663	$ 3,303,038
Costs and Expenses	(4,012,788)	(4,318,076)
Depreciation and Amortization	(694,698)	(659,302)
Loss from Operations	(734,823)	(1,674,340)
Other Income	46,060	20,914
Interest Expense	(70,406)	(205,302)
Gain on Settlement of Debt	66,286	2,809
Gain/Loss on Disposition of Assets	-	5,028
Total Other Income	41,940	(176,551)
Net Loss	$ (692,883)	$ (1,850,891)
Net Loss per common share	$ (0.01)	$ (0.03)
Weighted average shares outstanding	54,757,285	54,351,487

Revenues. Revenues by product segment and for the Company as a whole were as follows:

	2010	2009
Direct PEC Product Sales	$ 1,661,809	$ 2,435,116
Licensed Products	1,278,385	158,754
Licensing & Royalties	1,032,469	709,168
Total Revenue	$ 3,972,663	$ 3,303,038

Direct product sales represent items in which the Company holds intellectual property rights such as trademarks and copyrights, whether registered or unregistered, to the characters and which are manufactured and sold by the Company directly at wholesale to retail stores and outlets. The decrease of the twelve month period ending December 31, 2010 versus the twelve month period ending December 31, 2009, was due in part to sales of approximately $558,700 during 2009 derived from inventory received from the various Genius Products settlement agreements (see Item 1. "Business - Distribution") that was sold at discounted pricing due to the age and condition of the inventory. Exclusive of these items, direct sales were approximately $1,876,000 in 2009, resulting in a decrease of $214,000 compared to 2010, or 8.8%, primarily due to the overall economic condition in the U.S. during the year as well as changes in the space allocated by retailers to DVD and CD products in general.

The licensed product sales category include items for which we license the rights from other companies to copyrights and trademarks of select brands we feel will do well within our distribution channels. In 2010, the Company launched a new line of classic movies and television programs under the "Pacific Entertainment Presents" brand which was well received during the holiday season. This resulted in approximately $476,000 in sales growth in this category. The remaining sales increase was due to sales of product from other studios acquired and sold through our distribution channels.

Licensing and royalties is revenue for our brands licensed to others to manufacture and/or market, both internationally and domestically. There may be fluctuation in licensing revenue due to economic conditions in the sales territory. Gross royalty income increased approximately $323,000 due to the toy line which was introduced in August 2009.

We continue to add new direct sales outlets and distribution partners and there continue to be additional sales opportunities we are actively pursuing, although it is possible that retailers will choose not to include our product line.

Gross Profit on revenue increased $156,802, or 8.3%, in 2010 as compared to 2009.

Our direct products compete in the pre-school music and DVD categories. We believe we compare favorably in the quality of our products, as well as competitive price point. In spite of the global economic decline we exhibited a minimal decrease in 2010, with an increase in 2009. We continue to market direct to retailers, although the Company continues to be challenged with retailer department changes, such as space limitations in DVD & CD departments.

Our licensed product category is expanding and we are adding additional titles. The challenges relating to this category are retailer department changes, including space limitations, as well as competition with other studios releasing similar products. There is no guarantee that the products will be accepted by the public or that retailers will elect to carry our line.

We are exploring new domestic and international licensing opportunities and investigating additional relevant external brands to license, adding to the diversity of our product line, while maintaining the integrity of our core mission of educating and entertaining families and children.

The Company's business is subject to the effects of seasonality, causing revenues to fluctuate with consumer purchasing behavior, competition, and the timing of holiday periods.

The 2011 economic outlook is uncertain, however, we anticipate but cannot guarantee continued sales growth through our actions to improve our existing products, maintaining highly competitive price points, adding content to our product offerings and adding additional channels of distribution.

Costs. Costs and expenses, excluding depreciation and amortization, consisting primarily of cost of sales, marketing and sales expenses, and general and administrative costs, decreased $305,288 (7.1%) for the twelve month period ended December 31, 2010 compared to the twelve month period ended December 31, 2009.

Cost of Sales increased $512,823, or 36.2%, during 2010 compared to 2009. The increase was a result of increased direct material costs of $417,856, royalties on licensed product lines of $44,872, and shipping of $40,461. The primary factors for the increases of direct materials and shipping costs were increased volume of product sales in 2010 as well as a reduced cost of materials sold resulting from inventory received as part of the settlement agreements with Genius Products that was sold in 2009. Increases in royalty costs are related to the gains in the licensed product category.

Selling, General and Administrative (SG&A) expenses consist primarily of salaries, employee benefits and stock based compensation as well as other expenses associated with executive management, finance, legal, facilities, marketing, rent, and other professional services. Costs associated with these categories are detailed as follows:

	2010	**2009**
General and Administrative	$ 1,397,191	$ 2,256,918
Marketing and Sales	678,188	597,837
Product Development	7,796	46,531
Total Selling, General, and Administrative	$ 2,083,175	$ 2,901,286

General and administrative costs for 2010 decreased $859,727. The decrease includes a decrease of $400,924 in stock compensation expense, a decrease of $449,209 in salaries and related costs, $52,255 of decreases for accounting services, and $22,687 decreased legal services costs. These decreased expenses were partially offset by increases of $41,251 for investor relations, $20,868 for insurance premiums, and $16,681 in rental expense. The increase in rental expense is partially offset in Other Income due to the sublease of the Del Mar, California offices.

Salary expenses for 2010 were reduced due to the Company's top four executives agreeing to a retroactive salary reduction for 2010 from a previously reduced level of $125,000 each per annum to $80,000 inclusive of car allowance. Each of these executives also receives an annual auto allowance of $11,400. Future salaries are anticipated to increase slightly in 2011, as the outside accounting services retained previously has converted to an employee position, although a corresponding decrease will occur in the accounting services cost. Future salary expense is also subject to the contractual salary increases discussed under "Item 6. Executive Compensation" below. Expenditures for SG&A are not generally seasonal and require consistent cash flow expenditures.

The stock compensation expense in 2009, for options granted at 110% of current market price to officers of the Company with a two year vesting period, was valued using the Black-Scholes model as required by Topic 718, Compensation, of the FASB Accounting Standards Codification. As the Company had the obligation to grant these stock options at the beginning of 2008, and the options were to vest partially during 2008, the Company accrued stock compensation expense of $810,898 and recorded a liability to the four officers in the same amount as of December 31, 2008. The remaining $486,539 of stock compensation expense was expensed in 2009. See "Item 6 . Executive Compensation" below. In addition, on December 31, 2009, Stock Option Grant Notices were issued to seven employees and service providers under the 2008 Stock Option Plan, as amended, for options to purchase 130,000 shares, fully vesting at December 31, 2009. These options were valued using the Black-Scholes model as of the date of the grant, and the full expense was recognized in 2009. In 2010, stock option grant notices were issued to various employees and consultants for the purchase of up to 840,000 shares, 540,000 vesting as of December 31, 2010 and 100,000 vesting each year thereafter in 2011, 2012 and 2013. The total expense recognized in 2010 was $117,610. There is no cash outflow associated with the granting of the options or recognition of the expense.

Accounting Services expenditures are primarily related to outside accounting firm fees for quarterly reviews and audit, as well as the annual audits performed for the years 2007 and 2008 charged in 2009 ($103,852). It is expected that the fees for future audits will remain at the reduced cost as the audits will be performed annually and improved processes have been implemented. The Company also engaged outside accounting services for support to the daily operational activities in both years.

Legal services expenditures decreases are primarily attributable to our Disclosure Statement filing with the Financial Investment Regulatory Agency (FINRA) to establish a secondary trading market on the OTC Market Group, Inc. systems, various licensing agreements, and activities caused by the bankruptcy of a licensee and subsequent recapture of inventory, all of which occurred in 2009.

Marketing and sales expenses increased 13.4% primarily due to commissions paid on the increased royalty revenue in 2010. This increase was offset by decreased expenditures in 2010 for advertising activities related to the 2009 launch of the toy line, public relations outside services, and development costs for the Circle of Education program expensed in 2009. Marketing activities include trade shows, public relations firms, and personal contact. Marketing expenses exhibit some fluctuation earlier in the year due to timing of trade shows.

Product development charges are for routine and periodic alterations to existing products. All costs for new product development and significant improvements to existing products are capitalized in accordance with FASB Accounting Standards Codifications Topic 350, Intangible Assets, and Topic 730, Research and Development Costs.

Interest Expense. Interest expense resulted from related party loans and debentures. A full discussion of the related party notes payable and debentures issued can be located in "Certain Relationships and Related Transactions" below.

Total interest expense decreased $137,011 for 2010 versus 2009 due to various repayments of Related Party loans and the termination of debenture interest payments with the establishment of a secondary trading market on the OTC Market Group, Inc. system.

Three Month Period Ended March 31, 2011 Compared to March 31, 2010

Our summary results of operations are presented below:

	Three Months Ended March 31,	
	2011	**2010**
Revenues	$ 1,307,177	$ 975,598
Costs and expenses	(1,404,008)	(1,121,389)
Depreciation and Amortization	(54,829)	(169,400)
Loss from Operations	(151,660)	(315,191)
Other Income	10,416	10,199
Interest Expense	(35,006)	(11,260)
Total Other Income	(24,590)	(1,061)
Net Loss	(176,250)	(316,252)
Net Loss attributable to Noncontrolling Interest	3,444	-
Net Loss attributable to Pacific Entertainment Corporation	$ (172,806)	$ (316,252)
Net Loss per common share	$ (0.00)	$ (0.01)
Weighted average shares outstanding	55,116,515	54,595,407

Revenues. Revenues by product segment and for the Company as a whole were as follows:

	Three Months Ended March 31,	
	2011	**2010**
Direct PEC Product Sales	$ 643,809	$ 373,458
Licensed Products	249,483	370,300
Licensing & Royalties	413,885	231,840
Total Revenue	$ 1,307,177	$ 975,598

Direct product sales represent items in which the Company holds intellectual property rights such as trademarks and copyrights, whether registered or unregistered, to the characters and which are manufactured and sold by the Company directly at wholesale to retail stores and outlets. The increase of the three months ended March 31, 2011 compared to the three months ended March 31, 2010, was due to sales through a direct to consumer offering with Groupon. Management believes that the Company is on target to increase direct product sales volumes over 2010, although economic and retail conditions in the market could impact our future sales in a negative manner and we are unable to guarantee increased sales. We continue to explore additional sales opportunities with retail and distribution customers; however, there is no guarantee that our products will be accepted by these new customers.

The licensed product sales category includes items for which we license rights from other companies to copyrights and trademarks of select brands we feel will do well within our distribution channels as well as overstock inventory from other studios which we sell and from which we receive income. For the three months ended March 31, 2011, the category decreased over the same period in 2010 as a result of a reduction in outside studio product acquired and sold.

Licensing and royalties is revenue for our brands licensed to others to manufacture and/or market, both internationally and domestically. New license royalty revenue, including the toy line launched in August 2009, as well as advances received on signing of license agreements, is responsible for the growth in this category. There may be fluctuation in licensing revenue due to economic conditions in the sales territory. We believe this revenue source will decrease during the remainder of 2011 due to the cancellation of the Battat toy license agreement and then increase in the subsequent years with the introduction of the new toy line currently in development with Jakks Pacific's Tollytots® division.

Our products compete in the pre-school music, books, DVDs, and toy categories. We believe we compare favorably in the quality of our products, as well as competitive price point. In spite of the global economic decline we have exhibited a growth in revenue in 2011. We continue to market directly to retailers and are exploring new domestic and international licensing opportunities. We are investigating additional relevant external brands to license, adding to the diversity of our product line, while maintaining the integrity of our core mission of educating and entertaining children.

The Company's business is subject to the effects of seasonality, causing revenues to fluctuate with consumer purchasing behavior, competition, and the timing of holiday periods.

The 2011 economic outlook remains challenging, however, we anticipate but cannot guarantee continued sales growth through our actions to improve our existing products, maintaining highly competitive price points, and adding content to our product pallet.

Costs. Costs and expenses, excluding depreciation and amortization, consisting of cost of sales, marketing and sales expenses, and general and administrative costs, increased $282,619 (25.2%) for the three months ended March 31, 2011, compared to the three months ended March 31, 2010.

Cost of Sales increased $83,538, or 17.8%, during the first quarter of 2011 compared to the same period of 2010 as a result of increased sales volumes and shipping costs.

Selling, General and Administrative ("SG&A") expenses predominately consists of salaries, employee benefits and stock based compensation as well as other expenses associated with executive management, finance, legal, facilities, marketing, rent, and other professional services. Costs associated with these categories are detailed as follows:

	Three Months Ended March 31,	
	2011	**2010**
General and Administrative	$ 480,284	$ 422,336
Marketing and Sales	364,552	228,683
Product Development	5,263	-
Total Selling, General, and Administrative	$ 850,099	$ 651,019

General and administrative costs increased $57,948 (13.7%) for the three months ended March 31, 2011 compared to the three months ended March 31, 2010. This is a result of increases in salaries and related expenses of $64,188, partially offset by a decrease in professional services expense of $32,805, due to the hiring of accounting staff previously outsourced and severance payments. The remaining increase is for investor relations expenses.

Marketing and sales expenses include trade shows, public relations firms, sales and royalty commissions and personal contact. Marketing expenses exhibit some fluctuation earlier in the year due to timing of trade shows. Increases in commission expense of $187,267 for the three months ended March 31, 2011 compared to the same period in the prior year were the result of the increase in royalty revenue associated with licensing agreements. There is also an associated reduction in expenses of $25,703 for a common marketing fund which was discontinued in January 2011.

Product development charges are for routine and periodic alterations to existing products. All costs for new product development and significant improvements to existing products are capitalized in accordance with FASB Accounting Standards Codification Topic 350, Intangible Assets and Topic 730, Research and Development.

Expenditures for SG&A are not generally seasonal and require consistent cash outflows.

Interest Expense. Interest expense resulted from related party loans and debentures.

The Company borrowed funds from four of the Officers of the Company during the years 2007 to 2009 and issued promissory notes in favor of the Officers. The proceeds from the notes were used to pay operating obligations of the Company. Interest expense was recorded in the three months ended March 31, 2011 and 2010 in the amounts of $4,008 and $11,260 for these officer notes, respectively. The decrease was due to partial repayments made in February 2011 and the last half of 2010.

On February 1, 2008, Isabel Moeller, sister of our Chief Executive Officer, Klaus Moeller, loaned $310,000 to the Company at an interest rate equal to 8% per annum. The funds were borrowed from Ms. Moeller in order to reduce outstanding obligations due to Genius Products, Inc. at that time. Subsequent agreements extended the maturity date to December 31, 2010 and reduced the stated interest rate to six (6%) percent per annum. The interest expense for the three months ended March 31, 2011 and March 31, 2010 was $5,294 and $5,412, respectively.

On September 30, 2010, four of the Officers agreed to convert accrued but unpaid salaries through September 30, 2010 to subordinated long term notes payable. In February 2011, as a result of an agreement by each of the four Officers to retroactively decrease the amount of the annual salary for 2010 from $125,000 per annum per Officer to $80,000, the amount of the notes were reduced to an aggregate of $1,620,137. The notes have a maturity of December 31, 2012 and a stated interest rate of six percent (6%) per annum, said interest accruing from October 1, 2010. For the three months ended March 31, 2011 and March 31, 2010, interest expense was recorded in the amount of $24,559 and $0, respectively.

Liquidity and Capital Resources

Fiscal Year Ended December 31, 2010 Compared to December 31, 2009

Cash and cash equivalents totaled $207,880 and $247,865 at December 31, 2010 and December 31, 2009, respectively. The change in cash and cash equivalents is as follows:

	Twelve Months Ending 12/31/2010	Twelve Months Ending 12/31/2009	Change
Cash provided/(used) by operations	$ 151,965	$ 199,586	$ (47,621)
Cash provided/(used) in investing activities	$ (261,636)	$ (187,876)	$ (73,760)
Cash provided/(used) in financing activities	$ 69,686	$ (311,569)	$ 381,255
Increase/(decrease) in cash and cash equivalents	$ (39,985)	$ (299,859)	$ 259,874

Our cash flow is very seasonal and a vast majority of our sales historically occurs in the last two quarters of the year as retailers expand inventories for the holiday selling season. Cash provided by operations decreased $47,621 over 2009 primarily due to increased net investment in working capital. Additional cash expenditures for capitalized product development were the result of production costs for new product designs and product masters (master recording of the DVD or CD) used to manufacture our CDs and DVDs, newly licensed product lines and the development of additional toys for the line launched in 2009. Cash was provided for financing activities by sales of common stock to accredited investors offset by repayment on a portion of the related party notes payable.

On April 6, 2010, the Company commenced a private placement offering to certain accredited investors pursuant to Rule 506 for up to 12,500,000 shares of common stock at a purchase price of $.40 per share. On July 13, 2010, the Board of Directors amended the offering to include the issuance of a warrant to purchase one additional share of common stock for each share of common stock sold through the offering. Each warrant expires three years from the date of purchase and has a stated exercise price of $0.40 per share. As of December 31, 2010, a total subscription of $188,443 had been received and 471,108 shares have been issued and warrants have been issued to purchase an addition 471,108 shares. Costs of the offering in the amount of $17,396 were offset against the common stock account through December 31, 2010.

Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010

Cash totaled $269,451 and $92,581 at March 31, 2011 and 2010, respectively. The change in cash is as follows:

	Three Months Ended March 31,		
	2011	2010	Change
Cash provided (used) by operations	$ (18,712)	$ (118,453)	$ 99,741
Cash provided (used) in investing activities	(64,717)	(36,831)	(27,886)
Cash provided (used) in financing activities	145,000	-	145,000
Increase (decrease) in cash and cash equivalents	$ 61,571	$ (155,284)	$ 216,855

Our cash flow is very seasonal and a vast majority of our sales historically occur in the last two quarters of the year as retailers expand inventories for the holiday selling season. Cash used by operations in the three months ended March 31, 2011, compared to 2010, decreased by $99,741 due to an increase in the accounts payable balances mitigated by an increase in inventory and a decrease in accrued salaries. Cash used in the same periods for investing activities relates to investment in additional music and DVD products and product masters used for the manufacturing process. The cash provided by financing activities for the three months ended March 31, 2011, is a result of sales of common stock pursuant to a private placement offering and repayment of related party notes.

During March and April 2011, we conducted a private placement to certain accredited investors only under Rule 506. As a result of the offering, the Company received subscriptions in the total amount of $225,000 during the three months ended March 31, 2011, which was not closed until April 2011.

Notes were issued in favor of four of the Officers for loans to the Company at various times during the years 2007 through 2009. Partial repayments were made on February 2, 2011 in the aggregate amount of $66,000. Interest expense was recorded in the three months ended March 31, 2011 and 2010 in the amounts of $4,008 and $11,260 for these officer notes, respectively.

On September 30, 2010, four of the Officers agreed to convert the amounts outstanding as unpaid salaries through September 30, 2010 to notes payable. The notes, in the aggregate amount of $1,870,337, have a maturity of December 31, 2012 and a stated interest rate of six percent (6%) per annum, said interest accruing from October 1, 2010 on the unpaid balance of principal and interest. There is no prepayment penalty. These loans are classified as long term liabilities and are subordinated debt. For the three months ended March 31, 2011 and March 31, 2010, interest expense was recorded in the amount of $24,559 and $0, respectively.

On March 31, 2011, an additional 32,300 shares were issued in exchange for services valued at $9,690, or $0.30 per share.

Outlook

Management believes that its increasing sales and cash generated by operation, together with funds available from short-term related party advances, will be sufficient to fund planned operations for the next twelve months. However, there can be no assurance that operations and operating cash flows will continue at the current levels or improve in the near future. If the Company is unable to obtain profitable operations and positive operating cash flows sufficient to meet scheduled debt obligations, it may need to seek additional funding through equity and related party loans or be forced to scale back its development plans or to significantly reduce or terminate operations. We have no written agreement with any of the related parties who have advanced funds to the Company in the past to continue making advances should the Company require additional capital.

Our DVD and CD business is substantially dependant on two primary customers, who purchase product directly or through our distributors. The Company is continually working to increase the customer base for current products, create new product lines and open new lines of distribution to decrease the risk of concentration; however, in the event that we were to lose either of these customers or the purchase of product by them were to significantly decrease, the loss of revenue would have a material adverse impact on our results of operations and business.

With the cancellation of the licensing agreement with Battat, our current toy licensee, there could be a reduction in royalty revenue during 2011. However, the Company anticipates this potential reduction will be offset by increases in our product revenue categories, including our licensed product sales. There is no guarantee that the increases will occur, or, if they do occur, that they will equal or exceed the reductions.

The Company outsources manufacturing of our DVD and CD products. There are multiple suppliers that provide these services and we feel there would be no significant impact or delay to our business should the current supplier become unavailable.

Critical Accounting Policies

The Company's accounting policies are described in the notes to the financial statements which are incorporated by reference. Below is a summary of the critical accounting policies, among others, that management believes involve significant judgments and estimates used in the preparation of its financial statements.

Revenue Recognition – The Company recognizes revenue related to product sales when (i) the seller's price is substantially fixed, (ii) shipment has occurred causing the buyer to be obligated to pay for product, (iii) the buyer has economic substance apart from the seller, and (iv) there is no significant obligation for future performance to directly bring about the resale of the product by the buyer as required by Revenue Recognition Topic 605 of the FASB Accounting Standards Codification.

Revenues associated with the sale of branded CDs, DVDs and other products, are recorded when shipped to customers pursuant to approved customer purchase orders resulting in the transfer of title and risk of loss. Cost of sales, rebates and discounts are recorded at the time of revenue recognition or at each financial reporting date.

The Company's licensing and royalty revenue represent variable payments based on net sales from brand licensees for exclusive content distribution rights. These license agreements are held in conjunction with third parties that are responsible for collecting fees due and remitting to the Company its share after expenses. Revenue from licensed products is recognized when realized or realizable based on royalty reporting received from licensees.

Principles of Consolidation - The consolidated financial statements for the three months ended March 31, 2011 and March 31, 2010 include the financial statements of the Company, and its 75% owned subsidiary: Circle of Education LLC. All inter-company balances and transactions have been eliminated in consolidation.

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.

Reclassifications – Certain amounts in the condensed consolidated financial statements as of December 31, 2010 have been reclassified to conform to the presentation as of March 31, 2011.

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of the revenues and expenses during the reporting period. The Company continually evaluates the policies and estimates that it uses to prepare its financial statements. In general, management's estimates and assumptions are based on historical experience, known trends or events, information from third-party professionals and other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgments about carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions and conditions.

Off Balance Sheet Arrangements

The Company has no off balance sheet arrangements.

Item 3. Properties.

The Company owns no real property. On April 10, 2009, we entered into a lease for approximately 2,162 square feet of office space located at 5820 Oberlin Drive in San Diego, California. The lease expired on October 31, 2010, and the Company continues to lease the facilities on a month-to-month basis in accordance with all other terms of the lease. Base monthly rent for the space is $3,144, and we are responsible for 6% of operating expenses on the property (not to exceed $400 per month during the term of the lease). No security deposit was required under the lease.

We also lease approximately 1,415 square feet of office space in Del Mar, California, where our original executive business offices were located until May 2009. Our current lease for the property commenced on August 1, 2008 and expires on July 31, 2011. The lease required a security deposit of $4,150 and rent equal to $4,650 plus 35% of operating expenses for the property per month through July 31, 2011.

On March 27, 2009, the Company entered into an agreement to sublease the Del Mar space for the duration of the lease term. The sublease provides for base monthly rent of $3,396, which graduates up to $3,467 during the second year of the agreement and to $3,538 during the final year, leaving a deficiency between what we are required to pay under the original lease and what we receive under the sublease, which must be absorbed by the Company. We required a security deposit under the sublease of $3,538. Our subtenant is responsible for all operating expenses payable by us to the landlord under the original lease.

Item 4. Security Ownership of Certain Beneficial Owners and Management.

The following table shows the beneficial ownership of shares of our common stock as of April 30, 2011 known by us through transfer agent records, held by: (i) each person who beneficially owns 5% or more of the shares of common stock then outstanding; (ii) each of our directors; (iii) each of our named executive officers; and (iv) all of our directors and executive officers as a group.

The information in this table reflects “beneficial ownership” as defined in Rule 13d-3 of the Exchange Act. To our knowledge and unless otherwise indicated, each stockholder has sole voting power and investment power over the shares listed as beneficially owned by such stockholder, subject to community property laws where applicable. Percentage ownership is based on 60,448,815 shares of common stock outstanding as of June 13, 2011.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
No par value common stock	Klaus Moeller 5820 Oberlin Dr., Suite 203 San Diego, CA 92121	4,147,225 shares	11%
No par value common stock	Michael Gene Meader and Suzanne Donayan Meader Trustees The Meader Family Trust dated June 27, 2002 5820 Oberlin Dr., Suite 203 San Diego, CA 92121	4,391,133 shares	11%
No par value common stock	Michael Gene Meader and Suzanne Donayan Meader Trustees of Ani Meader Trust dated July 25, 2006 5820 Oberlin Dr., Suite 203 San Diego, CA 92121	1,500,000 shares	3%
No par value common stock	Michael Gene Meader and Suzanne Donayan Meader Trustees of Mark Meader Trust dated July 25, 2006 5820 Oberlin Dr., Suite 203 San Diego, CA 92121	1,500,000 shares	3%
No par value common stock	Michael Gene Meader and Suzanne Donayan Meader Trustees of Anthony Meader Trust dated July 25, 2006 5820 Oberlin Dr., Suite 203 San Diego, CA 92121	1,500,000 shares	3%
No par value common stock	Larry Balaban and Sara Balaban Trustees of Balaban Family Trust dated December 13, 2005 5820 Oberlin Dr., Suite 203 San Diego, CA 92121	7,801,134 shares	17%
No par value common stock	Larry Balaban and Sara Balaban Trustees of Balaban Children’s Trust dated October 15, 2006 5820 Oberlin Dr., Suite 203 San Diego, CA 92121	1,000,000 shares	2%
No par value common stock	Howard Balaban 5820 Oberlin Dr., Suite 203 San Diego, CA 92121	8,674,883 shares	18%
No par value common stock	James Sommers 7095 Hollywood Blvd #833 Los Angeles, CA 90028	2,633,333 shares	5%
No par value common stock	Jeanene Morgan 5820 Oberlin Dr., Suite 203 San Diego, CA 92121	8,740 shares	<1%
No par value common stock	All officers and directors as a group	30,514,575 shares(1)	63%

(1) Where persons listed on this table have the right to obtain additional shares of our common stock through the exercise of outstanding options or warrants or the conversion of convertible securities within 60 days from June 13, 2011, these additional shares are deemed to be beneficially owned for the purpose of computing the amount and percentage of common stock owned by such persons. As indicated in Section 6. Executive Compensation, the Company granted each of Messrs. Moeller, Howard Balaban, Larry Balaban and Michael G. Meader an option to purchase up to 2,000,000 shares of the Company's common stock on January 20, 2009, the total shares of which were vested on December 31, 2009. On April 26, 2011, the Company signed new employment agreements which granted each of Messrs. Moeller, Meader, Howard Balaban, and Larry Balaban an additional option to purchase up to 1,000,000 shares of the Company's common stock, 250,000 fully vested as of April 1, 2011, with the remaining option vesting as of April 1, 2012, 2013, and 2014 in the amount of 250,000 shares each year. The Company granted James Sommers an option to purchase up to 250,000 shares on June 21, 2010, which were fully vested as of that date. The Company granted Jeanene Morgan an option to purchase up to 50,000 shares on December 31, 2009, which were fully vested as of that date. The Company granted Jeanene Morgan an option to purchase up to 450,000 shares on December 31, 2010, 150,000 were fully vested as of that date, with the remaining options vesting as of December 31, 2011, 2012, and 2013 in the amount of 100,000 shares each year. As a result, the percentage ownership interest of each such officer referenced in the table includes the 2,700,000 shares which could be purchased within 60 days of June 13, 2011. In addition, shares held by such officers as guardian for or in as trustees of trusts established for minor children are included in the table and are reflected in the aggregate number and percentage ownership for all officers and directors as a group. Each of Messrs. Moeller, Meader, Larry Balaban and Howard Balaban has the right of first refusal for shares owned by Tia Moeller (1,000,000 shares) and Shelly Moeller (3,140,000 shares). These shares were not included in the beneficial ownership calculation of the respective officers' percentages. Percentages are based on total outstanding shares on June 13, 2011 of 60,448,815.

Item 5. Directors and Executive Officers.

Directors and Executive Officers

Set forth below are the Directors and Executive Officers of the Company and their ages and position(s) held as of the date of this Offering:

Name	Age	Position
Klaus Moeller 5820 Oberlin Drive, Suite 203 San Diego, California 92121	50	Chief Executive Officer and Chairman of the Board/Director
Michael G. Meader 5820 Oberlin Drive, Suite 203 San Diego, California 92121	45	President and Director
Larry Balaban 5820 Oberlin Drive, Suite 203 San Diego, California 92121	47	Chief Creative Officer and Director
Howard Balaban 5820 Oberlin Drive, Suite 203 San Diego, California 92121	50	Executive Vice President of New Business Development and Director
Jeanene Morgan 5820 Oberlin Dr. Ste 203 San Diego, CA 92121	54	Chief Financial Officer
Saul Hyatt 5820 Oberlin Drive, Suite 203 San Diego, California 92121	48	Director*

* Denotes directors who meet our criteria for "independence".

The term of office of each person elected to our Board of Directors is one (1) year or until the next regular or annual meeting of the stockholders at which election of directors is an agenda item and until his successor is duly elected and shall qualify.

Background Information

Klaus Moeller was elected to serve on the board of directors of the Company at inception and has acted as its Chief Executive Officer and Chairman of the Board since that time. In May 2008, he was also appointed interim Chief Financial Officer of the Company, a position he held until April 26, 2011. Mr. Moeller currently sits on the Board of Directors of U.K.-based Western Canon, Inc., which owns and operates an art gallery in Beverly Hills, California, a position he has held since 2008. Previously, Mr. Moeller acted as a member of the Board of Directors of Pro-Stars, Inc., a position he held from April 2, 2003 until dissolution of the company in 2008 following the sale of substantially all of its assets to Dreams, Inc. Mr. Moeller also acted as Chief Financial Officer and Chairman of the Board for Pro-Stars. Mr. Moeller acted as the Chief Executive Officer and Chairman of the Board of a Delaware corporation, Celebrity, Inc., a privately held company in the business of selling celebrity-related artwork from its inception in 2006 until dissolution of the company in 2008. Mr. Moeller was a Founder and the Chief Executive Officer, Chairman of the Board and a Director of Genius Products, Inc. from 1998 to 2005. Mr. Moeller served as Interim Chief Financial Officer of Genius from May 2001 until August of 2004. Mr. Moeller grew up and was educated in Germany, England, and Portugal. He worked as an auditor for Eluma S.A. in Sao Paulo Brazil for the Ted Bates Advertising Agency and BHF Bank in Frankfurt. Mr. Moeller is nominated because he has extensive experience in governance and leadership roles on the boards of the other public companies on which he has served, as well as extensive background in finance, both as an auditor and as chief executive officer and chief financial officer at Genius Products Inc.

Michael G. Meader was elected to serve on the board of directors of the Company at inception and also acted as Chief Operating Officer and Secretary of the Company upon inception. He was appointed as President of the Company on August 27, 2008 and resigned his positions as Chief Operating Officer and Secretary at that time. In his capacity as President of Pacific Entertainment Corporation, Mr. Meader is in charge of the day-to-day operations of the Company. Mr. Meader has a long history of experience in marketing and sales of entertainment products. Prior to January 2006, he acted as President (2001-2005), Executive Vice President of Distributions (1998-2000) for, and helped found, Genius Products, Inc. Prior to founding Genius Products, Inc, from 1995 to 1997, Mr. Meader acted as Executive Vice President of the Book and Music Division of ARAMARK Corporation. From 1991 through 1994, Mr. Meader acted as Secretary (1991-1992) and then Executive Vice President of the Music Division (1993-1994) for Meader Distributing. Mr. Meader has a B.S. degree in hotel administration from the University of Wisconsin, and studied international business at the University of St. Thomas. He was a member of the Scholastic Society and graduated with honors. Mr. Meader is nominated because of his expertise in entertainment and distribution organizations.

Larry Balaban is currently Chief Creative Officer and Secretary of Pacific Entertainment Corporation, positions he has held since August 27, 2008. Prior to becoming Chief Creative Officer, Mr. Balaban acted as Director and President for the Company since its inception in January 2006. Outside the production studio, Larry is a well-respected licensor who was named one of the “40 Under 40” most important people in the licensing industry by *License Magazine* in 2003. For the past five years, he has held a seat on the board of directors of the Coalition for Quality Children’s Media, home of the Kids First!® Community-based jury that evaluates, rates and endorses children’s entertainment. Larry Balaban was a founder and Head of Production of Genius Products, Inc., from 1998 to 2005. He was also the President of Mr. B Productions, a non-traditional marketing firm based in New York City, specializing in TV production, target marketing and membership programs. From 1994-1997, Larry Balaban was President of Virtual Reality Productions, where he specialized in marketing, and coordinated specialized audio productions for licensed Products including Star Trek(TM), The Simpson’s and the X-Files. Mr. Balaban is nominated because of his extensive business experience in entertainment and licensing.

Howard Balaban is currently Executive Vice President of New Business Development. He is also a Director of the Company, a position he has held since April, 2006. He had served as Executive Vice President of New Business Development of Genius Products from 2001-2006. He was previously appointed Senior Vice President of Sales in January 1999-2000 after having rendered sales and marketing consulting services from 1997-2000 for Genius Products and several other companies. From 1994-1997, Mr. Balaban was Chief Executive Officer of Future Call Inc, a prepaid telephone card company that he co-founded with William Shatner and held the rights to all Star Trek properties and many others such as, The Simpsons, X Files, and major Soap Operas associated with prepaid phone cards. From 1991-1995, he was the Chief Executive Officer of 3B Telecommunications, a company he co-founded and which acted as a master agent for telecom networks reselling phone time and telecom services. Mr. Balaban is the President, director and sole owner of a privately held entertainment corporation known as Balaban Entertainment Corp., a position he has held since its inception in 2004. Mr. Balaban is nominated because of his business experience in entertainment and marketing.

Jeanene Morgan was appointed as the Company's Chief Operating and Accounting Officer in December 2010 and her title was subsequently changed to Chief Financial Officer in April 2011. Prior to such appointment, Ms. Morgan acted as the Company's Controller from February 2009, during which time she acted as a consultant through Morgan Consulting, a provider of project management and financial consulting for numerous organizations and clients, including audit support, GAAP compliance and structuring of internal financial and reporting controls. From 2004 to 2010, Ms. Morgan co-owned and operated Ascent, Inc. a media booking agency located in Oxnard, California which specialized in television placement for long and short form infomercials. As President of Ascent, Ms. Morgan was responsible for preparation of financial statements, business plans and tax reporting, including implementation of client reporting and development of new business proposals and presentations. From 2002 to 2004, Ms. Morgan acted as Plant Controller to Rexam Beverage Can Company in Chatsworth, California, where she was responsible for corporate accounting and GAAP compliance and implemented a SAP inventory management module. Ms. Morgan acted as Chief Financial Officer of Thaon Communications, Inc., a publicly traded company from February 2002 until its acquisition by Practice Xpert Services, Inc. in April 2003. In that position she was responsible for ongoing fiscal operations, including accounting and cash management for three operating units as well as the publicly traded parent organization, and SEC compliance. During her tenure at Thaon, two subsidiaries of that company, CastPro.com, LLC and PTMS filed a Chapter 7 bankruptcy in November and December of 2002, respectively. Ms. Morgan has an M.B.A. in International Management from the University of Dallas and a B.S. in Business Administration from Hawaii Pacific University.

Saul Hyatt currently acts as an independent director for the Company, a position he has held since May 29, 2008. Mr. Hyatt has served as President of DFASS USA, Inc. since 2009, and also acts as the Chief Operating Officer and a member of the Board of Directors DFASS/Retail Travel Services, Inc. a non-reporting company located in Miami, Florida, positions he has held since the year 2000. Mr. Hyatt holds no other officer or director positions with any public or private company. Mr. Hyatt is nominated because of his financial expertise and diverse domestic and international business experience.

Item 6. Executive Compensation.

Executive Compensation

The following table sets forth the annual and long-term compensation for services in all capacities for the fiscal years ended December 31, 2010 and 2009 paid to our Chief Executive Officer and Chief Financial Officer, and each other officer earning in excess of $100,000 per year.

	Salary Compensation Table					
Name and Principal Position	**Year**	**Salary ($)**	**Bonus ($)**	**Option Awards ($)**	**All Other Compensation ($)**	**Total ($)**
Klaus Moeller,	2009	142,500(2)	—	324,359(5)	11,400(1)	478,259
Chief Executive Officer	2010	68,600(3)	—	—	11,400(1)	80,000
Michael G. Meader,	2009	142,500(2)	—	324,359(5)	11,400(1)	478,259
President	2010	68,600(3)	—	—	11,400(1)	80,000
Larry Balaban,	2009	142,500(2)	—	324,359(5)	11,400(1)	478,259
Chief Creative Officer and Secretary	2010	68,600(3)	—	—	11,400(1)	80,000
Howard Balaban,	2009	142,500(2)	—	324,359(5)	11,400(1)	478,259
EVP of Business Development	2010	68,600(3)	—	—	11,400(1)	80,000
Jeanene Morgan,	2010	5,000(4)	—	22,500(6)	125,000(4)	152,500
Chief Financial Officer						

(1) Represents car allowances paid to each officer out of a total authorized car allowance of $11,400 for each officer for the period ended December 31, 2009 and 2010.

(2) Authorized salaries for each officer for the fiscal year ended December 31, 2009 were $195,000, of which $97,500 was accrued and remains unpaid as to each officer. On April 1, 2009, each of the four officers agreed to a salary reduction to $125,000, resulting in a prorated total salary calculation of $142,500 for the year. As of September 30, 2010, this balance was converted to subordinated, long term debt.

(3) Authorized salaries for each officer for the fiscal year ended December 31, 2010 were $210,000. On April 1, 2009, each of the four officers agreed to a salary reduction to $125,000. On February 11, 2011 each of the four officers agreed to a retroactive salary reduction for 2010 to $80,000 inclusive of the car allowance, of which $19,200 remains unpaid. As of September 30, 2010, this balance was converted to subordinated, long term debt.

(4) Authorized salary for Ms. Morgan for the fiscal year ended December 31, 2010 was $130,000. Ms. Morgan began employment on December 26, 2010. Prior to her employment she acted as a consultant for the company to advise on accounting and financial procedures and reporting.

(5) Options were granted pursuant to previous employment agreements, which provided for the grant of stock options to the respective officer to purchase up to 2,000,000 shares of common stock and vesting as to 500,000 shares on the date of the agreement, 750,000 shares on the first anniversary date and 750,000 shares on the second anniversary date. Each option is currently fully vested and exercisable as to all 2,000,000 shares and will expire on January 20, 2014. Each option was granted at an exercise price equal to 110% of fair market value (five-day average trading price) on the date of grant. The Board granted the options after having adopted the Company's 2008 Stock Option Plan on December 15, 2008 and following shareholder approval of the plan on December 29, 2008. The vesting schedule of the options was accordingly adjusted to account for the late grant date, so that each option was vested as to 1,250,000 shares on the date of grant and vested as to the remainder on December 31, 2009. Each option was fully expensed as to 1,250,000 in 2008. This figure represents the amount expensed in 2009. The aggregate fair value of the options on the date of grant was computed in accordance with FASB ASC Topic 718 (see Note 9 to the financial statements for the fiscal years ended December 31, 2010 and December 31, 2009).

(6) During 2009, while acting as a consultant, options to purchase up to 50,000 shares were issued and vested as of December 31, 2009 with an expiration date of December 14, 2014. As part of the offer of employment, Ms. Morgan was granted options to purchase up to 450,000 shares on December 31, 2010, with 150,000 vesting on issuance and 100,000 vesting per annum on December 31, 2011, 2012, and 2013. The option was granted at an exercise price equal to 100% of the fair market value (five-day average trading price) of our common stock on the grant date. This option is currently vested and exercisable as to 150,000 shares and will expire on December 31, 2014. The aggregate fair value of the option on the date of grant was computed in accordance with FASB ASC Topic 718 (see Note 9 to the financial statements for the fiscal years ended December 31, 2010 and December 31, 2009).

Outstanding Equity Awards at Fiscal Year End

Name	Option awards: Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	Equity incentive plan awards: Number of securities underlying unexercised unearned options (#)	Option exercise price ($)	Option expiration date	Stock awards: Number of shares or units of stock that have not vested (#)	Market value of shares of units of stock that have not vested ($)	Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested (#)	Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not vested ($)
Klaus Moeller	2,000,000	0	0	$0.44	01/20/2014	0	0	0	0
Michael Meader	2,000,000	0	0	$0.44	01/20/2014	0	0	0	0
Larry Balaban	2,000,000	0	0	$0.44	01/20/2014	0	0	0	0
Howard Balaban	2,000,000	0	0	$0.44	01/20/2014	0	0	0	0
Jeanene Morgan	50,000	0	0	$0.55	12/31/2014	0	0	0	0
	150,000(1)	0	0	$0.336	12/31/2015	0	0	0	0
	0	0	100,000(1)	$0.336	12/31/2016	0	0	0	0
	0	0	100,000(1)	$.0336	12/31/2017	0	0	0	0
	0	0	100,000(1)	$0.336	12/31/2018	0	0	0	0

(1) Options were granted as part of offer of employment. Options to purchase up to 450,000 shares of common stock were granted on December 31, 2010, with 150,000 vesting on issuance and 100,000 vesting per annum on December 31, 2011, 2012, and 2013.

Employment Agreements

On April 26, 2011, the Company and each of Messrs. Moeller, Meader, Larry Balaban and Howard Balaban (the "Executives") agreed to terminate all then existing employment agreements for the Executives and enter into new five-year employment agreements unless written termination is provided by either party. Each employment agreement provides for a graduated base salary beginning at $165,000 per annum retroactive to March 20, 2011 and continuing to December 31, 2011 and increasing to $195,000 for 2012, $225,000 for 2013. After 2013, the agreement provides for base salary increases at the discretion of the Board of Directors, with a minimum 5% increase. In addition to base salary, each Executive will receive an annual car allowance of $11,400, and four weeks paid vacation per annum.

Each agreement also provides for a cash incentive bonus determined at the sole discretion of our Board of Directors which shall not be less than 4.5% of the Company's EBITDA (Earnings Before Interest, Depreciation, Taxes and Amortization) if the Company is EBITDA positive nor be more than 100% of the Executive's base salary, although the Board has retained discretion to waive the 100% cap. In addition, pursuant to the agreements each Executive has been granted a non-qualified stock options to purchase up to 1,000,000 shares of the Company's common stock, vesting as to 250,000 shares on the grant date and 250,000 shares per year on the anniversary date of the agreements. The exercise price of options is $0.44 per share and the options will expire on the tenth anniversary of the date of grant except in the event of a termination for cause under the respective employment agreement, in which case the option will expire in its entirety ninety days after termination of employment. Each Executive has granted the Company a right of first refusal to repurchase any shares of common stock acquired by the Executive pursuant to the option in the event of a termination for cause. The purchase price on the right of first refusal would be the bid price on the date of termination. (see Item 9. "Market Price and Dividends on the Registrant's Common Equity and Related Stockholder Matters – Equity Compensation Plan Information.")

The employment agreement provides for payment of severance compensation equal to eighteen months of the Executive's base salary on the date of termination of the Executive's employment by the Company other than for cause. Subject to the provisions of Section 409A of the Internal Revenue Code of 1986, as amended, severance will be paid over the course of eighteen months following the termination date and will be made on the Company's normal payroll dates during the severance period. Severance compensation is in addition to his base salary through the date of termination, accrued vacation and bonus compensation earned but not yet paid on the date of termination.

In addition, the agreements each provide that, upon termination without cause or as a result of a change of control, the unvested portion of any options then held by the Executive will immediately vest. For purposes of these agreements, a "change of control" includes the sale of all or substantially all of the Company's assets, a merger or consolidation resulting in securities representing 50% of the combined voting power of the outstanding common stock being transferred to persons who are different from the holders immediately preceding the transaction, the acquisition (directly or indirectly) of 50% of the total combined voting power of the common stock pursuant to a tender or exchange offer, or a majority of the members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of the appointment or election.

Each of the employment agreements includes standard confidentiality, non-competition (including during any severance period), non-solicitation and non-disparagement provisions, provides for twenty days of vacation time per annum, and provides for indemnification of the Executive to the fullest extent allowed by the California Corporations Code and the Company's Articles of Incorporation and Bylaws. See Item 12. "Indemnification of Officers and Directors".

Our Chief Financial Officer does not have a written employment agreement with the Company. She receives an annual base salary of $130,000, which may be increased in the discretion of the Board. Ms. Morgan was issued a Stock Option Grant Notice in conjunction with her appointment as Chief Accounting and Operating Officer under the 2008 Stock Option Plan to purchase up to 450,000 shares of the Company's common stock at an exercise price of $0.336 per share vesting as to 150,000 shares on December 31, 2010 and as to 100,000 shares on each of December 31, 2001, 2012 and 2013. Ms. Morgan receives four weeks paid vacation per annum.

ITEM 7. Certain Relationships and Related Transactions, and Director Independence.

Related Parties

Our Creative Director, Larry Balaban, and our Vice-President of New Business Development, Howard Balaban, are brothers.

On February 1, 2008, Isabel Moeller, sister of our Chief Executive Officer, Klaus Moeller, loaned $310,000 to the Company at an interest rate equal to 8% per annum. The proceeds of the loan were used to reduce outstanding obligations to Genius Products at the time (see Item 1. "Business – Distribution"). A subsequent agreement extended the maturity date to December 31, 2009. On December 31, 2009, Ms. Moeller agreed to accept a new note agreement for the balance due, including principal and unpaid interest with a maturity date of December 31, 2010 and a stated interest rate of 6% per annum. On September 30, 2010, Ms. Moeller agreed to execute a new, restated note under the same interest terms with a stated maturity date of December 31, 2012, resulting in the reclassification of the total amount outstanding, including principal and accrued interest, as long term debt. In March 2011, Ms. Moeller subscribed for 1,000,000 shares of our common stock at a purchase price of $0.20 per share pursuant to a private placement offering conducted by the Company under Rule 506. In lieu of cash payment for the shares, Ms. Moeller agreed to a $200,000 reduction in the outstanding principal balance of her note effective April 1, 2011.

Throughout 2009, 2008 and 2007, the Company borrowed funds from Messrs. Moeller, Meader, Larry Balaban and Howard Balaban in the aggregate principal amounts of $4,000, $280,000 and $444,500, respectively. The loans were made pursuant to promissory notes which require payment of 1.63% per annum for 2009 and 2008 and 6% per annum for the notes issued in 2007. Notes issued in 2007 were payable upon demand. However, the maturity date for each outstanding promissory note to these officers and directors was extended to December 31, 2009. The proceeds from all officer loans were used to pay operating obligations of the Company. On December 31, 2009, each of the Officers agreed to issue new note agreements for the outstanding balances, including principal and unpaid interest, with a maturity date of December 31, 2010 and a stated interest rate of 6% per annum. On September 30, 2010, the four Officers agreed to execute new notes with the same interest rate and a maturity on December 31, 2012 for the total outstanding amounts, including principal and accrued interest, resulting in a change in classification to long term notes payable. At December 31, 2010, there was a combined total of approximately $311,987 in principal and accrued interest outstanding under these notes.

On September 30, 2010, these same officers agreed to convert accrued but unpaid salaries through September 30, 2010 to subordinated long term notes payable. In February 2011, as a result of an agreement by each of the four Officers to retroactively decrease the amount of the annual salary for 2010 from $125,000 per annum to $80,000, the amount of the notes were reduced to an aggregate of $1,620,137. The notes have a maturity of December 31, 2012 and a stated interest rate of six percent (6%) per annum, said interest accruing from October 1, 2010 on the unpaid balance of principal and interest. The amount of interest outstanding on these loans as of December 31, 2010 is $24,090. There is no prepayment penalty.

Circle of Education, LLC ("COE") was formed pursuant to the joint venture agreement between the Company and Dr. Shulamit Ritblatt referenced above in "Item 1. Business - Circle of Education Joint Venture Agreement." Although the agreement provides the Company with a 75% voting interest in the Company, with the remaining 25% being held by Dr. Ritblatt, the Company holds only 10,000,000 of the 15,000,000 currently issued and outstanding units of COE. The Company agreed to allow COE to hold 5,000,000 of the units which would otherwise have been issued to it in reserve and to allow the sale of those units to raise additional capital for COE if needed. On the two-year anniversary of the agreement, any remaining portion of the reserved units will be issued to the Company. To the extent the reserved units are issued to any third party, the Company's voting interest in COE will be adjusted accordingly.

To date, none of the reserved units has been sold and COE has no current plans to conduct a private offering to raise additional funds. The Company has continued to fund product development and operations for COE and anticipates that it will continue to do so at least until COE generates sufficient cash flow from operations to fund future cash requirements for its general operations and additional product development. The Company cannot estimate the amount of cash expenditures or the duration of its continued support at this time. The Company provided approximately $53,008 in funding to COE during the fiscal year ended December 31, 2010, and an additional $22,700 during the first quarter of 2011.

Except as otherwise indicated herein, there have been no other related party transactions, or any other transactions or relationships required to be disclosed pursuant to Item 404 and Item 407(a) of Regulation S-K.

Director Independence

Our Common Stock is not quoted or listed on any national exchange or interdealer quotation system with a requirement that a majority of our board of directors be independent and, therefore, the Company is not subject to any director independence requirements. Under NASDAQ Rule 5605(a)(2)(A), a director is not considered to be independent if he or she also is an executive officer or employee of the corporation. Under such definition, each of Messrs. Moeller, Meader, Howard Balaban and Larry Balaban would not be considered an independent director. Based on Rule 5605(a)(2)(A), Mr. Hyatt is the only member of the Board that can be considered an independent director because he is not an executive officer or employee of the Company, has not been an employee of the Company during the past three years and has not received compensation from the Company at any time during the past three years.

ITEM 8. Legal Proceedings.

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.

ITEM 9. Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters.

Market Information

Transactions in our common stock are currently reported in the United States under the symbol "PENT" on the OTC Market Groups, Inc. quotation service that displays real-time quotes, last-sale prices, and volume information in over-the-counter equity securities. The following table sets forth the range of high and low bids reported in the over-the-counter market for our common stock. The prices shown below represent prices in the market between dealers in securities; they do not include retail markup, markdown or commissions, and do not necessarily represent actual transactions. The "OTC Market Groups, Inc." is neither a stock exchange nor a self-regulatory organization and is not regulated by either Financial Industry Regulatory Authority or the SEC.

Quarter Ending	Quarter High	Quarter Low
09/30/2009	$0.80	$0.35
12/31/2009	$0.90	$0.25
03/31/2010	$0.50	$0.45
06/30/2010	$0.50	$0.40
09/30/2010	$0.50	$0.25
12/31/2010	$0.35	$0.28
03/31/2011	$0.35	$0.25

Outstanding Shares and Number of Stockholders

As of June 13, 2011, the number of shares of common stock outstanding was 60,448,815. As of June 13, 2011, approximately 52,620,624 of the outstanding shares are eligible for resale pursuant to Rule 144, including approximately 29,515,275 shares held by officers of the Company. As of June 13, 2011, there were approximately 150 record holders of our shares of issued and outstanding common stock. This figure does not include holders of shares held in securities position listings.

As of June 13, 2011, we have outstanding warrants to purchase 471,108 shares of common stock. We currently have outstanding options to purchase up to 13,955,000, 9,695,000 of which are vested and can be exercised at this time. As indicated under "Item 1. Business - Circle of Education Joint Venture Agreement" above, we have granted Dr. Shulamit Ritblatt the right to convert her units in Circle of Education, LLC into shares of our common stock on or after the two-year anniversary of the joint venture agreement. We are unable to determine the number of shares subject to this right of conversion since the conversion ratio would be determined at that time based on the value of the units in COE and the fair market value of our common stock on the conversion date. The Company has a similar right to convert its own interests in COE.

The Company currently has no plans to sell additional shares in private or public offerings. The Company has not agreed to register any restricted shares of common stock previously issued by the Company for resale.

Dividends

We have never declared or paid dividends on our common stock. Moreover, we currently intend to retain any future earnings for use in our business and, therefore, do not anticipate paying any dividends on our common stock in the foreseeable future.

Equity Compensation Plan Information

The following table reflects, as of December 31, 2010, compensation plans pursuant to which the Company is authorized to issue options, warrants or other rights to purchase shares of its common stock, including the number of shares issuable under outstanding options, warrants and rights issued under the plans and the number of shares remaining available for issuance under the plans:

	(a)	(b)	(c)
Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by shareholders(1)	8,970,000	$0.44	7,005,000
Equity compensation plans not approved by shareholders	0	$0.00	0
Total	8,970,000	$0.44	7,005,000

(1) On April 4, 2011, the majority shareholders of the Company adopted an amendment to the Company's 2008 Stock Option Plan to increase the number of shares of common stock issuable under the plan from 11,000,000 to 16,000,000. Taking into account the amendment as well as options granted since December 31, 2010, the total number of securities to be issued as set forth in column (a) would be 13,955,000 and the number of shares remaining for issuance under the plan would be 2,005,000 as of June 13, 2011. The weighted-average exercise price of outstanding options granted under the plan would remain the same.

Item 10. Recent Sales of Unregistered Securities.

The information below lists all of our securities sold by us during the past three years, which were not registered under the Securities Act of 1933. We paid no underwriting discounts or commissions in connection with any of the following transactions.

During 2006, the issuer sold $2,500,000 in 10% convertible debentures (the "Debentures"), each of which was convertible into shares of the issuer's common stock at a rate of one (1) share per each $0.20 converted. The Debentures were sold to accredited investors only pursuant to Rule 506 of the Securities Act. We borrowed $1,361,000 from our officers and directors to pay the first of the two promissory notes to Genius Products and used $1,361,000 of those proceeds to repay such officer loans. The remaining proceeds were used to pay general operating expenses of the Company. Effective June 30, 2008, all of the outstanding Debentures were converted into 12,500,000 shares of common stock. At the time of conversion, the issuer agreed to make remaining interest payments to the Debenture holders in shares of common stock at a rate of one (1) share for each $0.40 in accrued interest due and payable provided that the recipient still met the requirements of an accredited investor. Equity interest payments were made pursuant to Rule 506 for the second and third quarters of 2008 on or about February 11, 2009, with 156,250 shares of common stock issued to the former Debenture holders for each quarter. An additional 150,000 shares were issued to the former Debenture holders on March 31, 2009 in payment of equity interest due for the first quarter of 2009, and 197,907 shares were issued on July 24, 2009 as a final payment for interest on the debentures. Proceeds of the debenture offering were used to repay amounts due to Mr. Moeller associated with the asset purchase from Genius Products and a portion of the purchase price due to Genius Products.

In September 2008, the issuer commenced a private placement of up to $10,000,000 in common stock priced at $0.40 per share to accredited investors only under Rule 506. As of December 31, 2009, the Company had sold 807,500 shares in that offering during 2008 and 2009 for total proceeds of $323,000. The offering was suspended in January 2009. The proceeds of the offering were used for general operating expenses, including general administrative expenses (including salaries, payment of existing debt obligations, rent and professional fees) and production costs, select retail placement fees, tradeshows, and marketing.

On January 1, 2008, the issuer entered into written employment agreements with four of its officers pursuant to which it agreed to grant each such officer an option to purchase up to 2,000,000 shares of the issuer's common stock at a purchase price equal to the fair market value of the common stock on the grant date, with each option vesting as to 500,000 shares on the date of the agreement and 750,000 shares on each of December 31, 2008 and 2009. The grant of the options was delayed pending adoption of a qualified stock option plan by the issuer's shareholders, and the options were finally granted on January 20, 2009, with an adjustment to the vesting schedule to reflect the late grant date. Consequently, each option was vested as to 1,250,000 shares on the date of grant and vested as to the remainder on December 31, 2009. In the event the options are exercised, the Company will likely use the proceeds from the exercise to pay general operating expenses of the Company.

On September 30, 2009, 65,000 shares were issued in payment of management consulting service contracts covering the 90 day period beginning July 1, 2009. The shares were valued at $0.40 per share, and the full amount of $26,000 was expensed in 2009.

On December 14, 2009, the Company issued Stock Option Grant Notices to seven employees and service providers, granting options to purchase 130,000 shares of common stock. The options fully vested as of December 31, 2009. In the event the options are exercised, the Company will likely use the proceeds from the exercise to pay general operating expenses of the Company.

On March 8, 2010, the Board of Directors ratified an agreement between the Company and James Sommers whereby the Company agreed to issue options to purchase 250,000 shares of common stock at an exercise price of $0.50 in exchange for consulting services for one year. The Option was issued on June 21, 2010 pursuant to Rule 701. In the event the option is exercised, the Company will likely use the proceeds from the exercise to pay general operating expenses of the Company.

On April 6, 2010, the Company commenced a private placement to certain accredited investors pursuant to Rule 506 for up to 12,500,000 shares of common stock at a purchase price of $0.40 per share. On July 13, 2010, the Board of Directors amended the offering to include the issuance of a warrant to purchase one additional share of common stock for each share of common stock sold through the offering. Each warrant expires three years from the date of purchase and has a stated exercise price of $0.40 per share. As of December 31, 2010, a total subscription of $188,443 had been received and 471,108 shares have been issued and warrants have been issued to purchase an addition 471,108 shares. Costs of the offering in the amount of $17,396 were offset against the common stock account through December 31, 2010. The proceeds of the offering were used to pay product development costs. In the event the warrants are exercised, proceeds from the exercise will likely be used to cover general operating expenses.

On September 28, 2010, 50,000 shares were issued in payment of website design services rendered. The service provider is an accredited investor and the shares were issued pursuant to Section 4(6) of the Securities Act. The shares were valued at $0.50 per share, and the full amount of $25,000 was capitalized in 2010 as an intangible asset.

In January 2011, the issuer granted an incentive stock option to purchase up to 25,000 shares of common stock to our Vice President of Sales. The option was fully vested on grant and will expire five years from the date of grant. The option was granted with an exercise price of $0.336 per share, or 100% of the preceding 5 day average market price on the date of grant. The option was granted pursuant to the exemption provided by Rule 701.

On March 31, 2011, the Company issued 32,300 shares of restricted common stock to one service provider for website design services pursuant to Section 4(6) of the Securities Act of 1933 in exchange for services valued at approximately $9,690 or $0.30 per share.

In April 2011, pursuant to new employment agreements, we granted a non-qualified stock option to purchase up to 1,000,000 shares of common stock to each of Mr. Moeller, Mr. Meader, Mr. Larry Balaban and Mr. Howard Balaban. The options were vested as to 250,000 of the shares on the date of grant and will vest as to the remaining shares at a rate of 250,000 shares on each of April 1, 2012, April 1, 2013 and April 1, 2014. The options have a term of ten years and will not expire earlier except in the event of a termination for cause, in which case they will expire as to all shares within ninety days of the date of termination. The options were granted with an exercise price of $0.44 per share, or the greater of $0.44 or 110% of the fair market value of the shares on the date of grant.

On April 1 2011, the issuer granted an incentive stock option to purchase up to 25,000 shares of common stock to our Vice President of Sales. The option was fully vested on grant and will expire five years from the date of grant. The option was granted with an exercise price of $0.50 per share. The option was granted pursuant to the exemption provided in Rule 701.

During the first two quarters of 2011, we conducted a private placement to accredited investors only under Rule 506. As a result of the offering, the Company sold 5,300,000 shares of common stock at a purchase price of $0.20 per share for an aggregate of $1,060,000. The proceeds of the offering will be primarily used to fund general operating expenses, product development and introduction for Circle of Education, LLC and to reduction of the outstanding principal balance on the note issued to Isabel Moeller. Ms. Moeller subscribed for 1,000,000 shares. In lieu of cash payment for the subscribed shares, Ms. Moeller agreed to a $200,000 reduction in the outstanding principal balance of her note effective April 1, 2011.

On June 13, 2011, the issuer granted an option to purchase up to 1,000,000 shares of restricted common stock at an exercise price of $0.44 to Alfred Kahn as part of a consulting agreement. The option, which was granted under the Company's 2008 Stock Option Plan, will vest as to 500,000 shares on May 31, 2012 with the remainder vesting on May 31, 2013 and will expire five years from the grant date. Mr. Kahn has granted the Company a right of first refusal on any shares purchased under the option in the event of early termination of the agreement. The repurchase price of the right of first refusal would be the bid price on the date of termination. The option was granted to Mr. Kahn pursuant to Rule 701 of the Securities Act of 1933, as price amended.

As of June 13, 2011, the issuer has 60,448,815 shares of common stock outstanding.

ITEM 11. Description of Registrant's Securities to be Registered.

Capital Stock

The Company is authorized to issue 100,000,000 shares of common stock, no par value per share, of which 60,448,815 were outstanding on June 13, 2011. The following summary descriptions are qualified in their entirety by reference to the Company's Articles of Incorporation. Each share of common stock entitles the holder thereof to one vote on all matters submitted to a vote of stockholders. Unless one or more shareholders gives notice of an intent to cumulate votes for Directors prior to the vote to elect Directors, holders of a majority of the voting power represented at any meeting at which a quorum is present will be able to elect the entire Board of Directors and, in such event, the holders of the remaining voting power will be unable to elect any directors. The holders of common stock do not have preemptive rights or rights to convert their common stock into other securities. Holders of the common stock are entitled to receive ratably such dividends as may be declared by the Board of Directors out of funds legally available therefore. In the event of a liquidation, dissolution or winding up of the Company, holders of the common stock have the right to a ratable portion of the assets remaining after payment of liabilities.

Debt Securities

None.

Warrants and Rights

Currently, the Company has warrants outstanding to purchase up to 471,108 shares of our common stock, each of which was issued with an exercise price of $0.40 and expires three years from the date of issue. All of the warrants will have expired on November 18, 2013. All common stock underlying the warrants will be restricted when issued.

Either the exercise price or the number of shares purchasable under the warrant may be adjusted in the event of any split of the common stock, reclassification, capital reorganization or change in the outstanding common stock, or declaration of a common stock dividend. In the event of any such adjustment, the Company will notify the holders of the warrants of the exercise price and number of shares purchasable under the warrant following adjustment, the facts requiring the adjustment and the method of calculation of any increase or decrease in price or purchasable shares. No adjustment will be required, however, unless the adjustment would require an increase or decrease in the exercise price of at least 1%.

Other Securities to be Registered

None.

ITEM 12. Indemnification of Directors and Officers.

In accordance with provisions of the California Corporations Law, our articles of incorporation provide that the liability for monetary damages of our directors shall be eliminated to the fullest extent permitted by California law. Further, our articles authorize us to provide indemnification to our agents (including our officers and directors). Our bylaws provide for this indemnification of our corporate agents to the maximum extent permitted by California law.

ITEM 13. Financial Statements and Supplementary Data.

The financial statements and report of independent auditors are filed as a separate part of this report on pages F-1 through F-34.

ITEM 14. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

There are not and have not been any disagreements between the Company and our accountants on any matter of accounting principles, practices or financial statement disclosure.

ITEM 15. Financial Statements and Exhibits.

(a) Index to Financial Statements.

See the index to consolidated financial statements set forth on page F-1.

(b) Index to Exhibits.

See the exhibit index immediately following the signature page to this Form 10.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: July 13, 2011

PACIFIC ENTERTAINMENT CORPORATION

By: /s/ Klaus Moeller, Chief Executive Officer
Klaus Moeller, Chief Executive Officer

EXHIBIT INDEX

Exhibit No.	Description
3.1+	Articles of Incorporation
3.2+	Bylaws
4.1+	Form of Stock Certificate
4.2+	2008 Stock Option Plan
4.3+	First Amendment to 2008 Stock Option Plan
4.4+	Second Amendment to 2008 Stock Option Plan
4.5+	Form of Stock Option Grant Notice
4.6+	Form of Warrant
10.1+	Employment Agreement of Klaus Moeller
10.2+	Employment Agreement of Michael G. Meader
10.3+	Employment Agreement of Larry Balaban
10.4+	Employment Agreement of Howard Balaban
10.5+	Amended and Restated Subordinated Promissory Note to Klaus Moeller
10.6+	Amended and Restated Subordinated Promissory Note to Michael G. Meader
10.7+	Amended and Restated Subordinated Promissory Note to Larry Balaban
10.8+	Amended and Restated Subordinated Promissory Note to Howard Balaban
10.9+	Promissory Note to Klaus Moeller
10.10+	Promissory Note to Michael G. Meader
10.11+	Promissory Note to Larry Balaban
10.12+	Promissory Note to Howard Balaban
10.13**	Merchandise License Agreement with Jakks Pacific*
10.14+	Joint Venture Agreement between Pacific Entertainment Corporation and Dr. Shulamit Ritblatt dated September 20, 2011
10.15+	Operating Agreement of Circle of Education, LLC
10.16+	Promissory Note to Isabel Moeller dated September 30, 2010
10.17+	Agreement to Convert Debt Into Equity between Pacific Entertainment Corporation and Isabel Moeller dated April 1, 2011
21	List of Subsidiaries

* Confidential treatment has been requested with respect to certain portions of this exhibit pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, and 17 CFR 200.83. Omitted portions have been filed separately with the Securities and Exchange Commission.

** Filed herewith.

\+ Incorporated by reference from Registration Statement on Form 10 filed with the Securities & Exchange Commission on May 4, 2011.

TABLE OF CONTENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Pacific Entertainment Corporation
San Diego, California

We have audited the accompanying balance sheets of Pacific Entertainment Corporation as of December 31, 2010 and 2009, and the related statements of operations, stockholders' equity (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express as opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pacific Entertainment Corporation as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

/s/ HJ Associates & Consultants, LLP

HJ Associates & Consultants, LLP
Salt Lake City, Utah
March 11, 2011

Pacific Entertainment Corporation
Balance Sheets
December 31, 2010 and 2009

ASSETS	2010	2009
Current Assets:		
Cash	$ 207,880	$ 247,865
Accounts Receivable, net	1,077,685	804,406
Inventory	247,505	157,498
Prepaid and Other Assets	55,376	45,000
Total Current Assets	1,588,446	1,254,769
Property and Equipment, net	35,168	31,932
Capitalized Product Development in Process	75,515	44,724
Intangible Assets, net	547,611	1,042,708
Long Term Investment – Circle of Education, LLC	53,008	-
Total Assets	**$ 2,299,748**	**$ 2,374,133**
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Accounts Payable	$ 948,428	$ 680,787
Accrued Expenses	221,739	232,099
Accrued Salaries and Wages	62,551	1,602,820
Accrued Interest - Debentures	19,049	18,052
Notes Payable – Related Parties	-	752,365
Total Current Liabilities	1,251,767	3,286,123
Long Term Liabilities:		
Notes Payable and Accrued Interest – Related Parties	2,339,197	-
Total Liabilities	3,590,964	3,286,123
Stockholders' Equity (Deficit):		
Common Stock, no par value, 100,000,000 shares authorized; 55,116,515 and 54,595,407 shares issued and outstanding, respectively	3,390,875	3,194,828
Additional Paid in Capital	2,086,065	1,968,455
Accumulated Deficit	(6,768,156)	(6,075,273)
Total Stockholders' Equity (Deficit)	(1,291,216)	(911,990)
Total Liabilities & Stockholders' Equity (Deficit)	**$ 2,299,748**	**$ 2,374,133**

Pacific Entertainment Corporation
Statements of Operations
Years Ended December 31, 2010 and 2009

Revenues:	2010	2009
Product Sales	$ 2,940,194	$ 2,593,870
Licensing & Royalties	1,032,469	709,168
Total Revenues	3,972,663	3,303,038
Cost of Sales	1,929,613	1,416,790
Gross Profit	2,043,050	1,886,248
Operating Expenses:		
Product Development	7,796	46,531
Professional Services	312,818	396,013
Rent Expense	146,979	130,299
Marketing & Sales	678,188	597,837
Depreciation & Amortization	694,698	659,302
Salaries and Related Expenses	613,787	1,062,996
Stock Compensation Expense	117,610	518,534
General & Administrative	205,997	149,076
Total Operating Expenses	2,777,873	3,560,588
Loss from Operations	(734,823)	(1,674,340)
Other Income (Expense):		
Other Income	46,060	20,914
Interest Expense	(2,349)	(143,781)
Interest Expense – Related Parties	(68,057)	(61,521)
Gain on Settlement of Debt	66,286	2,809
Gain/(Loss) on Disposition of Intangible Assets	-	5,028
Net Other Income (Expense)	41,940	(176,551)
Loss before Income Taxes	(692,883)	(1,850,891)
Income Tax	-	-
Net Loss	$ (692,883)	$ (1,850,891)
Net Loss per common share	$ (0.01)	$ (0.03)
Weighted average shares outstanding	54,757,285	54,351,487

Pacific Entertainment Corporation
Statements of Stockholders' Equity (Deficit)
December 31, 2010 and 2009

	Common Stock		Additional Paid in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance, December 31, 2008	53,932,500	$ 2,945,234	$ 619,681	$ (4,224,382)	$ (659,467)
Common Stock Issued for Cash	250,000	100,000	-	-	100,000
Common Stock Issued for Interest	347,907	139,163	-	-	139,163
Stock Offering Costs	-	(15,569)	-	-	(15,569)
Common Stock Issued for Services	65,000	26,000	-	-	26,000
Stock Compensation Expense	-	-	518,534	-	518,534
Stock Options Granted for Accrued Stock Compensation	-	-	810,898	-	810,898
Imputed Interest on Related Party Notes Payable	-	-	19,342	-	19,342
Net Loss	-	-	-	(1,850,891)	(1,850,891)
Balance, December 31, 2009	54,595,407	3,194,828	1, 968,455	(6,075,273)	(911,990)
Common Stock Issued for Cash	471,108	188,443	-	-	188,443
Stock Offering Costs	-	(17,396)	-	-	(17,396)
Common Stock Issued for Services	50,000	25,000	-	-	25,000
Stock Compensation Expense	-	-	117,610	-	117,610
Net Loss	-	-	-	(692,883)	(692,883)
Balance, December 31, 2010	55,116,515	$ 3,390,875	$ 2,086,065	$ (6,768,156)	$ (1,291,216)

Pacific Entertainment Corporation
Statements of Cash Flows
Year Ended December 31, 2010 and 2009

Cash Flows from Operating Activities:	**2010**	**2009**
Net Loss	$ (692,883)	$ (1,850,891)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation Expense	19,650	12,550
Amortization Expense	675,048	646,752
Gain/Loss on Disposal of Intangible Assets	-	(5,028)
Issuance of Common Stock for Interest	-	139,163
Issuance of Common Stock for Services	-	26,000
Capital Contribution Related Party Interest	-	19,342
Gain on Settlement of Debt	(66,286)	(2,809)
Stock Compensation Expense	117,610	518,534
Decrease (increase) in operating assets		
Accounts Receivable	(273,279)	(209,338)
Inventory	(90,007)	153,507
Prepaid Expenses & Other Assets	(10,376)	(13,060)
Other Receivable	-	14,862
Increase (decrease) in operating liabilities		
Accounts Payable	333,927	109,064
Accrued Salaries	79,867	384,439
Stock Compensation Expense	-	-
Accrued Interest	997	2,500
Accrued Interest – Related Party	68,057	42,180
Other Accrued Expenses	(10,360)	211,819
Net cash provided by operating activities	151,965	199,586
Cash Flows from Investing Activities:		
Investment in Product Masters	(185,742)	(166,227)
Investment in Circle of Education	(53,008)	-
Purchase of Fixed Assets	(22,886)	(21,649)
Net cash (used) by investing activities	(261,636)	(187,876)
Cash Flows from Financing Activities:		
Sale of Common Stock	188,443	100,000
Common Stock Offering Cost	(17,396)	(15,569)
Proceeds from Related Party Debt	-	4,000
Payments on Related Party Debt	(101,361)	(400,000)
Net cash provided/(used) by financing activities	69,686	(311,569)
Net decrease in cash	(39,985)	(299,859)
Cash at Beginning of Year	247,865	547,724
Cash at End of Year	$ 207,880	$ 247,865
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 2,349	$ 2,118
Cash paid for income taxes	$ -	$ -
Schedule of non-cash financing and investing activities:		
Stock Issued for Intangible Assets	$ 25,000	$ -
Accrued Salaries and wages converted to Long Term Notes Payable	$ 1,620,137	$ -
Accrued Interest rolled into Notes	$ -	$ 113,865
Accrued Stock Compensation reclassified to Additional Paid in Capital	$ -	$ 810,898
Accounts Payable traded for Fixed Assets	$ -	$ 16,885

Pacific Entertainment Corporation
Notes to Financial Statements
December 31, 2010 and 2009

Note 1: The Company and Significant Accounting Policies

Organization and Nature of Business

Pacific Entertainment Corporation ("we", "us", "our" or the "Company") provides music-based products that are entertaining, educational and beneficial to the well-being of infants and young children. We create, market and sell children's DVDs, CD music, toy, and book products in the United States by distribution at wholesale to retail stores and outlets. We license the use of our brands internationally to others to manufacture, market and sell the products, whereby we receive advances and royalties.

The Company commenced operations in January 2006, assuming all of the rights and obligations of its Chief Executive Officer, Klaus Moeller, under an Asset Purchase Agreement between the Company and Genius Products, Inc., in which we obtained all rights, copyrights, and trademarks to the brands "Baby Genius," "Little Genius," "Kid Genius," "123 Favorite Music" and "Wee Worship," and all then existing productions under those titles.

In August 2009, the Company launched a line of Baby Genius pre-school toys. The line of 24 Baby Genius toys, manufactured by master toy manufacturer Battat Incorporated, includes musical, activity, and role-play toys that incorporate the Baby Genius principle of music as a core learning tool to engage and encourage children to communicate, connect, discover, and use their imagination. The Company cancelled the agreement in December 2010 according to the terms of the contract, permitting Battat to continue selling the current line of toys until late spring 2011.

On January 11, 2011, the Company signed an agreement with Jakks Pacific's Tollytots® division for a new toy line. As a result of the five-year agreement, Tollytots® will immediately begin development on a comprehensive line of musical and early learning toys, incorporating the music, characters and themes that have made the *Baby Genius* series of videos and music CDs so successful among children and parents around the world. The new toy line will cover a broad range of exclusive categories, including learning and developmental toys, most plush toys, and musical toys, as well as several other non-exclusive categories.

During fourth quarter of 2009 and 2010, the Company signed licensing agreements to develop additional product lines based on the Baby Genius characters. These agreements include children's games and puzzles, electronic learning aids, "sippy cups", shoes, socks and infant and toddler layette items. We are also discussing other licensing opportunities for introduction in 2011 and 2012 and we believe that our licensing revenue will grow significantly during the upcoming years.

The Company also obtains licenses for other select brands we feel we can market and sell through our distribution channels. In July 2009, Pacific Entertainment entered into a licensing agreement with Precious Moments, Inc. (PMI) granting the Company non-exclusive rights to use its copyrights and trademarks in connection with the manufacture, distribution, sale, and advertising of music CD's for children through 2012. The Company initially produced three CD's released in fourth quarter 2009. In addition, the Company signed an amendment in September 2009 to include licensing for DVD's created by PMI. The "Precious Moments" products join our previously licensed lines including "Guess How Much I Love You" and "The Snowman".

During 2010, the Company launched a line of classic movies and television programs, "Pacific Entertainment Presents". Initially consisting of seven titles, each focusing on a specific genre such as Horror, Western, SciFi, Action, Mystery, War, and Gangster, an additional six titles were added in late 2010 expanding the line with the Super Hero's collection as well as Family Favorites.

The Company's Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America. These require the use of estimates and assumptions that affect the assets, liabilities, revenues and expenses reported in the financial statements, as well as amounts included in the notes thereto, including discussion and disclosure of contingent liabilities. Although the Company uses its best estimates and judgments, actual results could differ from these estimates as future confirming events occur.

Liquidity

Historically, the Company has incurred net losses. As of December 31, 2010, the Company had an accumulated deficit of $6,768,156 and a total stockholders' deficit of $1,291,216. At December 31, 2010, the Company had current assets of $1,588,446, including cash and cash equivalents of $207,880, and current liabilities of $1,251,767, resulting in a working capital excess of $336,679. For the year ending December 31, 2010, the Company reported a net loss of $692,883 and net cash provided by operating activities of $151,965. Management believes that its increasing sales, cash provided by operations, together with funds available from short-term related party advances, will be sufficient to fund planned operations for the next twelve months. However, there can be no assurance that operations and operating cash flows will continue at the current levels or improve in the near future. If the Company is unable to obtain profitable operations and positive operating cash flows sufficient to meet scheduled debt obligations, it may need to seek additional funding or be forced to scale back its development plans or to significantly reduce or terminate operations.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

Cash Equivalents

The Company considers all highly liquid debt instruments with initial maturities of three months or less to be cash equivalents.

Significant Accounting Policies

Revenue Recognition - The Company recognized revenue related to product sales when (i) the seller's price is substantially fixed, (ii) shipment has occurred causing the buyer to be obligated to pay for product, (iii) the buyer has economic substance apart from the seller, and (iv) there is no significant obligation for future performance to directly bring about the resale of the product by the buyer as required by Revenue Recognition Topic 605 of the FASB Accounting Standards Codification.

Revenues associated with the sale of branded CDs, DVDs and other products, are recorded when shipped to customers pursuant to approved customer purchase orders resulting in the transfer of title and risk of loss. Cost of sales, rebates and discounts are recorded at the time of revenue recognition or at each financial reporting date.

The Company's licensing and royalty revenue represent variable payments based on net sales from brand licensees for content distribution rights. These license agreements are held in conjunction with third parties that are responsible for collecting fees due and remitting to the Company its share after expenses. Revenue from licensed products is recognized when realized or realizable based on royalty reporting received from licensees.

Shipping and Handling - The Company records shipping and handling expenses in the period in which they are incurred and are included in the Cost of Goods Sold.

Inventories - Inventories are stated at the lower of cost (average) or market and consist of finished goods such as DVDs, CDs and other products. A reserve for slow-moving and obsolete inventory is established for all inventory deemed potentially non-saleable by management in the period in which it is determined to be potentially non-saleable. The current inventory is considered properly valued and saleable. The Company concluded that there was an appropriate reserve for slow moving and obsolete inventory of $5,972 established as of December 31, 2010 and there was no need for a reserve at December 31, 2009.

Property and Equipment - Property and equipment are recorded at cost. Depreciation on property and equipment is computed using the straight-line method over the estimated useful lives of the assets, which range from 5 to 39 years. Maintenance, repairs, and renewals, which neither materially add to the value of the assets nor appreciably prolong their lives, are charged to expense as incurred. Gains and losses from dispositions of property and equipment are reflected in the statement of operations.

Intangible Assets –Intangible Assets acquired, either individually or with a group of other assets, are initially recognized and measured based on fair value. In the acquisition of the assets from Genius Products, fair value was calculated using a discounted cash flow analysis of the revenue streams for the estimated life of the assets.

The Company develops new music and video products, in addition to adding content, improved animation and songs/features to their existing productions. The costs of new product development and significant improvement to existing products are capitalized while routine and periodic alterations to existing products are expensed as incurred. The Company begins amortization of new products when it is available for general release. Annual amortization cost of intangible assets are computed based on the straight-line method over the remaining economic life of the product, generally such deferred costs are amortized over five years.

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.

Stock Based Compensation - As required by the Stock Compensation Topic 718 of the FASB Accounting Standards Codification, the Company recognizes an expense related to the fair value of our stock-compensation awards, including stock options, using the Black-Scholes calculation as of the date of grant.

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

Advertising Costs- The Company's marketing and sales costs are primarily related to advertising, trade shows, public relation fees and production and distribution of collateral materials. In accordance with the FASB Topic 720-35 regarding Advertising Costs, the Company expenses advertising costs in the period in which the expense is incurred. Marketing and Sales costs incurred by licensees are borne fully by the licensee and are not the responsibility of the Company. Advertising expense for the year ended December 31, 2010 was $103,908 and for 2009 was $129,796.

Allowance for Sales Returns - An Allowance for Sales Returns is estimated based on average sales during the previous year. Based on experience, sales growth, and our customer base, the Company concluded that the allowance for sales returns at December 31, 2010 and 2009 should be $76,000.

Concentration of Risk - The Company's cash and cash equivalents are maintained at one financial institution and from time to time the balances for this account exceed the Federal Deposit Insurance Corporation's ("FDIC's") insured amount. Balances on deposits at banks in the United States are insured by the FDIC up to $250,000 per institution. As of December 31, 2010 and 2009, there were no uninsured balances.

For fiscal year 2010, the revenue from three major customers comprised 27.6%, 16.3% and 14.1% of the Company's total revenue. Those three major customers made up 39.1%, 0%, and 0% of the total accounts receivable balance at December 31, 2010, respectively. For fiscal year 2009, the Company had revenue from three major customers comprised of 28.5%, 13.7% and 11.5% of the Company's total revenue. Those three major customers made up 24.2%, 0%, and 0% of the total accounts receivable balance at December 31, 2009, respectively. The major customers for the year ending December 31, 2010 are not necessarily the same major customers at December 31, 2009. 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 bad debt. At December 31, 2010 and 2009, no allowance for bad debt has been established for the major customers as these amounts are believed to be fully collectible.

Earnings Per Share - Basic earnings (loss) per common share ("EPS") is calculated by dividing net loss by the weighted average number of common shares outstanding for the period. Diluted EPS is calculated by dividing net loss by the weighted average number of common shares outstanding, plus the assumed exercise of all dilutive securities using the treasury stock or "as converted" method, as appropriate. During periods of net loss, all common stock equivalents are excluded from the diluted EPS calculation because they are antidilutive. The Company had stock options outstanding to purchase 8,970,000 shares of common stock as of December 31, 2010.

Fair value of financial instruments - The carrying amounts of cash, receivables and accrued liabilities approximate fair value due to the short-term maturity of the instruments.

Fair Value Measurements - The Company has an equity investment that is measured at fair value on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-tier fair value hierarchy has been established which prioritized the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The equity investment value of $53,008 in Circle of Education LLC has been valued using Level 3 criteria.

Litigation

We are not a party to any legal or administrative proceedings, other than routine legal activities incidental to our business that we do not believe, individually or in the aggregate, would be likely to have a material adverse effect on our financial condition or results of operations.

Note 2: Plant, Property, and Equipment and Intangible Assets

The Company has plant, property and equipment and other intangible assets used in the creation of revenue as follows as of December 31:

	2010	2009
Furniture and Equipment	$ 76,986	$ 54,099
Less Accumulated Depreciation	(41,818)	(22,167)
Net Fixed Assets	**$ 35,168**	**$ 31,932**

	2010	2009
Trademarks	$ 129,831	$ 129,831
Product Masters	3,202,712	3,122,779
Other Intangible Assets	223,282	123,264
Less Accumulated Amortization	(3,008,214)	(2,333,166)
Net Intangible Assets	**$ 547,611**	**$ 1 ,042,708**

Pursuant to FASB Accounting Standards Codification regarding Topic 350, Intangible Assets, intangible asset(s) acquired, either individually or with a group of other assets shall be initially recognized and measured based on fair value. In the acquisition of the assets from Genius Products, fair value was calculated using a discounted cash flow analysis of the revenue streams for the estimated life of the assets. As this resulted in a fair market value in excess of the purchase price, the assets were recorded at $2,489,082, the total purchase price discounted with the imputed interest rate of 10%.

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. At year end December 31, 2010 and 2009, it was determined that no impairment existed.

The Company continues to develop new CDs and DVDs, in addition to adding content, improved animation and bonus songs/features to their existing CD and DVD collection. In accordance with FASB Accounting Standards Codification regarding the topics of Intangible Assets (350) and Research and Development (730), the costs of new product development and significant improvement to existing products are capitalized while routine and periodic alterations to existing products are expensed as incurred.

Note 3: Accrued Liabilities

Accrued but unpaid Salaries and Vacation benefits total $62,551 and $1,602,820 as of December 31, 2010 and 2009, respectively. The amount as of December 31, 2009 includes accrued salaries due to four of the Officers that were converted to long term notes payable during 2010. Debenture Interest accrued and unpaid for the previously outstanding balance is $19,049 in 2010 and $18,052 in 2009. Other accrued liabilities totaling $221,739 in 2010 and $232,099 in 2009 are as follows:

	2010	2009
Allowance for Sales Returns	$ 76,000	$ 76,000
Common Marketing Fund	-	51,530
Commission on Royalties	71,485	83,492
Royalties Payable	44,940	10,715
Other Accrued Expenses	29,314	10,362
Total Accrued Expenses	$ 221,739	$ 232,099

Note 4: Notes Payable and Accrued Interest - Related Parties

As of December 31, 2010 and 2009, the Company had the following notes payable and accrued interest balances outstanding:

	2010	2009
Related Party Note Payable to PEC	$ 360,840	$ 360,840
Accrued Interest on Related Party Note	22,142	-
Officer Loans to PEC	311,987	391,525
Subordinated Officer Loans to PEC	1,620,137	-
Accrued Interest on Subordinated Loans	24,090	-
Total Notes Payable and Accrued Interest	2,339,197	752,365
Less: Current Portion	-	752,365
Long Term Portion	$ 2,339,197	$ -

On February 1, 2008, Isabel Moeller, sister of our Chief Executive Officer, Klaus Moeller, loaned $310,000 to the Company at an interest rate equal to 8% per annum as a short term note payable. The funds were borrowed from Ms. Moeller in order to reduce outstanding obligations due to Genius Products at that time. In August 2008, the note was amended to require payment of all principal and accrued interest on June 30, 2009. Subsequent agreements extended the maturity date to December 31, 2010 and reduced the stated interest rate to six (6%) percent per annum. On September 30, 2010, Ms. Moeller agreed to accept a new note with a maturity date of December 31, 2012 resulting in the reclassification of the total amount outstanding, including principal and accrued interest, as long term debt. The amount due to Ms. Moeller as of December 31, 2010 includes $22,142 in accrued but unpaid interest.

Notes were issued in favor of four of the Officers for loans to the Company at various times during the years 2007 through 2009. The term of the notes issued in 2009 and 2008 called for payment on December 31, 2009 and had a stated interest rate of 1.63%. The notes issued in 2007 were payable Upon Demand and had a stated interest rate of 6% per annum until paid in full. On February 13, 2009, the Officers agreed to an extension of the maturity date of all outstanding notes to December 31, 2009 at the stated interest rate of the original note. Partial repayment on the notes to the Officers in the amount of $400,000 was made on March 4, 2009. On December 31, 2009, the Officers agreed to issue new note agreements for the outstanding balances, including accrued but unpaid interest, with a maturity date of December 31, 2010 and a stated interest rate of 6% per annum. Repayments in the aggregate amount of $60,654 were made on August 11, 2010. On September 30, 2010, the Officers agreed to extend the maturity date of the loans to December 31, 2012 resulting in the outstanding balances, including principle and accrued interest, to be reclassified as long term debt. On October 12, 2010 repayments were made in the aggregate amount of $40,707.

In accordance with generally accepted accounting principles, stated interest rates on the related party notes were reviewed for compliance with the subject of Imputation of Interest, Topic 835 of the FASB Accounting Standards Codification. As a result, imputed interest was calculated for a market rate of 7% in the years 2009 and 2008 and 10% in 2007, resulting in Additional Paid in Capital contribution of $41,305 over the life of the loans.

On September 30, 2010, four of the Officers agreed to convert accrued but unpaid salaries through September 30, 2010 to subordinated long term notes payable. In February 2011, as a result of an agreement by each of the four Officers to retroactively decrease the amount of the annual salary for 2010 from $125,000 per annum per Officer to $80,000, the amount of the notes were reduced to an aggregate of $1,620,137. The notes have a maturity of December 31, 2012 and a stated interest rate of six percent (6%) per annum, said interest accruing from October 1, 2010 on the unpaid balance of principal and interest. There is no prepayment penalty. As of December 31, 2010, the accrued but unpaid interest totals $24,090.

Note 5: Stockholders' Equity

As of December 31, 2010 and December 31, 2009, there were 55,116,515 and 54,595,407 shares of common stock outstanding out of the 100,000,000 shares of common authorized respectively. In 2009, 65,000 shares were issued for services rendered valued at $26,000 or $0.40 per share. An additional 50,000 shares valued at $25,000, or $0.50 per share, were issued in 2010 in exchange for services rendered.

The Company issued $2.5 million in 10% debentures, which converted into shares of the Company's common stock at a conversion rate of one share for each $0.20 converted on June 30, 2008. The effect of this full conversion of the outstanding debentures was issuance of 12,500,000 shares. In addition, the terms of the conversion offering included the continued payment of interest until the creation of a secondary trading market for the Company's common stock. The Company was listed on the Pink Sheets Electronic OTC Market system as of July 24, 2009 and the interest payments were terminated as of that date. This resulted in an additional 347,907 shares issued to the debenture holders in 2009 for a total value of $139,163.

On September 5, 2008, the Company offered 25,000,000 shares of common stock to certain accredited investors pursuant to a Confidential Private Placement Memorandum. The shares were offered at a purchase price of $0.40 per share. A total of 250,000 shares were sold for cash at a total investment of $100,000 for the year ending December 31, 2009. Offering costs were recognized and offset against the common stock account in the amount of $15,569 for 2009.

On April 6, 2010, the Company commenced a Confidential Private Placement offering to certain accredited investors for up to 12,500,000 shares of common stock at a purchase price of $0.40 per share. On July 13, 2010, the Board of Directors amended the offering to include the issuance of a warrant to purchase one additional share of common stock for each share of common stock sold through the offering. Each warrant will have an expiration of three years from the date of purchase and an exercise price of $0.40 per share. As of December 31, 2010, a total subscription of $188,443 had been received and 471,108 shares have been issued. Costs of the offering in the amount of $17,396 were offset against the common stock account through December 31, 2010.

In accordance with generally accepted accounting principles, stated interest rates on the related party notes were reviewed for compliance with Topic 835, Imputation of Interest, in the FASB Accounting Standards Codification to determine an appropriate rate of interest. As a result, imputed interest was calculated for a market rate of 7% in 2009 resulting in Additional Paid in Capital contribution of $19,342.

During 2009 and 2010, option grant notices for up to 8,970,000 shares of common stock have been issued to employees and service providers of the Company pursuant to the 2008 Stock Option Plan, in accordance with the provisions of Topic 718, Compensation, of the Accounting Standards Codification, which requires companies to measure the cost of employee services received in exchange for equity instruments based on the grant date fair value of those awards and to recognize the compensation expense over the requisite service period during which the awards are expected to vest. A total of $1,447,042 has been recognized as Additional Paid in Capital as the value of these options granted, which includes $117,610 and $518,534 for the years ending December 31, 2010 and 2009, respectively. Additional details regarding the stock options granted is found in Note 9: Stock Options.

On June 2, 2009, the Company, through Glendale Securities, Inc. of Sherman Oaks, California as broker-dealer, filed a Disclosure Statement with the Financial Investment Regulatory Agency (FINRA) pursuant to Rule 15c2-11 of the Securities and Exchange Act of 1934, as amended, to establish a secondary trading market on the Pink Sheets Electronic OTC Markets system. Glendale Securities' request for un-priced quotation on the Pink Sheets was cleared by FINRA on July 13, 2009 and trading began on July 24, 2009. The trading symbol is PENT.

Note 6: Income Taxes

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

Net deferred tax liabilities consist of the following components as of December 31, 2010 and December 31, 2009:

	2010	2009
Deferred tax assets:		
NOL Carryover	$ 1,137,838	$ 1,043,162
Accrued Expenses	120,842	95,652
Accrued Compensation	631,853	601,901
Depreciation	65,610	68,342
Charitable Contributions	2,406	2,016
Valuation allowance	(1,958,549)	(1,811,073)
Net deferred tax asset	$ -	$ -

The income tax provision differs from the amount of income tax determined by applying the U.S. federal tax rate to pretax income from continuing operations for the years ended December 31, 2010 and December 31, 2009 due to the following:

	2010	2009
Book Loss	$ (270,225)	$ (721,847)
Charitable	390	-
Depreciation	(2,731)	(1,828)
Accrued Expenses	-	(19,110)
Meals & Entertainment	2,449	3,595
Accrued Compensation	28,989	152,404
Gain/Loss	-	998
Stock for Service	55,618	212,369
Interest	-	7,543
Related Party Interest	26,153	10,385
Valuation Allowance	159,357	355,491
	$ -	$ -

At December 31, 2010, the Company had net operating loss carry forwards of approximately $2,918,000 that may be offset against future taxable income from the year 2011 through 2031. No tax benefit has been reported in the December 31, 2010 financial statements since the potential tax benefit is offset by a valuation allowance of the same amount.

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

The Company accounts for income taxes in accordance with Accounting Standards Codification Topic 740, Income Taxes ("Topic 740"), 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.

Topic 740 provides guidance on the accounting for uncertainty in income taxes recognized in a company's financial statements. Topic 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 financial statements.

At the adoption date of January 1, 2008, the Company had no unrecognized tax benefit which would affect the effective tax rate if recognized.

The Company includes interest and penalties arising from the underpayment of income taxes in the statements of operation in the provision for income taxes. As of December 31, 2009, the Company had no accrued interest or penalties related to uncertain tax positions.

The Company files income tax returns in the U.S. federal jurisdiction and in the state of California. The Company is currently subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities since inception of the Company.

Note 7: Lease Commitments

The Company has no capital leases subject to the Capital Lease guidelines in the FASB Accounting Standards Codification. Rental expenses incurred for operating leases during 2010 and 2009 were $146,979 and $130,299. The Company had two operating leases for office space. The San Diego, California office is approximately 2,162 square feet and had a lease which expired in October, 2010. The Company continues to occupy the space on a month to month basis. The Del Mar, California office is approximately 1,415 square feet and has been subleased. Both the lease and sublease on the Del Mar property expires July 31, 2011. Future minimum lease payments on the Del Mar office are as follows:

	2011
Minimum Rentals	$ 34,532
Less: Sublease Rentals	(24,338)
Total	$ 10,194

Note 8: Recent Accounting Pronouncements

In February 2010, the Financial Accounting Standards Board amended Topic 855, Subsequent Events, to require SEC filer companies to evaluate subsequent events through the date the financial statements are issued and to remove the requirements for an SEC filer to disclose a date in issued and revised financial statements for evaluation of subsequent events. The requirement to evaluate subsequent events for an entity that is not otherwise an SEC filer remains the date that the financial statements are available to be issued and the date must be included within the disclosure. The Company does not anticipate a change as a result of this amendment.

In April 2010, Codification Topic 740, Income Taxes, was amended to reconcile the timing differences the signing date might have on the accounting for the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010. It was determined that the two Acts should be considered together for accounting purposes. The Company does not anticipate an impact based on this amendment.

In December 2010, Business Combinations, Topic 805, was amended to require disclosure of pro forma information for business combinations that occurred during the current reporting period as if the acquisition date for all business combinations occurred at the beginning of the current annual reporting period. If the reporting entity is presenting comparative financial statements, pro forma information is required as if the business combination occurred at the beginning of the comparable prior annual reporting period. The Company formed a joint venture in September 2010, however, no revenue or earnings have been recorded for the new venture and thus no change in the Company's reporting has occurred.

In December 2010, Topic 350, Intangibles – Goodwill and Other, was amended to clarify when to perform Step 2 of the impairment test for Goodwill when reporting units have zero or negative carrying amounts. The amendments modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. The Company does not anticipate any impact based on this amendment.

Note 9: Stock Options

The Company has adopted the provisions of Topic 718, Compensation, of the Accounting Standards Codification, which requires companies to measure the cost of employee services received in exchange for equity instruments based on the grant date fair value of those awards and to recognize the compensation expense over the requisite service period during which the awards are expected to vest.

In January of 2008, the Company entered into employment agreements with four of its officers. Pursuant to these agreements, the Company committed to issue options to purchase up to 8 million shares of the Company's common stock. The options vested over a two-year period.

On December 29, 2008, the Company adopted the Pacific Entertainment Corporation 2008 Stock Option Plan (the “Plan”), which provides for the issuance of qualified and non-qualified stock options to officers, directors, employees and other qualified persons. The Plan is administered by the Board of Directors of the Company or a committee appointed by the Board of Directors. The number of shares of the Company’s common stock initially reserved for issuance under the Plan is 11 million.

On January 20, 2009 the Company granted the 8 million stock options to its four officers as required by the employment agreements mentioned above. The options have a 5 year life, an exercise price of $0.44, which in accordance with the 2008 Stock Option Plan is 10% above the current Fair Market value on the grant date, and became fully vested at December 31, 2009.

The Company used the Black-Scholes valuation model to estimate the grant date fair value of its stock options and warrants. The model requires various judgmental assumptions including estimated stock price volatility, forfeiture rates and expected life.

The Company’s calculations of the fair market value of each stock-based award that were granted, on January 20, 2009, used the following assumptions:

Risk-free interest rate	1.48%
Expected life in years	5
Dividend yield	0
Expected volatility	48.43%

Using the above assumptions the Company calculated the fair market value of the 8,000,000 options on January 20, 2009 to be $0.16 per option, or $1,297,437 for all of the options granted. As the Company had the obligation to grant these stock options at the beginning of 2008 and the options were to vest partially during 2008 the Company accrued Stock Compensation Expense of $810,898 and recorded a liability to the four officers in the same amount as of December 31, 2008. The remaining $486,539 of stock compensation expense was expensed in 2009.

On December 31, 2009 the Company issued Stock Option Grant notices to seven employees and service providers under the 2008 Stock Option Plan, as amended. Options to purchase 130,000 shares of common stock at an exercise price of $0.55 per share were granted with a 5 year life, fully vesting on December 31, 2009. The exercise price was determined using an average of the closing price of the five days immediately preceding the Date of Grant.

The Company’s calculations of the fair market value of each stock-based award that were granted, on December 31, 2009, used the following assumptions:

Risk-free interest rate	1.48%
Expected life in years	5
Dividend yield	0
Expected volatility	58.56%

Using the above assumptions the Company calculated the fair market value of the 130,000 options on December 31, 2009 to be $0.24 per option, or $31,319 for all of the options granted. The full value of the options was expensed in 2009.

On June 21, 2010, the Company issued a Stock Option Grant notice to James Sommers, pursuant to a an agreement for consulting services rendered, under the 2008 Stock Option Plan, as amended. Options to purchase 250,000 shares of common stock at an exercise price of $0.50 per share were granted with a 3 year life, fully vesting on the date of grant. The exercise price was determined using an average of the closing price of the five days immediately preceding the Date of Grant. The Company's calculation of the fair market value of the stock-based award was $0.26 per option, or $63,894. The full value of the options was expensed in 2010.

On October 3, 2010 the Company issued a Stock Option Grant notice to Anthony Dates, Vice President of Sales, pursuant to a an agreement for a salary reduction effective on that date, under the 2008 Stock Option Plan, as amended. Options to purchase 25,000 shares of common stock at an exercise price of $0.50 per share were granted with a 5 year life, fully vesting on December 31, 2010. The exercise price was determined using an average of the closing price of the five days immediately preceding the Date of Grant. The Company's calculation of the fair market value of the stock-based award was $0.32 per option, or $16,046. The full value of the options was expensed in 2010.

On December 31, 2010 the Company issued Stock Option Grant notices to ten employees and service providers under the 2008 Stock Option Plan, as amended. Options to purchase 100,000 shares of common stock at an exercise price of $0.336 per share were granted with a 5 year life, fully vesting on December 31, 2010. The exercise price was determined using an average of the closing price of the five days immediately preceding the Date of Grant. The Company's calculation of the fair market value of the stock-based award that was granted was $0.15 per option, or $15,068 for all of the options granted. The full value of the options was expensed in 2010.

On December 31, 2010, the Company issued a Stock Option Grant notice to Jeanene Morgan in conjunction with her appointment as Chief Accounting and Operating Officer under the 2008 Stock Option Plan, as amended. Options to purchase 450,000 shares of common stock at an exercise price of $0.336 per share were granted with a vesting schedule of 150,000 shares on December 31, 2010 and 100,000 vesting each year thereafter on Decembers 31, 2011, 2012 and 2013. The options have a 5 year life from the date of vesting. The exercise price was determined using an average of the closing price of the five days immediately preceding the Date of Grant. The Company's calculation of the fair market value of the stock-based award that was granted was $0.15 per option, or $67,806 for all of the options granted. Expense was recorded in 2010 for 150,000 vested options in the amount of $22,602, with the remaining $45,204 to be amortized on a straight line basis over the remaining three years of the vesting schedule.

The Company used the Black-Scholes valuation model to estimate the grant date fair value of the options granted in 2010. The Company used the following assumptions for the 2010 valuations:

Risk-free interest rate	1.21% – 2.01%
Expected life in years	3-5
Dividend yield	0
Expected volatility	68.54% - 80.23%

The following schedule summarizes the changes in the Company's stock option plan:

	Options Outstanding		Weighted Average		Weighted Average
	Number of Shares	Exercise Price per Share	Remaining Contractual Life	Aggregate Intrinsic Value	Exercise Price per Share
Balance at December 31, 2008	-	-	-	-	-
Options Granted	8,130,000	$ 0.44-0.55	5.00 years	-	$ 0.44
Options Exercised	-	-	-	-	-
Options Expired	-	-	-	-	-
Balance at December 31, 2009	8,130,000	$ 0.44-0.55	4.07 years	-	$ 0.44
Options Granted	840,000	$ 0.34-0.50	4.97 years	-	$ 0.39
Options Exercised	-	-	-	-	-
Options Expired	-	-	-	-	-
Balance at December 31, 2010	8,970,000	$ 0.34-0.55	3.25 years	-	$ 0.44
Exercisable December 31, 2010	8,670,000	$ 0.34-0.55	3.12 years	-	$ 0.44

Note 10: Warrants

In connection with the sale of shares of its common stock in 2010 the Company issued warrants to purchase a total of 471,108 shares of its common stock at $0.40 per share exercisable for a three-year period.

The following schedule summarizes the changes in the Company's warrants during 2010:

	Number of Warrants		Exercise Price per Share		Weighted Average Exercise Price per Share
Balance at December 31, 2009	-		-		-
Warrants Granted	471,108	$	0.40	$	0.40
Warrants Exercised	-		-		-
Warrants Expired	-		-		-
Balance at December 31, 2010	471,108	$	0.40	$	0.40
Exercisable December 31, 2010	471,108	$	0.40	$	0.40

The following schedule summarizes the outstanding warrants at December 31, 2010:

Number of Warrants Outstanding at December 31, 2010	Number of Warrants Exercisable at December 31, 2010	Expiration Date	Exercise Price	
471,108	471,108	2013	$	0.40

Note 11: Employment Agreements

On January 1, 2008, the Company entered into Employment Agreements with four of the Officers of the Company for a term of five years, expiring on December 31, 2012. The agreements specify increasing annual salary amounts, car allowances, participation in benefit plans, vacations, and stock option plans, and severance benefits.

Authorized salaries for each officer for the fiscal year ended December 31, 2009 were $195,000. On April 1, 2009, each of the four officers agreed to a salary reduction to $125,000, resulting in a prorated total salary calculation of $142,500 for the year. As of September 30, 2010, this balance was converted to subordinated, long term debt.

Authorized salaries for each officer for the fiscal year ended December 31, 2010 were $210,000. On April 1, 2009, each of the four officers agreed to a salary reduction to $125,000. On February 11, 2011 each of the four officers agreed to a retroactive salary reduction for 2010 to $80,000 inclusive of the car allowance. As of September 30, 2010, this balance was converted to subordinated, long term debt.

Pursuant to a February 2011 amendment to the employment agreements, salaries for 2011 were set at $125,000 exclusive of the car allowance of $11,400, and, upon notice from the employee, may be increased to $165,000 for 2012. The following is a schedule by year of the future minimum salary payments related to these employment agreements:

2011	500,000
2012	660,000
Total	$1,160,000

Note 12: Creation of Limited Liability Company

On September 20, 2010, the Company entered into a joint venture agreement between the Company and Dr. Shulamit Ritblatt to form Circle of Education, LLC (COE), a California limited liability company, for the purpose of creation and distribution of a curriculum to promote school readiness for children ages 0-5 years. The Company obtained an initial voting and economic interest of seventy-five percent of the outstanding units of the newly formed company in exchange for the contribution of all intellectual property rights the Company had in the Circle of Education program. As of the issuance date of these financial statements, both parties have made their intellectual property contributions to COE and a Long Term Investment in Circle of Education was recognized by the Company in the amount of $53,008, which represents the expenditure for development of the product through December 31, 2010. Circle of Education, LLC was formed on September 24, 2010. As of the issuance of these financial statements, it has not yet begun sales operations and no income or expenses are included in the financial statements of the Company.

Note 13: Subsequent Events

The Company evaluated subsequent events through March 11, 2011.

On January 12, 2011, the Company announced it had signed an agreement with Jakks Pacific's Tollytots® division for a new toy line. As a result of the world-wide, five-year agreement, which expires on December 31, 2016, Tollytots® will immediately begin development on a comprehensive line of musical and early learning toys, based on the *Baby Genius* brand and characters. The new toy line will cover a broad range of exclusive categories including learning and developmental toys, most plush toys, and musical toys, as well as several other non-exclusive categories. The contract is subject to certain minimum net sales revenue.

On February 9, 2011, payments of certain of the related party notes payable were made in the aggregate of $56,000 against the principal outstanding.

Pacific Entertainment Corporation
Consolidated Balance Sheets

		March 31, 2011 (unaudited)		December 31, 2010
ASSETS				
Current Assets:				
Cash	$	269,451	$	207,880
Accounts Receivable, net		694,241		1,077,685
Inventory		224,774		247,505
Prepaid and Other Assets		91,085		55,376
Total Current Assets		1,279,551		1,588,446
Property and Equipment, net		36,175		35,168
Capitalized Product Development		187,242		128,523
Intangible Assets, net		497,772		547,611
Total Assets	**$**	**2,000,740**	**$**	**2,299,748**
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)				
Current Liabilities:				
Accounts Payable	$	543,737	$	948,428
Accrued Expenses		192,315		221,739
Accrued Salaries and Wages		183,586		62,551
Accrued Interest - Debentures		19,049		19,049
Total Current Liabilities		938,687		1,251,767
Long Term Liabilities:				
Notes Payable – Related Parties and Accrued Interest		2,293,058		2,339,197
Total Liabilities		3,231,745		3,590,964
Stockholders' Equity (Deficit)				
Common Stock, no par value, 100,000,000 shares authorized; 55,148,815 and 55,116,515 shares issued and outstanding, respectively		3,400,565		3,390,875
Common Stock Subscription Payable		225,000		-
Additional Paid in Capital		2,087,836		2,086,065
Accumulated Deficit		(6,940,962)		(6,768,156)
Total Pacific Entertainment Corporation Stockholders' Equity (Deficit)		(1,227,561)		(1,291,216)
Noncontrolling Interest		(3,444)		-
Total Stockholders' Equity (Deficit)		(1,231,005)		(1,291,216)
Total Liabilities & Stockholders' Equity (Deficit)	**$**	**2,000,740**	**$**	**2,299,748**

See accompanying notes to consolidated financial statements

Pacific Entertainment Corporation
Consolidated Statements of Operations (unaudited)

	Three Months Ending March 31, 2011	Three Months Ending March 31, 2010
Revenues:		
Product Sales	$ 893,292	$ 743,758
Licensing & Royalties	413,885	231,840
Total Revenues	1,307,177	975,598
Cost of Sales (Excluding Depreciation)	553,908	470,370
Gross Profit	753,269	505,228
Operating Expenses:		
Product Development	5,263	-
Professional Services	66,860	99,665
Rent Expense	32,321	36,590
Marketing & Sales	364,552	228,683
Depreciation & Amortization	54,829	169,400
Salaries and Related Expenses	306,289	240,037
Stock Compensation Expense	1,771	3,834
Other General & Administrative	73,044	42,210
Total Operating Expenses	904,929	820,419
Loss from Operations	(151,660)	(315,191)
Other Income (Expense):		
Other Income	10,416	10,199
Interest Expense	(1,145)	-
Interest Expense – Related Parties	(33,861)	(11,260)
Net Other Income (Expense)	(24,590)	(1,061)
Loss before Income Tax Expense and Noncontrolling Interest	(176,250)	(316,252)
Income Tax Expense	-	-
Net Loss	(176,250)	(316,252)
Net Loss attributable to Noncontrolling Interest	3,444	-
Net Loss attributable to Pacific Entertainment Corporation	$ (172,806)	$ (316,252)
Net Loss per common share	$ (0.00)	$ (0.01)
Weighted average shares outstanding	55,116,515	54,595,407

See accompanying notes to consolidated financial statements

Pacific Entertainment Corporation
Consolidated Statements of Stockholders' Equity (Deficit) (unaudited)

	Common Stock		Common Stock Subscription Payable	Additional Paid in Capital	Noncontrolling Interest	Accumulated Deficit	Total
	Shares	Amount					
Balance, December 31, 2010 (audited)	55,116,515	$3,390,875	$ -	$2,086,065	$ -	$ (6,768,156)	$(1,291,216)
Common Stock Issued for Services	32,300	9,690	-	-	-	-	9,690
Common Stock Subscription Payable	-	-	225,000	-	-	-	225,000
Stock Compensation Expense	-	-	-	1,771	-	-	1,771
Noncontrolling Interest	-	-	-	-	(3,444)	-	(3,444)
Net Loss	-	-	-	-	-	(172,806)	(172,806)
Balance, March 31, 2011	55,148,815	$3,400,565	$ 225,000	$2,087,836	$ (3,444)	$ (6,940,962)	$(1,231,005)

See accompanying notes to consolidated financial statements

Pacific Entertainment Corporation
Consolidated Statements of Cash Flows (unaudited)

	Three Months Ending March 31, 2011	2010
Cash Flows from Operating Activities:		
Net Loss	$ (176,250)	$ (316,252)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation Expense	3,668	4,367
Amortization Expense	51,162	165,033
Issuance of Common Stock for Services	9,690	-
Stock Compensation Expense	1,771	3,834
Decrease (increase) in operating assets		
Accounts Receivable	383,444	153,013
Inventory	22,731	31,066
Prepaid Expenses & Other Assets	(35,708)	(23,020)
Increase (decrease) in operating liabilities		
Accounts Payable	(404,691)	(287,251)
Accrued Salaries	121,034	131,913
Accrued Interest – Related Party	33,861	11,260
Other Accrued Expenses	(29,424)	7,584
Net cash provided (used) in operating activities	(18,712)	(118,453)
Cash Flows from Investing Activities:		
Investment in Intangible Assets	(60,042)	(27,093)
Purchase of Fixed Assets	(4,675)	(9,738)
Net cash provided (used) by investing activities	(64,717)	(36,831)
Cash Flows from Financing Activities:		
Common Stock Subscription Payable	225,000	-
Payments on Related Party Debt	(80,000)	-
Net cash provided (used) by financing activities	145,000	-
Net increase (decrease) in cash	61,571	(155,284)
Beginning Cash Balance	207,880	247,865
Ending Cash Balance	$ 269,451	$ 92,581
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$ -	$ -
Cash paid interest	$ -	$ -

See accompanying notes to consolidated financial statements

Note 1: The Company and Significant Accounting Policies

Organization and Nature of Business

Pacific Entertainment Corporation ("we", "us", "our" or the "Company") provides music-based products that are entertaining, educational and beneficial to the well-being of infants and young children. We create, market and sell children's DVDs, CD music, toy, and book products in the United States by distribution at wholesale to retail stores and outlets. We license the use of our brands internationally to others to manufacture, market and sell the products, whereby we receive advances and royalties.

The Company commenced operations in January 2006, assuming all of the rights and obligations of its Chief Executive Officer, Klaus Moeller, under an Asset Purchase Agreement between the Company and Genius Products, Inc., in which we obtained all rights, copyrights, and trademarks to the brands "Baby Genius," "Little Genius," "Kid Genius," "123 Favorite Music" and "Wee Worship," and all then existing productions under those titles.

In August 2009, the Company launched a line of Baby Genius pre-school toys. The line of 24 Baby Genius toys, manufactured by toy manufacturer Battat Incorporated, includes musical, activity, and role-play toys that incorporate the Baby Genius principle of music as a core learning tool to engage and encourage children to communicate, connect, discover, and use their imagination. The Company granted an exclusive license to Battat for the marketing and distribution of a line of toys based on the Baby Genius brand and characters in the United States and Canada, and non-exclusive rights of distribution in other parts of the world. This license was terminated according to the terms of the contract in December 2010 and we have granted Battat the right to continue to distribute the existing line of toys through late Spring 2011.

On January 11, 2011, the Company signed an agreement with Jakks Pacific's Tollytots® division for a new toy line. As a result of the five-year agreement, Tollytots® immediately began development on a comprehensive line of musical and early learning toys, incorporating the music, characters and themes that have made the *Baby Genius* series of videos and music CDs so successful among children and parents around the world. The new toy line will cover a broad range of exclusive categories, including learning and developmental toys, most plush toys and musical toys, as well as several other non-exclusive categories. As part of the development of the new products, the Company has engaged in development of several new and exciting characters as well as providing the existing characters with a fresh appearance.

During fourth quarter of 2009 and first half of 2010, the Company signed licensing agreements to develop additional product lines based on the Baby Genius characters. These agreements include children's games and puzzles, electronic learning aids, "sippy cups", shoes, socks and infant and toddler layette items. We are discussing other licensing opportunities for introduction and believe that our licensing revenue will grow significantly during the upcoming years.

The Company also obtains licenses for other select brands we feel we can market and sell through our distribution channels. In July 2009, Pacific Entertainment entered into a licensing agreement with Precious Moments, Inc. ("PMI") granting the Company non-exclusive rights to use its copyrights and trademarks in connection with the manufacture, distribution, sale and advertising of music CDs for children through 2012. The Company produced three CDs released in fourth quarter 2009. In addition, the Company signed an amendment in September 2009 to include licensing for DVDs created by PMI. The "Precious Moments" products join our previously licensed lines including "Guess How Much I Love You" and "The Snowman".

During 2010, the Company launched a line of classic movies and television programs, "Pacific Entertainment Presents". Initially consisting of seven titles, each focusing on a specific genre such as Horror, Western, SciFi, Action, Mystery, War, and Gangster, an additional six titles were added in late 2010 expanding the line with the Super Hero's collection as well as Family Favorites. The Company has begun expanding the product line to include distribution of content obtained from various independent studios and producers. We believe this new content will increase the revenue of our company significantly during the year.

The Company's Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America. These require the use of estimates and assumptions that affect the assets, liabilities, revenues and expenses reported in the financial statements, as well as amounts included in the notes thereto, including discussion and disclosure of contingent liabilities. Although the Company uses its best estimates and judgments, actual results could differ from these estimates as future confirming events occur.

Interim Consolidated Financial Statements

The accompanying condensed consolidated financial statements of the Company have been prepared without audit. Certain information and disclosures required by accounting principles generally accepted in the United States have been condensed or omitted. These condensed consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary to present fairly the results of operations of the Company for the periods presented. The results of operations for the three month period ended March 31, 2011, are not necessarily indicative of the results that may be expected for any future period or the fiscal year ending December 31, 2011.

These consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's 2010 Annual Report filed with the OTC Markets Group Inc. on March 11, 2011 and in the Company's registration statement on Form 10 filed on May 4, 2011.

Significant Accounting Policies

Revenue Recognition **–** The Company recognizes revenue related to product sales when (i) the seller's price is substantially fixed, (ii) shipment has occurred causing the buyer to be obligated to pay for product, (iii) the buyer has economic substance apart from the seller, and (iv) there is no significant obligation for future performance to directly bring about the resale of the product by the buyer as required by Revenue Recognition Topic 605 of the FASB Accounting Standards Codification.

Revenues associated with the sale of branded CDs, DVDs and other products, are recorded when shipped to customers pursuant to approved customer purchase orders resulting in the transfer of title and risk of loss. Cost of sales, rebates and discounts are recorded at the time of revenue recognition or at each financial reporting date.

The Company's licensing and royalty revenue represent variable payments based on net sales from brand licensees for content distribution rights. These license agreements are managed by third parties that are responsible for collecting fees due and remitting to the Company its share after expenses. Revenue from licensed products is recognized when realized or realizable based on royalty reporting received from licensees.

Principles of Consolidation - The consolidated financial statements include the financial statements of the Company, and its 75% owned subsidiary: Circle of Education LLC. All inter-company balances and transactions have been eliminated in consolidation.

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.

Liquidity - Historically, the Company has incurred net losses. As of March 31, 2011, the Company had a consolidated accumulated deficit of $6,940,962 and total stockholders' deficit of $1,231,005. At March 31, 2011, the Company had consolidated current assets of $1,279,551, including cash of $269,451, and consolidated current liabilities of $938,687, resulting in working capital of $340,864. For the three month period ending March 31, 2011, the Company reported a consolidated net loss of $172,806. The Company had net cash used by operating activities of $18,712. Management believes that its increasing revenue each year over the prior year and cash generated by operations, together with funds available from short-term related party advances, will be sufficient to fund planned operations for the next twelve months. However, there can be no assurance that operations and operating cash flows will continue at the current levels or improve in the near future. If the Company is unable to obtain profitable operations and positive operating cash flows sufficient to meet scheduled debt obligations, it may need to seek additional funding or be forced to scale back its development plans or to significantly reduce or terminate operations.

Reclassifications – Certain amounts in the condensed consolidated financial statements as of December 31, 2010 have been reclassified to conform to the presentation as of March 31, 2011.

Note 2: Plant, Property, and Equipment and Intangible Assets

The Company has plant, property and equipment and other intangible assets used in the creation of revenue of the following as of:

	March 31, 2011	December 31, 2010
Furniture and Equipment	$ 81,660	$ 76,986
Less Accumulated Depreciation	(45,485)	(41,818)
Net Fixed Assets	**$ 36,175**	**$ 35,168**
Trademarks	$ 129,831	$ 129,831
Product Masters	3,202,712	3,202,712
Other Intangible Assets	224,605	223,282
Less Accumulated Amortization	(3,059,376)	(3,008,214)
Net Intangible Assets	**$ 497,772**	**$ 547,611**

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. At the three months ending March 31, 2011 and twelve months ending December 31, 2010 it was determined that no impairment exists.

The Company continues to develop new CDs and DVDs, in addition to adding content, improved animation and bonus songs/features to their existing CD and DVD collection. In accordance with FASB Accounting Standards Codification regarding the topics of Intangible Assets (350) and Research and Development (730), the costs of new product development and significant improvement to existing products are capitalized while routine and periodic alterations to existing products are expensed as incurred.

Note 3: Accrued Liabilities

Accrued Salaries and Wages as of March 31, 2011 total $183,486 and $62,551 as of December 31, 2010. Debenture Interest accrued and unpaid for the original $2.5 million principal balance is $19,049 as of March 31, 2011 and December 31, 2010. Interest on the debentures was terminated effective July 24, 2009 in accordance with the conversion agreement upon establishment of a secondary trading market for our common stock. Other Accrued Liabilities totaling $192,315 as of March 31, 2011 and $221,739 as of December 31, 2010, include a reserve for product returns, music royalty payments, financed insurance costs, and commissions to outside representatives on net sales and royalty income. The reserve for returned product represents an estimate of potential product returns in future periods and is evaluated for reasonableness each reporting period.

Note 4: Notes Payable and Accrued Interest - Related Parties

As of March 31, 2011 and December 31, 2010, the Company had the following notes payable and accrued interest balances outstanding:

	March 31, 2011	December 31, 2010
Related Party Note Payable to PEC	$ 346,840	$ 360,840
Accrued Interest on Related Party Note	27,436	22,142
Officer Loans to PEC	249,995	311,988
Subordinated Officer Loans to PEC	1,620,137	1,620,137
Accrued Interest on Subordinated Loans	48,650	24,090
Total Notes Payable and Accrued Interest	**2,293,058**	**2,339,197**
Less: Current Portion	**-**	**-**
Long Term Portion	**$ 2,293,058**	**$ 2,339,197**

On February 1, 2008, Isabel Moeller, sister of our Chief Executive Officer, Klaus Moeller, loaned $310,000 to the Company at an interest rate equal to 8% per annum as a short term note payable. The funds were borrowed from Ms. Moeller in order to reduce outstanding obligations due to Genius Products at that time. In August 2008, the note was amended to require payment of all principal and accrued interest on June 30, 2009. Subsequent agreements extended the maturity date to December 31, 2010 and reduced the stated interest rate to six (6%) percent per annum. On September 30, 2010, Ms. Moeller agreed to accept a new note with a maturity date of December 31, 2012 resulting in the reclassification of the total amount outstanding, including principal and accrued interest, as long term debt. On February 9, 2011 a payment was made on the outstanding principal in the amount of $14,000. The amount due to Ms. Moeller as of March 31, 2011 and December 31, 2010 includes $27,436 and $22,142 in accrued but unpaid interest, respectively.

Notes were issued in favor of four of the Officers for loans to the Company at various times during the years 2007 through 2009. The term of the notes issued in 2009 and 2008 called for payment on December 31, 2009 and had a stated interest rate of 1.63%. The notes issued in 2007 were payable Upon Demand and had a stated interest rate of 6% per annum until paid in full. On February 13, 2009, the Officers agreed to an extension of the maturity date of all outstanding notes to December 31, 2009 at the stated interest rate of the original note. Partial repayment on the notes to the Officers in the amount of $400,000 was made on March 4, 2009. On December 31, 2009, the Officers agreed to issue new note agreements for the outstanding balances, including accrued but unpaid interest, with a maturity date of December 31, 2010 and a stated interest rate of 6% per annum. Repayments in the aggregate amount of $60,654 were made on August 11, 2010. On September 30, 2010, the Officers agreed to extend the maturity date of the loans to December 31, 2012 resulting in the outstanding balances, including principle and accrued interest, to be reclassified as long term debt. On October 12, 2010 repayments were made in the aggregate amount of $40,707. Additional repayments were made on February 2, 2011 in the aggregate amount of $66,000.

On September 30, 2010, four of the Officers agreed to convert accrued but unpaid salaries through September 30, 2010 to subordinated long term notes payable. In February 2011, as a result of an agreement by each of the four Officers to retroactively decrease the amount of the annual salary for 2010 from $125,000 per annum per Officer to $80,000, the amount of the notes were reduced to an aggregate of $1,620,137. The notes have a maturity of December 31, 2012 and a stated interest rate of six percent (6%) per annum, said interest accruing from October 1, 2010 on the unpaid balance of principal and interest. There is no prepayment penalty. As of March 31, 2011 and December 31, 2010, the accrued but unpaid interest totals $48,650 and $24,090, respectively.

Note 5: Stockholders' Equity

As of March 31, 2011, 55,148,815 shares of common stock were outstanding out of the 100,000,000 shares of common stock authorized.

On April 6, 2010, the Company commenced a Confidential Private Placement offering to certain accredited investors for up to 12,500,000 shares of common stock at a purchase price of $.40 per share. On July 13, 2010, the Board of Directors amended the offering to include the issuance of a warrant to purchase one additional share of common stock for each share of common stock sold through the offering. Each warrant will have an expiration of three years from the date of purchase and an exercise price of $0.40 per share. As of December 31, 2011, a total subscription of $188,443 had been received and 471,108 shares had been issued. Costs of the offering in the amount of $17,396 were offset against the common stock account. This offering expired.

In the first quarter of 2011, we conducted a private placement to certain accredited investors only under Rule 506. As a result of the offering, the Company received subscriptions in the total amount of $225,000. Ms. Isabel Moeller also subscribed for 1,000,000 shares. In lieu of cash payment for the subscribed shares, Ms. Moeller agreed to a $200,000 reduction in the outstanding principal balance of her note effective April 1, 2011. Sales made in this offering were not closed until April 2011. The shares sold in the private placement have not yet been issued.

On September 30, 2010, 50,000 shares were issued in exchange for services valued at $25,000, or $.50 per share. On March 31, 2011, an additional 32,300 shares were issued in exchange for services valued at $9,690, or $0.30 per share.

Through March 31, 2011, stock option grant notices for up to 8,995,000 shares of common stock have been issued to employees and service providers of the Company pursuant to the 2008 Stock Option Plan, in accordance with the provisions of Topic 718, Compensation, of the Accounting Standards Codification, which requires companies to measure the cost of employee services received in exchange for equity instruments based on the grant date fair value of those awards and to recognize the compensation expense over the requisite service period during which the awards are expected to vest. A total of $1,448,813 has been recognized as Additional Paid in Capital as the value of these options granted, which includes $1,771 and $117,610 for the three months ended March 31, 2011 and the year ended December 31, 2010, respectively. Additional details regarding the stock options granted is found in Note 8: Stock Options.

On June 2, 2009, the Company, through Glendale Securities, Inc. of Sherman Oaks, California as broker-dealer, filed a Disclosure Statement with the Financial Investment Regulatory Agency (FINRA) pursuant to Rule 15c2-11 of the Securities and Exchange Act of 1934, as amended, to establish a secondary trading market on the Pink Sheets Electronic OTC Markets system. Glendale Securities' request for un-priced quotation on the Pink OTC Markets was cleared by FINRA on July 13, 2009 and trading began on July 24, 2009. The trading symbol is PENT.

Note 6: Income Taxes

The Company accounts for income taxes in accordance with Accounting Standards Codification Topic 740, Income Taxes, which 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 financial statements.

At the adoption date of January 1, 2007, the Company had no unrecognized tax benefit which would affect the effective tax rate if recognized.

The Company includes interest and penalties arising from the underpayment of income taxes in the statements of operations in the provision for income taxes. As of March 31, 2011 and December 31, 2010, the Company had no accrued interest or penalties related to uncertain tax positions.

The Company files income tax returns in the U.S. federal jurisdiction and in the state of California. The Company is currently subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities since inception of the Company.

Note 7: Recent Accounting Pronouncements

There were no new accounting pronouncements issued during the three months ended March 31, 2011 and through the date of this filing that the Company believes are applicable or would have a material impact on the consolidated financial statements of the Company.

Note 8: Stock Options

The Company has adopted the provisions of Topic 718, Compensation, of the Accounting Standards Codification, which requires companies to measure the cost of employee services received in exchange for equity instruments based on the grant date fair value of those awards and to recognize the compensation expense over the requisite service period during which the awards are expected to vest.

On December 29, 2008, the Company adopted the Pacific Entertainment Corporation 2008 Stock Option Plan (the "Plan"), which provides for the issuance of qualified and non-qualified stock options to officers, directors, employees and other qualified persons. The Plan is administered by the Board of Directors of the Company or a committee appointed by the Board of Directors. The number of shares of the Company's common stock initially reserved for issuance under the Plan was 11 million. On April 4, 2011, pursuant to an Action by Majority of Stockholders, the number of shares reserved under the plan has been increased to 16 million.

On January 1, 2011, the Company issued a Stock Option Grant to Anthony Dates for the purchase of up to 25,000 shares of common stock, fully vesting as of March 31, 2011.

The Company used the Black-Scholes valuation model to estimate the grant date fair value of the options granted in 2010 and 2011. The Company used the following assumptions for the 2010 and 2011 valuations:

Risk-free interest rate	1.21% – 2.01%
Expected life in years	3-5
Dividend yield	0
Expected volatility	68.54% - 80.23%

The following schedule summarizes the changes in the Company's stock option plan for the three months ended March 31, 2011:

	Options Outstanding Number of Shares	Exercise Price per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value	Weighted Average Exercise Price per Share
Balance at December 31, 2010	8,970,000	$ 0.34-0.55	3.25 years	-	$ 0.44
Options Granted	25,000	$ 0.34	5.00 years	-	$ 0.00
Options Exercised	-	-	-	-	-
Options Expired	-	-	-	-	-
Balance at March 31, 2011	8,995,000	$ 0.34-0.55	3.01 years	-	$ 0.44
Exercisable March 31, 2011	8,695,000	$ 0.34-0.55	3.01 years	-	$ 0.44

During the three months ended March 31, 2011 and 2010 the Company recognized $1,771 and $3,834 in Stock Compensation expense, respectively.

Note 9: Warrants

During the three months ended March 31, 2011, no new warrants were issued.

The following schedule summarizes the changes in the Company's warrants for the three months ended March 31, 2011:

	Number of Warrants	Exercise Price per Share	Weighted Average Exercise Price per Share
Exercisable December 31, 2010	471,108	$ 0.40	$ 0.40
Warrants Granted	-	-	-
Warrants Exercised	-	-	-
Warrants Expired	-	-	-
Balance at March 31, 2011	471,108	$ 0.40	$ 0.40
Exercisable March 31, 2011	471,108	$ 0.40	$ 0.40

The following schedule summarizes the outstanding warrants at March 31, 2011:

Number of Warrants Outstanding at March 31, 2011	Number of Warrants Exercisable at March 31, 2011	Expiration Date	Exercise Price
471,108	471,108	2013	$ 0.40

Note 10: Employment Agreements

On January 1, 2008, the Company entered into Employment Agreements with four of the Officers of the Company for a term of five years, expiring on December 31, 2012. The agreements specified increasing annual salary amounts, car allowances, participation in benefit plans, vacations, and stock option plans, and severance benefits.

Authorized salaries for each officer for the fiscal year ended December 31, 2010 were $210,000. On April 1, 2009, each of the four officers agreed to a salary reduction to $125,000. On February 11, 2011 each of the four officers agreed to a retroactive salary reduction for 2010 to $80,000 inclusive of the car allowance. As of September 30, 2010, the balance was converted to subordinated, long term debt.

Pursuant to a February 2011 amendment to the employment agreements, salaries for 2011 were set at $125,000 exclusive of the car allowance of $11,400. On April 26, 2011, the Company and each of the four Officers agreed to terminate the existing employment agreements and enter into new five-year employment agreements unless written termination is provided by either party. Each employment agreement provides for a graduated base salary beginning at $165,000 per annum retroactive to March

20, 2011 and continuing to December 31, 2011 and increasing to $195,000 for 2012, $225,000 for 2013. After 2013, the agreement provides for base salary increases at the discretion of the Board of Directors, with a minimum 5% increase. In addition to base salary, each Executive continues to receive an annual car allowance of $11,400.

The following is a schedule by year of the future minimum salary payments related to these employment agreements:

2011	626,152
2012	780,000
2013	900,000
2014	945,000
2015	992,250
Total	$4,243,402

Note 11: Creation of Limited Liability Company

On September 20, 2010, the Company entered into a joint venture agreement between the Company and Dr. Shulamit Ritblatt to form Circle of Education, LLC ("COE"), a California limited liability company, for the purpose of creation and distribution of a curriculum to promote school readiness for children ages 0-5 years. The Company obtained an initial voting and economic interest of seventy-five percent of the outstanding units of the newly formed company in exchange for the contribution of all intellectual property rights the Company had in the Circle of Education program. Circle of Education, LLC was formed on September 24, 2010.

The Company has consolidated the results for the three month period ended March 31, 2011 with the results of COE. COE had legal costs related to the creation of the agreements and registration of the entity in the aggregate of $12,993 and $781 of Marketing and Sales costs, for a total loss of $13,774. As the Company has an economic interest of 75% of the total subsidiary, the Company recognized 100 percent of the loss and recorded 25 percent of the loss, or $3,444, as Noncontrolling Interest on the financial statements for the three months ended March 31, 2011. There were no sales or expenses in the fiscal year ended December 31, 2010.

Note 12: Subsequent Events

The Company has evaluated subsequent events through the date the financial statements were issued in accordance with Financial Accounting Standards Board Codification Topic 855, Subsequent Events.

During 2011, we conducted a private placement to certain accredited investors only under Rule 506. As a result of the offering, the Company sold 5,200,000 shares of common stock at a purchase price of $0.20 per share for an aggregate of $1,040,000. Ms. Isabel Moeller, with whom the Company has an outstanding Note Payable, subscribed for 1,000,000 shares, agreeing to a $200,000 reduction in the outstanding principal balance of her note effective April 1, 2011. The shares sold in the private placement have not yet been issued.

On April 4, 2011, pursuant to an Action by Majority of Stockholders, the number of shares reserved under the 2008 Stock Option Plan, as amended, was increased to 16 million.

On April 26, 2011, the Company and each of the four Officers agreed to terminate the existing employment agreements and enter into new five-year employment agreements unless written termination is provided by either party. Each employment agreement provides for a graduated base salary beginning at $165,000 per annum retroactive to March 20, 2011 and continuing to December 31, 2011 and increasing to $195,000 for 2012, $225,000 for 2013. After 2013, the agreement provides for base salary increases at the discretion of the Board of Directors, with a minimum 5% increase. In addition to base salary, each Executive continues to receive an annual car allowance of $11,400.

On April 26, 2011, Ms. Jeanene Morgan was appointed as Chief Financial Officer of the Company. Ms. Morgan does not have a written employment agreement. She receives an annual base salary of $130,000, which may be increased at the discretion of the Board.

On April 28, 2011, the Company issued repayments on certain related party notes payable in the aggregate amount of $40,000.

Exhibit 10.13

CONFIDENTIAL TREATMENT REQUESTED BY PACIFIC ENTERTAINMENT CORPORATION

MERCHANDISE LICENSE AGREEMENT
PRIVATE

LICENSE AGREEMENT (the "Agreement"), made and entered into the 1st day of January 2011 (the "Effective Date"), by and between **PACIFIC ENTERTAINMENT CORPORATION** having its registered office at 5820 Oberlin Drive, Suite 203, San Diego, CA 92121 ("Licensor") and **JAKKS PACIFIC, INC.**, a corporation organized under the laws of the state of Delaware, located at 22619 Pacific Coast Hwy, Malibu, CA 90265 ("Licensee").

WHEREAS, Licensor has rights in and to the Property (as defined on Schedule A, attached hereto and incorporated by reference);

WHEREAS, Licensor has appointed The Joester Loria Group, LLC ("Agent") as its exclusive licensing agent with respect to providing certain services to Licensor and collection of all payments and reports hereunder as more particularly set forth herein and on Schedule B, attached hereto and incorporated by reference; and

WHEREAS, Licensee desires to license the Property for use on and/or in connection with certain products (the "Licensed Articles") in certain categories (the "Product Categories") which are more particularly described on Schedule B.

NOW, THEREFORE, in consideration of the performance of the mutual covenants herein contained, it is agreed as follows:

1. LICENSE GRANT. Licensor grants to Licensee, and Licensee hereby accepts, the exclusive and non-exclusive rights (as further defined in Schedule B) to use the Property solely in connection with the design, manufacture, marketing, promotion, advertising, sale and distribution of the Licensed Articles in the Licensed Territory (defined below), in the Channels of Distribution (defined below), during the Term (defined below), in accordance with this Agreement. Licensor grants to Licensee the right to manufacture, have manufactured for it, market, promote, advertise, use, sell and distribute the Licensed Articles subject to the terms and conditions herein. No rights of any kind in or to the Property shall vest in Licensee, and Licensor shall have no obligations to Licensee hereunder, unless and until (i) this Agreement has been fully-executed by an authorized signatory of both parties and (ii) the Advance (defined below) payment due upon signature has been paid in full. This unexecuted Agreement and any oral negotiations are deemed to be a proposal by Licensee to acquire a license, which Licensor is not obligated to consider or accept until the above conditions are met.

2. LICENSED TERRITORY AND CHANNELS OF DISTRIBUTION.

(a) The license hereby granted extends only to the territory set forth on Schedule B ("Licensed Territory(ies)").

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(b) Licensee expressly acknowledges and agrees that it is not licensed or authorized to use the Property, directly or indirectly, outside of the Licensed Territory, and that it is not licensed to and will not sell the Licensed Articles to persons or entities who to Licensee's knowledge intend or are likely to resell them outside of the Licensed Territory. The Licensed Articles may be sold only in or to the channels of distribution set forth on Schedule B ("Channels of Distribution"), and Licensee is not licensed to and will not sell the Licensed Articles to persons or entities who to Licensee's knowledge intend or are likely to resell them outside such Channels of Distribution.

3. TERM. This Agreement shall be effective as of and shall expire on the dates set forth in Schedule B, unless sooner terminated in accordance with the terms and conditions of this Agreement ("Term"). The parties may extend the Term only upon written agreement.

4. EXCLUSIONS. Licensee's rights hereunder shall not include the right to, and Licensee warrants and represents that it will not, use the Property or the Licensed Articles for an endorsement of any product or service. Licensee shall not use or permit the use of any Licensed Articles as a premium except with prior written consent and shall not distribute any Licensed Articles to any entity which Licensee has reason to believe would distribute such Licensed Articles in contravention of the foregoing. "Premium" shall mean any Licensed Article distributed below cost or at no charge for the purpose of increasing the sale of any other article of merchandise or product, or any service, including without limitation, any Licensed Article distributed for publicity purposes, for combination sales, giveaways, traffic-building or any similar scheme or device. It is expressly understood and agreed that Licensee shall not have the right to sublicense the rights granted herein to any third party without Licensor's prior written consent, such consent not to be unreasonably withheld.

5. ROYALTY. Licensee shall pay to Licensor through Agent, simultaneously with the submission of royalty reports referred to below, the royalty at the royalty rate specified in Schedule B ("Royalty"), based upon the Net Sales by Licensee of the Licensed Articles. "Net Sales" shall mean [***]. All allowances, deductions and returns must be documented. Use of corporate averages or similar estimate for returns is expressly forbidden, and may not be used. No other deduction shall be made for any other reason, including, without limitation, cash payments, early payments, uncollectible accounts, or costs incurred in the manufacture, distribution, sale, exploitation or advertisement of the Licensed Articles. Sales to any affiliated or related party shall be deemed to have been made at Licensee's wholesale selling price generally charged by Licensee to third parties. The amount invoiced to customers will reflect the full purchase price to be paid by the applicable customer for the Licensed Articles covered thereby.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

The parties acknowledge and agree that for purposes of Licensee's satisfaction of the Minimum Guarantees hereunder, Royalties will be cross-collateralized from year to year during the Term. For example, if the Royalties for the first year of this Agreement are $1,000,000 or more, no further Minimum Guarantee payments will be due under this Agreement.

6. COMMON MARKETING FUND ("CMF"). As a contribution to Licensor's and Agent's related marketing expenses, each quarter the Licensee may pay Agent a certain percentage of Net Sales, such percentage set forth in Schedule B (CMF Percentage). The amount paid, if any, shall be used in the promotion of the Property. This money, if any, shall be paid in accordance with all of the rules governing payment of Royalties under this Agreement, although the CMF payments, if any, shall not be paid in conjunction with any Royalties payable hereunder, as the accounting and management of the CMF monies shall be separate.

7. ADVANCE; GUARANTEES. Simultaneously with the execution and delivery of this Agreement, Licensee shall pay to Licensor through Agent the advance amount as set forth on Schedule B ("Advance"). The Advance is guaranteed and non-refundable. In addition, Licensee shall timely pay to Licensor through Agent the amount(s) set forth in Schedule B as minimum guarantee(s) ("Minimum Guarantee"). The Advance and Minimum Guarantee are recoupable from Royalties payable to Licensor and shall be attributed to Royalties due for the Term only, and such payments shall not be refunded to Licensee for any reason.

8. INTRODUCTION DATE(S); MARKETING ADVERTISING.

(a) Licensee shall commence the sale of the Licensed Articles to its retail customers by the introduction date(s) ("Introduction Date") set forth on Schedule B. The specific Licensed Articles to be so sold, the quantities of such products to be so sold, and the specific retail customer to whom such products will be so sold, will be determined by Licensee based upon its commercially reasonable assessment of the market demand for the Licensed Articles.

(b) Licensee acknowledges and agrees that proper advertising and promotion of the Licensed Articles is important to the success of this Agreement and the Property. Licensee shall furnish to Licensor, with a copy to Agent, on each March 1 (or as otherwise requested, but no more frequently than once every six months) during the Term of this Agreement commencing on March 1, 2012, a sales, advertising and promotion plan which sets forth the sales and advertising budgets for the next succeeding twelve-month period. "Advertising" as used herein shall mean monies spent in connection with the advertising and promotion of the Licensed Articles at their regular prices.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

9. ACCOUNTING, REPORTS AND PAYMENTS.

(a) Unless stated otherwise in writing by Agent and Licensor, all reports and payments under this Agreement shall be sent and paid to Agent. All payments to be made under this Agreement shall be payable in United States currency.

(b) Licensee shall, within twenty (20) days following the end of each calendar quarter, submit to Licensor an estimate of sales activity and Net Sales for the preceding quarter.

(c) Licensee shall, within thirty (30) days following the end of each calendar quarter, starting with the first quarter during the Term, whether or not sales are made during that quarter, submit to Licensor and Agent electronically as well as in hard copy, a full, complete and accurate report of sales activity, Net Sales and Royalties owed. Such report shall be in the form reasonably acceptable to Licensor (which form may be an electronic Excel spreadsheet), and shall include sales of the Licensed Articles during the applicable quarter. Unless otherwise agreed, each report must show, without limitation, the following: (i) by retailer, the number of units sold of each Licensed Article, (ii) the unit price of each Licensed Article, (iii) the gross sales for each Licensed Article, (iv) the deductions taken from gross sales and the reason(s) therefore, and (v) the Net Sales for each Licensed Article. Each report shall be certified by Licensee's chief financial officer (or other similar corporate officer). With each report Licensee shall transmit to Licensor payment (in United States currency) of the amount due. Royalties on foreign sales shall be remitted in United States currency, net of any withholding taxes imposed by said country (if permitted by applicable law), using the prevailing exchange rate on the last business day of the applicable calendar quarter; provided, however, that if any payment is not made to Licensor when due hereunder, Licensee shall be responsible for any loss to Licensor due to fluctuations in exchange rates between the date payment was due and the date of any late payment. It is understood that timely rendering of all reports required hereunder is essential under the terms of this Agreement.

(d) Licensee shall deliver to Licensor and Agent, not later than sixty (60) days after the close of each Contract Year during the Term of this Agreement (or portion thereof in the event of prior termination for any reason) a statement signed and certified either by its regular certified public accountants or by a financial officer of Licensee relating to said entire Contract Year, setting forth the same information required to be submitted by Licensee in accordance with Paragraph (b) above.

(e) Receipt of reports or payments by Licensor or Agent will not prevent them from questioning or disputing the correctness of the reports and/or payments at any time during the Term and in the two (2) year period following the expiration or termination of the Agreement. Licensee agrees that any inconsistencies or mistakes discovered in the statements and/or payments will be promptly rectified and the appropriate payments made by the Licensee. Licensee hereby waives all claims to return of any Advance, Guarantee or other Royalty payments once made, including but not limited to, claims for refund of payments for returns of Licensed Articles in subsequent reporting periods. For clarity, (a) any returns will be deducted in the period they occur and (b) in the event of a conflict between this Section 9(d) and the definition of Net Sales, the definition of Net Sales will control. The period in which the sales were made is not relevant to the calculation of returns. Interest at the annual rate of one percent (1%) over the prime rate published in the Wall Street Journal from time to time (but in no event more than the maximum amount permitted by law) shall accrue on any amount due, from the date upon which the payment is due until the date of payment.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

10. BOOKS AND RECORDS. Licensee shall keep and maintain complete and accurate records of the transactions underlying the reports to be furnished hereunder, and shall allow representatives of Licensor and/or Agent during the Term of this Agreement and for two (2) years thereafter, upon at least five (5) business days prior written notice, during normal business hours and at reasonable intervals (but no more than once during any 12-month period), to inspect and make extracts or copies of such records for the purpose of ascertaining the correctness of such reports. If any such examination and audit shall disclose any deficiency of five percent (5%) or more, Licensee shall pay, in addition to such deficiency, the actual cost of such examination and audit. All books of accounts and records shall be kept available for two (2) years from the termination or expiration of this Agreement.

11. QUALITY; SAMPLES; APPROVALS AND ARTWORK

(a) Licensee acknowledges that if the Licensed Articles manufactured and sold by it hereunder were of inferior quality in design, material or workmanship, the substantial goodwill which Licensor has established and now possesses in the patents, trademarks, copyrights, names, symbols, likenesses, depictions, designs and logos, would be impaired. Accordingly, Licensee agrees that the Licensed Articles shall be of high standard and of such style, appearance and quality as shall be reasonably adequate and suited to their exploitation to the best advantage and to the protection and enhancement of the Property and the goodwill pertaining thereto. Licensee may not sell damaged or defective Licensed Articles or products considered “seconds” based on industry standards.

(b) If Licensee is ordered to withdraw, discontinue, remove or recall any Licensed Articles from the market by a government or governmental agency, regulatory body, or court, and the Licensee does not promptly remove such Licensed Articles from retail or otherwise promptly cure the situation within thirty (30) days and provide Licensor with written proof of such cure, then in such case and at Licensor’s option, termination shall be effective immediately upon written notice from Licensor.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(c) The quality and style of all Licensed Articles, the manner in which the Property may appear, if at all, on the Licensed Articles, as well as any cartons, containers, tags, labels, other packaging, advertising, publicity and display materials to be used in connection with the Licensed Articles ("Related Materials") shall be subject to the approval of Licensor (and such other parties, including Agent, whose approval Licensor may deem necessary), such approval not to be unreasonably withheld. Prior to the manufacture of any of the foregoing, Licensee shall provide Licensor with not fewer than three (3) samples and/or dummies in the form of proofs, photostats, drawings, manuscripts, layouts, or the like, of the Licensed Articles and Related Materials and all other materials requiring Licensor's approval hereunder, all written material relating or referring thereto at each stage of development and production, including packaging, and any changes and revisions therein or thereof for Licensor's prior written approval, such approval not to be unreasonably withheld. Within ten (10) business days after its receipt of the foregoing, Licensor shall advise Licensee, in writing, of its approval or disapproval of such material, and no items shall be deemed approved by Licensor unless such approval is given. If an item submitted for approval is disapproved, Licensor shall provide Licensee with a written explanation of the reasons for such disapproval within five (5) business days of such disapproval. Once a sample has been approved, Licensee shall not make changes in any material respect without the prior written approval of Licensor. In the event the Licensed Articles or any Related Materials differ from the approved samples, Licensor shall have the right, in its sole discretion, to withdraw its approval of such Licensed Articles unless Licensee cures such breach within thirty (30) days of notice of same. Approval by Licensor and by any other parties designated by Licensor shall not relieve Licensee of any of its agreements or warranties hereunder.

(d) Licensee shall be responsible for all costs incurred by Licensee, Agent and/or Licensor in connection with the development or formatting of artwork, custom audio design (including but not limited to character voices and original music and sound effects) and other materials (collectively, "artwork") related to the Property for the Licensed Articles or Related Materials (including artwork developed by third parties and including any artwork which in Licensor's opinion is necessary to modify artwork initially proposed by Licensee and submitted for approval), if such costs are incurred at the request of Licensee. Licensee shall pay Agent within thirty (30) days of receiving an invoice therefore, at Licensor's then prevailing commercial rates. Estimates of artwork charges will be available upon request. While Licensee is not obligated to utilize the artwork services of Licensor, Licensee is encouraged to do so in order to minimize delays which may occur if outside artists do renditions of Property (particularly third party artists). For clarity, Licensee will only be responsible for charges under this Section 11(d) that it has approved in advance in writing and will not be responsible for any other charges.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(e) Concurrently with the initial shipment of Licensed Articles, Licensee shall furnish to Licensor, at no cost, [***] royalty-free samples of each Licensed Article (five of which are for the purpose of trademark registration). Thereafter Licensee shall furnish to Licensor, [***] royalty-free samples of the Licensed Articles each subsequent year of the Term (subject to availability (i.e., Licensee's inventory on hand) and provided that the provision of such samples does not interfere with Licensee's sales of Licensed Articles to its customers). In addition, upon Licensor's (or Agent's) request, Licensee shall provide, at no cost, a reasonable number of samples of the Licensed Articles in each year of the Term for use in connection with promotions, contests or sweepstakes, not to exceed [***] samples per year (subject to availability (i.e., Licensee's inventory on hand) and provided that the provision of such samples does not interfere with Licensee's sales of Licensed Articles to its customers). [***] Licensee will have no obligation to pay a Royalty on any of the Licensed Articles provided to Licensor under this Section 11(e).

12. LICENSOR'S TITLE AND GOODWILL. Licensee acknowledges that Licensor is the owner of all right, title and interest in and to the Property, and further acknowledges the great value of the goodwill associated with the Property and that the Property has acquired secondary meaning in the mind of the public. Licensee acknowledges that the Property (including all rights therein and goodwill associated therewith) shall be and remain the exclusive and complete property of Licensor, and that all use of the Property, including trademarks and trade dress associated with the Property, will inure to the benefit of the Licensor. Licensee agrees that it shall not, during the Term of this Agreement and at any time thereafter, dispute or contest, directly or indirectly, or do or cause to be done, any act which in any way questions, contests, impairs or tends to impair Licensor's right, title and interest in and to the Property. Licensee will at no time use or authorize the use of any trademark, logo, service mark, trade name or other designation identical with, or confusingly similar to, the Property. Except as otherwise provided in this Agreement for a Sell-Off Period (defined in Paragraph 23), if any, upon the expiration or earlier termination of the Term of this Agreement, all rights to use the Property shall automatically revert to Licensor, and Licensee shall immediately discontinue all use. As between Licensor and Licensee, Licensor shall be deemed to be the owner of all materials created for the Licensed Articles hereunder that include or are derived or adapted from the Property, including but not limited to artwork. Licensee agrees that such materials created and furnished by Licensee, its employees, or contractors shall be considered "works made for hire" pursuant to the Copyright Act of 1976, as amended, and all rights in and to the copyrights to such materials shall be owned by Licensor. If any such materials or elements shall not be deemed a "work made for hire," Licensee hereby assigns and transfers to Licensor, or its designee, all rights, including copyright, title and interest, in and to all such materials and elements. Licensee agrees, without further consideration, to execute documents in connection with such assignment, as reasonably requested to do so. In the event Licensee fails or refuses to do so after a reasonable period of time, Licensee hereby appoints Licensor as its attorney-in-fact to execute such documents. Nothing in this Agreement is intended to give Licensor any rights whatsoever to any trademark, copyright, trade secret, manufacturing process, technology, proprietary technique or patent owned by Licensee, or used by Licensee under license in connection with the Licensed Articles or otherwise, which is not derived or adapted from the Property, or other materials owned by Licensor (or its licensor, as applicable).

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

13. REPRESENTATIONS OF OWNERSHIP. Licensee shall not in any manner represent that it has any ownership in the Property, or in any properties owned by Licensor which are not licensed hereunder, or in any patents, trademarks or copyrights included in the Property (or registrations or applications therefor), but may only, during the Term of this Agreement and only if Licensee has complied with all laws, represent that it is a “licensee” hereunder. Licensee shall not register or attempt to register any patent, trademark or copyright in the Property, or in any properties owned by Licensor which are not licensed hereunder, in its own name or that of any third party, nor shall it assist any third party in doing so.

14. INTELLECTUAL PROPERTY REGISTRATION. At Licensor’s cost, Licensee agrees to fully cooperate with and assist Licensor in the prosecution of any patent, copyright, trademark or service mark applications concerning the Property that Licensor may desire to file, and for that purpose, Licensee shall, upon request, supply to Licensor enough samples of the Licensed Articles or other material as may be required in connection with any such application (subject to the availability of such samples (i.e., Licensee’s inventory on hand) and provided that the provision of such materials does not interfere with Licensee’s sales of Licensed Articles to its customers). Furthermore, Licensee shall execute, at Licensor’s sole cost and expense, any instrument Licensor shall reasonably deem necessary or desirable to record or cancel Licensee as a registered user of the trademarks of Licensor included in the Property. It is understood and agreed that Licensee’s right to use the Property and the trademarks included therein in any country for which the filing of a registered user application is required under applicable law shall commence only upon the filing of such registered user application, but shall continue only so long as this Agreement remains in effect. Licensor represents that it has registered or applied for registration of each of the trademarks and copyrights listed on Schedule A, Section (b) in the Licensed Territories as specified thereon.

If Licensee is prohibited from exploiting the Property in any portion of the Licensed Territory for which there is a Minimum Net Sales Revenue requirement as indicated on Schedule B because any trademark or copyright registration has not been made and/or any user application has not been filed as required under applicable law, (a) the Minimum Guarantee for the period for which Licensee is so prohibited will be reduced and pro-rated based upon the percentage the affected portion of the Licensed Territory represents of the aggregate Minimum Net Sales Revenue for all Licensed Territories, (b) the Minimum Net Sales requirements for the Licensed Territory in which Licensee was prohibited from exploiting the Property will be waived for such period, , and (c) Licensor shall, at its sole cost and expense, make any and all such filings and applications to obtain the required registrations and user applications as promptly as possible.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

If Licensee is prohibited from exploiting the Property for a period of one year in any portion of the Licensed Territory for which there is no Minimum Net Sales Revenue requirement because any trademark or copyright registration has not been made and/or any user application is required to be filed under applicable law, at Licensee's reasonable request in writing, subject to an approved Distribution Plan, Licensor, at its sole cost and expense, shall promptly make any and all such filings and registrations. For the purposes of this Agreement, "Distribution Plan" shall be defined as a formal plan provided by Licensee to Licensor and Agent for Licensor's written approval (approval not to be unreasonably withheld), for the portion of the Licensed Territory in question including without limitation, (i) a line plan with designated Product Categories, Licensed Article descriptions, suggested retail price, designated Distribution Channel(s) with key retailers, rollout schedule, production schedule, and financial projections, and (ii) a marketing plan as defined herein in Paragraph 8(b).

15. COPYRIGHT AND TRADEMARK NOTICES

(a) Licensee shall print, stamp or mold the Copyright Notice, as specified below, on all Licensed Articles and on each of the Related Materials, all in accordance with reasonable instructions from Licensor, including without limitation, instructions with respect to position and letter size. No Licensed Article or Related Materials upon which the Copyright Notice is printed, stamped or molded pursuant to the preceding sentence shall contain any other copyright notice whatsoever unless Licensor has given Licensee prior written approval thereto (such approval not to be unreasonably withheld). Licensor may, at any time and from time to time, require Licensee to change or add to the Copyright Notice, by giving Licensee not less than thirty (30) days' notice of such change, it being understood and agreed that Licensee shall have the right to continue to distribute any inventory already manufactured or ordered at the time it receives such notice. The Copyright Notice shall be:

Baby Genius® characters and names are copyrighted and trademarked by Pacific Entertainment Corporation. All rights reserved. Used under license by (Licensee's name).

(b) Licensee shall comply with all requirements of the United States Copyright Act, the Universal Copyright Convention, the Berne Convention and any other treaty and convention to which the United States is or becomes a party, as Licensor deems necessary to obtain or maintain copyright protection for the Licensed Articles in the Licensed Territory. Licensee shall cooperate fully with Licensor, at Licensor's expense, in connection with Licensor's obtaining of copyright and trademark protection in the name of Licensor or, if Licensor shall so direct, in the name of a copyright or trademark proprietor other than Licensor or Licensee.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(c) Licensee shall print, stamp or mold the Trademark Notice, as specified below, in proximity to the Property wherever used, including without limitation on all Licensed Articles and on each of the Related Materials, all in accordance with reasonable instructions from Licensor, including without limitation, instructions with respect to position and letter size. No Licensed Article or Related Materials upon which the Trademark Notice is printed, stamped or molded pursuant to the preceding sentence shall contain any other trademark notice whatsoever unless Licensor has given Licensee prior written approval thereto (such approval not to be unreasonably withheld). Licensor may, at any time and from time to time, require Licensee to change or add to the Trademark Notice by giving Licensee not less than thirty (30) days' notice of such change, it being understood and agreed that Licensee shall have the right to continue to distribute any inventory already manufactured or ordered at the time it receives such notice. The Trademark Notice shall be:

Baby Genius®

(d) Licensee shall be permitted to place its name, mark, or logo on advertising and promotional materials concerning the Licensed Articles, subject to Licensor's prior written approval, such approval not to be unreasonably withheld.

(e) Licensee's name or trade name (or a trademark of Licensee which Licensor has approved in writing) shall appear on permanently affixed labeling on each Licensed Article and, if the Licensed Article is sold to the public in packaging or a container, printed on such packaging or container so that the public can identify the supplier of the Licensed Articles. On soft goods, "permanently affixed" shall mean sewn on. On hard goods, "permanently affixed" shall mean molded into the product. On packaging, "permanently affixed" shall mean printed on the package. Licensee shall advise Licensor in writing of all names or trade names it is using on Licensed Articles being sold under this Agreement if such names or trade names differ from Licensee's corporate name as indicated herein.

(f) Licensee shall affix to the Licensed Articles and/or Related Materials any other legends, markings and notices required by any law or regulation in the Licensed Territory or which Licensor reasonably may request.

16. TAXES, DUTIES, LEVIES, VAT.

(a) Licensee shall pay all taxes, duties, levies, handling charges and other fees (other than Licensor's income taxes) imposed or levied against or incurred by either Licensee or Licensor under any law now or hereafter in effect, levied or based upon the license, delivery, shipment, import, export, manufacture or Licensee's possession or use of the products licensed hereunder or upon the grant of this license or the exercise thereof or based upon or measured by the license fees or payment thereof or any part thereof. It is understood and agreed that if Licensee is required by any governmental authority to withhold any portion of the license fee prescribed herein and pay over such portion to such governmental authority, then such monies retained by Licensee and paid over to the governmental authority shall be deemed to be a payment by Licensee to Licensor in satisfaction and, to the extent, of that portion of Licensee's obligation under this Agreement; provided, however, that Licensee shall furnish Licensor with official government receipts as evidence of each such payment within fifteen (15) days of the receipt by Licensee thereof.

(b) Licensee hereby declares that, should the authorities of the Licensed Territory during the Term require that Value Added Tax (VAT) is to be levied on payments hereunder, Licensee will be solely responsible for payment of said VAT levies.

17. LICENSEE OBLIGATIONS

(a) Licensee shall manufacture, distribute and sell the Licensed Articles in an ethical manner and in accordance with the provisions and the intent of this Agreement, and shall not engage in unfair or anti-competitive business practices. The Licensed Articles shall be manufactured, distributed and sold in accordance with all applicable international, national, federal, state and local laws, treaties and governmental orders and regulations, including, without limiting the generality of the foregoing, the Federal Food, Drug and Cosmetic Act, the Federal Hazardous Substance Act (FHSA), the Flammable Fabrics Act, the Consumers Products Safety Act, and the ASTM Standard Consumer Safety Specification for Toy Safety (Toy Manufacturers of America Voluntary Toy Safety Standard) or other acts and standards.

(i) In order to insure that the Licensed Articles meet the above standards, Licensee shall, where appropriate or upon request, prior to the date of first distribution of the Licensed Articles, submit to Agent a "test plan" which lists all of the material applicable acts and standards and which contains a certification by Licensee that no other material acts and standards apply to the Licensed Articles. The test plan shall describe in detail the procedures used to test the Licensed Articles, and Licensee shall submit certificates in writing that the Licensed Articles conform to the applicable acts and standards. Upon request by Agent, Licensee shall provide specific test data and laboratory reports.

(ii) Upon request, Licensee shall submit for approval Licensee's test plan prior to the date of first distribution. Where applicable, tests on Licensed Articles must be performed by a national testing laboratory or an independent laboratory that is nationally approved unless another laboratory is otherwise approved by Licensor. Such testing laboratory or independent laboratory will provide written test reports indicating that the Licensed Articles conform to the applicable acts and standards. Notwithstanding any provision in this Agreement to the contrary, Licensee will have no obligation to test the Licensed Articles beyond its normal testing procedures.

(b) Licensee shall not encumber or cause to be encumbered in any manner the Licensed Articles, or cause or permit any expenses to be charged to Licensor (or Agent) without prior approval in writing in each instance.

(c) Licensee shall exercise commercially reasonable efforts to (i) make sales presentations to its customers in a manner consistent with its normal business practices, but in no event less than for each Spring and Fall season throughout the Term, and (ii) manufacture and distribute sufficient quantities of the Licensed Articles to meet commercially reasonable orders for the Licensed Articles. However, Licensor and Agent make no warranty or representation as to the amount of sales or profits which Licensee may derive from the exercise of any rights licensed under this Agreement.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(d) Licensee shall sell and distribute Licensed Articles only through the Channels of Distribution and only in the Licensed Territory, as set forth on Schedule B. Licensee will use due care to avoid sale of Licensed Articles to jobbers, wholesalers, distributors, mail order, retail stores or merchants whose sales or distribution will be made solely for publicity purposes, combination sales premiums, giveaways or similar methods of merchandising, or whose business methods are questionable.

(e) Licensee shall begin commercial production of Licensed Articles in each exclusive Product Category in order to meet the in-store date set forth in Schedule B ("In-Store Date"), which may be updated from time to time by mutual written consent of the parties.

(f) Licensee shall comply with the national laws of any country in which the Licensed Articles, or any component thereof, are manufactured, any local laws, regulations, or standards applicable to such manufacturing, and any generally accepted industry standards which have been established in said location (hereinafter, collectively, "Local Manufacturing Laws and Standards"). Licensee shall use commercially reasonable efforts to ensure that any and all third party manufacturers of the Licensed Articles or any component thereof comply with the applicable Local Manufacturing Laws and Standards. The Local Manufacturing Laws and Standards should include, but not be limited to, laws concerning import, export, country of origin, safety (including fire code rules), employment standards, wages and benefits, and employee health and safety.

(g) The employment or use by Licensee, or by any third party manufacturer employed by Licensee, of children for the manufacture, assembly, or conversion of the Licensed Articles, or any component thereof, either directly or indirectly, will not be permitted hereunder, except in accordance with Local Manufacturing Laws and Standards with respect to child labor. In countries where there are no existing Local Manufacturing Laws and Standards for child labor a manufacturer's suitability hereunder should be evaluated carefully, taking into account regional and United States standards.

(h) No manufacturer of the Licensed Articles will use forced or prison labor. Manufacturers must maintain a strict policy of employment on a voluntary basis.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(i) All manufacturers of the Licensed Articles shall comply with Local Manufacturing Laws and Standards concerning working hours and compensation. In countries where there are no such existing Local Manufacturing Laws and Standards, a manufacturer's suitability hereunder should be evaluated carefully, taking into account regional and United States standards.

18. THIRD PARTY MANUFACTURER. Licensee may utilize a third party manufacturer in connection with the manufacture and production of the Licensed Articles, provided that such manufacturer is approved by Licensor (such approval not to be unreasonably withheld) and such manufacturer shall execute a Manufacturer's Agreement in the form of Schedule C, attached hereto and incorporated by reference. In such event, Licensee shall remain primarily obligated under all of the provisions of this Agreement. In no event shall any such Manufacturer's Agreement include the right to grant any sublicenses. Copies of executed Manufacturer's Agreement(s) shall be provided promptly upon request.

19. LICENSEE WARRANTIES. Licensee represents, warrants, and undertakes as follows:

(a) Licensee is free to enter into and fully perform this Agreement;

(b) All ideas, creations, designs, music compilations, character voices, sound effects, materials and intellectual property furnished by Licensee in connection with each of the Licensed Articles and Related Materials will be Licensee's own and original creation (except for matters in the public domain or material which Licensee is fully licensed to use);

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(c) The Licensed Articles and the manufacture, advertisement, distribution and sale thereof hereunder will not infringe upon or violate any rights of any third party of any nature whatsoever, including third party patent rights (with the exception of those claims arising out of the use of the Property as authorized hereunder);

(d) The Licensed Articles and Related Materials will be of high standard in style, appearance and quality, will be safe for use by consumers, and will comply with all applicable governmental rules, guidelines, safety codes and regulations;

(e) Licensee will not manufacture, advertise, distribute or sell and will not authorize the manufacture, advertising, distribution or sale of the Licensed Articles in any manner, at any time or in any place not specifically licensed hereunder.

20. LICENSEE INDEMNITY AND INSURANCE

(a) Licensee shall indemnify, defend and hold harmless Licensor (and its parent, subsidiary and affiliated companies, including each of their respective officers, directors, agents and employees) and their Agent (including each of their respective officers, directors and employees) from and against all third party claims, and all damages, costs, reasonable out of pocket attorney's fees and expenses related thereto, based upon or arising out of (i) breach of any warranty or representation by Licensee, (ii) unauthorized use of the Property by Licensee, or (iii) any actual or alleged defect in the Licensed Articles or their packaging, whether latent or patent, including failure of said Licensed Articles or their packaging, distribution, promotion, sale or exploitation to meet any Federal, State or local laws or standards, or (iv) any other breach of any term of this Agreement; provided, however, that (a) Licensor and/or Agent provide prompt written notice of any claim, (b) Licensee shall have the option to undertake and conduct the defense and/or settlement of any such claim or suit, (c) Licensor shall cooperate, at Licensee's expense, with Licensee in the defense of any such claim or suit, (d) Licensor acts in a commercially reasonable manner to mitigate any damages and (e) no settlement of any claim or suit may be made without prior written consent of both parties. If Licensee undertakes the defense of a claim brought against Licensor, Licensee shall not be responsible for attorney's fees, costs and expenses incurred by Licensor after Licensee undertakes the defense of the claim. Licensee shall not admit any liability or compromise any suit without first obtaining Licensor's consent in writing, such consent not to be unreasonably withheld. The obligation for indemnification shall survive termination of the Agreement.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(b) Licensee shall maintain product liability insurance from a reputable and financially sound insurance company that is rated in A.M. Best's Reports as "A" or "A+" which shall name Licensor, Agent and each of their respective officers, directors, agents and employees (the "Representatives") as additional insureds in an amount of coverage not less than $[***] per claim and $[***] in the aggregate. Product liability coverage must be on "occurrence based" forms with any deductible not to exceed $[***] per occurrence, which deductible will be fully funded by Licensee. Such policy shall provide that the Representatives be named as "additional insureds" and that it may not be canceled without at least thirty (30) days prior written notice. As proof of such insurance, a fully paid certificate of insurance naming these companies as insured parties shall be submitted to Agent within ten (10) days after the execution and delivery of this Agreement and before any Licensed Article is distributed or sold hereunder. Such insurance shall be in effect during the Term, and remain in effect for three (3) years beyond expiration or termination of this Agreement.

21. LICENSOR WARRANTY AND INDEMNIFICATION.

(a) Licensor warrants and represents that (i) Licensor (a) has the legal capacity and authority to enter into this Agreement and perform its obligations hereunder; (b) has all rights required in order to license the rights granted to Licensee hereunder; (c) owns all right, title and interest in and to the Property; and (d) is free to enter into and fully perform the duties and obligations of this Agreement; (ii) Licensee's use of the Property, as authorized hereunder, shall not infringe upon the intellectual property rights of any third party or any other common law right of any third party in the Property; (iii) to Licensor's knowledge no obstacle (legal or otherwise) exists concerning Licensee's use of Property; and (iv) the terms and conditions of this Agreement do not conflict with any other agreement to which Licensor is a party or by which its assets are bound.

(b) Licensor shall indemnify, defend and hold harmless Licensee (and its parent, subsidiary and affiliated companies, including each of their respective officers, directors, agents and employees) from and against all third party claims, and all damages, costs, reasonable out of pocket attorney's fees and expenses related thereto, based upon or arising out of breach of the warranties and representations set forth above; provided, however, that (i) prompt written notice is given to Licensor of such claim, (ii) Licensor shall have the option to undertake and conduct the defense and/or settlement of any such claim or suit, (iii) Licensee shall cooperate, at Licensor's expense, with Licensor in the defense and/or settlement of any such claim or suit, (iv) Licensee acts in a commercially reasonable manner to mitigate any damages, and (v) no settlement of any claim or suit may be made without prior written consent of both parties. If Licensor undertakes the defense of a claim brought against Licensee, Licensor shall not be responsible for attorney's fees, costs and expenses incurred by Licensee after Licensor undertakes the defense of the claim. The obligation for indemnification shall survive termination of the Agreement.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(c) Notwithstanding any provision herein to the contrary, neither party hereto will be responsible for any consequential, special, punitive or other indirect damages including, without limitation, lost revenue or profits, in any way arising out of or related to this Agreement or such party's performance hereunder, even if such party has been advised of the possibility of such damages; provided that the foregoing limitation will not apply to either party's indemnification obligations hereunder..

22. INFRINGEMENT. Each party shall promptly notify the other, in writing, of any imitations or infringements of the Property or the rights licensed hereunder which may come to such party's attention. Licensor shall have the sole right to determine whether or not any demand, suit or other action shall be taken on account of or with reference to any such infringements or imitations. Licensee shall not institute any suit or take any action on account of any such demands in its own name or in the name of the Licensor or join Licensor as a party thereto. Licensee shall cooperate with Licensor at Licensor's cost and in any manner that Licensor may request in connection with any such demands, suits, claims or other actions. If Licensor elects to bring a suit against a third party, Licensor may name Licensee as a party, upon notice to Licensee. If Licensor elects not to sue, Licensee may request permission to bring suit and, with written permission (at Licensor's sole discretion), may bring suit at its own expense; provided, however, that, subject to Section 20, Licensee shall indemnify Licensor against any loss or damage, including any loss or damage to reputation or goodwill; and, provided, further, that trial counsel is reasonably approved by Licensor; and, provided, further, that Licensee keeps Licensor fully informed. If Licensee brings suit at its own expense, Licensee may use the money recovered to pay the reasonable, out-of-pocket expenses, including attorney fees; provided that any remainder is split between Licensee and Licensor. Licensor shall have the right to assume control of the litigation and settlement thereof, at any time, but is thereupon responsible for its own further litigation expense. Nothing herein shall be construed as imposing any obligation upon Licensor to take action against any alleged infringer, nor to relieve Licensee from full compliance with any of the terms of this Agreement in the event that Licensor does not take such action.

23. TERMINATION

Upon the occurrence of any of the following events (each of which is a "Default"), then in addition and without prejudice to any rights that it may have at law, in equity or otherwise, Licensor (either directly or through its Agent) shall have the right to terminate this Agreement (or exercise such other rights as provided in this Section 23) and/or to require the immediate payment of any Minimum Guarantee and Royalty due or to become due hereunder, provided that, except as otherwise set forth below, Licensee has not cured such Default within thirty (30) days' notice by Licensor or Agent:

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(a) If a voluntary or involuntary petition in bankruptcy is filed by Licensee and is not dismissed within thirty (30) days thereafter, a receiver or trustee of any of Licensee's property is appointed and such appointment is not vacated within thirty (30) days thereafter, Licensee takes advantage of any insolvency law, Licensee makes an assignment for the benefit of its creditors.

In such event this Agreement and exclusive and non-exclusive licenses of the Property hereunder shall be deemed to be an executory contract. Any assignment of Licensee's rights hereunder, whether in bankruptcy or pursuant to Section 26, shall require the assignee to assume all of assignor's obligations hereunder and may not be made to a competitor of Licensor; or

(b) [INTENTIONALLY OMITTED]

(c) Licensee fails to make any payment or furnish any statement in accordance herewith, and such failure continues for fifteen (15) business days after written notice of such failure is received by Licensee from Licensor; or

(d) [INTENTIONALLY OMITTED]; or

(e) Any assignment, transfer or material change in Licensee in violation of Paragraph 26; or

(f) Licensee fails to comply with any other of Licensee's material obligations hereunder or breaches any warranty made by it hereunder.

(g) If Licensee (i) achieves less than [***] percent ([***]%) of the Minimum Net Sales Revenue for the United States of America and Canada in any of Contract Years 2 through 5, then Licensor shall have the option to terminate this Agreement, or (ii) achieves less than [***] percent ([***]%) of the Minimum Net Sales Revenue for another Licensed Territory for which Minimum Net Sales Revenue is required under Schedule B in any such Contract Year, then Licensor shall have the option to terminate this Agreement with respect to such Licensed Territory only; provided in each such case that written notice of Licensor's election to so terminate is delivered to Licensee within thirty (30) days after the end of the Contract Year in which Licensee has failed to maintain the required level of Minimum Net Sales Revenue.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

24. EFFECT OF TERMINATION OR EXPIRATION

Upon expiration or termination of this Agreement, all rights granted to Licensee herein shall forthwith revert to Licensor, with the following consequences:

(a) If this Agreement is terminated by Licensor pursuant to a Default (defined in the previous paragraph), no portion of any prior payments shall be repayable to Licensee, and all payments due or to become due, including, without limitation, the Minimum Guarantee, shall be immediately due and payable.

(b) Upon the expiration or termination of this Agreement, Licensee shall not manufacture, advertise, distribute or sell the Licensed Articles containing or including the Property or any product that may infringe upon Licensor's proprietary rights, or use any name, logo or design that is substantially or confusingly similar to Licensor's trademarks on any product in any place whatsoever, and shall, upon written request from Licensor, promptly deliver to Licensor and Agent a statement indicating the number of Licensed Articles then currently on hand or in the process of being manufactured. Licensor shall have the right to conduct a physical inventory in order to ascertain or verify such inventory and/or statement. In the event Licensee refuses to permit Licensor to conduct such physical inventory, Licensee shall forfeit its right to dispose of such inventory as provided herein. In addition to such forfeiture, Licensor shall have recourse to all other legal remedies available to it. Except as provided, such inventory shall, at Licensor's option, be destroyed by Licensee (in which event a certificate of destruction, certified by an officer of Licensee, shall be delivered to Licensor), or purchased by Licensor at Licensee's cost of manufacture plus 10% plus shipping costs. In the event that Licensor requests Licensee to destroy the Licensed Articles, Licensor may require Licensee to deliver to Licensor an affidavit, signed by an officer of Licensee, attesting to such destruction in such form as Licensor may in its reasonable discretion require.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(c) Upon expiration or termination of this Agreement, provided that Licensee is not in Default, Licensee may continue to sell any Licensed Articles on a non-exclusive basis specifically for fulfillment of retail orders for the period set forth in Schedule B ("Sell-Off Period") after such expiration or termination in accordance with all of the terms and conditions contained in this Agreement, provided that: (i) Licensee does not sell or dispose of the Licensed Articles in job lots at reduced prices, at prices lower than the prevailing wholesale price, at prices lower than the prices charged by Licensee during the ninety (90) day period immediately preceding such expiration, or other than as is customary in the ordinary course of business; and (ii) Licensee does not manufacture any new Licensed Articles during the Sell-Off Period except to fill on hand orders. It is understood that Royalties are owed for Licensed Articles sold during the Sell-Off Period, and a final report and payment is due within the time period specified in Schedule B. Any Royalties earned during the Sell-Off Period may not be applied to any Minimum Guarantee, such amount being due at the time of termination or expiration.

(d) Licensee acknowledges that (i) any unauthorized use of the Property shall be deemed an infringement, and (ii) such unauthorized use would cause irreparable harm for which monetary damages are insufficient and therefore, Licensor shall be entitled to seek injunctive relief.

(e) Upon termination or expiration, Licensee shall promptly deliver to Agent any and all materials bearing any element of the Property or materials used in the design of the Licensed Articles, including but not limited to style guides, transparencies, digital files, drawings, and, sketches. Additionally, disposition of any plates, molds, forms, lithographs and other material used in the manufacturing of the Licensed Articles (either by Licensee or a third party manufacturer) shall be subject to written instructions from Licensor or Agent to Licensee either to modify or to deliver same to Agent or its designee at fair market value for the tooling. In the event that Licensee is to modify said materials, Licensor or Agent may require Licensee to deliver to Licensor an affidavit, signed by an officer of Licensee, attesting to such modification in such form as Licensor or Agent may in their sole discretion require. For the purposes of this section, "modification" shall be understood to mean that the Property has been removed and any content, as well as unique or distinct design elements that comprise the trade dress of the Licensed Articles and packaging, including but not limited to color scheme, fabric patterns, and Licensed Articles names have been significantly altered or removed.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(f) Nothing in this paragraph shall be construed to limit Licensor's rights or remedies.

25. RESERVATION OF RIGHTS. Licensor hereby reserves all rights not herein specifically granted to Licensee. Such reserved rights are the sole and exclusive property of Licensor.

26. ASSIGNMENT/TRANSFER. The license herein granted is personal to Licensee and except as expressly set forth herein, may not be sublicensed, assigned, transferred, pledged, mortgaged or otherwise encumbered by Licensee in whole or in part except if approved by Licensor in advance in writing, which approval may be given or withheld in Licensor's reasonable discretion. Licensor may not assign this Agreement without the prior written consent of Licensee such consent not to be unreasonably withheld. Licensor may charge a commercially reasonable administration fee upon approval of any requested sale, transfer or assignment of the Agreement.

27. CONFIDENTIALITY.

(a) As used herein, "Confidential Information" means any information regarding the material terms of this Agreement and subject to the exclusions hereunder, any information designated "confidential" in writing by either party at time of disclosure shall be deemed Confidential Information. The party receiving Confidential Information agrees to hold such Confidential Information in trust and confidence and, except as may be authorized by the other Party in writing, will not (a) use such Confidential Information for any purpose other than to exercise its rights or perform its obligations hereunder and/or (b) disclose any Confidential Information to any person or entity, except to those of its employees, professional advisers and agents: (i) who need to know such information in order for the receiving party to exercise its rights and perform its obligations hereunder; and (ii) who have been made aware in writing of the confidential nature of such information and the receiving party's obligations to maintain such confidentiality. Each party shall be responsible for the compliance by each of its employees, professional advisers or agents with the terms of this Section in respect of the Confidential Information of the other party.

(b) Confidential Information does not include, and the foregoing restrictions will not apply to, any information which (i) at the time of disclosure to the receiving party is generally available to the public (other than as a result of a disclosure made in violation of this agreement), (ii) becomes generally available to the public after disclosure to the receiving party (other than as a result of a disclosure made in violation of this agreement), (iii) was known to the receiving party (without obligation to keep such information confidential) at the time of disclosure by the disclosing party, (iv) becomes available to the receiving party on a non-confidential basis from a source other than the disclosing party (provided that such source, to the knowledge of the receiving party, is not or was not bound to maintain the confidentiality of such information) or (v) has been independently developed by the receiving party without access to or use of the confidential information of the disclosing party, or (vi) the rules of any listing authority or stock exchange upon which the receiving party's securities are listed requires disclosure of any confidential information; provided that the receiving party shall use reasonable efforts to limit such disclosure to what is minimally required. If the receiving party or any of its employees or agents become legally compelled (by deposition, interrogatory, request of documents, subpoena, civil investigative demand or similar process) to disclose any of the confidential information of the disclosing party, the receiving party shall provide the disclosing party with prompt prior written notice of such requirement so that the disclosing party may seek a protective order or other appropriate remedy and/or waive compliance with the terms of this agreement. If such protective order or other remedy is not obtained, or the disclosing party waives compliance with the provisions hereof, the receiving party agrees to furnish only such portion of the confidential information that is legally required to be furnished.

28. NOTICES. Notices by either party to the other shall be in writing and given by telefax, if possible, or by registered or certified mail, return receipt requested, by telex/telegram with proof of delivery, all charges prepaid, or by email, with proof of receipt. All statements and notices hereunder shall be given at the respective addresses of Licensor, Agent and Licensee as set forth on the first page of this Agreement and on Schedule B unless written notice of a change of address is given. Licensee shall send all correspondence and direct all inquiries, written or otherwise, in connection with the subject matter of this Agreement to Agent, with a copy, if in writing, to Licensor at their respective addresses as set forth on Schedule B. Unless otherwise indicated herein, notices shall be deemed effective the date the notice is received. Copies of all notices to Agent and/or Licensee shall be sent to Licensor.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

29. RELATIONSHIP OF PARTIES. This Agreement shall not create or be deemed to create any agency, partnership or joint venture between the Licensor, Agent and/or Licensee. Neither of the parties hereto has the authority to bind the other. The Agreement shall inure to the benefit of, and be binding upon and enforceable against, each of the parties hereto and their respective administrators, executors, successors and permitted assigns.

30. ENTIRE AGREEMENT. This Agreement is intended by the parties as a final and complete expression of their agreement with respect to the subject matter hereof, and supersedes any and all prior and contemporaneous agreements and understandings relating to it. This Agreement may be executed in two or more counterparts (including, without limitation, by facsimile), each of which shall be deemed an original but all of which together shall constitute one and the same instrument. The Schedules to this Agreement are a part of this Agreement as if set forth in full herein.

31. MODIFICATION. This Agreement may not be modified and none of its terms may be waived except in writing signed by both parties. The failure of either party to enforce, or the delay by either party in enforcing, any of its rights shall not be deemed a continuing waiver or modification of this Agreement.

32. SEVERABILITY. If any part of this Agreement shall be declared invalid or unenforceable by a court of competent jurisdiction, it shall not affect the validity of the balance of this Agreement.

33. FORCE MAJEURE. In the event of a force majeure event which prevents or hinders performance hereunder, no default or liability for non-compliance occasioned thereby during the continuance thereof shall exist or arise.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

34. GOVERNING LAW. This Agreement shall be governed by and interpreted in accordance with the laws of the State of California applicable to agreements entered into and to be performed wholly in the State of California. The parties consent to the exclusive jurisdiction of the state and federal courts located in the State of California, Los Angeles County, California for the resolution of any dispute arising hereunder.

35. EXECUTION. The submission of this form of license agreement for examination and/or execution does not constitute an option and shall vest no right in either party. This document will become effective as a license agreement only upon execution and delivery thereof by all the parties hereto. If this Agreement is executed by more than one person as Licensee, any liability on the part of such persons shall be joint and several.

36. MISCELLANEOUS. The parties acknowledge and agree that this Agreement is the result of negotiation, and that all parties had opportunity for legal counsel. Therefore, there is no presumption against the drafter with respect to interpretation of any of the provisions.

37. DISPUTE RESOLUTION, ARBITRATION**.** Except with respect to matters pertaining to injunctive relief, in the event of any dispute, the parties shall refer such dispute to the respective Designated Representative for each party for attempted resolution by good faith negotiations within thirty (30) days after such referral is made. During such period of good faith negotiations, any applicable time periods under this Agreement shall be tolled. In the event such individuals are unable to resolve such dispute within such thirty (30) day period, any dispute, claim or controversy arising out of or relating to this Agreement or the breach, termination, enforcement, interpretation or validity thereof, including the determination of the scope or applicability of this agreement to arbitrate, shall be determined by arbitration in the City of Los Angeles, California. Such arbitration to be conducted by, per the procedures of, and at an office of the Judicial Arbitration and Mediation Service (“JAMS”) pursuant to its Comprehensive Arbitration Rules and Procedures. Judgment on the Award may be entered in any court having jurisdiction. This clause shall not preclude parties from seeking provisional remedies in aid of arbitration from a court of appropriate jurisdiction. The arbitrator may, in the Award, allocate all or part of the costs of the arbitration, including the fees of the arbitrator and the reasonable attorneys’ fees of the prevailing party. Both parties agree to resolve any disputes without making public statements either verbally or in writing, and both parties agree to protect the reputation and name of the other party.

[SIGNATURE PAGE TO FOLLOW.]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date written at the beginning of this Agreement.

JAKKS PACIFIC, INC.		**PACIFIC ENTERTAINMENT CORPORATION**	
("Licensee")		("Licensor")	
By:	/s/ Michael Dwyer	By:	/s/ Klaus Moeller
[Name]	Michael Dwyer	[Name]	Klaus Moeller
[Title]	SVP, Legal	[Title]	CEO

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

SCHEDULE A

Baby Genius®

a) The term "Property" means the Baby Genius trademark, and all common law and registered trademarks, copyrights, trade dress, names, symbols, likenesses, depictions, characters, logos, images, designs, titles, music compilations, character voices, artwork and/or other creative elements, for, used in connection with, including, derived or adapted from, Baby Genius®, now existing, and any and all future versions developed by Licensor or its affiliates during the Term for the Baby Genius brand. The definition of Property may be amended, from time to time, by written agreement between Licensee and Licensor.

b) Without limiting the foregoing, the Property includes, without limitation, the items set forth below. Notwithstanding any provision in this Agreement to the contrary, with respect to copyrights marked with an asterick below, the Property does not include (i) any image, photograph, video footage or pictures of animals or plant life located upon the premises of the San Diego Zoo or the San Diego Wild Animal Park or (ii) any logos, trademarks (including but not limited to "San Diego Zoo," "San Diego Zoo's Wild Animal Park," "Wild Beasts," and "Zoological Society of San Diego"), service marks, insignia, designs, names or other symbols owned by the Zoological Society of San Diego.

United States Copyrights:

*Title: Animal Adventures
Type of Work: Motion Picture

Title: Favorite Nursery Rhymes
Type of Work: Motion Picture

Title: Underwater Adventures
Type of Work: Motion Picture

Title: Baby Genius Mozart and Friends
Type of Work: Motion Picture

Title: Baby Genius Mozart and Friends Sleepytime
Type of Work: Motion Picture

Title: Baby Genius the Four Seasons
Type of Work: Motion Picture

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

*Title: Baby Animals Favorite Sing-a-Longs
Type of Work: Motion Picture

*Title: Baby Animals Favorite Sing-a-Longs
Type of Work: Sound Recording and Music

Title: Favorite Sing-a-Longs
Type of Work: Motion Picture

Title: Favorite Sing-a-Longs
Type of Work: Sound Recording and Music

Title: Favorite Counting Songs
Type of Work: Motion Picture

Title: Favorite Counting Songs
Type of Work: Sound Recording and Music

Title: Favorite Children's Songs
Type of Work: Motion Picture

Title: Favorite Children's Songs
Type of Work: Sound Recording and Music

*Title: A Trip to the San Diego Zoo
Type of Work: Motion Picture

*Title: A Trip to the San Diego Zoo
Type of Work: Sound Recording

United States Trademarks:

Mark: Baby Genius
Class: 009
Goods: Musical sound recordings and musical video recordings.

Mark: Baby Genius
Class: 010
Goods: Baby bottles, baby bottle nipples, pacifiers and teething rings.

Mark: Baby Genius
Class: 16
Goods: Printed material in the nature of calendars, a series of baby and children's books, sheet music, photo albums, scrapbook albums, arts and crafts paint kits, stickers, and printed teaching materials for teaching youth developmental skills, life skills and problem solving.

Mark: Baby Genius
Class: 25
Goods: Clothing, namely, dresses, jumpers, cardigans, suits, overcoats, trousers, jackets, singlets, socks, belts, knit shirts, sport shirts, sweat shirts, turtle necks, T shirts, pants, sweaters, socks, ties, bow ties, shorts, beach visors, beachwear, swimsuits, hats, caps, beanies, blouses, underwear, jackets, pull overs, overalls, sporting shirts, jerseys, and pajamas.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Baby Genius
Class 28
Goods:

Articles of clothing for toys; Baby multiple activity toys; Balls for games; Balls for sports; Bath toys; Beach balls; Board games; Card games; Cases for toy vehicles; Children's multiple activity toys; Children's multiple activity toys sold as a unit with printed books; Collectable toy figures; Construction toys; Crib toys; Dice games; Doll accessories; Doll cases; Doll furniture; Doll houses; Dolls; Dolls and accessories therefor; Dolls and doll accessories, namely, clothing for dolls, doll rooms, doll beds, doll houses, toy fabrics and linens for dolls and strollers for dolls; Drawing toys; Educational card games; Equipment sold as a unit for playing board games; Equipment sold as a unit for playing card games; Fantasy character toys; Infant development toys; Infant toys; Musical toys; Party games; Pet toys; Play houses and toy accessories therefor; Playground balls; Plush toys; Push toys; Ride-on toys; Rubber character toys; Sand toys; Squeeze toys; Stacking toys; Toy action figures; Toy boats; Toy cars; Toy figures; Toy furniture; Toy vehicles; Toy vehicles and accessories therefor.

Mark: Baby Genius
Class: 41

Services: educational and entertainment services for children, namely, an ongoing series of television programs, motion picture theatrical films, live children's theatrical productions, and personal appearances by costumed characters.

Mark: Frankie the Elephant
Class: 009

Goods: Prerecorded audio cassettes, compact discs, video cassettes, laser discs, and digital video discs, all featuring music, fictional and non fictional stories, activities for play, motivational and self improvement, and covering education topics relating to mathematics, sciences, physical sciences, biological sciences, computer science, humanities, history, geography, social studies, environment studies, sports, poetry, health, physical education, English, English literature, language comprehension, spelling, literacy, and numeracy.

Mark: Frankie the Elephant
Class: 16

Goods: Address books, autograph books, book marks, decals, stickers, sticker albums, posters, calendars, trading cards, trading card albums, photo albums, scrapbook albums, greeting cards, pencils, pens, pen and pencil holders, pen and pencil boxes, a series of baby and children's books, sheet music, arts and crafts paint kits, and printed teaching materials for teaching youth developmental skills, life skills and problem solving.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Mark: Frankie the Elephant
Class: 25

Clothing, namely, dresses, jumpers, cardigans, jackets, socks, belts, knit shirts, sport shirts, sweat shirts, t-shirts, pants, sweaters, ties, socks, underwear, shorts, beach visors, beachwear, swimsuits, hats, caps, beanie caps, pullovers, overalls, sporting shirts, jerseys, pajamas, shoes and footwear.

Mark: Frankie the Elephant
Class: 28

Goods: Toys, namely, plush toys, action toys, bathtub toys, construction toys, ride-on toys, sandbox toys, squeeze toys, wind-up toys, musical toys, crib toys, crib mobiles, stuffed toy animals, children's multiple activity toys, adults' and children's party games, dolls and doll accessories therefor, climbing units, children's play cosmetics, card games, role playing games, board games and card games for teaching of alphabet, math, music, and language, and, adult and children's sporting goods, namely, playground balls, beach balls, basketballs, baseballs, baseball bats, baseball mitts, and ball hoops.

Mark: Vinko the Dancing Bear
Class: 009

Goods: Prerecorded audio cassettes, compact discs, video cassettes, laser discs, and digital video discs, all featuring music, fictional and non fictional stories, activities for play, motivational and self improvement, and covering education topics relating to mathematics, sciences, physical sciences, biological sciences, computer science, humanities, history, geography, social studies, environment studies, sports, poetry, health, physical education, English, English literature, language comprehension, spelling, literacy, and numeracy.

Mark: Vinko the Dancing Bear
Class: 16

Goods: Address books, autograph books, book marks, decals, stickers, sticker albums, posters, calendars, trading cards, trading card albums, photo albums, scrapbook albums, greeting cards, pencils, pens, pen and pencil holders, pen and pencil boxes, a series of baby and children's books, sheet music, arts and crafts paint kits, and printed teaching materials for teaching youth developmental skills, life skills and problem solving.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Mark: Vinko the Dancing Bear
Class: 25

Clothing, namely, dresses, jumpers, cardigans, jackets, socks, belts, knit shirts, sport shirts, sweat shirts, t-shirts, pants, sweaters, ties, socks, underwear, shorts, beach visors, beachwear, swimsuits, hats, caps, beanie caps, pullovers, overalls, sporting shirts, jerseys, pajamas, shoes and footwear.

Mark: Vinko the Dancing Bear
Class: 28

Goods: Toys, namely, plush toys, action toys, bathtub toys, construction toys, ride-on toys, sandbox toys, squeeze toys, wind-up toys, musical toys, crib toys, crib mobiles, stuffed toy animals, children's multiple activity toys, adults' and children's party games, dolls and doll accessories therefor, climbing units, children's play cosmetics, card games, role playing games, board games and card games for teaching of alphabet, math, music, and language, and, adult and children's sporting goods, namely, playground balls, beach balls, basketballs, baseballs, baseball bats, baseball mitts, and ball hoops.

Mark: Oboe the Monkey
Class: 009

Goods: Prerecorded audio cassettes, compact discs, video cassettes, laser discs, and digital video discs, all featuring music, fictional and non fictional stories, activities for play, motivational and self improvement, and covering education topics relating to mathematics, sciences, physical sciences, biological sciences, computer science, humanities, history, geography, social studies, environment studies, sports, poetry, health, physical education, English, English literature, language comprehension, spelling, literacy, and numeracy.

Mark: Oboe the Monkey
Class: 16

Goods: Address books, autograph books, book marks, decals, stickers, sticker albums, posters, calendars, trading cards, trading card albums, photo albums, scrapbook albums, greeting cards, pencils, pens, pen and pencil holders, pen and pencil boxes, a series of baby and children's books, sheet music, arts and crafts paint kits, and printed teaching materials for teaching youth developmental skills, life skills and problem solving.

Mark: Oboe the Monkey
Class: 25

Clothing, namely, dresses, jumpers, cardigans, jackets, socks, belts, knit shirts, sport shirts, sweat shirts, t-shirts, pants, sweaters, ties, socks, underwear, shorts, beach visors, beachwear, swimsuits, hats, caps, beanie caps, pullovers, overalls, sporting shirts, jerseys, pajamas, shoes and footwear.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Mark: Oboe the Monkey
Class: 28

Goods: Toys, namely, plush toys, action toys, bathtub toys, construction toys, ride-on toys, sandbox toys, squeeze toys, wind-up toys, musical toys, crib toys, crib mobiles, stuffed toy animals, children's multiple activity toys, adults' and children's party games, dolls and doll accessories therefor, climbing units, children's play cosmetics, card games, role playing games, board games and card games for teaching of alphabet, math, music, and language, and, adult and children's sporting goods, namely, playground balls, beach balls, basketballs, baseballs, baseball bats, baseball mitts, and ball hoops.

Mark: DJ the Dinosaur
Class: 009

Goods: Prerecorded audio cassettes, compact discs, video cassettes, laser discs and digital video disc featuring music.

Mark: DJ the Dinosaur
Class: 28

Goods: Toys, namely, plush toys, action toys, bathtub toys, construction toys, ride-on toys, sandbox toys, squeeze toys, wind-up toys, musical toys, crib toys, crib mobiles, stuffed toy animals, children's multiple activity toys, adults' and children's party games, dolls and doll accessories therefor, climbing units, children's play cosmetics, card games, role playing games, board games and card games for teaching of alphabet, math, music, and language, and, adult and children's sporting goods, namely, playground balls, beach balls, basketballs, baseballs, baseball bats, baseball mitts, and ball hoops.

Mark: Lola the Dog
Class: 009

Goods: Prerecorded audio cassettes, compact discs, video cassettes, laser discs, and digital video discs, all featuring music, fictional and non fictional stories, activities for play, motivational and self improvement, and covering education topics relating to mathematics, sciences, physical sciences, biological sciences, computer science, humanities, history, geography, social studies, environment studies, sports, poetry, health, physical education, English, English literature, language comprehension, spelling, literacy, and numeracy.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Mark: Lola the Dog
Class: 16

Goods: Address books, autograph books, book marks, decals, stickers, sticker albums, posters, calendars, trading cards, trading card albums, photo albums, scrapbook albums, greeting cards, pencils, pens, pen and pencil holders, pen and pencil boxes, a series of baby and children's books, sheet music, arts and crafts paint kits, and printed teaching materials for teaching youth developmental skills, life skills and problem solving.

Mark: Lola the Dog
Class: 25

Goods: Clothing, namely, dresses, jumpers, cardigans, jackets, socks, belts, knit shirts, sport shirts, sweat shirts, t-shirts, pants, sweaters, ties, socks, underwear, shorts, beach visors, beachwear, swimsuits, hats, caps, beanie caps, pullovers, overalls, sporting shirts, jerseys, pajamas, shoes and footwear.

Mark: Lola the Dog
Class: 28

Goods: Toys, namely, plush toys, action toys, bathtub toys, construction toys, ride-on toys, sandbox toys, squeeze toys, wind-up toys, musical toys, crib toys, crib mobiles, stuffed toy animals, children's multiple activity toys, adults' and children's party games, dolls and doll accessories therefor, climbing units, children's play cosmetics, card games, role playing games, board games and card games for teaching of alphabet, math, music, and language, and, adult and children's sporting goods, namely, playground balls, beach balls, basketballs, baseballs, baseball bats, baseball mitts, and ball hoops.

Mark: Rosie the Rabbit
Class: 009

Goods: Prerecorded audio cassettes, compact discs, video cassettes, laser discs, and digital video discs, all featuring music, fictional and non fictional stories, activities for play, motivational and self improvement, and covering education topics relating to mathematics, sciences, physical sciences, biological sciences, computer science, humanities, history, geography, social studies, environment studies, sports, poetry, health, physical education, English, English literature, language comprehension, spelling, literacy, and numeracy.

Mark: Rosie the Rabbit
Class: 16

Goods: Address books, autograph books, book marks, decals, stickers, sticker albums, posters, calendars, trading cards, trading card albums, photo albums, scrapbook albums, greeting cards, pencils, pens, pen and pencil holders, pen and pencil boxes, a series of baby and children's books, sheet music, arts and crafts paint kits, and printed teaching materials for teaching youth developmental skills, life skills and problem solving.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Mark: Rosie the Rabbit
Class: 25

Goods: Clothing, namely, dresses, jumpers, cardigans, jackets, socks, belts, knit shirts, sport shirts, sweat shirts, t-shirts, pants, sweaters, ties, socks, underwear, shorts, beach visors, beachwear, swimsuits, hats, caps, beanie caps, pullovers, overalls, sporting shirts, jerseys, pajamas, shoes and footwear.

Mark: Rosie the Rabbit
Class: 28

Goods: Toys, namely, plush toys, action toys, bathtub toys, construction toys, ride-on toys, sandbox toys, squeeze toys, wind-up toys, musical toys, crib toys, crib mobiles, stuffed toy animals, children's multiple activity toys, adults' and children's party games, dolls and doll accessories therefor, climbing units, children's play cosmetics, card games, role playing games, board games and card games for teaching of alphabet, math, music, and language, and, adult and children's sporting goods, namely, playground balls, beach balls, basketballs, baseballs, baseball bats, baseball mitts, and ball hoops.

Mark: Tempo the Tiger
Class: 009

Goods: Prerecorded audio cassettes, compact discs, video cassettes, laser discs, and digital video discs, all featuring music, fictional and non fictional stories, activities for play, motivational and self improvement, and covering education topics relating to mathematics, sciences, physical sciences, biological sciences, computer science, humanities, history, geography, social studies, environment studies, sports, poetry, health, physical education, English, English literature, language comprehension, spelling, literacy, and numeracy.

Mark: Tempo the Tiger
Class: 16

Goods: Address books, autograph books, book marks, decals, stickers, sticker albums, posters, calendars, trading cards, trading card albums, photo albums, scrapbook albums, greeting cards, pencils, pens, pen and pencil holders, pen and pencil boxes, a series of baby and children's books, sheet music, arts and crafts paint kits, and printed teaching materials for teaching youth developmental skills, life skills and problem solving.

Mark: Tempo the Tiger
Class: 25

Clothing, namely, dresses, jumpers, cardigans, jackets, socks, belts, knit shirts, sport shirts, sweat shirts, t-shirts, pants, sweaters, ties, socks, underwear, shorts, beach visors, beachwear, swimsuits, hats, caps, beanie caps, pullovers, overalls, sporting shirts, jerseys, pajamas, shoes and footwear.

Mark: Tempo the Tiger
Class: 28

Goods: Toys, namely, plush toys, action toys, bathtub toys, construction toys, ride-on toys, sandbox toys, squeeze toys, wind-up toys, musical toys, crib toys, crib mobiles, stuffed toy animals, children's multiple activity toys, adults' and children's party games, dolls and doll accessories therefor, climbing units, children's play cosmetics, card games, role playing games, board games and card games for teaching of alphabet, math, music, and language, and, adult and children's sporting goods, namely, playground balls, beach balls, basketballs, baseballs, baseball bats, baseball mitts, and ball hoops.

European Trademarks:

Mark: Baby Genius
Class: 09

Goods: Prerecorded audio cassettes, compact discs, video cassettes, laser discs, and digital video discs, all featuring music, fictional and non fictional stories, activities for play, motivational and seif improvement, and covering education topics relating to mathematics, sciences, physical sciences, biological sciences, computer science, humanities, history, geography, economics, social studies, studies of society, environment studies, sewing, sports, travel, law, medicine, poetry, health, physical education, English, English literature, language comprehension, spelling, literacy, and numeracy.

Mark: Baby Genius
Class: 16

Goods: Printed material in the nature of calendars, a series of baby and children's books, address books, autograph books, bookmarks, decals, posters, trading cards, trading card albums, greeting cards, sheet music, photo albums, scrapbook albums, sticker albums, pens, pencils, pen and pencil holders, pen and pencil boxes, arts and crafts paint kits, stickers, printed teaching materials for teaching in the fields of youth developmental skills, life skills and problem solving; diapers.

Mark: Baby Genius
Class: 28

Goods: Toys, namely, action toys, bathtub toys, construction toys, pet toys, plush toys, ride-on toys, sandbox toys, squeeze toys, wind-up toys, musical toys, crib toys, crib mobiles, stuffed toy animals, children's multiple activity toys, adults' and children's party games, all types of dolls, doll accessories, climbing units, children's play cosmetics, card games, role playing games, board games and card games for teaching of alphabet, math, music, and language, and, adult and children's sporting goods, namely, playground balls, beach balls, basketballs, baseballs, baseball bats, baseball mitts, ball hoops and fishing rods.

Mark: Baby Genius
Class: 41

Services: Educational and entertainment services for children, namely, an ongoing series of television programs, motion picture theatrical films, live children's theatrical productions, and personal appearances by costumed characters.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Mark: DJ the Dinosaur
Class: 09

Goods: Prerecorded audio cassettes, compact discs, video cassettes, laser discs, and digital video discs, all featuring music, fictional and non fictional stories, activities for play, motivational and seif improvement, and covering education topics relating to mathematics, sciences, physical sciences, biological sciences, computer science, humanities, history, geography, economics, social studies, studies of society, environment studies, sewing, sports, travel, law, medicine, poetry, health, physical education, English, English literature, language comprehension, spelling, literacy, and numeracy.

Mark: DJ the Dinosaur
Class: 28

Goods: Toys, namely, action toys, bathtub toys, construction toys, pet toys, plush toys, ride-on toys, sandbox toys, squeeze toys, wind-up toys, musical toys, crib toys, crib mobiles, stuffed toy animals, children's multiple activity toys, adults' and children's party games, all types of dolls, doll accessories, climbing units, children's play cosmetics, card games, role playing games, board games and card games for teaching of alphabet, math, music, and language, and, adult and children's sporting goods, namely, playground balls, beach balls, basketballs, baseballs, baseball bats, baseball mitts, ball hoops and fishing rods.

Mark: DJ the Dinosaur
Class: 41

Services: Educational and entertainment services for children, namely, an ongoing series of television programs, motion picture theatrical films, live children's theatrical productions, and personal appearances by costumed characters.

Mark: Frankie the Elephant
Class: 09

Goods: Prerecorded audio cassettes, compact discs, video cassettes, laser discs, and digital video discs, all featuring music, fictional and non fictional stories, activities for play, motivational and seif improvement, and covering education topics relating to mathematics, sciences, physical sciences, biological sciences, computer science, humanities, history, geography, economics, social studies, studies of society, environment studies, sewing, sports, travel, law, medicine, poetry, health, physical education, English, English literature, language comprehension, spelling, literacy, and numeracy.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Mark: Frankie the Elephant
Class: 28

Goods: Toys, namely, action toys, bathtub toys, construction toys, pet toys, plush toys, ride-on toys, sandbox toys, squeeze toys, wind-up toys, musical toys, crib toys, crib mobiles, stuffed toy animals, children's multiple activity toys, adults' and children's party games, all types of dolls, doll accessories, climbing units, children's play cosmetics, card games, role playing games, board games and card games for teaching of alphabet, math, music, and language, and, adult and children's sporting goods, namely, playground balls, beach balls, basketballs, baseballs, baseball bats, baseball mitts, ball hoops and fishing rods.

Mark: Frankie the Elephant
Class: 41

Services: Educational and entertainment services for children, namely, an ongoing series of television programs, motion picture theatrical films, live children's theatrical productions, and personal appearances by costumed characters.

Mark: Oboe the Monkey
Class: 09

Goods: Prerecorded audio cassettes, compact discs, video cassettes, laser discs, and digital video discs, all featuring music, fictional and non fictional stories, activities for play, motivational and seif improvement, and covering education topics relating to mathematics, sciences, physical sciences, biological sciences, computer science, humanities, history, geography, economics, social studies, studies of society, environment studies, sewing, sports, travel, law, medicine, poetry, health, physical education, English, English literature, language comprehension, spelling, literacy, and numeracy.

Mark: Oboe the Monkey
Class: 28

Goods: Toys, namely, action toys, bathtub toys, construction toys, pet toys, plush toys, ride-on toys, sandbox toys, squeeze toys, wind-up toys, musical toys, crib toys, crib mobiles, stuffed toy animals, children's multiple activity toys, adults' and children's party games, all types of dolls, doll accessories, climbing units, children's play cosmetics, card games, role playing games, board games and card games for teaching of alphabet, math, music, and language, and, adult and children's sporting goods, namely, playground balls, beach balls, basketballs, baseballs, baseball bats, baseball mitts, ball hoops and fishing rods.

Mark: Oboe the Monkey
Class: 41

Services: Educational and entertainment services for children, namely, an ongoing series of television programs, motion picture theatrical films, live children's theatrical productions, and personal appearances by costumed characters.

Mark: Vinko the Dancing Bear
Class: 09

Goods: Prerecorded audio cassettes, compact discs, video cassettes, laser discs, and digital video discs, all featuring music, fictional and non fictional stories, activities for play, motivational and seif improvement, and covering education topics relating to mathematics, sciences, physical sciences, biological sciences, computer science, humanities, history, geography, economics, social studies, studies of society, environment studies, sewing, sports, travel, law, medicine, poetry, health, physical education, English, English literature, language comprehension, spelling, literacy, and numeracy.

Mark: Vinko the Dancing Bear
Class: 28

Goods: Toys, namely, action toys, bathtub toys, construction toys, pet toys, plush toys, ride-on toys, sandbox toys, squeeze toys, wind-up toys, musical toys, crib toys, crib mobiles, stuffed toy animals, children's multiple activity toys, adults' and children's party games, all types of dolls, doll accessories, climbing units, children's play cosmetics, card games, role playing games, board games and card games for teaching of alphabet, math, music, and language, and, adult and children's sporting goods, namely, playground balls, beach balls, basketballs, baseballs, baseball bats, baseball mitts, ball hoops and fishing rods.

Mark: Vinko the Dancing Bear
Class: 41

Services: Educational and entertainment services for children, namely, an ongoing series of television programs, motion picture theatrical films, live children's theatrical productions, and personal appearances by costumed characters.

Canadian Trademarks:

Mark: Baby Genius
Classes: (Canada does not use class system)

Goods: Printed material in the nature of calendars, a series of baby and children's books, sheet music, photo albums, scrapbook albums, arts and crafts paint kits, stickers, and printed teaching materials namely, books and sheets with suggested activities and stories, worksheets, workbooks and colouring books for teaching youth developmental skills, life skills and problem solving; video and sound recordings; clothing, namely, dresses, jumpers, overalls, cardigans, suits, overcoats, trousers, jackets, singlets, socks, belts, knit shirts, sport shirts, sweat shirts, turtle necks, t-shirts, pants, sweaters, ties, bow ties, shorts, beach visors, beachwear, swimsuits, hats, caps, beanies, blouses, underwear, jackets, pull overs, overalls, sporting shirts, jerseys, and pajamas; toys, namely, action toys, bathtub toys, construction toys, pet toys, plush toys, ride-on toys, sandbox toys, squeeze toys, wind-up toys, musical toys, crib toys, crib mobiles, stuffed toy animals, adult's and children's party games, all types of dolls, doll accessories, climbing units, children's play cosmetics, card games, role playing games, board games and card games for teaching of alphabet, math, music, and language, and adult and children's sporting goods, namely, playground balls, beach balls, basketballs, baseballs, baseball bats, baseball mitts, ball hoops and fishing rods

Australian Trademarks (in process):

Mark: Baby Genius
Classes: 09, 16, 25, 28

Goods: Goods: Prerecorded audio cassettes, compact discs, video cassettes, laser discs, and digital video discs, all featuring music, fictional and non fictional stories, activities for play, motivational and self improvement, and covering education topics relating to mathematics, sciences, physical sciences, biological sciences, computer science, humanities, history, geography, social studies, environment studies, sports, poetry, health, physical education, English, English literature, language comprehension, spelling, literacy, and numeracy; Printed material in the nature of calendars, a series of baby and children's books, address books, autograph books, bookmarks, decals, posters, trading cards, trading card albums, greeting cards, sheet music, photo albums, scrapbook albums, sticker albums, pens, pencils, pen and pencil holders, pen and pencil boxes, arts and crafts paint kits, stickers, printed teaching materials for teaching in the fields of youth developmental skills, life skills and problem solving; diapers; Clothing, namely, dresses, jumpers, cardigans, jackets, socks, belts, knit shirts, sport shirts, sweat shirts, t-shirts, pants, sweaters, ties, socks, underwear, shorts, beach visors, beachwear, swimsuits, hats, caps, beanie caps, pullovers, overalls, sporting shirts, jerseys, pajamas, shoes and footwear; Toys, namely, plush toys, action toys, bathtub toys, construction toys, ride-on toys, sandbox toys, squeeze toys, wind-up toys, musical toys, crib toys, crib mobiles, stuffed toy animals, children's multiple activity toys, adults' and children's party games, dolls and doll accessories therefor, climbing units, children's play cosmetics, card games, role playing games, board games and card games for teaching of alphabet, math, music, and language, and, adult and children's sporting goods, namely, playground balls, beach balls, basketballs, baseballs, baseball bats, baseball mitts, and ball hoops.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Mexican Trademarks (in process)**:**

Mark: Baby Genius
Classes: 09, 16, 25, 28

Goods: Goods: Prerecorded audio cassettes, compact discs, video cassettes, laser discs, and digital video discs, all featuring music, fictional and non fictional stories, activities for play, motivational and self improvement, and covering education topics relating to mathematics, sciences, physical sciences, biological sciences, computer science, humanities, history, geography, social studies, environment studies, sports, poetry, health, physical education, English, English literature, language comprehension, spelling, literacy, and numeracy; Printed material in the nature of calendars, a series of baby and children's books, address books, autograph books, bookmarks, decals, posters, trading cards, trading card albums, greeting cards, sheet music, photo albums, scrapbook albums, sticker albums, pens, pencils, pen and pencil holders, pen and pencil boxes, arts and crafts paint kits, stickers, printed teaching materials for teaching in the fields of youth developmental skills, life skills and problem solving; diapers; Clothing, namely, dresses, jumpers, cardigans, jackets, socks, belts, knit shirts, sport shirts, sweat shirts, t-shirts, pants, sweaters, ties, socks, underwear, shorts, beach visors, beachwear, swimsuits, hats, caps, beanie caps, pullovers, overalls, sporting shirts, jerseys, pajamas, shoes and footwear; Toys, namely, plush toys, action toys, bathtub toys, construction toys, ride-on toys, sandbox toys, squeeze toys, wind-up toys, musical toys, crib toys, crib mobiles, stuffed toy animals, children's multiple activity toys, adults' and children's party games, dolls and doll accessories therefor, climbing units, children's play cosmetics, card games, role playing games, board games and card games for teaching of alphabet, math, music, and language, and, adult and children's sporting goods, namely, playground balls, beach balls, basketballs, baseballs, baseball bats, baseball mitts, and ball hoops.

Argentina Trademarks (in process)**:**

Mark: Baby Genius
Classes: 09, 16, 25, 28

Goods: Goods: Prerecorded audio cassettes, compact discs, video cassettes, laser discs, and digital video discs, all featuring music, fictional and non fictional stories, activities for play, motivational and self improvement, and covering education topics relating to mathematics, sciences, physical sciences, biological sciences, computer science, humanities, history, geography, social studies, environment studies, sports, poetry, health, physical education, English, English literature, language comprehension, spelling, literacy, and numeracy; Printed material in the nature of calendars, a series of baby and children's books, address books, autograph books, bookmarks, decals, posters, trading cards, trading card albums, greeting cards, sheet music, photo albums, scrapbook albums, sticker albums, pens, pencils, pen and pencil holders, pen and pencil boxes, arts and crafts paint kits, stickers, printed teaching materials for teaching in the fields of youth developmental skills, life skills and problem solving; diapers; Clothing, namely, dresses, jumpers, cardigans, jackets, socks, belts, knit shirts, sport shirts, sweat shirts, t-shirts, pants, sweaters, ties, socks, underwear, shorts, beach visors, beachwear, swimsuits, hats, caps, beanie caps, pullovers, overalls, sporting shirts, jerseys, pajamas, shoes and footwear; Toys, namely, plush toys, action toys, bathtub toys, construction toys, ride-on toys, sandbox toys, squeeze toys, wind-up toys, musical toys, crib toys, crib mobiles, stuffed toy animals, children's multiple activity toys, adults' and children's party games, dolls and doll accessories therefor, climbing units, children's play cosmetics, card games, role playing games, board games and card games for teaching of alphabet, math, music, and language, and, adult and children's sporting goods, namely, playground balls, beach balls, basketballs, baseballs, baseball bats, baseball mitts, and ball hoops.

Panama Trademarks (in process)**:**

Mark: Baby Genius
Classes: 09, 16, 25, 28

Goods: Goods: Prerecorded audio cassettes, compact discs, video cassettes, laser discs, and digital video discs, all featuring music, fictional and non fictional stories, activities for play, motivational and self improvement, and covering education topics relating to mathematics, sciences, physical sciences, biological sciences, computer science, humanities, history, geography, social studies, environment studies, sports, poetry, health, physical education, English, English literature, language comprehension, spelling, literacy, and numeracy; Printed material in the nature of calendars, a series of baby and children's books, address books, autograph books, bookmarks, decals, posters, trading cards, trading card albums, greeting cards, sheet music, photo albums, scrapbook albums, sticker albums, pens, pencils, pen and pencil holders, pen and pencil boxes, arts and crafts paint kits, stickers, printed teaching materials for teaching in the fields of youth developmental skills, life skills and problem solving; diapers; Clothing, namely, dresses, jumpers, cardigans, jackets, socks, belts, knit shirts, sport shirts, sweat shirts, t-shirts, pants, sweaters, ties, socks, underwear, shorts, beach visors, beachwear, swimsuits, hats, caps, beanie caps, pullovers, overalls, sporting shirts, jerseys, pajamas, shoes and footwear; Toys, namely, plush toys, action toys, bathtub toys, construction toys, ride-on toys, sandbox toys, squeeze toys, wind-up toys, musical toys, crib toys, crib mobiles, stuffed toy animals, children's multiple activity toys, adults' and children's party games, dolls and doll accessories therefor, climbing units, children's play cosmetics, card games, role playing games, board games and card games for teaching of alphabet, math, music, and language, and, adult and children's sporting goods, namely, playground balls, beach balls, basketballs, baseballs, baseball bats, baseball mitts, and ball hoops.

Brazil Trademarks (in process):

Mark: Baby Genius
Classes: 09, 16, 25, 28

Goods: Goods: Prerecorded audio cassettes, compact discs, video cassettes, laser discs, and digital video discs, all featuring music, fictional and non fictional stories, activities for play, motivational and self improvement, and covering education topics relating to mathematics, sciences, physical sciences, biological sciences, computer science, humanities, history, geography, social studies, environment studies, sports, poetry, health, physical education, English, English literature, language comprehension, spelling, literacy, and numeracy; Printed material in the nature of calendars, a series of baby and children's books, address books, autograph books, bookmarks, decals, posters, trading cards, trading card albums, greeting cards, sheet music, photo albums, scrapbook albums, sticker albums, pens, pencils, pen and pencil holders, pen and pencil boxes, arts and crafts paint kits, stickers, printed teaching materials for teaching in the fields of youth developmental skills, life skills and problem solving; diapers; Clothing, namely, dresses, jumpers, cardigans, jackets, socks, belts, knit shirts, sport shirts, sweat shirts, t-shirts, pants, sweaters, ties, socks, underwear, shorts, beach visors, beachwear, swimsuits, hats, caps, beanie caps, pullovers, overalls, sporting shirts, jerseys, pajamas, shoes and footwear; Toys, namely, plush toys, action toys, bathtub toys, construction toys, ride-on toys, sandbox toys, squeeze toys, wind-up toys, musical toys, crib toys, crib mobiles, stuffed toy animals, children's multiple activity toys, adults' and children's party games, dolls and doll accessories therefor, climbing units, children's play cosmetics, card games, role playing games, board games and card games for teaching of alphabet, math, music, and language, and, adult and children's sporting goods, namely, playground balls, beach balls, basketballs, baseballs, baseball bats, baseball mitts, and ball hoops.

Chile Trademarks (in process)**:**

Mark: Baby Genius
Classes: 09, 16, 25, 28

Goods: Goods: Prerecorded audio cassettes, compact discs, video cassettes, laser discs, and digital video discs, all featuring music, fictional and non fictional stories, activities for play, motivational and self improvement, and covering education topics relating to mathematics, sciences, physical sciences, biological sciences, computer science, humanities, history, geography, social studies, environment studies, sports, poetry, health, physical education, English, English literature, language comprehension, spelling, literacy, and numeracy; Printed material in the nature of calendars, a series of baby and children's books, address books, autograph books, bookmarks, decals, posters, trading cards, trading card albums, greeting cards, sheet music, photo albums, scrapbook albums, sticker albums, pens, pencils, pen and pencil holders, pen and pencil boxes, arts and crafts paint kits, stickers, printed teaching materials for teaching in the fields of youth developmental skills, life skills and problem solving; diapers; Clothing, namely, dresses, jumpers, cardigans, jackets, socks, belts, knit shirts, sport shirts, sweat shirts, t-shirts, pants, sweaters, ties, socks, underwear, shorts, beach visors, beachwear, swimsuits, hats, caps, beanie caps, pullovers, overalls, sporting shirts, jerseys, pajamas, shoes and footwear; Toys, namely, plush toys, action toys, bathtub toys, construction toys, ride-on toys, sandbox toys, squeeze toys, wind-up toys, musical toys, crib toys, crib mobiles, stuffed toy animals, children's multiple activity toys, adults' and children's party games, dolls and doll accessories therefor, climbing units, children's play cosmetics, card games, role playing games, board games and card games for teaching of alphabet, math, music, and language, and, adult and children's sporting goods, namely, playground balls, beach balls, basketballs, baseballs, baseball bats, baseball mitts, and ball hoops.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

SCHEDULE B

A. Agent:

The Joester Loria Group, LLC
860 Broadway, 3rd Floor
New York, NY 10003

B. Licensed Articles:

Property-identified merchandise for infants, toddlers and preschoolers in the categories set forth herein (each a "Product Category" and collectively the "Product Categories").

Exclusive:

Category 1. Learning and developmental toys made of plastic, wood, or fabric; with and without electronic sound, and/or voice, and/or movement and or DVD or CD samplers

Category 2. Basic non-feature plush toys

Category 3. Feature plush toys with electronic sound and/or voice and/or movement and/or CD or DVD samplers.

Category 4. Musical instruments and musical toys with electronic sound and/or voice and/or movement and/or CD or DVD samplers

Exclusive:

Category 5. Board Games

Category 6. Puzzles

Category 7. Electronic learning aids

Category 8. Amusement plush toys

Licensed Articles shall not include products that utilize third-party hardware or computer systems (e.g. V-smiles Fisher Price Power Touch, Leap Frog's Leap Pad), unless Licensee obtains from the owner of such hardware or systems a license to use such items in connection with the Licensed Articles. Licensed Articles may be packaged with DVD and CD samplers on a non-exclusive basis (i.e., Licensor or its licensees may package DVD and CD samplers with other products that are not exclusively licensed to Licensee hereunder), which may only be distributed as a free or value added component. The content for such DVD and CDs to be provided by Licensor as defined in section O below.

Licensee's use of music compilations included in the Property shall be non-exclusive.

C. Licensed Territory:

Worldwide.

Licensee has the exclusive worldwide license to use the Property in connection with the design, manufacture, advertising, promotion, distribution and sale of the Licensed Articles in Categories 1-4 above. Licensee has the non-exclusive worldwide license to use the Property in connection with the design, manufacture, advertising, promotion, distribution and sale of the Licensed Articles in Categories 5-8 above. Notwithstanding any provision in this Agreement to the contrary, if Licensee wishes to distribute or sell any Licensed Articles in the Pan-American Territories, Licensee acknowledges that Licensor has granted certain distribution rights to Motta Internacional ("Motta") [***]. For purposes of this Agreement, the "Pan-American Territories" means Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela.

[***].

Licensee shall sell to Licensor Licensed Articles for resale on the BabyGenius.com website as set forth in Section O; provided that Licensee's obligation to sell is subject to the availability of the requested items (i.e., Licensee's inventory on hand) and/or any applicable minimum order requirements; and provided further than any such sales to Licensor must not interfere with Licensee's sale of Licensed Articles to Licensee's customers. If any order by Licensor for Licensed Articles cannot be filled due to the terms of the foregoing proviso, Licensee will use commercially reasonable efforts to include such order in Licensee's next manufacturing run.

D. Channels of Distribution:

No restrictions, except that Licensee may not sell to any closeout companies (e.g., Value City, Big Lots, Conway) unless approved in writing by Licensor at Licensor's sole discretion.

Licensee acknowledges and agrees that it shall not manufacture, distribute, sell, advertise, promote, or otherwise offer the Licensed Articles to a retailer(s) on an exclusive basis without the prior written approval of the Licensor.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

E. **Term**: Commences as of the Effective Date and expires on December 31, 2016.

The Term shall be divided into periods of twelve months (each, a "Contract Year") as indicated below:

Contract Year 1: January 1, 2011 – December 31, 2012
Contract Year 2: January 1, 2013 – December 31, 2013
Contract Year 3: January 1, 2014 – December 31, 2014
Contract Year 4: January 1, 2015 – December 31, 2015
Contract Year 5: January 1, 2016 – December 31, 2016

F. **Royalty:** [***]% of Net

The parties acknowledge and agree that:

(1) distribution of Licensed Articles bearing the Property that have not been approved by Licensor pursuant to the Agreement and/or distribution of Licensed Articles bearing the Property outside the Licensed Territory or outside the Channels of Distribution specifically granted hereunder is a material violation of the Agreement and subject to termination under Paragraph 23 hereof; and

(2) such Licensed Articles are still deemed "unauthorized use of the Property" and, therefore, Licensee remains responsible for the indemnification and defense of third party claims, as set forth in the Agreement hereof.

G. **Common Marketing Fund (CMF) Percentage:** [***].

H. **Advance:** US$[***] **Payable In:** United States Dollars

I. **Minimum Guarantee (including Advance):** $[***] payable as follows

Due Dates:	Amounts:	Remarks:
Due upon signing this Agreement	US$[***]	Advance
Due on or before [***]	US$[***]	Guarantee
Due on or before [***]	US$[***]	Guarantee
Due on or before [***]	US$[***]	Guarantee
Due on or before [***]	US$[***]	Guarantee
Due on or before [***]	US$[***]	Guarantee

[***].

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

J. Minimum Net Sales Revenue:

U.S. and Canada: $[***]

$[***]	January 1, 2011 – December 31, 2012
$[***]	January 1, 2013 – December 31, 2013
$[***]	January 1, 2014 – December 31, 2014
$[***]	January 1, 2015 – December 31, 2015
$[***]	January 1, 2016 – December 31, 2016

European Union: $[***]

$[***]	January 1, 2011 – December 31, 2012
$[***]	January 1, 2013 – December 31, 2013
$[***]	January 1, 2014 – December 31, 2014
$[***]	January 1, 2015 – December 31, 2015
$[***]	January 1, 2016 – December 31, 2016

Australia: $[***]

$[***]	January 1, 2011 – December 31, 2012
$[***]	January 1, 2013 – December 31, 2013
$[***]	January 1, 2014 – December 31, 2014
$[***]	January 1, 2015 – December 31, 2015
$[***]	January 1, 2016 – December 31, 2016

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

K. Introduction Date(s)/In-Store Date(s):

Introduction Dates:

[***]: [***]

[***]: [***]

[***]: [***]

In-Store Dates:

[***]: [***]

[***]: [***]

[***]: [***]

L. Approvals/Reporting/Payments shall be sent to:

Agent, at the address below.

M. Notices:

For Licensor and Agent, unless instructed otherwise in writing, all notices are sent to Agent with copy to Licensor.

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Licensor's Address for Notification:

PACIFIC ENTERTAINMENT CORPORATION
5820 Oberlin Drive, Suite 203
San Diego, CA 92121
Attn: Mr. Klaus Moeller
Fax: (858) 450-2907

Agent's Address for Notification:

The Joester Loria Group, LLC
860 Broadway, 3rd Floor
New York, NY 10003
Attn: President
Fax: (212) 689-3300

Licensee's Address for Notification:

Tollytots Limited
10/F Wharf T&T Centre, 7 Canton Road
Tsim Sha Tsui, Kowloon, HK
Attention: President
Tel: +852-2736-0326
Fax: +852-2736-0671

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

With a copy to:

JAKKS PACIFIC, INC.
22619 Pacific Coast Hwy
Malibu, California 90265
Attn: Senior Vice President -- Legal
Fax: (310) 455-6365

N. Sell-Off Period:

One hundred eighty days (180) days from date of expiration or termination of the Term of the Agreement, provided such termination is not for Default, with a final Royalty report and payment within thirty (30) days of the expiration of the Sell-Off Period.

O. Additional Terms:

Advertising Commitment:
[***]

Sales made to Licensor for sale on Licensor's Website:
Licensee's sale of Licensed Articles to Licensor for resale on the BabyGenius.com website shall be made [***]

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

International Distribution:
Licensee shall be obligated to pay all costs associated with the translation and conversion of packaging and with or without sound content.

Value-Added DVD/CD Content:
Should Licensee and Licensor agree in writing to package Licensed Articles with value-added DVD or CD content, all such value-added DVDs and CDs shall be limited to existing Baby Genius content of 20 minutes and under: and the costs shall be allocated as follows:

> Licensee shall pay for all costs associated with manufacturing copies of DVDs/CDs including packaging, and packaging design if any, of the DVDs/CDs. Licensee shall be responsible for the cost of (i) custom content or (ii) content exceeding 20 minutes, provided Licensee receives a prior written estimate from Licensor and has approved such estimate.

Designated Representatives:
Each party hereby appoints the following person ("Designated Representative") to represent such person in all disputes between the parties pursuant to Paragraph 38 of the Agreement:

Licensor: Klaus Moeller, CEO

Licensee: Michael G. Dwyer, Senior Vice President -- Legal

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

SCHEDULE C

MANUFACTURER'S AGREEMENT

LICENSOR:	**PACIFIC ENTERTAINMENT**
LICENSEE:	**JAKKS PACIFIC, INC.**
PROPERTY:	**BABY GENIUS**
UNDERLYING LICENSE AGREEMENT ("Agreement") DATE:	**January 1, 2011**
EXPIRATION DATE FOR THE UNDERLYING LICENSE AGREEMENT (unless sooner terminated or extended):	**December 31, 2016**
LICENSED ARTICLES:	______________________________
NAME AND ADDRESS OF MANUFACTURER:	______________________________
	______________________________
	______________________________
LICENSED TERRITORY:	______________________________

The undersigned manufacturer understands that an Agreement exists permitting the Licensee to manufacture the Licensed Articles utilizing certain copyrighted materials and trademarks owned by Licensor or its Grantor(s). In order to induce Licensor to consent to the manufacture of copies of the Licensed Articles by the undersigned for the Licensee, the undersigned agrees that:

(1) It will not manufacture copies of the Licensed Articles for anyone but the Licensee without the prior written consent of Licensor;

(2) It will manufacture only such quantities of the Licensed Articles as are ordered by Licensee and will sell such products only to Licensee;

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(3) It will not manufacture copies of the Licensed Articles for sale or distribution in any territory other than the Licensed Territory without the written consent of Licensor;

(4) It will not authorize any other party to manufacture copies of the Licensed Articles or any components thereof containing copyrighted material and/or trademarks owned by Licensor or its Grantor(s), for its or Licensee's account, without the express written consent of Licensor;

(5) It will ship the duly approved quantities of the Licensed Articles only to Licensee or its designee(s) and only to the Licensed Territory(ies) authorized by the Licensee for shipment;

(6) It will not (unless Licensor otherwise expressly consents in writing) manufacture any merchandise utilizing any of the copyrighted materials and/or trademarks other than as identified above under "Licensed Articles";

(7) It will permit representatives of Licensor at all reasonable hours upon not less than twenty-four (24) hours notice (by facsimile or otherwise) to inspect the operations and facilities involved in the manufacture of the Licensed Articles and to inspect the books and records relating to the production and shipment of the Licensed Articles;

(8) All goodwill associated with the manufacture and sale of the Licensed Articles will inure to the benefit of Licensor;

(9) It will not offer for sale, sell, give away, distribute, or use for any purpose whatsoever any Licensed Articles which are damaged, defective, seconds, or otherwise fail to meet the specifications and/or quality standards and/or trademark and copyright usage and notice requirements of the underlying Agreement;

(10) It will not use any of the copyrighted material and/or trademarks owned by Licensor or its Grantor(s) in any advertisements or promotional materials without the prior written consent of Licensor;

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(11) Upon the expiration or other termination date of the Agreement indicated above, or whenever Licensee ceases to require the undersigned manufacturer to manufacture copies of the said Licensed Articles, or upon notification by the Licensor, the undersigned manufacturer will immediately cease manufacturing Licensed Articles and will either destroy or deliver to Licensor or Agent, upon written notice by Licensor or Agent, that portion of any molds, plates, engravings or other devices used to reproduce the said copyrighted materials and/or trademarks, and will give evidence of destruction thereof satisfactory to the Licensor; and,

(12) The undersigned manufacturer will look solely to the Licensee for payment for products ordered by Licensee, and Licensor shall not be responsible for such payment.

Licensor shall be entitled to invoke any remedy permitted by law for violation of this Manufacturer's Agreement by the undersigned. Without limiting the foregoing: (i) Licensee or Licensor shall have the right, at the sole discretion of each, to terminate the undersigned's right to manufacture, produce and/or sell copies of the Licensed Articles and to use any copyrighted material and/or trademarks owned by the Licensor or its Grantor(s), on twenty-four (24) hours' written notice to the undersigned, and (ii) in the event that any of the conditions or terms of this Manufacturer's Agreement is breached or violated, the undersigned agrees to pay the Licensor as liquidated damages the manufacturer's full invoice price of any items manufactured or shipped in violation of the terms hereof.

DATED:________________________ **BY:**____

Manufacturer

[***] Information has been omitted and filed separately with the Securities & Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.