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

Amendment No. 1

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)

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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

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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

	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

Our management team continues to evaluate new opportunities and revenue streams for the Company and, in 2010, we launched a line of 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.

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 launch of a line of 24 toys introduced through Walmart 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. 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. 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 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. 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. 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. The operations of COE are currently being funded by the Company. 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 were 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. Motta Internacional sells DVDs, VOD, CDs and toys in nine countries in Central and South America.

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. Our primary competitive advantage is the combination of price point and the quantity of programs included with each title (in other words, customers get more content for a lower price).

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 capitalized product development $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 have made significant progress in our self distribution program and 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 business is substantially dependant on three 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, it 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

	Option awards					Stock awards			
Name	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 ($)	Option expiration date	Number of shares or units of stock that have not vested (#)	Market value of shares of units of stock that have not vested ($)	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.

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. Currently, 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: June 16, 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
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
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.

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HJ ASSOCIATES & CONSULTANTS, L.L.P.
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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	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.

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	**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	Additional Paid in	Noncontrolling	Accumulated	
	Shares	Amount	Payable	Capital	Interest	Deficit	Total
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		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, 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.

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

*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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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

Non-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.

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 Sales

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

[***].

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

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.

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

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 [***]

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

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;

(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;

(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.

JOINT VENTURE AGREEMENT
relating to
CIRCLE OF EDUCATION, LLC

This Joint Venture Agreement (this "Agreement") relating to Circle of Education, LLC, a California limited liability company, is entered into by and between Pacific Entertainment Corporation, a California corporation ("PEC"), and Dr. Shulamit Ritblatt, an individual residing in San Diego County, California ("Ritblatt"), as of this 20th day of September 2010. PEC and Ritblatt are sometimes referred to herein individually as a "Partner" and collectively as the "Partners".

RECITALS

Whereas, PEC produces and distributes entertaining and educational music-based products designed to benefit the well-being of infants and young children; and

Whereas, Ritblatt is a Doctor of Philosophy in Child Development and Family Relations and is an experienced child psychologist who has conducted extensive research into child development and developed early learning curriculum; and

Whereas, PEC and Ritblatt have together developed the Curriculum and desire to enter into a joint venture (the "Joint Venture") which shall operate through a company organized under the laws of the State of California to be known as "Circle of Education, LLC" (the "Company") on the terms and conditions set out below; and

Whereas, The Partners desire to set out the rights, duties and obligations of the Partners in connection with the formation, ownership and operation of the Company;

Now, Therefore, in consideration of the mutual promises and covenants contained herein, the Partners hereto, intending to be legal bound hereby, agree as follows:

ARTICLE 1:
DEFINITIONS

Terms defined in the preamble, in the recitals and in the text hereof shall have their respective meanings when used herein, and the following terms used in this Agreement, whether singular or plural, shall (unless otherwise expressly provided herein or unless the context otherwise requires) have the following respective meanings:

1.1 "Acceptance" is defined in Section 5.1.

1.2 "Acceptance Period" is defined in Section 11.2(a).

1.3 "Affiliate" means any corporation, company, partnership, joint venture, firm and/or entity which Controls, is controlled by, or is under common Control with a Partner, except that such term shall not include the Company.

1.4 "Agreed Proportions" initially means

(a) initially, 75% in respect of PEC and 25% in respect of Ritblatt;

(b) following the issuance of Units to a Third Party, but prior to the two-year anniversary of the Effective Date, the percentages which the nominal value of the Units beneficially owned by each Partner respectively bears to the combined nominal value of the fully issued and paid-up Units of the Company; provided, that, any remaining portion of the Reserved Units shall be treated as though owned by PEC; and

(c) following the issuance of all remaining Reserved Units to PEC pursuant to Section 3.1(e), the percentages which the nominal value of the Units beneficially owned by each Partner respectively bears to the combined nominal value of the fully issued and paid-up Units of the Company.

1.5 "Agreement" means this Agreement, as originally executed and as amended from time to time in accordance with the terms hereof.

1.6 "Articles of Organization" means the Articles of Organization of the Company filed with the California Secretary of State, as amended from time to time.

1.7 "Bankruptcy" means the entry of an order for relief with respect to a Partner in proceedings under any bankruptcy, insolvency or similar law of the jurisdiction of organization of such Partner.

1.8 "Board" means the Board of Managers of the Company, which shall comprise of directors.

1.9 "Business" shall mean the business of the Company as it directly and indirectly relates to the Curriculum and which is defined further in Section 2.1(a).

1.10 "Business Combination" is defined in Section 7.4(a)(i).

1.11 "Buy-Out Event" means:

(a) The filing of an application by a Partner for, or its consent to, the appointment of a trustee, receiver, custodian or similar person under the applicable laws of the jurisdiction of organization of such Partner, for the assets of a Partner;

(b) The entry of a final order, judgment or decree by any court of competent jurisdiction appointing a trustee, receiver, custodian or similar person under the applicable laws of the jurisdiction of organization of such Partner, for the assets of a Partner;

(c) A Partner's Partner Interest in the Company becoming subject to the enforcement of any rights of a creditor of a Partner, whether arising out of an attempted charge upon that Partner's Partner Interest by judicial process or otherwise, if that Partner fails to effectuate the release of those enforcement rights, whether by legal process, bonding, or otherwise, within one hundred eighty (180) days; or

(d) The Bankruptcy of a Partner.

1.12 "Buy-Out Event Date" means the date of an occurrence of a Buy-Out Event.

1.13 "Change of Control" means the sale of all or substantially all of the assets of the Company, the merger of the Company with or into another corporation, partnership or limited liability company in which the Company is not the surviving entity, the acquisition by a Third Party of in excess of 50% of all of the outstanding Units of the Company, or the liquidation of the Company.

1.14 "Charter Documents" means the Articles of Organization of the Company and Operating Agreement of the Company.

1.15 "Company" means "Circle of Education, LLC," a California limited liability company formed pursuant to this Agreement and any successor thereto.

1.16 "Confidential Information" means any information that the disclosing party designates as being confidential, whether written or oral, or under the surrounding circumstances the disclosure ought to be treated as confidential, or any intellectual property of non-public, technical or business information written, orally disclosed or delivered by one Partner or any of its Affiliates (the "Disclosing Party") to another Partner or any of its Affiliates (the "Receiving Party"). Notwithstanding anything to the contrary in this Agreement, Confidential Information shall not include:

(i) any information or material that is publicly known or available, or becomes publicly known or available, without any act or omission of the Receiving Party;

(ii) any information or material which prior to disclosure was rightfully in the possession of the Receiving Party without restriction on use or disclosure;

(iii) any information or material that is rightfully received by the Receiving Party from a non-party without an obligation of confidence; or

(iv) any information or material that is independently developed by the Receiving Party without use or reference to any Confidential Information of the Disclosing Party.

1.17 "Contributed Assets" is defined in Section 3.1(d).

1.18 "Control," "Controlled" or "Controlling" means the control of a person exercised through the direct or indirect ownership of greater than fifty percent (50%) of the stock, shares or other voting interest of such person.

1.19 "Conversion Date" is defined in Section 11.12(b).

1.20 "Conversion Price" is defined in Section 11.12(a).

1.21 "Curriculum" shall mean the music-based instruction, including songs, books, materials and activities, developed for teachers, parents and caregivers for the purpose of promoting school readiness for children aged 0-5.

1.22 "Director" means a member of the Board of Managers of the Company including, where applicable, an alternate Director.

1.23 "Disposition," "Dispose" or "Disposing" refers to and means the sale, assignment, transfer, exchange, pledge or encumbrance or other disposition of all or any part of such Partner's Partner Interest in the Company or of some other specified property, in any manner, whether, voluntarily or involuntarily, or by operation of law or otherwise; provided, however, that a merger or other business combination of PEC shall not be deemed a Disposition for purposes of this Agreement.

1.24 "Dispute" is defined in Section 8.1.

1.25 "Drag-Along Partner" is defined in Section 11.9(a).

1.26 "Drag-Along Right" is defined in Section 11.9(a).

1.27 "Dragged Units" is defined in Section 11.9(b).

1.28 "Effective Date" means the filing date of the Company's Articles of Organization with the California Secretary of State.

1.29 "Fiscal Year" means the annual accounting period of the Company, which is the twelve months ended December 31, except that for 2010, it is the period from the date of the Company's formation and ending on December 31, 2010.

1.30 "Indemnitees" is defined in Section 9.1.

1.31 "Independent Appraiser" is defined in Section 14.2.

1.32 "Intellectual Property Rights" of Company shall mean all patents, copyrights, trademarks, trade secrets, confidential information, designs, ideas, discoveries, inventions, processes, research results, work product, whether or not technical in nature and whether or not patentable or registrable under copyright or similar laws, and/or any other intellectual property rights recognized by law of each applicable jurisdiction that relate solely and exclusively to the Business, as set forth in Section 1.9. However, the Intellectual Property Rights of Company shall not include the intellectual property rights of Ritblatt or PEC that fall outside the definition of the Business. Additionally, the Intellectual Property Rights of Company shall include the intellectual property rights of PEC related to the Curriculum (including but not limited to Curriculum based music and any Curriculum based activities) that may have been developed, contributed or funded by PEC prior to or subsequent to PEC's capital contribution to the Company, which are intended to be used in the Business or incorporated into the Curriculum. However, the Intellectual Property Rights of the Company shall not include intellectual property rights of PEC in songs and characters developed prior to and subsequent to PEC's capital contribution, which are currently used or intended to be used in PEC's business but which are also used or intended to be used by the Company for the Curriculum. For clarity, should Company itself develop songs or characters for use in the Business or incorporation into the Curriculum, such songs or characters shall be the Intellectual Property of Company. As to all intellectual property rights of PEC developed prior to PEC's capital contribution or hereafter developed, which are intended to be used in the Business or incorporated into the Curriculum, PEC hereby grants a royalty free license to the Company until there is a Change of Control of the Company; provided, however, that (i) if aggregate ownership percentage of the Partners drops below 50% of all outstanding Units at any time, PEC shall be entitled to receive royalties for such intellectual property at a discounted rate, which discount shall be a reasonable discount based on industry standards, and (ii) if aggregate ownership percentage of the Partners drops below 30% of all outstanding Units at any time, PEC shall be entitled to receive royalties based on the fair market value of such rights in the industry.

1.33 "Joint Venture" means the joint venture entered into pursuant to this Agreement.

1.34 "Losses" shall mean any claims, losses, liabilities, damages, penalties, costs and expenses, including reasonable legal fees and expenses, incident to any of the foregoing or incurred in investigating or attempting to avoid the same or to oppose the imposition thereof, or in enforcing any indemnity.

1.35 "Members" means all of the members of the Company, including but not limited to the Partners and any additional members admitted pursuant to the terms and conditions of the Operating Agreement, hereby incorporated by reference.

1.36 "Moral Rights" shall mean any right of paternity or integrity, any right to claim authorship, to object to or prevent any distortion, mutilation or modification of, or other derogatory action in relation to the subject work whether or not such would be prejudicial to the author's honor or reputation, to withdraw from circulation or control the publication or distribution of the subject work, and any similar right, existing under judicial or statutory law of any country in the world, or under any treaty, regardless of whether or not such right is denominated or generally referred to as a "moral" right.

1.37 "Notice of Proposed Sale" is defined in Section 11.2.

1.38 "Offered Units" is defined in Section 5.1.

1.39 "Operating Agreement" means the operating agreement of the Company, as amended from time to time, which shall be executed by each Member of the Company.

1.40 "Partner" means each of PEC and Ritblatt and each other Person that from time to time becomes a Partner pursuant to the terms of this Agreement.

1.41 "Partner Interest" means, with respect to each Partner, the Units that are owned by such Partner and all rights appurtenant thereto as a Member of the Company under the Company's Charter Documents and as provided under the applicable provisions of the laws of the State of California.

1.42 "PEC" means Pacific Entertainment Corporation, a California corporation.

1.43 "PEC Director" is defined in Section 4.2(a).

1.44 "PEC Stock" is defined in Section 11.12(a).

1.45 "Person" shall mean any individual, sole proprietorship, corporation, partnership, company with limited liability, unincorporated society or association, trust, or other legal entity.

1.46 "Preemption Notice" is defined in Section 5.1.

1.47 "Quorum" is defined in Section 7.2(e).

1.48 "Representatives" is defined in Section 10.1.

1.49 "Reserved Units" is defined in Section 3.1(e).

1.50 "Ritblatt" means Dr. Shulamit Ritblatt, an individual residing in San Diego County, California or any designated entity which is under Dr. Shulamit Ritblatt's ownership of fifty percent (50%) or more which is under her direct management or supervision.

1.51 "Ritblatt Director" is defined in Section 4.2(b).

1.52 "Seller" is defined in Section 11.10(a).

1.53 "Selling Partner" is defined in Section 11.2.

1.54 "Subsidiary" or "Subsidiaries" means with respect to any Person (other than a natural individual), any other Person Controlled by such Person.

1.55 "Tag-Along Right" is defined in Section 11.10(a).

1.56 "Tag-Along Notice" is defined in Section 11.10(b).

1.57 "Tax" and "Taxes" shall mean any and all national, local and foreign taxes, assessment and other governmental charges, duties, impositions and liabilities including taxes based upon or measured by gross receipts, income, profits, sales, use or occupation, and value added, ad valorem, transfer, franchise, withholding, payroll, recapture, employment, excise and property taxes, together with all interest, penalties and additions imposed with respect to such amounts.

1.58 "Third Party" means a Person other than one of the Partners or an Affiliate of one of the Partners.

1.59 "Under-allotted Portion" is defined in Section 5.3.

1.60 "Units" means ordinary units, no par value, of the Company with the rights, preferences and designations set out in the Company's Charter Documents.

1.61 "Valuation Date" is defined in Section 14.3.

ARTICLE 2:
OBJECT OF THE COMPANY; NAME

2.1 Business. The Partners are entering into the Joint Venture and forming the Company under the laws of the State of California for the purpose and scope as follows:

(a) Purpose. The Business Purpose of the Company shall be to, directly or indirectly, through any means of dissemination as determined to be desirable by the Board or Management, provide the Curriculum for teachers, parents and caregivers for the purpose of promoting school readiness for children aged 0-5 using music-based instruction.

(b) Other Activities. Subject to Section 7.4(a)(ii), the Partners may expand the scope of the Business as provided herein and will determine appropriate business models covering any expanded businesses.

2.2 Name. The name of the Company shall be "Circle of Education, LLC" and all business of the Company shall be conducted under such name, but in any case only to the extent permitted by applicable law.

2.3 Principal Place of Business. The registered office of the Company shall be in San Diego, California and the principal place of business of the Company at which the records required to be maintained by the laws of California are to be kept shall be in such place or places as the Board shall specify. Initially, the Company's business offices shall be located in the current business offices of PEC located at 5820 Oberlin Drive, Suite 203, San Diego, California 92021, and, subject to Section 7.7, PEC and the Company shall use reasonable efforts to negotiate and enter into a cost-reimbursement agreement for certain out-of-pocket expenses of the Company covered by PEC on the Company's behalf, which shall not include office space, use of office equipment, personnel and supplies.

ARTICLE 3:
COMPLETION

3.1 Formation of the Company. As soon as practicable following the full execution of this Agreement and in accordance with all applicable law:

(a) Organization. The Partners shall cause the Company to be established under the laws of California, or such other jurisdiction of organization as may be mutually agreed by the Partners, with a limitation of 50,000,000 authorized Units.

(b) Subscription of Shares. Upon or prior to the filing of the execution by the Partners of the Operating Agreement, or on a subsequent date to be mutually agreed by the Partners, the Partners shall subscribe for their respective Units as set out below and contribute to the Company all of their right, title and interest in and to the properties described below:

Partner	No. of Units	Contribution
PEC	10,000,000	All right, title and interest in and to the Intellectual Property held by it or hereafter obtained by it, including all necessary and advisable documentation necessary to the transfer thereof to the Company pursuant to Section 3.1(c) below.
Ritblatt	5,000,000	All right, title and interest retained in the Curriculum and Intellectual Property held by it or hereafter obtained by her, including all necessary and advisable documentation necessary to the transfer thereof to the Company pursuant to Section 3.1(c) below, with the exception that both Partners acknowledge and agree that the Curriculum was developed through extensive know-how developed by Ritblatt over the course of years and which, subject to Section 6.11 hereof, is and may continue to be utilized by her in other educational and business activities and that Ritblatt should retain the rights to publish her research, including research utilized in the development of the Curriculum and Intellectual Property. In addition, the Partners acknowledge the contribution of Ritblatt's sweat equity in the development of the Curriculum and Intellectual Property to the Company. PEC is aware that Ritblatt holds a UCPC copyright memorandum from San Diego State University (SDSU" executed by the Vice President of Research of SDSU dated February 12, 2010 stating that SDSU UCPC is not recommending that work done by Dr Ritblatt should be assigned to the university. PEC is aware that at the last meeting between Larry Balaban and the President of SDSU on September 14, 2010, the President of SDSU questioned the validity of the assignment.

(c) Additional In-Kind Contributions. Each of the Partners shall contribute to the Company all currently owned or hereafter acquired commercial ideas and development, applications, databases, prospective web addresses, licenses and permits, logos, scripts, agreements and all other intangible or tangible assets created for the Business or in conjunction with the Intellectual Property for use by the Company or in the development, marketing or distribution of the Business and Curriculum. PEC shall use its best-efforts to negotiate a royalty-free license agreement with San Diego State University on behalf of the Company for the license of the university's logo for use by the Company and for the ongoing support and endorsement of the Company and Curriculum by the university.

(d) No Encumbrances; Transfer Taxes. Each of the Partners shall contribute the property described in subsections (b) and (c) above to the Company, free and clear of all liens, security interests, mortgages or other encumbrances (collectively, the "Contributed Assets"). Each Partner shall pay all sales, use, transfer, recording, gains, stock transfer and other similar taxes and fees ("Transfer Taxes") incurred in connection with their respective in-kind capital contributions to the Company and shall be responsible for filing all necessary documentation and tax returns with respect to such Transfer Taxes.

(e) Reserved Units. The Company shall set aside 5,000,000 Units which may be sold to raise additional funding for the Company pursuant to Section 11.8(a) hereof (the "Reserved Units"). If no portion of the Reserved Units has been sold to any Third Party upon the earlier of the second anniversary of the Effective Date or the effective date of a Change of Control of the Company, all remaining Reserved Units on such date shall be issued to PEC without further consideration.

3.2 Payment for Units. The Units shall be subscribed for the property set forth in Sections 3.1(b) and (c) and shall be issued only upon the full execution of all transfer documents and the completion of all filings necessary for the complete transfer of the Contributed Assets to the Company.

3.3 Duration. The Term of this Agreement shall commence on the Effective Date and shall continue in effect until terminated by a resolution of Partners or of a court with jurisdiction over the Company's affairs causing the Company to be wound-up or upon the effective date of a Change of Control following which one (1) of the Partners no longer directly or indirectly holds any ownership interest in the Company.

ARTICLE 4:
APPOINTMENT OF DIRECTORS

4.1 Number. The maximum number of Directors holding office at any time shall be five (5) unless otherwise approved by amendment of the Operating Agreement.

4.2 Appointment. The Directors of the Company shall be appointed as follows:

(a) PEC shall be entitled to appoint three (3) Directors to be designated as the PEC Directors ("PEC Directors");

(b) Ritblatt shall be entitled to appoint one (1) Director to be designated as the Ritblatt Director ("Ritblatt Director"); and

(c) If and when additional Units of the Company representing a minimum of 20% of all outstanding Units upon issue are sold to Third Party investors, PEC and Ritblatt shall mutually appoint one (1) director to represent the external investors on the Board of Managers which director shall possess such character, experience and know-how as will be beneficial to the Company.

In the event that the Board shall delegate any of its responsibilities to a committee of the Board, the proportion of PEC Directors to Ritblatt Directors shall be no less than two to one (2-1).

(d) The Partners shall be mindful of the duties and obligations of the members of the Board of Managers and exercise good judgment in the appointment or removal of Directors to serve on the Board, including but not limited to removal of an appointed Director for commission of a crime or other malfeasance.

(e) In the event that any Partner's Units pass to his or her heirs upon death or mental incapacity of the Partner, the heirs shall be required to execute this Agreement and shall acquire all of the rights and be subject to all of the obligations of the original Partner, including the right to appoint Directors to the Board of Managers pursuant to this Section 4.2.

4.3 Appointment of Chief Executive Officer. Upon execution of the Operating Agreement, Larry Balaban shall be immediately appointed to serve as the Company's Chief Executive Officer (the "Chief Executive Officer"). The Chief Executive Officer and all other officers named or appointed by the Board or the Chief Executive Officer shall serve at the pleasure of the Board of Managers or per a written employment agreement until such date as they shall either resign or removed by the Board.

ARTICLE 5:
ADDITIONAL FUNDING

5.1 Additional Issuances of Securities. If the Company shall propose to issue to any Third Party or Parties any additional Units (the "Offered Units") in the Company, the Company shall, before consummating such proposed issuance, (i) deliver a notice to each Partner four weeks prior to the date of such proposed issuance (the "Preemption Notice"), and (ii) provide each Partner the right of first refusal to purchase any or all of such Partner's Agreed Proportion of the Offered Units at the price per Offered Unit, and otherwise on the same terms and conditions, as the Company proposes to issue such Offered Units to the Third Party offeror(s), except as otherwise provided herein. Such right of first refusal shall be exercisable by each Partner if it gives notice ("Acceptance") stating that the Partner is exercising such right and stating the number of Offered Units, or the percentage of, the Partner's Agreed Proportion with respect to which it is exercising such right, within thirty (30) days (the "Preemption Acceptance Period"); provided that each Partner agrees to cooperate and use its, his or her reasonable efforts to inform the Company that it will waive such right as promptly as practicable after delivery by the Company of the Preemption Notice. If any Partner gives Acceptance to the Preemption Notice, such Partner shall be irrevocably obligated to purchase, and, except as provided in Section 5.2 and applicable federal and state securities laws, the Company shall be irrevocably obligated to issue and sell to the Partner, its Agreed Proportion of the Offered Units at the stated purchase price, and on the other terms, set forth in the Preemption Notice except as otherwise provided herein.

5.2 Election Not to Sell. The Company may, at any time prior to the consummation of a sale of the Offered Units, determine not to sell any Offered Units to the Third Party offeror(s), or to reduce the number of Offered Units to be sold to such offeror(s), in which event, and provided there is no further change during to the number of Offered Units, each Partner shall have the right to purchase only its Agreed Proportions, if any, of such Offered Units.

5.3 Under-allotment. If the number of Offered Units in respect of which Acceptances have been received is less than the combined Agreed Proportion of all Partners, the Partner who has accepted its entire Agreed Proportion of Offered Units may subscribe to purchase any portion of or all of the remaining Agreed Proportion of the Partner who did not accept its entire Agreed Proportion of Offered Units (the "Under-allotted Portion") at the same price and on the same terms as prescribed by Section 5.1. Promptly upon termination of the Preemption Acceptance Period, the Company shall provide written notice of the Under-allotted Portion to the Partners. The remaining Partner shall then have ten (10) business days to submit a further Acceptance as to the Under-allotted Portion of Offered Units.

5.4 Definitive Documentation and Closing. If any Partner gives Acceptance in response to any Preemption notice, the Company and the purchasing Partner shall as promptly as practicable enter into definitive agreements for the purchase and sale of the Offered Units to be purchased by such Partner, and shall hold a closing of such purchase and sale as promptly as practicable thereafter. Payment for all Offered Units shall be made in cash or cash equivalent form, including wire transfer at the closing. No Offered Units will be issued to any Partner until full payment therefore has been received by the Company and has settled in the Company's account.

5.5 Sale of Remaining Offered Units. The Company shall be entitled to sell to the proposed Third Party offeror(s) any Offered Units not purchased by the Partners pursuant to this Article V at the same purchase price and payment terms described in the Preemption Notice and upon such other terms not more favorable to such offeror(s) than as described in the Preemption Notice; provided that definitive agreements for such purchase and sale are entered into within six (6) months after the expiration of the Preemption Acceptance Period or the earlier waiver by each Partner of its rights under this Article V. Thereafter, the provisions of this Article V shall again apply to any proposed issuance of any of the Offered Units.

ARTICLE 6:
COVENANTS, REPRESENTATIONS AND WARRANTIES

6.1 Compliance with Applicable Law. Each Partner shall comply with all applicable laws, regulations, rules and orders of governmental authorities the non-compliance with which could have a material adverse effect on the business affairs or financial condition of the Company.

6.2 No Restrictive Covenants. No Partner shall enter into or become subject to any contract, agreement, restriction or covenant which would apply to the Company so as to impair or inhibit the Company's ability to conduct its business as contemplated herein or otherwise frustrate the Business of the Joint Venture.

6.3 Organization. Each Partner represents and warrants that, on and as of the date of this Agreement, it is (if not an individual) duly organized and existing under the laws of its jurisdiction of organization, that it has the corporate (or other) power and authority to own, lease and operate its properties and to carry on its business as now being conducted and as proposed to be conducted and to perform its obligations under any contracts by which it is bound, including, without limitation, this Agreement. Each Partner has all requisite corporate (or other) power and authority to enter into this Agreement and to consummate the transactions contemplated hereby and thereby.

6.4 No Conflict. Except as set forth on Schedule 6.4, subject only to the approval of the principal terms of this Agreement by each corporate Partner's Board of Managers or other governing body, the execution and delivery of this Agreement by each Partner does not, and as of the Effective Date, the consummation of the transactions contemplated hereby will not conflict with, or result in any violation of, or default by such Partner under (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation or acceleration of any obligation or loss of any benefit under (a) any provision of such Partner's Articles of Incorporation or Bylaws or other constituent documents, (b) any material contract assigned by or assumed by the Company from such Partner, (c) any instrument, permit, concession, franchise, license, judgment, order or decree applicable to the Company or its properties, assets or subsidiaries, or (d) any agreement or governing documents relating to an existing joint venture or other interests to be contributed by a Partner to the Company.

6.5 Governmental Consents. Each Partner represents and warrants that it will use all commercially reasonable efforts to obtain any and all approvals or consents of, and to make all notices and filings with, all governmental authorities necessary for the Partners to enter into this Agreement and for the Company to conduct its Business as contemplated hereby. If, notwithstanding all commercially reasonable efforts of the Partners hereto, any of such necessary governmental licenses, approvals or consents are not granted, with the result that the purposes of this Agreement are substantially frustrated, the Partners shall enter into good faith negotiations with the objective of restructuring the relationship between them such that the effects of such nonoccurrence shall be minimized.

6.6 Other Approvals. Each Partner represents and warrants that it will use all commercially reasonable efforts to obtain all other consents and/or approvals of any Third Parties necessary for such Partner to enter into this Agreement and for the Company to conduct its Business as contemplated hereby; provided, that if, notwithstanding all commercially reasonable efforts of the Partners hereto, any of such consents and/or approvals are not granted, with the result that the purposes of this Agreement are substantially frustrated, the Partners shall enter into good faith negotiations with the objective of restructuring the relationship between them such that the effects of such nonoccurrence shall be minimized.

6.7 Litigation. There is no action, suit or proceeding of any nature pending or, to each Partner's knowledge, threatened against such Partner, its properties or any of its officers, directors or employees that would prohibit, alter or delay the consummation of the transactions contemplated by this Agreement or which would prohibit or restrict the Business of the Company as it is currently contemplated to be conducted, nor, to the knowledge of each Partner, is there any reasonable basis therefor. To each Partner's knowledge, there is no investigation pending or threatened against such Partner, its properties or any of its officers, directors or employees by or before any governmental authority. No governmental authority has at any time challenged or questioned the legal right of each Partner to conduct its operations as presently or previously conducted.

6.8 Businesses of Partners. Subject to Section 6.9 hereinbelow, any Partner and its respective Affiliates may engage in and/or possess an interest in other business ventures of any nature and description, independently or with others; and neither the Company nor the other Partners hereto shall have any right by virtue of this Agreement in or to any such independent venture or to any income or profits derived therefrom and no Partner or any Affiliate of any Partner shall be obligated to present any particular investment opportunity to the Company even if such opportunity is of a character that, if presented to the Company, could be taken by the Company, and each of them shall have the right to take for its own account (individually or as a trustee) or to recommend to others any such particular investment opportunity.

6.9 Exclusivity. Subject to the terms and conditions set forth below in this Section 6.9, the Company will be the exclusive vehicle for the Partners to pursue the Business. Each of the Partners hereby covenants to and with the other Partners that during the term of this Agreement and for a one (1) year thereafter neither they nor any of their respective Affiliates which they control will do any one or more of the following:

(a) enter into any negotiations, discussions, deliberations, agreements or arrangements of any nature whatsoever with any Third Party to either directly or indirectly carry on or be engaged or interested in a business or be directly or indirectly engaged, concerned or interested whether on its own account or as a member, shareholder, consultant, agent, beneficiary, trustee or otherwise in any enterprise, corporation, firm, trust, joint venture or syndicate which is engaged, concerned or interested in or carrying on any business which directly competes with the Business of the Company;

(b) on its own account or for any person, enterprise, firm, trust, joint venture or syndicate directly or indirectly entice (or attempt to entice) away from the Company any Business of any customer of the Company;

(c) on its own account or for any person, enterprise, firm, trust, joint venture or syndicate directly or indirectly entice (or attempt to entice) away from the Company any supplier to the Company to the extent related to any Business;

(d) on its own account or for any person, enterprise, firm, trust, joint venture or syndicate directly or indirectly entice (or attempt to entice) away from the Company any employee, officer, agent consultant, advisor, or any individual who is employed by the Company in any capacity whatsoever. As used herein, "entice" means contact or communicate in any manner whatsoever, including, but not limited to, contacts or communications by or through intermediaries, agents, contractors, representatives, or other Partners; provided, however, that nothing herein shall be construed to prohibit the Partners from (a) placing advertisements for employment which are aimed at the public at large in any newspaper, trade magazine, or other periodical in general circulation or advertising for employment through any other mass medium such as radio, television or the Internet, (b) responding to any unsolicited inquiry by an employee concerning employment or (c) employing an employee of the Company after first having obtained the approval of the Board which approval; or

(e) personally or by its employees or agents or by circulars, letters or advertisements whether on its own account or for any other Person, enterprise, firm, trust, joint venture or syndicate directly or indirectly interfere with the Business of the Company or divulge to any Person any information concerning the Business of the Company or the Company or any of its respective dealings, transactions or affairs except to the extent it is required to do so:

(i) to comply with applicable laws, to defend or prosecute litigation or to comply with government regulations; or

(ii) as part of normal report or review procedure to its parent company, auditors or attorneys.

Each Partner acknowledges that each of the prohibitions and restrictions contained in Sections 6.9(a) through (e) are reasonable as to period, territorial limitations and subject matter in order to protect the Business and material breach of any of the prohibitions and restrictions contained herein may not be adequately compensated by an award of damages and therefore any breach by a Partner of any of those prohibitions and restrictions will entitle any other Partner, in addition to any other remedies available at law or in equity, to seek an injunction to restrain the committing of any breach (or continuing breach) of any of those prohibitions or restrictions, subject to the non-breaching Party providing written notice of the breach and subject to a sixty (60) day cure period.

6.10 No Encumbrances on Partner Interest. Except as otherwise set forth on Schedule 6.10 hereto and further subject to the provisions of this Agreement, no Partner shall pledge, mortgage, charge or otherwise encumber its Partner Interest, including the Units held by such Partner without the prior written consent of the other Partner.

6.11 Non-Compete. Each Partner hereby represents and warrants that, it and its Affiliates will not compete with the Company as it relates to the Business.

6.12 Tax Election. Each Partner hereby covenants and agrees that with respect to the Company and each Subsidiary of the Company, they shall mutually determine whether the Company or such Subsidiary shall make a "check the box" election for tax reporting purposes or other relevant tax matters so as to maximize the benefits to be received by all Partners and each Partner shall execute and file all required documents related to such mutual determinations. The Company shall initially elect to be taxed as a partnership for income tax purposes.

ARTICLE 7:
CONDUCT OF THE COMPANY'S AFFAIRS

7.1 Partners. Initially, PEC shall have a voting interest in the Company equal to 75% and Ritblatt shall have a voting interest in the Company equal to 25%, and any dividends, distributions, or allocations of profits or losses shall be made based upon such percentages. However, following the sale of Units to a Third Party, all voting rights and allocations of dividends, distributions or profits or losses shall be shall be based upon each Member's percentage ownership of all outstanding Units of the Company and each Unit shall be entitled to one (1) vote with respect to all items upon which Members are entitled to vote. The Partners shall exercise all voting rights and other powers available to them in relation to the Company so as to ensure (insofar as they are reasonably able to do so by the exercise of those rights and powers) that:

(a) the business of the Company consists exclusively of the Business;

(b) the Company complies with the provisions of its Charter Documents;

(c) the Board determines the general policy of the Company (subject to the provisions of this Agreement) including the scope of the Company's activities and operations, the Board reserving to itself and to Partners matters involving major or unusual decisions as described in Section 7.4 below, subject to the applicable law of the Company's jurisdiction of organization.

7.2 Board of Managers. The business, property and affairs of the Company shall be managed by the Board in accordance with the provisions of this Agreement, the Charter Documents, and all applicable law. The Board shall use all reasonable efforts to maximize the Company's profitability.

(a) Voting. Each Director shall cast one (1) vote on each resolution to be voted upon.

(b) Dismissal and Suspension. A Director shall only be suspended or dismissed upon the written request of the Partner who had the authority to nominate such Director for election. The Director appointed to represent Third Party investors may only be suspended by the unanimous agreement of the Partners.

(c) Vacancies. A vacancy shall only occur in the event of a resignation or a dismissal of a Director, and any vacancy shall be filled only by the Partner who was entitled to appoint such resigning or dismissed Director. A vacancy created by the resignation or dismissal of the Director appointed to represent Third Party investors may only be filled by the unanimous agreement of the Partners.

(d) Meetings of the Board of Managers. The Partners agree that:

(i) at least four (4) meetings of the Board will take place each Fiscal Year with a minimum of one (1) per fiscal quarter;

(ii) additional meetings of the Board will be convened at the written request of any Director or upon thirty (30) days' prior written notice from one of the Partners;

(iii) meetings of the Board will be held at the principal office of the Company or such other places within the State of California, County of San Diego, as the Chairman of the Board, after consultation with the rest of the Board, decides and specifies in the Notice of such meeting; and

(iv) meetings of the Board may be conducted by telephonic conference or any similar means of communication which enables all participants to hear and be heard.

(e) Board Action. Except as otherwise set forth in this Agreement, an action or decision of the Board or any committee thereof shall require the consent or vote of a simple majority of all of the Directors. A majority of the total number of Directors (or the Directors who are members of a committee) (which majority shall, subject to Section 7.2(f), include at least two PEC Director and one Ritblatt Director) shall be necessary to constitute a quorum ("Quorum") for the transaction of business at any meeting of the Board, and except as otherwise provided in this Agreement or by the applicable laws of the State of California, the action of a simple majority of Directors (or the Directors who are members of a committee) present at any meeting at which there is a Quorum, when duly assembled, is valid. A meeting at which a Quorum is initially present may continue to transact business, notwithstanding the withdrawal of Directors, if any action taken is approved by a majority of the required Quorum for such meeting. No Partner, acting in its capacity as a Partner, shall have the authority to act for and bind the Company unless such matter has been approved by the Board as set forth herein.

(f) Notice of Meetings. Notices of meetings of the Board (or any committee thereof), including the time and place of any proposed meeting and a proposed agenda for such meeting, shall be delivered personally to each of the Directors (or the Directors who are members of a committee) or personally communicated to them by an officer of the Company by telephone and confirmed in writing by facsimile, or communicated by overnight courier service (receipt requested) at least fifteen (15) days in advance of such proposed meeting, unless waived by each of the Directors (or the Directors who are members of a committee). Notice shall be transmitted to the last known facsimile number or address of the Director as shown on the records of the Company. Such notice as above provided shall be considered due, legal and personal notice to such Director. If at any meeting of the Board (or any committee thereof) that has been duly called or noticed, a quorum (as described in Section 7.2(e)) is not present, such meeting shall be adjourned and reconvened in two (2) business days, unless such adjournment has been waived by all of the Directors (whether or not present at the meeting). Notice of the revised meeting date shall be given to each Director pursuant to the foregoing provisions excluding the number of days of advance notice. Notwithstanding the provisions of the second sentence of Section 7.2(e) above, in the event that at least one Director appointed by each Partner is not present at such reconvened meeting, such meeting shall be deemed to have a quorum if a majority of the total number of Directors is present. Meetings of the Board (or any committee thereof) shall be delayed only once for lack of participation of the Directors appointed by any Partner. With respect to a meeting which has not been duly called or noticed pursuant to the foregoing provisions, all transactions carried out at the meeting are as valid as if they had been carried out at a meeting regularly called and noticed if: (i) all Directors are present at the meeting, and sign a written consent to the holding of such meeting, (ii) a majority of the Directors are present and if those not present sign a waiver of notice of such meeting or a consent to holding the meeting or an approval of the minutes thereof, whether prior to or after the holding of such meeting, which waiver, consent or approval shall be filed with the other records of the Company, or (iii) all Directors attend a meeting without notice and do not protest prior to the meeting or at its commencement that notice was not given to them.

(g) Action by Unanimous Written Consent. Any action required or permitted to be taken by the Directors may be taken without a meeting and will have the same force and effect as if taken by a vote of Directors at a meeting properly called and noticed, if authorized by a writing signed individually or collectively by all, but not less than all, the Directors. Such consent shall be filed with the records of the Company.

(h) Compensation and Reimbursement of Directors and Officers. The Directors shall not receive compensation for their services to the Company as Directors, but shall be reimbursed by the Company for any out-of-pocket expenses reasonably incurred in connection with their services as Directors. Officers of the Company may only receive such compensation as is standard in the industry for applicable services both in terms of time devoted and character of services.

(i) Any Director may participate in any meeting of the Board (or any committee thereof) telephonically or by any other electronic audio or video means.

7.3 Appointment of Staff. The Company shall employ such staff as the Board considers necessary for the proper conduct of its Business. The Chief Executive Officer can appoint and shall use all reasonable endeavors to ensure that the appointees have experience and qualifications which are commensurate with the relevant appointment and dismiss employees in accordance with the provisions of this Agreement and the Charter Documents and any applicable laws of and can grant such employees any and all titles (e.g., Vice-Chief Executive Officer or Secretary).

7.4. Required Partner Approvals.

(a) Actions Requiring Supermajority Approval of Members. For so long in excess of 50% of all outstanding Units of the Company are held by the Partners, the Company shall not, and shall not permit any of its Subsidiaries, to take, authorize or cause to be taken any of the following actions without the vote of at least 90% of its Members:

(i) (A) Any merger or consolidation, or (B) any divestiture, joint venture, partnership, acquisition or other business combination with, by or of the Company into or with any other Person ("Business Combination");

(ii) Any material changes in the Business of the Company, including but not limited to the expansion of the scope of the Business;

(iii) Any amendment to the Charter Documents;

(vii) The removal of any PEC or Ritblatt Director from the Board of Managers except for a removal by the appointing Partner; or

(viii) Any transaction which would result in the Company being taxed as a publicly traded partnership pursuant to the Internal Revenue Code of 1986, as amended.

Following an initial decrease in the combined ownership percentage of the Partners in the Units of the Company to 50% or less of the total outstanding Units, all matters to be voted upon by the Members shall be approved by the vote of a simple majority, including but not limited to items delineated in Section 7.4(a).

(b) Other Partner Action. Subject to the other terms of this Agreement, all other actions of the Members required pursuant to applicable provisions of the law of the Company's jurisdiction of organization or the Company's Charter Documents shall be approved by a simple majority vote at a duly constituted meeting of Members with each Member entitled to one vote per Unit held of record as of the record date for such meeting.

7.5 Accounting and Internal Controls.

(a) Maintenance of Accounting Records. The Company will conduct its business at all times in accordance with high standards of business ethics and maintain full and accurate books, records and accounts which will, in reasonable detail, accurately and fairly reflect all transactions of the Company in accordance with generally accepted accounting principles, procedures and practices in the United States which have been consistently applied.

(b) US GAAP. The Company must ensure that a set of the Company's annual and quarterly accounts, based on a calendar fiscal year, is prepared in accordance with U.S. Generally Accepted Accounting Practices.

(c) Reports. The Chief Executive Officer must provide the Board and the Partners with sufficient management and financial information and reports to allow the Board and the Partners to monitor the conduct the Business, which financial information and reports shall not be provided less often than monthly. Monthly reports provided pursuant to this Section 7.5(c) shall include an unaudited balance sheet and profit and loss statement prepared by management.

(d) Approval of Annual Accounts. The authority to approve the annual accounts of the Company lies with the Board of Managers.

7.6 Bank Accounts. Company funds shall be deposited in the name, and for the sole benefit, of the Company in such bank or savings and loan accounts of the Company as may be designated by the Board. The Board of Managers shall arrange for the appropriate conduct of those accounts, including limitations on the identity and number signatories and amounts which may be expended without multiple signatures, and shall make disbursements solely for the business of the Company or for distributions to the Partners in accordance with this Agreement and the Charter Documents. Any security deposits shall be maintained in a segregated interest bearing account and shall be distributed pursuant to the agreement under which the deposit is received.

7.7 Transactions with Affiliates. Subject to Section 7.4(a), the Chief Executive Officer and the Board of Managers may cause the Company to transact business with any Partner or any Affiliate of any Partner for the performance of services or purchase of goods or other property that may at any time be reasonably required in carrying on the business of the Company; except that the compensation or price therefor shall not exceed that prevailing in arm's length transactions and shall be on such standard commercial terms as are offered by other Third Parties rendering similar quality goods or services on comparable transactions as an on-going activity in the same geographical area.

7.8 Organization. The parties hereto shall mutually agree upon the organizational structure of the Company

ARTICLE 8:
DISPUTE RESOLUTION

8.1 Negotiation Between Appointed Representatives. Each of the Partners and the Company shall attempt in good faith to resolve any dispute arising out of or relating to the interpretation, breach or termination of this Agreement (a "Dispute") promptly by negotiations between the Chief Executive Officer of PEC and Ritblatt. Any Partner or the Company who is a party to a Dispute shall give the other Partners and the Company written notice of any Dispute not resolved in the normal course of business. Within twenty (20) days after delivery of such a notice, executives of all Partners involved in the Dispute, and the Company, shall meet at a mutually acceptable time and place, and thereafter as often as they reasonably deem necessary, to attempt to resolve the Dispute. All negotiations pursuant to this Section 8.1 shall be confidential.

8.2 Arbitration. In the event that any Dispute cannot be resolved pursuant to Section 8.1 within a period of thirty (30) days after delivery of such notice has been given, such Dispute shall be settled finally by arbitration in San Diego, California before one (1) arbitrator mutually agreed to by the Partners. 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. The arbitrator, who shall be experienced in the matters that are the subject of the Dispute or fundamental to understanding the nature of the Dispute, shall have the authority to grant specific performance, and to allocate between the parties the costs of arbitration in such equitable manner as the arbitrator(s) may determine. The prevailing Partner in the arbitration shall be entitled to receive reimbursement of its reasonable expenses incurred in connection therewith, including reasonable attorney fees. Judgment upon the award so rendered may be entered in any court having jurisdiction or application may be made to such court for judicial acceptance of any award and an order of enforcement, as the case may be.

8.3 Irreparable Harm. The Partners hereby reserve their right to seek immediate injunctive relief in the event of the breach of any provision of this Agreement where such breach may cause irreparable harm, the extent of which would be difficult to ascertain. Accordingly, they agree that, in addition to any other legal remedies to which a non-breaching Partner might be entitled, such Partner may seek immediate injunctive relief in the event of any breach of any of the provisions of this Agreement either through arbitration or through the courts.

ARTICLE 9:
INDEMNIFICATION; LIMITATION ON DAMAGES, CONTRACTUAL LIMITATIONS PERIOD

9.1 Indemnification.

(a) From and after the Effective Date, each Partner shall indemnify and hold harmless, the Company and each other Partner and any Subsidiary of the Company (the "Indemnitees") from any liability for, or arising out of or based on, or relating to only any Tax:

(i) of such Partner or any Subsidiary of such Partner (other than the Company and its Subsidiaries for any period beginning on or after the Effective Date); or

(ii) relating to the income, business, assets, property or operation of the Contributed Assets of such Partner, prior to and on the date of such Contributed Asset is effected to the Company.

(b) An Indemnitee shall notify the indemnifying Partner of any claim for Tax in writing, and in reasonable detail, as promptly as reasonably possible after receipt by such Indemnitee of notice of such claim; provided, however, that failure to give such notification on a timely basis shall not affect the indemnification provided hereunder except to the extent that such Indemnifying Partner shall have been actually materially prejudiced as a result of such failure. Thereafter, the Indemnitee shall promptly deliver to the Indemnifying Partner copies of all notices and documents received by the Indemnitee relating to such claim.

(c) If a Tax Indemnitee receives a refund or credit of Taxes for which it has been indemnified pursuant to this Section 9.1 such Tax Indemnitee agrees to pay the indemnifying Partner the amount of such refund or credit (including any interest received thereon).

9.2 Limitation on Damages.

(a) No Partner shall be liable for any direct or indirect, special, incidental or consequential loss or damage (including, without limitation, loss of profits or loss of use) suffered by any other Partner arising from or relating to a Partner's performance, non-performance, breach of or default under a covenant, warranty, representation, term or condition hereof; each Partner, other than with respect to a claim arising from such other Partner's gross negligence, willful misconduct or fraudulent actions, waives and relinquishes claims for indirect, special, incidental or consequential damages.

(b) The limitations on liability and damages set out in Section 9.2(a) apply to all causes of action that may be asserted hereunder, other than a cause of action resulting from another Partner's grossly negligent, willful misconduct or fraudulent actions, whether sounding in breach of contract, breach of warranty, tort, product liability, negligence or otherwise.

9.3 Contractual Limitation Period. Any arbitration, litigation, judicial reference or other legal proceeding involving the parties shall be commenced within three (3) years after the accrual of the cause of action or applicable statute of limitations if shorter.

ARTICLE 10:
CONFIDENTIAL INFORMATION

10.1 Treatment of Confidential Information. Confidential Information will be kept confidential and shall not be disclosed, in whole or in part, to any Person other than Affiliates, officers, directors, employees, agents or representatives of the Company or of a Partner or the Company's or such Partner's legal counsel or independent auditors, or prospective lenders to the Company or either Partner (collectively, "Representatives") who need to know such Confidential Information for the purpose of negotiating, executing and implementing this Agreement and the transactions contemplated hereby. The Company and each Partner agrees to inform each of its Representatives of the non-public nature of the Confidential Information and to direct such Persons to treat such Confidential Information in accordance with the terms of this Section. The Company and each Partner agrees to be liable for any breach of the terms hereof by its Representatives. Nothing herein shall prevent the Company or either Partner from disclosing confidential Information (i) upon the order of any court or administrative agency, (ii) as required by law or upon the request or demand of, or pursuant to any regulation of, any regulatory agency or authority, (iii) to the extent reasonably required in connection with the exercise of any remedy hereunder, and/or (iv) to any actual or proposed permitted assignee of all or part of its rights hereunder provided that such actual or proposed assignee agrees in writing to be bound by the provisions of this Section. Notwithstanding the foregoing, in the event that the Company or any shareholder intends to disclose any Confidential Information pursuant to clause (i) or (ii) of the preceding sentence, such Person agrees to (x) provide the other parties hereto with prompt notice before such disclosure in order that such parties may attempt to obtain a protective order or other assurance that confidential treatment will be accorded such Confidential Information and (y) cooperate with such parties in attempting to obtain such order or assurance. The Company and each Partner agrees that it will maintain all Confidential information disclosed to it in strict confidence and will take all reasonable measures to maintain the confidentiality of all such Confidential Information in its possession or control, but in no event less than the measures it uses to maintain the confidentiality of its own information of similar importance. The provisions of this Article 10 will survive termination of this Agreement.

10.2 Company Employees. The Company shall require each of its employees to sign written undertakings or agreements with the Company not to disclose any Confidential Information.

ARTICLE 11:
TRANSFERS OF INTERESTS AND ISSUANCE OF ADDITIONAL INTERESTS

11.1 Disposition of a Partner's Partner Interest. Subject to Sections 11.2, 11.3, 11.4, 11.7 11.8, 11.9, 11.10, 11.12 and 11.13 hereinbelow, no Partner may make any Disposition of all or any part of its Partner Interest or Units, in any manner, whether voluntarily or involuntarily, by operation of law or otherwise, to any person. Any transfer not in accordance with this Article 11 and the Charter Documents and applicable provisions of the law of the Company's jurisdiction of organization will be voidable at the option of either the non-transferring Partner or the Company.

11.2 Right of First Refusal.

(a) Subject to the provisions of Sections 11.3 and 11.7 below, in the event that a Partner desires to Dispose of all or any part of its Partner Interest (a "Selling Partner") to a Third Party the non-selling Partners will have a right of first refusal ("Right of First Refusal") in accordance with their Agreed Proportions on all sales of all or any part of the Selling Partner's Partner Interest. The Selling Partner shall first provide to the non-selling Partners a written notice of proposed sale ("Notice of Proposed Sale") which shall specify the terms and conditions for such sale (excluding any terms which are not reasonably capable of acceptance or performance by the non-selling Partner) including the portion of such Selling Partner's Partner Interest proposed to be sold, the price therefor and the identity of the purchaser. The non-selling Partner(s) shall then have thirty (30) days from the date of such Notice of Proposed Sale ("Acceptance Period") in which to elect to purchase such Selling Partner's Partner Interest on the same terms and conditions as specified in such Notice of Proposed Sale by providing the Selling Partner written notice of its acceptance of such offer to purchase; provided, however, that on a sale of Units which, when combined with all other sales of Units by the Selling Partner during the immediately preceding twenty-four (24) months, would exceed in the aggregate 10% or more of the total outstanding Units of the Company the purchase price of the Units being sold by the Selling Partner shall not be less than the fair market value of the Units determined by an Independent Appraiser in accordance with Article 14.

(b) If any component of the price specified in the Notice of Proposed Sale includes the issuance of a Third Party's securities, a non-selling Partner will be deemed to have accepted the terms of such Notice of Proposed Sale if it agrees to pay the fair market value of such securities. If such securities are traded on a nationally recognized securities exchange or trading system, the fair market value of such securities component shall be the thirty-day average closing price of such securities on the date of such Notice of Proposed Sale or if not so traded, the fair market value of such securities will be determined by an Independent Appraiser in accordance with Article 14.

(c) If the non-selling Partner(s) have not given notice to the Selling Partner of their agreement to purchase the Selling Partner's Units within the Acceptance Period prescribed above, then the Selling Partner shall be free to consummate the sale of its Units within sixty (60) days on such terms and conditions that are no less favorable to the Selling Partner than the terms and conditions specified in such Notice of Proposed Sale. If such sale is not consummated within such sixty (60) day period immediately following the Acceptance Period or the amount of Units to be sold increases to 10% or more of all outstanding Units of the Company or terms and conditions stated in the Notice of Proposed Sale materially change, then any sale of such Selling Partner's Units must comply with the provisions of this Section 11.2 and a new Notice of Proposed Sale shall be provided to the non-selling Partner(s).

11.3 Assignment to Affiliate. Notwithstanding anything to the contrary stated herein, a Partner's Partner Interest or any rights or obligations of such Partner hereunder may be assigned to any Affiliate of such Partner who becomes a party to this Agreement pursuant to Section 11.7; provided, that the assigning Partner shall remain liable as the primary obligor of such Partner's obligations under this Agreement and subject to the provisions of Sections 6.9 and 6.13 and upon the reasonable request of the Board of Managers such Partner shall execute any and all documentation deemed reasonable and desirable to effectuate such continuing obligation; provided, further, that in the event that any such assignee shall cease to be a Affiliate of the assigning party, such assignee shall promptly assign such Partner Interest or rights or obligations hereunder back to the original assignor. Notwithstanding the foregoing, a Partner may be released in whole or in part from its obligations under this Agreement in connection with any such assignment upon the unanimous approval of the remaining Partners.

11.4 Deemed Offer of Units Upon Buy-Out Event. Upon the occurrence of a Buy-Out Event, the Units of the Partner with respect to whom a Buy-Out Event occurs (the "Transferring Partner") are deemed to be offered for transfer to (i) the other Partners, and (ii) the Company, on the terms and conditions set out in Section 11.5 in due accordance with the provisions of the Charter Documents, subject to the following:

(a) Priority of Purchase Right. The Partners shall have priority over the Company in the exercise of their right to purchase Units following a Buy-Out Event. The Partners shall notify the Company within thirty (30) days of their being informed of the occurrence of the Buy Out Event and the purchase consideration for the Units. If more than one Partner offers to purchase the Units subject to the Buy-Out Event, the Units to be acquired from the Transferring Partner shall be apportioned between the purchasers pro-rata according to their respective Agreed Proportions, or unless mutually agreed otherwise by the Partners.

(b) No Purchase Effected. If the Units so offered, or any portion thereof, are not purchased by the other Partners or the Company, the Transferring Partner may retain its Units.

11.5 Terms of Contract. The terms of a contract arising under Section 11.4 are as follows:

(a) the purchase consideration is the fair market value of the Units of the Transferring Partner as agreed between the Partners within thirty (30) days of the Buy-Out Event or, failing agreement between the Partners, determined by the Independent Appraiser in accordance with Article 14;

(b) the Transferring Partner warrants that:

(i) it has, or on the date of completion of the sale and purchase will have, a clear and unencumbered title to each of the Units the subject matter of the sale and purchase; and

(ii) each of the Units the subject matter of the sale and purchase is sold free from any encumbrance and shall be transferred with all rights and obligations appurtenant thereto;

(c) the Transferring Partner must pay any stamp duty or other transfer taxes payable on transfer of the Transferring Partner's Units;

(d) completion is subject to, and conditional upon, any necessary regulatory approvals (which the Transferring Partner and the purchasing Partner(s) undertake to use all reasonable efforts to obtain);

(e) subject to satisfaction of any condition precedent referred to Section 11.5(d) completion must occur within ten (10) days after the Independent Appraiser has determined the fair market value of the Transferring Partner's Units; and

(f) at completion, the Transferring Partner must tender to the other Partner(s) against a bank check for the purchase consideration calculated in accordance with Section 11.5(a):

(i) in respect of all the Transferring Partner's Units, the Unit certificates and duly executed instruments of transfer in registrable form naming as transferee the other Partner(s) or its nominee(s), as applicable;

(ii) the written resignations of each Director appointed by the Transferring Partner; and

(iii) any other document which the other Partner(s) require to obtain good title to the Units and to enable the other Partner(s) to ensure the registration of the Units in its name or the names of its nominee(s), as applicable.

11.6 Attorney. Each Partner irrevocably appoints every Director from time to time, jointly and severally, as its attorney and attorneys, on its behalf and in its name to transfer its Units in accordance with Section 11.5 to execute under hand or under seal and deliver (conditionally or unconditionally) in any place that the attorney chooses any instrument of transfer in respect of those Units and any other documents that in the opinion of the attorney are necessary to carry out any of the provisions of Section 11.5.

11.7 Deed of Ratification and Accession. The Partners must ensure that the Board of Managers does not register a person (who at the time of registration is not a Partner) as a Member whether pursuant to:

(a) an issue of additional Units;

(b) a transfer of Units; or

(c) otherwise,

unless that person has first entered into a deed of ratification and accession agreeing to be bound by the terms and conditions of the Operating Agreement as a Member of the Company.

11.8 Issuance of Additional Units.

(a) Generally. Subject to required Board approval and Article 5 of this Agreement, the Company may from time to time offer and issue additional Units to any person in such amounts, on such terms and conditions and for such consideration as the Board from time to time may determine; provided, however, that the first Units sold by the Company pursuant to this Section 11.8 shall be the Reserved Units. Each Partner agrees to fully cooperate in the preparation of a business plan representing the estimated funding requirements of the Company in relation to such subsequent offerings, including but not limited to research, website design/development, business development, launch of the project, sales support and translation among other things. Each Partner further agrees to provide, as promptly as possible, all such information as shall be requested by legal counsel in the preparation of any offering documents and filings associated with such offerings.

(b) Employee Share Ownership. Subject to Board approval, the Partners agree to consider the adoption of an employee equity incentive option plan, pursuant to the provisions of the applicable law of the Company's jurisdiction of organization. Any such plan shall include not more than 2,000,000 Units which may be granted to employees, outside researchers or consultants to the Company. The grant of any one award under the plan shall be limited to 5% of the outstanding Units of the Company up to the maximum of 2,000,000 Units.

(c) Anti-dilution. If at any time or from time to time after the Effective Date, the Company issues or sells additional Units, then and in each such case, the Partners shall be issued a number of additional Units necessary to maintain their respective Partner Interests in the Company at not less than 20% in the case of PEC and 10% in the case of Ritblatt, which percentage shall be reduced by sales made by the respective Partner, or its or her successors in interest, of Units held by such Partner.

11.9 Drag-Along Rights.

(a) Subject to Section 11.2, in the event a Selling Partner receives a bona fide third-party offer to purchase Units representing 90% or more of all outstanding Units of the Company, the Selling Partner shall be entitled to require the other Partner ("Drag-Along Partner") to sell and transfer all of its Units ("Dragged Units") on the same terms ("Drag-Along Right") as the Selling Partner provided that the purchase price is not less than the fair market value determined by an Independent Appraiser pursuant to Article 14 unless otherwise mutually agreed by the Partners.

(b) To exercise a Drag-Along Right, the Selling Partner shall request the sale and transfer of the Dragged Units by the Drag-Along Partner to the Third Party by written notice to the Drag-Along Partner no later than thirty (30) days following the purchase option being delivered to the Drag-Along Partner (the "Drag-Along Notice") extended to allow for valuation of the Units under Article 14 unless a valuation performed within the preceding six (6) months is readily available. The Drag-Along Notice shall include the full terms of the offer and the identity of the prospective purchaser.

(c) Within thirty (30) days following the receipt of the Drag-Along Notice, the Drag-Along Partner shall sell its Dragged Units to the Third Party (i) on the same terms and conditions as the Selling Partner sells its Units to the Third Party but not on terms and conditions less favorable than set out in the purchase option and (ii) subject to the disposal of its Units by the Selling Partner to the Third Party; provided, however, that the liability of the Partners under such definitive agreements shall be several and not joint and several.

(d) Each Partner undertakes to take all actions necessary for a sale to the prospective purchaser following the exercise of the Drag-Along Right, according to the provisions of this section.

(e) The Selling Partner shall have a period of thirty (30) days from the date of the delivery of the Drag-Along Notice to consummate the sale and transfer on the terms and conditions set forth in the Drag-Along Notice; provided, however, that, if such sale and transfer is subject to governmental or regulatory consents, approvals or clearances (including expiration or termination of all applicable waiting periods under applicable law), such thirty- (30-) day period shall be extended until the expiration of ten (10) business days after all such consents, approvals or clearances (including expiration or termination of all applicable waiting periods under applicable law) have been received, but in no event later than five (5) months following the date of the delivery of the Drag-Along Notice. If the sale and transfer shall not have been consummated during such period, the Selling Partner shall return to the Drag-Along Partner any documents in the possession of the Selling Partner executed by the Drag-Along Partner in connection with such proposed sale and transfer, and all the restrictions on transfers of Units contained in this Agreement or otherwise applicable at such time with respect to the Units shall again be in effect.

(f) Concurrently with the consummation of the sale and transfer of Units pursuant to this Section 11.9, the Selling Partner shall give notice thereof to the Drag-Along Partner, shall remit to the Drag-Along Partner the total consideration (the cash portion of which is to be paid by wire transfer in accordance with the Drag-Along Partner's wire transfer instructions) for the Units transferred in such sale and transfer, and shall furnish such other evidence of the completion and time of completion of such sale and transfer and the terms thereof as may be reasonably requested by the Drag-Along Partner.

11.10 Tag-Along Rights.

(a) Subject to Section 11.2, in the event that a Partner (the "Seller") proposes to Dispose of any Units represent at least 1% of all outstanding Units of the Company, including all sales by the Seller made during the preceding twelve (12) months, on an as-converted basis held by it and its Affiliates, other than to an Affiliate in accordance with Section 11.3, then the other Partner shall have the right (the "Tag-along Right") to require the proposed purchaser to purchase from such other Partner up to the number of whole Units not to exceed the number derived from the following formula:

$$\frac{N \times TS}{S} = Tag$$

where

N = total number of Units owned by such other Partner

TS = total number of Units proposed to be Disposed of by the Seller

S = total number of Units owned by the Seller immediately prior to the Disposition

Tag = number of Units in respect of which such other Partner may exercise Tag-Along Rights.

Any Units purchased from the other Partners pursuant to this Section 11.10 shall be paid for in the same consideration received by the Seller at the same price per Unit and upon the same terms and conditions as the proposed Disposition by the Seller; provided, however, that in no event shall such other Partner be required to make any representations or provide any indemnities with respect to matters relating solely to the Seller and; provided further, that on a sale of Units representing 10% or more of the total outstanding Units of the Company, the purchase price of the Units being sold by the Seller shall not be less than the fair market value of the Units determined by an Independent Appraiser in accordance with Article 14.

(b) The Tag-Along Right may be exercised by the other Partners by delivery of a written notice to the Seller (the "Tag-along Notice") within thirty (30) days following delivery of the Notice of Proposed Sale by the Seller, extended to allow for valuation of the Units under Article 14 unless a valuation performed within the preceding six (6) months is readily available. The Tag-Along Notice shall state the amount of Units that such other Partner proposes to include in such Disposition to the proposed purchaser (not to exceed the number determined as aforesaid). If a Partner has not so delivered a Tag-Along Notice as set forth above it shall be deemed to have waived all of its rights with respect to participating in the Transfer, and the Seller shall thereafter be free (subject to Section 11.9(d)) to sell to the proposed purchaser, at a price no greater than the price for such Shares set forth in the Tag-along Notice and on other principal terms which are not more favorable to the Seller than those set forth in the Notice of Proposed Sale, without any further obligation to such other Partner. If, prior to consummation, the terms of such proposed Disposition shall change with the result that the price shall be greater than the Unit price for such Units set forth in the Notice of Proposed Sale or the other principal terms shall be substantially more favorable to the Seller than those set forth in the Notice of Proposed Sale, it shall be necessary for a separate Notice of Proposed Sale to be furnished, and the terms and provisions of this Section 11.10 separately complied with, in order to consummate such proposed Disposition pursuant to this Section 11.10.

(c) The acceptance of any other Partners shall be irrevocable except as hereinafter provided, and each accepting Partners shall be severally bound and obligated to sell in the Disposition on the same terms and conditions with respect to each Unit sold as the Seller, such number of Units as such other Partners shall have specified in such Tag-Along Notice; provided, however, that in the event there is any change in the price or terms of the proposed Disposition, the Seller shall notify the other Partners of such changes and such other Partner have the right to withdraw its Tag-Along Notice, in whole or in part. In the event the Seller shall be unable to obtain the inclusion in the Disposition of the entire number of Units which the Seller and the other Partners desire to have included in the Disposition (as evidenced in the case of the Seller by the Tag-Along Notice and in the case of the other Partners by the Tag-Along Notice), the number of Units to be sold in the Disposition by each of the Seller and the Other Partners shall be reduced on a pro rata basis in accordance with their respective Agreed Proportions.

(d) If at the end of the 90th day following the date of the delivery of the Sale Notice the Seller has not completed the Disposition (other than as a result of a breach of this Agreement by such other Partners), such other Partners shall be released from their obligations under their Tag- along Notice, the Tag-Along Notice shall be null and void, and it shall be necessary for a separate Tag-Along Notice to be furnished, and the terms and provisions of this Section 11.10 separately complied with, in order to consummate such Transfer pursuant to this Section 11.10.

(e) The exercise or non-exercise of the rights of any Partner to participate in one or more Dispositions of Units shall not adversely affect such Partner's right to participate in subsequent Dispositions of Units.

11.11 Termination of Restrictions on Transfer. With the exception of the conversion option set forth in Section 11.12 and Section 11.13, the provisions of this Article 11 restricting a Partner's ability to transfer its Units shall expire and be of no further force and effect upon the consummation of an underwritten initial public offering of the Units of the Company approved by the Company's Board of Managers or upon a Change of Control.

11.12 Conversion Option.

(a) On or after the second anniversary of the Effective Date, each of PEC and Ritblatt shall have the option to convert, in whole at any time or in part from time to time, her outstanding Units in the Company into fully-paid and nonassessable shares of the no par value common stock of PEC (the "PEC Stock") upon written notice to PEC stating the number of Units to be converted. No later than thirty (30) days following receipt of such notice by PEC, as extended to allow for valuation of the Company by an Independent Appraiser, PEC shall cause its transfer agent to issue the Conversion Price to the converting Partner; provided, however, that a new valuation shall not be required if the most recent valuation of the Company under Article 14 is dated within six (6) months preceding the exercise of the option. The number of shares of PEC Stock to which the converting Partner is entitled upon conversion shall be the product obtained by dividing the value of the Units being converted as determined by an Independent Appraiser under Article 14 hereof by the thirty- (30-) day average closing price of the PEC Stock on the Pink OTC Markets or such other trading system or exchange upon which it is then traded as adjusted for any declared but unpaid common stock dividend on, or declared but unaffected stock split, reverse split, reclassification or combination of, PEC Stock (the "Conversion Price"). Upon receipt a valuation report from an Independent Appraiser, which shall not be older than six (6) months from such date, PEC shall set aside and hold in reserve a number of authorized by unissued shares of PEC Stock as shall be necessary to enable the converting Partner to convert all of her Units pursuant to this Section 11.12(a). In the event of a conversion pursuant to this Section 11.12(a), the converting Partner shall be responsible for payment of all taxes that may be imposed with respect to the issue and delivery of the PEC Stock.

(b) [Reserved.]

(c) Conversion of Units by either Partner under either 11.12(a) shall be deducted from the ownership percentage required by Section 11.8(c) in the event additional Units are later issued by the Company.

(d) In addition to any restrictions imposed by law on the sale or other disposition of PEC Stock, any recipient of PEC Stock pursuant to this Section 11.12 shall be subject to the following restrictions on resale of the PEC Stock:

(i) Such recipient receiving shares of PEC Stock representing 5% or more of the then total outstanding PEC Stock, or who otherwise falls within the definition of an "insider" of PEC according to its then current insider trading policy, shall agree to be bound by the terms and conditions of PEC's insider trading policy; and

(ii) In no event may any recipient of PEC Stock issued pursuant to this Section 11.12 sell or otherwise dispose of more than 20% of the total number of shares of PEC Stock received by such recipient upon exercise of the option in any ninety- (90-) day period other than in accordance with Section 11.13 below.

(e) No factional shares of PEC Stock shall be issued upon conversion of Units pursuant to this Section 11.12.

(f) The issuance of PEC Stock in accordance with this Section 11.12 shall be subject to such opinions as may be required, in the good faith discretion of PEC, from PEC's legal and/or financial advisers.

11.13 Permitted Transactions. The provisions of this Article 11 restricting a Partner's ability to transfer its Units shall not apply to any transfer to the ancestors, descendants or spouse upon the Partner's death or disability or to trusts established for the benefit of such Persons or the Partner made solely for estate planning purposes. For purposes of this Agreement, a Partner shall be considered "disabled" if such Partner would be determined to be disabled under the Americans with Disabilities Act of 1990, as amended.

ARTICLE 12:
VOTING AGREEMENT

The Partners hereby acknowledge and agree to vote to elect at any general or special meeting of Members considering such matter as managers of the Company those nominees designated by PEC (3) and Ritblatt (1), as provided herein, and to elect the Chief Executive Officer as designated pursuant to Section 4.3. Further, the Partners hereby agree to vote in favor of any resolution for the suspension or dismissal of a Director made subject to a vote of any general or special meeting of Partners in accordance with Section 7.2(b) hereof.

ARTICLE 13:
DISSOLUTION AND WINDING UP

The Company shall be dissolved and wound up upon the resolution of the Members in accordance with the Charter Documents and applicable law. The Board shall supervise the liquidation and winding up of the Company.

ARTICLE 14:
INDEPENDENT VALUATION

14.1 Application of Article. This Article 14 applies where the Partners are required to obtain an independent valuation of Units under this Agreement.

14.2 Appointment of Independent Appraiser.

(a) If this Article 14 applies, the Board shall appoint a suitably qualified and experienced Independent Appraiser who shall be a an accounting firm, which must be a second-tier accounting firm or higher, with offices located in the County of San Diego, State of California (the "Independent Appraiser") to determine the value of each Unit in accordance with this Article 14.

(b) The Independent Appraiser must not have had any business dealings with any Partner or any of its Affiliates in the two (2) years before the date of appointment.

14.3 Valuation. The Independent Appraiser must be instructed to determine the fair market value of the Units by valuing the Company (including any subsidiary of the Company) as a whole on a going concern basis (taking into account the terms of this Agreement) as at the end of the month before the month in which the Independent Appraiser is appointed under this Article 14 ("Valuation Date"). In making his valuation, the Independent Appraiser shall assume that the event which has given rise to the appointment of the Independent Appraiser has occurred even if, as of the Valuation Date, it had not occurred. The fair market value of each Unit will be the proportionate amount of the value of the Company which that Unit represents when compared to the total number of Units.

14.4 Access to Information. The Board shall ensure that the Independent Appraiser has a right of access at all reasonable times to the accounting records and other records of the Company (including any subsidiary of the Company) and is entitled to require from any officer of the Company any information and explanation which the Independent Appraiser requires to value the Company.

14.5 Period of Determination. The Board must use commercially reasonable efforts to ensure that the Independent Appraiser makes a determination as soon as practicable and in any event within forty-five (45) days after appointment.

14.6 **Process**. The Partners agree that, in determining a value for the Units under this Article 14, the Independent Appraiser:

(a) will act as an expert and not as an arbitrator;

(b) may obtain or refer to any documents, information or material and undertake any inspections or inquiries as he or she determines appropriate;

(c) must provide the Partners with a draft of his or her determination and must give the Partners a reasonable opportunity to comment on the draft determination before it is finalized; and

(d) may engage any assistance which he or she reasonably believes is appropriate or necessary to make a determination.

14.7 **Final and Binding**. The Independent Appraiser's determination will be final and binding on the Partners.

14.8 **Costs**. The Company will bear the costs and expenses of the Independent Appraiser.

ARTICLE 15:
MISCELLANEOUS PROVISIONS

15.1 **Governing Law**. This Agreement and the rights and liabilities of the Partners hereunder, shall be governed by and construed in accordance with the laws of the State of California without reference to the conflict of law's provisions thereof.

15.2 **Captions**. Captions contained in this Agreement are inserted only as a matter of convenience and in no way define, limit, extend or describe the scope of this Agreement or the intent of any provision hereof.

15.3 **Construction**. References in this Agreement to a statute or statutory instrument include a statute or statutory instrument amending, consolidating or replacing them, and references to a statue include statutory instruments and regulations made pursuant to it. Whenever the context may require, any pronouns used herein shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns and pronouns shall include the plural and vice versa. This Agreement has been negotiated by the Partners hereto, each of which has been independently represented by counsel and shall be interpreted in accordance with its terms without any strict construction for or against any Partner.

15.4 **Survival**. All representations and warranties herein shall survive until the dissolution and final liquidation of the Company, except to the extent that a representation or warranty expressly provides otherwise. In addition Article 8, Article 9, Article 10, Article 15 and Article 16 shall survive the expiration or earlier termination of this Agreement.

15.5 **Severability**. Every provision of this Agreement is intended to be severable. If any term or provision hereto is illegal or invalid for any reason whatsoever, such illegality or invalidity shall not affect the validity of the remainder of the terms or provisions of this Agreement and the Partners agree that they will negotiate in good faith to achieve an agreement that produces the same or a substantially similar result.

15.6 Assignment; Successors. Except as otherwise set forth herein, neither party may assign or delegate any of its rights or obligations hereunder. Any assignment or delegation in derogation of this Section 15.6 shall be null and void. Subject to the limitations on transferability contained herein, each and all of the covenants, terms, provisions and agreements herein contained in shall be binding upon and inure to the benefit of the successors and assigns (including an assignee of all or part of an interest in the Company) of the respective Partners hereto.

15.7 Execution and Counterparts. This Agreement and any amendment hereto may be executed in multiple counterparts, each of which shall be deemed an original and all of which together shall constitute one agreement. In addition, this Agreement may be executed through the use of counterpart signature pages. The signature of any Partner on any counterpart agreement or counterpart signature page shall be deemed to be a signature to, and may be appended to, one document.

15.8 Third Party Beneficiary. No provision of this Agreement is intended to be for the benefit of or enforceable by any Third Party except for the Company.

15.9 No Agency. Nothing in this Agreement or the Schedules hereto shall be deemed to create any partnership or agency relationship between any Partners or between all the Partners. The Partners and the Company are each independent companies who shall deal with each other in arm's length transactions. Neither Partner nor the Company shall be entitled to act on behalf of and/or bind any one or more of the others without prior written authorization establishing its authority to do so.

15.10 Entire Agreement. This Agreement, together with all Schedules thereto, and the Charter Documents, collectively set out the entire understanding and agreement between the Partners with respect to the matters specifically addressed herein and therein and merger and supersedes all previous communications, negotiations, representations and agreements, either oral or written, with respect to the subject matter hereof and thereof; provided that, in the event of any inconsistency between this Agreement and the Operating Agreement, this Agreement shall control as between the Partners. No agreements, guarantees or representations, whether oral or in writing, have been concluded, issued or made, upon which any Partner is relying in concluding this Agreement and the Charter Documents except to the extent expressly set out herein or therein.

15.11 Amendment. The amendment of this Agreement shall require the written consent or affirmative vote of each Partner hereto.

15.12 Notices. Any notice, consent, election, approval, payment, demand, or communication required or permitted to be given by this Agreement shall be in writing, must be in English and shall be deemed to have been sufficiently given or served for all purposes if delivered personally or by facsimile to the Partner or to an officer of the Partner to which directed or if sent by registered or certified mail, postage and charges prepaid, addressed to the address contained in the records of the Company. Any such notice shall be deemed to be given on the date on which it was delivered personally, sent by facsimile with transmission confirmation (provided that the Partner giving notice shall also have deposited such notice for mailing pursuant to the provisions of this Section 15.12) or three (3) calendar days (or, if to an address outside the United States, seven (7) calendar days) after deposited in a regularly maintained receptacle for the deposit of United States Air Mail addressed as set out above. Any Partner may change its address for purposes of this Agreement by giving the other Partners notice of such change in the manner as set out above. The Partners mutually agree that each will reasonably cooperate with the other to reduce notice periods stated in Sections 5.1, 11.2 and 11.10 of this Agreement.

15.13 Further Documents. The Partners hereto agree to execute and deliver to each other and/or to the Company, as the case may be, all such additional instruments, to provide all such information, and to do or refrain from doing all such further acts and things as may be necessary or as my be reasonably requested by any Partner hereto, more fully to vest in, and to assure each Partner of, all rights, powers, privileges, and remedies, herein intended to be granted or conferred upon such Partner or the Company.

15.14 Action by the Company. Wherever in this Agreement it states that any action is to be taken by the Company, it shall mean that the Partners to this Agreement shall endeavor to use all reasonable efforts as Partners of the Company to cause the Company to take such action as herein described.

15.15 Several Liability. The obligations of each of the Partners under this Agreement are several and not joint.

15.16 Fees and Expenses. Each party will pay its own fees and expenses in connection with the formation of the Company and the preparation and negotiation of this Agreement and the Related Agreements.

15.17 Prevalence of Agreement. In the event of any ambiguity or conflict arising between the terms of this Agreement and those of the Charter Documents of the Company, the terms of this Agreement shall prevail as between the Parties except as otherwise provided by applicable law.

ARTICLE 16:
WAIVER OF CONFLICT OF INTEREST

EACH OF THE PARTNERS HAS BEEN OR HAS HAD TO OPPORTUNITY TO BE REPRESENTED BY SEPARATE COUNSEL IN CONNECTION WITH THIS AGREEMENT AND THE CHARTER DOCUMENTS. SUCH COUNSEL HAS NOT REPRESENTED THE COMPANY TO DATE. THE LAWYERS, ACCOUNTANTS AND OTHER EXPERTS WHO HAVE PERFORMED SERVICES FOR THE PARTNERS IN THE PAST MAY PERFORM SERVICES FOR THE COMPANY AND MAY CONTINUE TO ALSO PERFORM SERVICES FOR THE SEPARATE PARTNERS IN THE FUTURE. TO THE EXTENT THAT SUCH DUAL REPRESENTATION CONSTITUTES A CONFLICT OF INTEREST, THE COMPANY AND EACH OF THE PARTNERS HEREBY EXPRESSLY WAIVE ANY SUCH CONFLICT OF INTEREST WITH RESPECT TO ANY SUCH DUAL REPRESENTATION RELATIVE TO THE NEGOTIATION, AUTHORSHIP AND EXECUTION OF THIS AGREEMENT AND THE CHARTER DOCUMENTS.

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IN WITNESS WHEREOF, the undersigned have each executed or caused this Agreement to be executed of the date and year first above written.

Pacific Entertainment Corporation

By: /s/ Klaus Moeller
Klaus Moeller, CEO

Shulamit Ritblatt

/s/ Shulamit Ritblatt

Circle of Education, LLC

By: /s/ Larry Balabban, CEO
Larry Balabban, CEO

Exhibit 10.15

OPERATING AGREEMENT
FOR
CIRCLE OF EDUCATION, LLC,
A CALIFORNIA LIMITED LIABILITY COMPANY

THE SECURITIES REPRESENTED BY THIS AGREEMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 NOR REGISTERED NOR QUALIFIED UNDER ANY STATE SECURITIES LAWS. SUCH SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, DELIVERED AFTER SALE, TRANSFERRED, PLEDGED, OR HYPOTHECATED UNLESS QUALIFIED AND REGISTERED UNDER APPLICABLE STATE AND FEDERAL SECURITIES LAWS OR UNLESS, IN THE OPINION OF COUNSEL SATISFACTORY TO THE COMPANY, SUCH QUALIFICATION AND REGISTRATION IS NOT REQUIRED. ANY TRANSFER OF THE SECURITIES REPRESENTED BY THIS AGREEMENT IS FURTHER SUBJECT TO OTHER RESTRICTIONS, TERMS AND CONDITIONS WHICH ARE SET FORTH HEREIN.

OPERATING AGREEMENT OF
CIRCLE OF EDUCATION, LLC
(a California Limited Liability Company)

This Operating Agreement (this "Agreement") is made and entered into as of September 20, 2010 by and among Pacific Entertainment Corporation, a California corporation ("PEC"), Shulamit Ritblatt, an individual residing in the state of California or any designated entity which is under Dr. Shulamit Ritblatt's ownership of fifty percent (50%) or more and over which she maintains direct management or supervision ("Ritblatt") and the persons whose names appear on Appendix A (the "Additional Members"). PEC and Ritblatt are sometimes individually referred to herein as the "Initial Member" or, individually, an "Initial Member". The Initial Members and Additional Members are sometimes hereinafter referred to individually as a "Member" and collectively as the "Members".

Whereas, the Initial Members desire to form a limited liability company, Circle of Education, LLC (the "Company"), under the laws of the State of California; and

Whereas, the Members desire to enter into this Agreement to provide for the formation and governance of the Company and the conduct of its business, and to specify their relative rights and obligations;

Now, Therefore, in consideration of the mutual covenants, rights, and obligations set forth herein, the benefits to be derived therefrom, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

ARTICLE I
DEFINITIONS; CONSTRUCTION

1.1 Definitions. When used herein, the following capitalized terms shall have the meanings indicated:

"*Act*" means the Beverly-Killea Limited Liability Company Act, codified in the California Corporations Code, Section 17000 et seq., as the same may be amended from time to time.

"*Adjusted Capital Accounts*" has the meaning set forth in Section 5.2.2 hereof.

"*Affiliate*" means as to any Person any other Person who, directly or indirectly, through one or more intermediaries, Controls or is Controlled by or under common Control with that Person.

"*Appraised Value*" means, with respect to the Company and as of any applicable valuation date, the equity valuation (computed on a fully diluted basis) of the Company (including any subsidiary of the Company) valued as a going concern (taking into account the terms of this Agreement) and without minority or liquidity discount, as at the end of the month before the month in which the Independent Financial Expert is appointed as determined by an Independent Financial Expert. The Independent Financial Expert shall assume that the event which has given rise to its appointment has occurred even if, as of the valuation date, it has not occurred. The Company shall cooperate with and shall make available to the Independent Financial Expert all information reasonably requested by it to determine and shall use commercially reasonable efforts to ensure that the Independent Financial Expert makes a determination as soon as practicable and in any event within forty-five (45) days after appointment. Appraised Value, which determination shall be conclusive and binding upon the Company and the Members, all other interested parties and the respective Affiliates of the foregoing for all purposes of this Agreement.

Notwithstanding the foregoing, the Company or other purchasing party and the beneficiary of any payment to be based upon Appraised Value may determine the Appraised Value by mutual agreement. The Appraised Value of each Unit of the Company will be the proportionate amount of the value of the Company which that Unit represents when compared to the total number of Units outstanding.

"*Articles*" means the Articles of Organization of the Company originally filed with the California Secretary of State, as amended from time to time.

"*Board*" or "*Board of Managers*" has the meaning set forth in Article VII hereof.

"*Business*" is defined in Section 2.2.

"*Capital Account*" means the capital account established and maintained for a Member pursuant to Section 4.3 hereof. The initial Capital Accounts of the Members are as reflected on Appendix A attached hereto.

"*Capital Contribution*" means the cumulative sum of money, if any, and the fair market value (net of liabilities secured by such contributed property that the Company is considered to assume or take subject to) of any other property contributed or deemed contributed by a Member to the capital of the Company as provided herein.

"*Change of Control*" means the sale or transfer of all or substantially all of the assets of the Company, the merger of the Company with or into another corporation, partnership or limited liability company in which the Company is not the surviving entity, the acquisition by a third party of in excess of 50% of all of the outstanding Units of the Company, or the liquidation of the Company.

"*Code*" means the Internal Revenue Code of 1986, as amended, and any successor statute.

"*Company*" has the meaning set forth in the recitals hereto.

"*Company Option Period*" has the meaning set forth in Section 6.1.1(ii) hereof.

"*Company Minimum Gain*" has the meaning set forth in Treas. Reg. ss. 1.704-2(b)(2) and ss. 1.704-2(d) for the phrase "partnership minimum gain."

"*Control*," or "*Controls*," or "*Controlled*" (and derivations thereof) means as to a corporation the right to exercise, directly or indirectly, more than fifty percent (50%) of the voting rights in the corporation, and as to any other Entity the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of the same.

"*Curriculum*" shall mean the music-based instruction, including songs, books, materials and activities, developed for teachers, parents and caregivers for the purpose of promoting school readiness for children aged 0-5

"*Dispose*" or "*Disposing*" means a sale, assignment, transfer, exchange, mortgage, pledge, grant of a security interest, gift or other disposition or encumbrance (including, without limitation, by operation of law), or an agreement to do any of the foregoing. The term "*Disposition*" means to Dispose of or the act of Disposing.

"*Distributable Cash*" means the amount of money on hand of the Company and available for distribution to the Members, taking into account all accrued debts, liabilities, and obligations of the Company and any amounts necessary or advisable to reserve, designate, or set aside for actual or anticipated costs, payments, liabilities, obligations, and claims with respect to the Company's business, all as determined by the Board.

"*Entity*" means any association, corporation, estate, limited liability company, limited partnership, partnership, venture, or other entity.

"*Initial Option Period*" has the meaning assigned to it in Section 6.1.1(i) hereof.

"*Initial Member*" has the meaning set forth in the recitals hereto.

"*Indemnified Person*" has the meaning set forth in Section 12.2 hereof.

"*Independent Financial Expert*" means a suitably qualified and experienced independent accounting firm, which must be a second-tier accounting firm or higher, with offices located in the County of San Diego, State of California selected by a Supermajority Vote of the Board of Managers that (i) is experienced in making determinations such as the Appraised Value, (ii) does not (and whose directors, officers, employees, Affiliates and shareholders do not) have a material direct or indirect financial interest in any of the Members or members of the Board or any of their respective Affiliates or partners, (iii) has not had any business dealings with any Member or any Affiliates of an Member within the preceding two (2) years and (iv) is not (and none of whose directors, officers, employees, Affiliates and shareholders is) a promoter, director, or officer of any of the Members, members of the Board or any of their respective Affiliates or partners, or an equity investor in any Member. The Company and the Members agree that an Independent Financial Expert appointed to determined the Appraised Value of the Company or the Units (a) will act as an expert and not as an arbitrator, (b) may obtain or refer to any documents, information or material and undertake any inspections or inquiries as it determines appropriate, (c) must provide the Company with a draft of its determination and must give the Company a reasonable opportunity to comment on the draft determination before it is finalized, and (d) may engage any assistance which it reasonably believes is appropriate or necessary to make a determination.

"*Intellectual Property Rights*" of Company shall mean all patents, copyrights, trademarks, trade secrets, confidential information, designs, ideas, discoveries, inventions, processes, research results, work product, whether or not technical in nature and whether or not patentable or registrable under copyright or similar laws, and/or any other intellectual property rights recognized by law of each applicable jurisdiction that relate solely and exclusively to the Business, as set forth in Section 1.9. However, the Intellectual Property Rights of Company shall not include the intellectual property rights of Ritblatt that fall outside the definition of the Business. Additionally, the Intellectual Property Rights of Company shall include the intellectual property rights of PEC related to the Curriculum (including but not limited to Curriculum based music and any Curriculum based activities) that may have been developed, contributed or funded by PEC prior to or subsequent to PEC's capital contribution to the Company, which are intended to be used in the Business or incorporated into the Curriculum. However, the Intellectual Property Rights of the Company shall not include intellectual property rights of PEC for songs and characters developed prior to and subsequent to PEC's capital contribution, which are currently used or intended to be used in PEC's business but which are also used or intended to be used by the Company for the Curriculum. For clarity, should Company itself develop songs or characters for use in the Business or incorporation into the Curriculum, such songs or characters shall be the Intellectual Property of Company. As to all intellectual property rights of PEC developed prior to PEC's capital contribution or hereafter developed, which are intended to be used in the Business or incorporated into the Curriculum, PEC hereby grants a royalty free license to the Company until there is a Change of Control of the Company; provided, however, that (i) if aggregate ownership percentage of the Partners drops below 50% of all outstanding Units at any time, PEC shall be entitled to receive royalties for such intellectual property at a discounted rate, which discount shall be a reasonable discount based on industry standards, and (ii) if aggregate ownership percentage of the Partners drops below 30% of all outstanding Units at any time, PEC shall be entitled to receive royalties based on the fair market value of such rights in the industry.

"*Joint Venture Agreement*" means that certain Joint Venture Agreement between the Initial Members of even date herewith.

"*Majority In Interest*" of the Members means a Member or Members who own, in the aggregate, in excess of fifty percent (50%) of the total outstanding Units.

"*Member Nonrecourse Debt*" has the meaning set forth in Treas. Reg. ss. 1.704-2(b)(4) for the phrase "partner nonrecourse debt."

"*Member Nonrecourse Debt Minimum Gain*" means an amount, with respect to each Member Nonrecourse Debt, equal to the Company Minimum Gain that would result if such member Nonrecourse Debt were treated as a Nonrecourse Liability, determined in accordance with Treas. Reg. ss. 1.704-2(i)(3) with respect to "partner minimum gain."

"*Member Nonrecourse Deductions*" has the meaning set forth in Treas. Reg. ss. 1.704-2(i)(2) for the phrase "partner nonrecourse deductions."

"*Members*" has the meaning set forth in the recitals hereto.

"*Membership Interest*" means a Member's allocable share of the Company's Net Profits and Net Losses, the Member's allocable share of other items of income and deductions and voting and management participation rights as described herein and the Member's rights to receive distributions from the Company, together with all obligations of such Member to comply with the provisions of this Agreement. Membership Interests shall be represented by Units.

"*Moral Rights*" shall mean any right of paternity or integrity, any right to claim authorship, to object to or prevent any distortion, mutilation or modification of, or other derogatory action in relation to the subject work whether or not such would be prejudicial to the author's honor or reputation, to withdraw from circulation or control the publication or distribution of the subject work, and any similar right, existing under judicial or statutory law of any country in the world, or under any treaty, regardless of whether or not such right is denominated or generally referred to as a "moral" right.

"*Net Profits*" and "*Net Losses*" means the book income, gain, loss, deductions, and credits of the Company in the aggregate or separately stated, as appropriate, for any relevant period (excluding special allocations in accordance with Section 5.2 hereof).

"*Nonrecourse Deductions*" has the meaning set forth in Treas. Reg. ss. 1.704-2(b)(1).

"*Nonrecourse Liabilities*" has the meaning set forth in Treas. Reg. ss. 1.704-2(b)(3) and 1.752- 1(a)(2).

"*Offered Interest*" has the meaning assigned to it in Section 6.1.1 hereof.

"*Option*" means each of (i) the options granted pursuant to the Incentive Plan (as defined in Section 3.2.1) and (ii) any other equity incentive plan or option duly adopted or approved by the Board of the Company that provides for the issuance of options to acquire Membership Interests.

"*Percentage Interest*" means the quotient of (i) the number of Units held by a Member d*ivided by* (ii) the total number of issued and outstanding Units. The Percentage Interest of each Member is set forth opposite such Member's name on Appendix A attached hereto, as amended from time to time. At all times, the aggregate Percentage Interests of all of the Members shall be equal to one hundred percent (100%).

"*Permitted Disposition*" shall mean a Disposition by a Member (i) in the case of a Member that is a natural person, by gift to his or her spouse or to the siblings, lineal descendants, or parents of such Member or his or her spouse or to any trust, partnership, limited liability company or other entity of which such person or persons are the sole beneficiaries, provided, that with respect to all such Dispositions by an Existing Member, voting power of such Units, if any, is retained by one or more of the persons enumerated in this clause (i); (ii) in the case of any Member that is a trust, to a successor trustee or trustees of any trust established for one or more of the persons specified in clause (i) above; (iii) upon death of a Member who is a natural person to such Member's heirs, executors, administrators, testamentary trustees, legatees or beneficiaries; (iv) upon termination of employment or pursuant to agreements approved by the Management Committee permitting the Company to repurchase Units, to the Company or any designee or assignee thereof selected by the Management Committee; or (v) to secure an obligation of the Company, including but not limited to, a pledge of such Member's Units in favor of one or more lenders providing loans and/or other advances of credit to the Company, and any subsequent Disposition of such Units upon a foreclosure sale or other exercise of rights and remedies by such lender or lenders, or by an agent or representative acting on behalf of such lender or lenders.

"*Permitted Transferee*" means the transferee of a Permitted Disposition.

"*Person*" means any individual or Entity.

"*Qualified Public Offering*" means an underwritten public offering of Company equity securities pursuant to an effective registration statement under the Securities Act.

"*Reserved Units*" is defined in Section 4.1.1.

"*Securities Act*" means the Securities Act of 1933, as amended, and the rules and regulations promulgated by the Securities and Exchange Commission thereunder.

"*Supermajority Vote*" means the affirmative vote of at least 90% of the members of the Board (rounded up to the nearest whole number) or the Members, as the case may be.

"*Tax Matters Member*" has the meaning set forth in Section 9.2 hereof.

"*Third Party Members*" means those Persons listed on Appendix A who are not also Initial Members or Affiliates of Initial Members.

"*Transferring Member*" has the meaning set forth in Section 6.1.1 hereof.

"*Units*" means the voting units of the Company.

"*Voting Percentage Interest*" means the quotient of (i) the number of voting Units held by a Member *divided by* (ii) the total number of issued and outstanding voting Units. At all times, the aggregate Voting Percentage Interests of all of the Members shall be equal to one hundred percent (100%).

1.2 Directly Or Indirectly. Any provision of this Agreement which refers to an action which may be taken by any Person, or which a Person is prohibited from taking, shall include any such action taken directly or indirectly by or on behalf of such Person, including by or on behalf of any Affiliate, partner or agent of such Person.

1.3 Captions. All captions in this Agreement are inserted for reference only and are not to be considered in the construction or interpretation of any provision hereof.

1.4 Interpretation. In the event any claim is made by any Person relating to any conflict, omission or ambiguity in this Agreement, no presumption or burden of proof or persuasion shall be implied by virtue of the fact that this Agreement was prepared by or at the request of a particular Person or its counsel.

1.5 References To This Agreement. References to numbered or lettered articles, sections, and subsections refer to articles, sections, and subsections, respectively, of this Agreement unless otherwise expressly stated. All references to this Agreement include, whether or not expressly referenced, the Appendices attached hereto.

ARTICLE II
ORGANIZATION

2.1 General. If not filed prior to execution of this Agreement, the Board shall cause the Articles of Organization to be filed with the California Secretary of State promptly following execution of this Agreement.

2.2 Business Purpose. The Business Purpose of the Company shall be to, directly or indirectly, through any means of dissemination as determined to be desirable by the Board or Management, provide the Curriculum for teachers, parents and caregivers for the purpose of promoting school readiness for children aged 0-5 using music-based instruction (the "*Business*").

2.3 Name And Address Of The Company. The business of the Company shall be conducted under the name "Circle of Education, LLC," and its initial principal executive office shall be located at the following address: 5820 Oberlin Drive, Suite 203, San Diego, California 92121. The Board shall file any fictitious name certificates and similar filings, and any amendments thereto, that the Board considers appropriate or advisable.

2.4 Term. The term of this Agreement shall be coterminous with the period of duration of the Company as provided in the Articles, which is from the date of the filing of the Articles until the Company is dissolved in accordance with Article XI hereof.

2.5 Required Filings. The Board shall cause to be executed, filed, recorded and/or published such certificates and documents as may be required by this Agreement or by law in connection with the formation and operation of the Company.

2.6 Registered Agent. The Company's initial registered agent shall be as provided in the Articles. The registered agent may be changed from time to time by the Board by causing the filing of the name of the new registered agent in accordance with the Act.

ARTICLE III
MEMBERS AND MEMBERSHIP INTERESTS

3.1 Initial Members; Additional Members. The initial Members of the Company are as set forth and identified as such on Appendix A attached hereto. The Board may in its sole discretion admit Additional Members to the Company and cause the Company to issue Units to any such Additional Member or any current Member; provided, however, that (a) no more than a total 50,000,000 Units of the Company may be issued to all Members, and (b) the first Units sold in any offering shall be the Reserved Units. The Members acknowledge that, except as otherwise provided in this Section 3.1, the admission of such new Members or the issuance of additional Membership Interests to pre-existing Members may dilute the Percentage Interests of the Members and the Percentage Interests represented by Membership Interests that may be acquired upon exercise of rights granted pursuant to an Option. If at any time or from time to time after the Articles are filed, the Company issues or sells Units to Third Party Members, then and in each such case, the Initial Members shall be issued a number of additional Units necessary to maintain their respective Percentage Interests in the Company at not less than 20% in the case of PEC and 10% in the case of Ritblatt, which percentage shall be reduced by sales made by the respective Initial Member, or its or her successors in interest, of Units held by such Initial Member.

3.2 Options.

3.2.1 The Board may in its sole discretion establish one or more incentive membership interest plans for up to an aggregate of 2,000,000 Units (each an "Incentive Plan") whereby the Company may grant certain employees, consultants and indepedent contractors of the Company the option to purchase Units after the execution of this Agreement on terms and conditions set forth in the Incentive Plan as determined in the sole discretion of the Board.

3.2.2 The Members hereby consent to, and no separate approval of the Board shall be required in connection with, the future admission of any Person satisfying the terms of each Option as a Member of the Company upon valid exercise of Options granted pursuant to any Incentive Plan subject to the other provisions of this Agreement. Each of the Members acknowledges that the Options granted pursuant to any Incentive Plan provide each of the Option holders with the right to exercise its Option and upon the exercise thereof to obtain Units of the Company (in the amount provided for in the Option, subject to dilution in the event the Company issues additional Units after the date of issuance of such Options). Upon the exercise of any such Option, the exercising Member's Capital Account shall be credited with the exercise price paid upon the exercise of the Option, and each other Member's Capital Account shall be restated in accordance with Treas. Reg. ss. 1.704-(1)(b)(2)(iv)(f).

3.3 Representations And Warranties. Each Member represents and warrants to the Company and to the other Members that (i) it is acquiring its Membership Interest for investment purposes for its own account and not with a view to or for resale in connection with any distribution of all or any part of the Membership Interests in violation of the Securities Act; (ii) with respect to Members residing or with a legal presence in the United States, it (or each of its equity owners) is either (A) an "accredited investor" as defined in Rule 501(c) promulgated under the Securities Act, and as such has the financial ability to bear the economic risk of its investment in the Company, has adequate means of providing for its current needs and contingencies, and has no need for liquidity with respect to its investment in the Company or (B) a consultant or employee of the Company eligible to participate in the Company's Incentive Plan and to acquire the Membership Interest pursuant to Rule 701 of the Securities Act; (iii) it has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of an investment in the Company and has obtained, in its judgment, sufficient information regarding the Company's business and prospects to evaluate the merits and risks of its investment; (iv) in making its decision to purchase its Membership Interest, it has been advised by its business, tax, and legal advisers and is not relying on the Company or the other Members with respect to the business, tax or legal considerations involved in its investment; (v) it understands and agrees that it must bear the economic risk of its investment for an indefinite period of time because, among other reasons, Membership Interests have not been registered under the Securities Act or under the securities laws of certain states and, therefore, cannot be resold, assigned, or otherwise Disposed of unless it is registered under the Securities Act and qualified under applicable securities laws of such states or an exemption from such registration and qualification is available; (vi) if an Entity (a) it is duly formed, validly existing, and in good standing under the laws of its jurisdiction of organization and is duly qualified and in good standing in each other jurisdiction where the nature of its business requires such qualification, except where the failure to do so would not have a material adverse effect on it or the Company; (b) it has full power and authority to enter into this Agreement and to perform its obligations hereunder and all corporate (if applicable) and other actions necessary for its due authorization, execution, delivery, and performance of this Agreement have been duly taken; (c) the authorization, execution, delivery, and performance of this Agreement by it do not and will not conflict with any other agreement or arrangements to which it is a party or by which it is bound; and (vii) this Agreement constitutes a valid and binding agreement of such Member, enforceable against it in accordance with its terms.

3.4 Voting Rights; Approval Required. The Members shall not be entitled to vote on or consent to any matter affecting the Company except as specifically provided in this Agreement or in the Act. Except as otherwise specifically provided in this Agreement or in the Act, the vote, consent or approval of a Majority in Interest of the Members shall be required as to all matters as to which the vote, consent or approval of the Members is required or permitted under this Agreement or in the Act.

3.5 Meetings Of Members.

3.5.1 No annual or regular meeting of the Members as such shall be required; if convened, however, meetings of the Members may be held at such date, time, and place within the County of San Diego, State of California as the Board may fix from time to time. At any meeting of the Members, the Chairperson of the Board shall preside at the meeting and shall appoint another Person to act as secretary of the meeting. The secretary of the meeting shall prepare written minutes of the meeting, which shall be maintained in the books and records of the Company.

3.5.2 A meeting of the Members may be called at any time by the Board, or by any Member or Members who own a number of Units equal to at least ten percent (10%) of the total outstanding Units, for the purpose of addressing any matter on which the vote, consent, or approval of the Members is required or permitted under this Agreement.

3.5.3 Notice of any meeting of the Members shall be sent or otherwise given by the Board to the Members in accordance with this Agreement not less than twenty (20) nor more than sixty (60) days before the date of the meeting. The notice shall specify the place, date and hour of the meeting and the general nature of the business to be transacted. Except as the Members may otherwise agree (or may be deemed to have agreed under Section 3.5.4 hereof), no business other than that described in the notice may be transacted at the meeting.

3.5.4 Attendance in person of a Member at a meeting shall constitute a waiver of notice of that meeting, except when the Member objects, at the beginning of the meeting, to the transaction of any business because the meeting is not duly called or convened and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters not included in the notice of the meeting if that objection is expressly made at the meeting; failure to expressly object prior to the end of a meeting shall constitute the deemed agreement of the Members attending that the business transacted at the meeting was valid despite the absence of a description of such business in a notice of meeting. Neither the business to be transacted nor the purpose of any meeting of Members need be specified in any written waiver of notice. The Members may participate in any meeting of the Members by means of telephone or similar means as long as all Members participating can hear one another. A Member so participating shall be deemed to be present in person at the meeting.

3.5.5 Except where a Supermajority Vote is required, any action that can be taken at a meeting (whether or not properly noticed) of the Members may be taken without a meeting if a consent in writing setting forth the action so taken is signed and delivered to the Company within sixty (60) days of the record date for that action by Members representing not less than the minimum Percentage Interest necessary under this Agreement to approve the action at a duly noticed and convened meeting. The Board shall notify Members of all actions taken by such consents, and all such consents shall be maintained in the books and records of the Company.

3.6 Disposition Of Interests.

3.6.1 No Member shall, voluntarily or involuntarily, Dispose of all or any part of its Membership Interest in violation of the provisions of this Agreement. Any attempted Disposition of a Membership Interest, or any part thereof, in violation of this Section 3.6.1 or Article VI shall be, and hereby is declared, null and void *ab initio*. The Company or the Member as appropriate, shall have, in addition to any other legal or equitable remedies which they may have, the right to enforce the provisions of this Agreement by actions for specific performance (to the extent permitted by law). No Disposition of a Member's Membership Interest, whether consented to or otherwise, shall result in the dissolution of the Company on account of the Disposing Member ceasing to be a Member of the Company.

3.6.2 Notwithstanding the provisions of Article VI but subject to Section 3.8, provided that the other requirements of this Agreement are complied with in connection with a proposed Disposition of Units by a Member, and provided that the Disposing Member purports to grant the Person to which the Units are Disposed the right to be admitted as a Member, such Person shall have the right to be so admitted hereunder, provided further that, except in the case of a Permitted Disposition described in clause (v) of the definition thereof, the Board receive a document (i) executed by both the Member effecting such Disposition and the Person to which such Units are being Disposed, (ii) including the notice and payment address and facsimile number of the Person to be admitted to the Company as a Member and the written acceptance by such Person of all the terms and provisions of this Agreement and an agreement by such Person to perform and discharge timely all of the obligations and liabilities in respect of the Units being acquired, (iii) setting forth the number of Units being Disposed of and the number of Units being retained and the Person to which the Units are being Disposed, which together shall equal the total number of Units held by the Member effecting such Disposition prior thereto, (iv) containing a representation and warranty by the Member effecting the Disposition and the Person to which such Units are being Disposed to the effect that such Disposition was made in accordance with all laws and regulations, including the Securities Act and any applicable state securities and blue sky laws, applicable to such Member or such Person, as appropriate, (v) containing representations and warranties by the Person to which such Units are being Disposed that are substantially equivalent to those contained in Section 3.3 hereof, and such other representations and warranties as the Board may reasonably determine are necessary or appropriate in connection with such Disposition, and (vi) setting forth the effective date of the Disposition.

3.7 Amendment Of Agreement To Reflect New Members. If a Person is to be admitted to the Company as an Additional Member as provided in this Agreement, Appendix A attached hereto shall be amended to set forth such Person's name, address, amount in such Person's Capital Account, the number of Units held by such Person and the Percentage Interest held by such Person and each other Member.

3.8 Interest In Member. Notwithstanding any provision of Section 3.6 authorizing the Disposition of Units, without the prior approval by a Supermajority Vote of the Board of Managers, no Member shall Dispose of all or any part of its Membership Interest, or cause or permit an interest, direct or indirect, in itself to be Disposed of, in such a manner, in either case, that after the Disposition the Company would be considered to be a publicly traded partnership within the meaning of Section 7704 of the Code; provided, however, that this clause shall have no further force or effect following a Qualified Public Offering of Units.

3.9 No Resignation Or Removal. Except as otherwise specifically provided in this Agreement and other than with respect to a Disposition of Units permitted hereby, a Member does not have the right or power to resign or withdraw from the Company as a Member and shall be entitled to do so only with the approval of the Board. A Member also may not be removed or expelled as a Member, except upon the Disposition of the Member's entire Membership Interest in a manner not prohibited by this Agreement.

3.10 No Liability To Third Parties. Except as expressly set forth in this Agreement or required by the Act, no Member shall have any personal obligation for any liabilities of the Company, whether such liabilities arise in contract, tort or otherwise. No Member nor any of its representatives on the Board shall be liable to the other Members, their respective representatives on the Board or the Company for errors in judgment or for any actions taken in connection with or relating to the Company, including for its own simple, full, partial or concurrent negligence, unless constituting gross negligence, bad faith, fraud, willful misconduct or material breach of the provisions of this Agreement.

3.11 Rights Of Transferees. In the event the Company is required to recognize the validity of a Disposition notwithstanding the provisions of this Article III to the contrary, the transferee of a Membership Interest who has not been admitted as a Member of the Company in accordance with this Article III shall be entitled only to allocations and distributions with respect to such Membership Interest as provided in this Agreement, but shall have no right to any information or accounting of the affairs of the Company, or to inspect the books or records of the Company, and shall not have any rights of a Member under the Act or this Agreement. Notwithstanding anything herein to the contrary, the Permitted Transferee of a Permitted Disposition under clause (v) of the definition thereof shall be entitled to all the rights of a Member hereunder and under the Act.

3.12 Transactions With The Company. Subject to any limitations set forth in this Agreement and with the prior approval of the Board, a Member may lend money to and transact other business with the Company provided that the terms and conditions of any such transaction shall be on such standard commercial terms as are offered by third parties rendering similar quality goods or services on comparable transactions as an on-going activity in the same geographical area and any compensation or price payable to the Member shall not exceed that prevailing in arm's length transactions. Subject to other applicable law, such Member has the same rights and obligations with respect thereto as a Person who is not a Member.

3.13 Members Are Not Agents. Pursuant to Article VII and the Articles, the management of the Company is vested in the Board. No Member, acting solely in the capacity of a Member, is an agent of the Company nor can any Member in such capacity bind or execute any instrument on behalf of the Company.

ARTICLE IV
CAPITAL CONTRIBUTIONS AND CAPITAL ACCOUNTS

4.1 Capital Contributions.

4.1.1 Concurrently with the execution of this Agreement, (i) each Member's Capital Account shall be in the amount shown opposite such Member's name on Appendix A attached hereto, and (ii) the Company shall issue each Member the number of Units set forth opposite such Member's name on Appendix A attached hereto; provided, however, that it is specifically acknowledged that the Capital Contribution of PEC is valued at 75% of the total Capital Contributions of the Initial Members notwithstanding that it's Percentage Interest does not reflect such valuation, and that the Voting Percentage Interest and Membership Interest of PEC shall be based on 75% until such time as Third Party Members are admitted to the Company, at which time it shall be adjusted to reflect the actual Percentage Interest of PEC in all outstanding Units plus any unissued portion of the Reserved Shares until the remaining Reserved Units are issued to PEC as provided in this paragraph. It is further acknowledged and agreed that 5,000,000 Units which would otherwise have been issued to PEC and which are reflected in the value of its Capital Contribution but not in the number of Units reflected on Appendix A shall be held in reserve by the Company for sale to existing or Additional Members, said Units to be referred to herein as the "Reserved Units." Upon the two-year anniversary of the Effective Date or an earlier Change of Control of the Company, the Reserved Units or any remaining portion thereof shall be issued to PEC without further consideration, and, upon such issuance, PEC's voting rights, rights of distribution, allocations of profits and losses and all other such rights and allocations shall be based upon its actual Percentage Interest in the Company. Such issuance by the Company shall be reflected by an appropriate entry on the Company's books and records. PEC acknowledges and agrees that it shall not be entitled to any other assets of the Company, other than by way of distribution based upon ownership of the Reserved Units following issuance thereto, to recover the full value of its initial Capital Contribution to the Company. All Capital Contributions by the Members made after the date hereof shall be paid in cash, by certified check or wire transfer of immediately available funds to a bank or custodial account established for the Company by the Board, or, if approved by the Board, in other property with a net fair market value established by the Board, and shall be reflected by an appropriate entry on the Company's books and records and on Appendix A attached hereto. Notwithstanding the foregoing, all Capital Contributions made as a result of the exercise of an Option shall be in accordance with the terms of the applicable Incentive Plan.

4.1.2 No Member shall be required to make any additional Capital Contributions. To the extent approved by the Board, from time to time, the Members may be permitted to make additional Capital Contributions if and to the extent they so desire, and if the Board determines that such additional Capital Contributions are necessary or appropriate for the conduct of the Company's business. In that event, the Members shall have the opportunity, but not the obligation, to participate in such additional Capital Contributions on a pro rata basis in accordance with their Percentage Interests. Each Member shall receive a credit to his or her Capital Account in the amount of any additional capital contributed in cash (or the fair market value of any non-cash contribution) which he or she contributes to the Company. Immediately following such Capital Contributions, the Percentage Interests shall be adjusted by the Board through issuances of additional Units as may be necessary to reflect the new relative proportions of the Capital Accounts of the Members, taking into consideration any adjustments to the Capital Accounts made in accordance with the provisions of Tres. Reg. ss. 1.704-1(b)(2)(iv)(f). The fair market value of any non-cash contribution shall be determined in good faith by Supermajority Vote of the Board members.

4.2 No Return Of Capital Contribution; No Interest. Except as otherwise specifically provided in this Agreement, a Member shall not be entitled to demand or receive the return of all or any portion of the Member's Capital Contribution or to be paid interest in respect of either its Capital Account or Capital Contribution. Under circumstances permitting or requiring a return of a Member's Capital Contribution, the Member shall have no right to receive property other than cash. No Member shall be required to contribute or to lend any money or property to the Company to enable the Company to return any other Member's Capital Contribution.

4.3 Capital Accounts. The Company shall establish on its books and maintain for each Member a separate Capital Account. The initial Capital Accounts of the Members as of the date of this Agreement are as set forth on Appendix A attached hereto. Each Member's Capital Account (a) shall be increased by (i) the amount of any additional Capital Contributions made by such Member pursuant to Section 4.1.2 hereof and (ii) allocations to that Member of Net Profit or other items of Company book income and gain, including income and gain exempt from tax and income and gain described in Treas. Reg. ss. 1.704-1(b)(2)(iv)(g) and (b) shall be decreased by (i) the amount of money distributed to that Member by the Company, (ii) the fair market value of property distributed to that Member by the Company (net of liabilities secured by the distributed property that such Member is deemed to assume under section 752 of the Code), (iii) allocations to that Member of expenditures of the Company described in section 705(a)(2)(B) of the Code, and (iv) allocations of Net Loss and other items of Company book loss and deduction, including loss and deduction described in Treas. Reg. ss. 1.704-1(b)(2)(iv)(g), but excluding items described in clause (b)(iii) of this sentence. The Capital Accounts shall also be maintained and adjusted as permitted by the provisions of Treas. Reg. ss. 1.704-1(b)(2)(iv)(f) and as required by the other provisions of Treas. Reg. ss. 1.704-1(b)(2)(iv) and 1.704-1(b)(4). On the transfer of all or part of a Membership Interest, the Capital Account of the transferor that is attributable to the transferred Membership Interest or part thereof shall carry over to the transferee in accordance with the provisions of Treas. Reg. ss. 1.704-1(b)(2)(iv)(1).

4.4 No Obligation To Restore Deficits. No Member shall have any liability or obligation to the Company, the other Members or any creditor of the Company to restore at any time any deficit balance in such Member's Capital Account.

ARTICLE V
ALLOCATIONS AND DISTRIBUTIONS

5.1 Allocation Of Net Profits And Net Losses; Capital Accounts. The Members agree to treat the Company as a partnership for federal, state, and local income tax purposes and shall file all tax returns in a manner consistent with such treatment until such time as the Board, by a Supermajority Vote, approves taxation of the Company as a corporation or permits a transaction which would cause the Company to be treated as a publicly traded partnership. Subject to 5.2 hereof, the Company's Net Profits and Net Losses with respect to any fiscal year shall be allocated as follows:

(a) Net Profits shall be allocated as follows:

(i) An amount of Net Profits up to the excess of (x) all Net Losses previously allocated to the Members pursuant to Section 5.1(b) hereof over (y) all Net Profits previously allocated to the Members pursuant to this Section 5.1(a)(i) shall be allocated to each Member in proportion to its share of such excess of (x) over (y); and

(ii) Any remaining Net Profits shall be allocated to the Members in proportion to their Percentage Interests.

(b) Net Losses shall be allocated to the Members in proportion to their Percentage Interests.

5.2 Other Allocation Provisions.

5.2.1 If there is a net decrease in Company Minimum Gain for a fiscal year, then there shall be allocated to each Member items of income and gain for that year equal to that Member's share of the net decrease in Company Minimum Gain (within the meaning of Regulation ss. 1.704-2(g)(2)), subject to the exceptions set forth in Regulation ss. 1.704-2(f)(2), (3), and (5); provided, that if the Company has any discretion as to an exception set forth pursuant to Regulation ss. 1.704-2(f)(5), the Tax Matters Member may exercise such discretion on behalf of the Company. In the event that the application of the minimum gain chargeback requirement would cause a distortion in the economic arrangement among the Members, the Tax Matters Member may request that the Commissioner of the Internal Revenue Service waive the minimum gain chargeback requirement pursuant to Regulation ss. 1.704-2(f)(4). The foregoing is intended to be a "minimum gain chargeback" provision as described in Regulation ss. 1.704-2(f) and shall be interpreted and applied in all respects in accordance with that regulation.

If during a fiscal year there is a net decrease in Member Nonrecourse Debt Minimum Gain, then, in addition to the amounts, if any, allocated pursuant to the preceding paragraph, any Member with a share of that Member Nonrecourse Debt Minimum Gain (determined in accordance with Regulation ss. 1.704-2(i)(5)) as of the beginning of the fiscal year shall, subject to exceptions in Regulation ss. 1.704-2(i)(4) (provided, that if a limited liability company has any discretion as to an exception set forth pursuant to Regulation ss. 1.704-2(i)(4), the Tax Matters Member may exercise such discretion on behalf of the Company), be allocated items of income and gain for the year (and, if necessary, for succeeding years) equal to that Member's share of the net decrease in the Member Nonrecourse Debt Minimum Gain. In the event that the application of the Member Nonrecourse Debt Minimum Gain chargeback requirement would cause a distortion in the economic arrangement among the Members, the Tax Matters Member may request that the Commissioner of the Internal Revenue Service waive the minimum gain chargeback requirement pursuant to Regulation ss.ss. 1.704-2(f)(4) and 1.704-2(i)(4). The foregoing is intended to be the "chargeback of partner nonrecourse debt minimum gain" required by Regulation ss. 1.704-2(i)(4) and shall be interpreted and applied in all respects in accordance with that Regulation.

5.2.2 If during any fiscal year a Member unexpectedly receives an adjustment, allocation or distribution described in Regulation ss. 1.704-1(b)(2)(ii)(d)(4), (5) or (6), which causes or increases a deficit balance in the Member's Adjusted Capital Account, there shall be allocated to the Member items of income and gain (consisting of a pro rata portion of each item of Company income, including gross income, and gain for such year) in an amount and manner sufficient to eliminate such deficit. The foregoing is intended to be a "qualified income offset" provision as described in Regulation ss. 1.704-1(b)(2)(ii)(d) and shall be interpreted and applied in all respects in accordance with that Regulation. A Member's "Adjusted Capital Account," at any time, shall equal the Member's Capital Account at such time (x) increased by the sum of (A) the amount of the Member's share of Company Minimum Gain (as defined in Regulation ss. 1.704-2(g)(1) and (3)) and (B) the amount of the Member's share of Member Nonrecourse Debt Minimum Gain (as defined in Regulation ss. 1.704-2(i)(5)), and (y) decreased by reasonably expected adjustments, allocations and distributions described in Regulation ss.ss. 1.704-1(b)(2)(ii)(d)(4), (5) and (6).

5.2.3 If any Member has a deficit in its Adjusted Capital Account, such Member shall be specially allocated items of Company income and gain in the amount of such deficit as rapidly as possible, provided that an allocation pursuant to this Section 5.2.3 shall be made if and only to the extent that such Member would have a deficit to its Capital Account after all other allocations provided for in this Agreement have been tentatively made as if this Section 5.2.3 were not in this Agreement.

5.2.4 Notwithstanding anything to the contrary in this Article V, Company losses, deductions, or section 705(a)(2)(B) expenditures that are attributable to a particular Member Nonrecourse Debt shall be allocated to the Member(s) that bears the economic risk of loss for the liability in accordance with Regulation ss. 1.704-2(i).

5.2.5 Notwithstanding any provision of Section 5.1 above, no allocation of Net Losses shall be made to a Member if it would cause the Member to have a negative balance in its Adjusted Capital Account (except pursuant to the last sentence of this Section 5.2.5). Allocations of Net Losses that would be made to a Member but for this Section 5.2.5 shall instead be made to other Members pursuant to Section 5.1 above, as applicable, to the extent not inconsistent with this Section 5.2.5. To the extent allocations of Net Losses cannot be made to any Member because of this Section 5.2.5, such allocations shall be made to the Members in accordance with Section 5.1 above, as applicable.

5.2.6 To the extent that any item of income, gain, loss or deduction has been specially allocated pursuant to Sections 5.2.2 or 5.2.5 above and such allocation is inconsistent with the way in which the same amount otherwise would have been allocated under Section 5.1 above, as applicable, subsequent allocations under Section 5.1 above, as applicable, shall be made, to the extent possible and without duplication, in a manner consistent with Sections 5.2.1, 5.2.2, 5.2.3, 5.2.4 and 5.2.5 above which reverse the effect of all such inconsistent allocations under Sections 5.2.2 or 5.2.5 above.

5.2.7 Solely for the purpose of adjusting the Capital Accounts of the Members, and not for tax purposes, if any property is distributed in kind to any Members, the difference between its fair market value as determined by the Board in good faith and its book value at the time of distribution shall be treated as gain or loss recognized by the Company and allocated pursuant to the provisions of Section 5.1 above.

5.2.8 Except to the extent otherwise required by the Code and Regulations, if a Membership Interest or part thereof is transferred in any fiscal year, the items of income, gain, loss, deduction and credit allocable to such Membership Interest for such fiscal year shall be apportioned between the transferor and the transferee in proportion to the number of days in such fiscal year such Membership Interest is held by each of them, except that, if the transferor and transferee agree between themselves and so notify the Board within thirty (30) days after the transfer, then, at their option and expense, (i) all items or (ii) extraordinary items, including capital gains and losses, may be allocated to the Person who held such Membership Interest on the date such items were realized or incurred by the Company.

5.2.9 Any allocations made pursuant to this Article V shall be made in the following order:

(i) Section 5.2.1;
(ii) Section 5.2.2;
(iii) Section 5.2.3;
(iv) Section 5.2.4;
(v) Section 5.2.6; and
(vi) Section 5.1

The provisions of this Section 5.2.9 shall be applied as if all distributions and allocations were made at the end of the fiscal year. If any provision is dependent on the Capital Account of any Member, that Capital Account shall be determined after the operation of all preceding provisions for the fiscal year. These allocations shall be made consistently with the requirements of Regulation ss. 1.704-2(j).

5.3 Allocations For Income Tax Purposes. The income, gains, losses, deductions and credits of the Company for federal, state and local income tax purposes shall be allocated in the same manner as the corresponding items (including all items entering into the computation of Net Profits and Net Losses) were allocated pursuant to Sections 5.1 and 5.2 above and Article IX hereof; provided, that solely for federal, local and state income and franchise tax purposes and not for book or Capital Account purposes, income, gain, loss and deduction with respect to property properly carried on the Company's books at a value other than its tax basis shall be allocated in accordance with the requirements of Code Section 704(c) and Regulation ss.1.704-3.

5.4 Distributions. Subject to Section 11.2 below, the Company may periodically distribute Distributable Cash to the Members with the amount and timing of such distributions to be determined by the Board. Except as provided in Section 4.1.1 and Article XI hereof, all distributions of cash shall be made to the Members in proportion to their respective Percentage Interests.

5.5 Form Of Distributions. A Member has no right to demand or receive any distribution from the Company in any form other than cash. Likewise, except in connection with the dissolution of the Company and as provided in Section 11.2.1 hereof, no Member shall be compelled to accept from the Company a distribution of any asset in kind.

5.6 No Limitations On Distributions. No distribution provided for herein shall be limited by the Act.

ARTICLE VI
RESTRICTIONS ON TRANSFER

6.1 Rights of First Refusal.

6.1.1 Bona Fide Offer; Options to Purchase. If a Member other an Initial Member (the "Transferring Member") decides to Transfer all or any part of its Membership Interest (the "Offered Interest") pursuant to a bona fide third-party offer, the Transferring Member shall give written notice to the Company setting forth in full the terms of such offer and the identity of the offeror prior to making any sale of the Offered Interest. Within fifteen (15) days of receipt of such notice, the Company shall send a copy of the notice to each other Member. The Initial Members, the Company and the remaining Members shall then have the following rights of purchase:

(i) The Initial Members, pro rata in accordance with the ratio of their Membership Interests, shall then have the right and option, for a period ending fifteen (15) business days following receipt of the written notice from the Company (the "Initial Option Period"), to elect to purchase all or part of the Offered Interest at the purchase price and upon the terms specified in such bona fide offer. To the extent either Initial Member does not exercise its option described in the foregoing sentence, the remaining Initial Member may purchase all or part of the Offered Interest not purchased by such Initial Member.

(ii) Any portion of the Offered Interest not purchased by the Initial Members pursuant to subparagraph (i), may then be purchased by the Company within fifteen (15) business days following the expiration of the Initial Option Period (the "Company Option Period") at the purchase price and upon the terms specified in the bona fide offer.

(iii) Any portion of the Offered Interest not purchased by the Initial Members or the Company pursuant to subparagraphs (i) and (ii) may then be purchased by the remaining Members pro rata in accordance with the ratio of their Percentage Interests for a period ending fifteen (15) business days following expiration of the Company Option Period at the purchase price and upon the terms specified in the bona fide offer. If the remaining Members do not elect to purchase the entire remaining Offered Interest in the Company, then the Members electing to purchase shall have the right, pro rata in accordance with their prior Percentage Interest in the Company, to purchase the remaining Offered Interest.

The Initial Members, the Company and the remaining Members shall each give written notice of their desire to purchase any portion of the Offered Interest within the applicable time period stated above, indicating the number of Units included in the Offered Interest that he, she or it desires to purchase. To the extent that the options provided in subparagraphs (i) and (ii) are exercised, the number of Units each other optionee elected to purchase shall be decreased based on the amount previously purchased and, with respect to purchases made pursuant to subparagraph (iii), shall be decreased pro rata to reflect the purchasing Member's Percentage Interest of the remaining Offered Interest. Each optionee agrees to use his, her or its best efforts to provide notice prior to the expiration of the applicable option period in order to enable the Transferring Member to complete the sale to the bona-fide party in the event said options are not fully exercised.

6.1.2 Transfer to Proposed Transferee. If the optionees identified in Section 6.1.1 above do not elect to purchase all of the Offered Interest subject to the rights of first refusal pursuant to this Section 6.1, subject to Section 3.8, the Transferring Member may Transfer all, or the remainder, of the Offered Interest to the original proposed transferee upon the terms set forth in the written notice provided to the Company, whereupon the original proposed transferee shall take and hold the Offered Interest subject to this Agreement and to all of the obligations and restrictions upon the Transferring Member and shall observe and comply with this Agreement and with all such obligations and restrictions. Any such transfer of the Offered Interest to the original proposed transferee must be consummated within sixty (60) calendar days after the date of the termination of the options provided above. If no such Transfer is consummated within the sixty (60) calendar day period, then any subsequent proposed Transfer of all or any part of the Transferring Member's Membership Interest shall once again be subject to the provisions of this Section 6.1. For purposes of this Section 6.1, any consideration offered for the Offered Interest other than money or an obligation to pay money shall be valued at fair market value, as determined in the good faith reasonable discretion of the Board of Managers, and the monetary amount resulting from such determination shall be included in the purchase price payable by the purchasing Members hereunder.

6.1.3 No Transfer of Right of First Refusal. The rights of first refusal set forth in this Section 6.1 may not be assigned or transferred.

6.2 Legends On Unit Certificates. All Membership Interests in the Company shall be held through Units evidenced by certificates. All Units shall be securities governed by Article 8 of the Uniform Commercial Code as in effect in the State of California as provided pursuant to Section 8-103 thereof. Each certificate representing Units shall bear legends substantially as follows:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), NOR QUALIFIED UNDER APPLICABLE STATE SECURITIES LAWS IN RELIANCE ON EXEMPTIONS THEREFROM. THESE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT PURPOSES ONLY AND NOT WITH A VIEW TO DISTRIBUTION OR RESALE AND MAY NOT BE SOLD, MORTGAGED, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT FOR SUCH SECURITIES UNDER THE SECURITIES ACT AND THE REGULATIONS PROMULGATED PURSUANT THERETO (UNLESS EXEMPT THEREFROM) AND COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS AND REGULATIONS.

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO FURTHER RESTRICTIONS ON TRANSFER, ALL AS SET FORTH IN THE OPERATING AGREEMENT OF THE COMPANY, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.

ARTICLE VII
MANAGEMENT AND OPERATION

7.1 Management. Except for matters as to which this Agreement specifically reserves to the Members the authority to act, or to grant or withhold their consent or approval of an action, the Board shall have full, complete, and exclusive authority to manage and control the business, affairs, and properties of the Company, to make all decisions regarding the same and to perform any and all other acts or activities customary or incident to the management of the Company's business.

7.2 Board of Managers.

7.2.1 The Initial Members hereby appoint a Board of Managers of the Company, whose responsibilities shall consist of the matters specifically described in this Agreement as requiring the consent or approval of the Board. The Board shall at all times consist of not more than five (5) directors, and, unless otherwise provided herein, all actions to be taken by the Board will require the affirmative vote of a majority of the members of the Board then in office. The members of the Board shall consist of three (3) individuals appointed by PEC ("*PEC directors*"), one (1) individual appointed by Ritblatt ("*Ritblatt director*"), and, upon issuance of Units representing a minimum of 20% of all outstanding Units upon issue to the first Additional Member pursuant to Section 3.1 or Section 3.2, one (1) individual appointed by the mutual agreement of PEC and Ritblatt which director shall possess such character, experience and know-how as will be beneficial to the Company. The initial individuals serving on the Board are set forth in Appendix B attached hereto. Any individual on the Board may resign for any reason. Such resignation shall be made in writing and shall take effect at the time specified therein, or if no time is specified, at the time of its receipt by the Company. The acceptance of a resignation shall not be necessary to make it effective. An individual on the Board may be removed only by the Member that appointed such individual. If a vacancy should occur in a director position (through death, removal, resignation or otherwise), then such vacancy shall be filled by the Member that appointed the position vacated. None of the Board members shall be compensated by the Company for their services on the Board. The Initial Members shall be mindful of the duties and obligations of the members of the Board and exercise good judgment in the appointment or removal of directors. In the event the Board shall delegate any of its responsibilities to a committee of the Board, the proportion of PEC directors and Ritblatt directors shall be no less than two to one (2-1). However, notwithstanding the foregoing or the other provisions of this Section 7.2, the failure of any Initial Member to appoint a director which that Initial Member is entitled to appoint shall not limit the right of the Board of Managers to carry on the business of the Company.

7.2.2 Notwithstanding the foregoing, at such time as either Initial Member Disposes of all of its Membership Interest in the Company, a directorship which would otherwise have been filled by such Initial Member as described in Section 7.2.1 shall be vacant unless and until filled by the vote of a Majority in Interest of the Members.

7.2.3 The Board shall meet at least four (4) times per fiscal year of the Company, with a minimum of one (1) meeting per fiscal quarter. Meetings of the Board will be convened at the written request of any director or upon thirty (30) days prior written notice from an Initial Member. Each member of the Board shall be entitled to cast one (1) vote on each resolution to be voted upon. At every meeting of the Board, the presence of a majority of the Board consisting of at least two (2) PEC directors and one (1) Ritblatt director, subject to Section 7.2.2 above, shall constitute a quorum for the transaction of business at the meeting, and the affirmative vote of a majority of the representatives then in office shall be necessary for the adoption of any resolution, the making of any decision, the delegation of any authority or the taking of any action by the Board, provided that the following transactions must be approved by (a) a Supermajority Vote of the Members so long as the combined Percentage Interest of the Initial Members is more than 50%, or (b) a Majority in Interest of the Members if the combined Percentage Interest of the Initial Members in the Company is 50% or less:

(i) (A) Any merger or consolidation, or (B) any divestiture, joint venture, partnership, acquisition or other business combination with, by or of the Company into or with any other Person or form of Entity ("Business Combination") or reorganization of the Company (including but not limited to an Article VIII conversion);

(ii) Any material changes in the Business of the Company, including but not limited to the expansion of the scope of the Business;

(iii) Any amendment to the Articles or this Agreement;

(iv) The removal of any PEC director or Ritblatt director from the Board of Managers except for a removal by the appointing Member;

(v) Prior to a Qualified Public Offering, any transaction which would result in the Company being taxed as a publicly traded partnership pursuant to Section 7704 the Code; or

(vi) Dissolution of the Company.

7.2.4 Meetings of the Board may be held at such place or places (within the County of San Diego, State of California) and at such times as shall be determined from time to time by the Chairman of the Board. Notice of regular meetings or special meetings called by the Chairman of the Board shall be give at least fifteen (15) days prior to the date of the meeting. Special meetings of the Board may be called by an Initial Member on at least thirty (30) days prior written notice to the Chairman of the Board. Except for notice given by an Initial Member, such notice need not state the purpose or purposes of, nor the business to be transacted at such meeting. Notice shall be delivered personally to each of the directors (or the directors who are members of a committee) or personally communicated to them by an officer of the Company by telephone and confirmed in writing by facsimile or email to the current email address of the director, or communicated by overnight courier service (receipt requested), unless waived by each of the directors (or the directors who are members of a committee). Such notice as above provided shall be considered due, legal and personal notice to the director. Notice shall be transmitted to the last known facsimile number, email address or mailing address of the director as shown on the records of the Company. At all meetings of the Board, business shall be transacted in such order as shall from time to time be determined by the Chairman. Attendance in person or by proxy of a Board member at a meeting shall constitute a waiver of notice of such meeting, except where a representative attends a meeting for the express purpose of objecting, at the beginning of such meeting, to the transaction of any business on the ground that the meeting is not lawfully called or convened. Minutes of all meetings of the Board shall be kept and retained in the records of the Company.

7.2.5 If at any meeting of the Board (or any committee thereof) that has been duly called or noticed, a quorum (as described in Section 7.2.3) is not present, such meeting shall be adjourned and reconvened in two (2) business days, unless such adjournment has been waived by all of the directors (whether or not present at the meeting). Notice of the revised meeting date shall be given to each director pursuant to the foregoing provisions excluding the number of days of advance notice. Notwithstanding the provisions of the fourth sentence of Section 7.2.3 above, in the event that at least one director appointed by each Initial Member is not present at such reconvened meeting, such meeting shall be deemed to have a quorum if a majority of the total number of directors is present. Meetings of the Board (or any committee thereof) shall be delayed only once for lack of participation of the directors appointed by any Initial Member.

7.2.6 The Board shall designate a Chairman. The Chairman shall preside over all meetings of the Board and shall have such other power, authority and responsibility as the Board may, from time to time, delegate to such Chairman. The initial Chairman shall be Mr. Larry Balaban. Mr. Balaban shall serve as Chairman until the members of the Board should appoint a new Chairman by a majority vote.

7.2.7 Any consent or approval reserved by this Agreement to the Board may be taken without a meeting if a unanimous consent in writing, setting forth the action to be taken, is signed by all of the members of the Board. Such consent shall have the same force and effect as the requisite affirmative vote at a duly convened meeting of the Board, and the execution of such consent shall constitute attendance or presence in person at a meeting of the Board. Subject to the requirements of this Agreement for notices of meetings, Board members may participate in and hold a meeting of the Board by means of a telephone or video conference or similar communications equipment by means of which all representatives participating in the meeting can hear each other, and participation in such meeting shall constitute attendance and presence in person at such meeting, except where a representative participates in the meeting for the express purpose of objecting, at the beginning of such meeting, to the transaction of any business on the ground that the meeting is not properly called or convened.

7.2.8 In the event that any Initial Member's Units pass to his or her heirs upon death or mental incapacity of the Initial Member, the heirs shall be required to execute this Agreement and shall acquire all of the rights and be subject to all of the obligations of the original Initial Member, including the right to appoint or remove directors to the Board of Managers pursuant to this Section 7.2

7.3 Officers.

7.3.1 Term Of Office. The Board may appoint officers, including but not limited to a Chief Executive Officer, and may authorize the Chief Executive Officer to appoint officers, to serve for any period of time that they deem appropriate. Each officer shall hold office and perform such duties as may be determined from time to time by the Board or the Chief Executive Officer until he or she shall resign or shall be removed or otherwise be disqualified to serve, or until a successor to such office is appointed upon the expiration of his or her term if a term is specified. The Chief Executive Officer shall use reasonable endeavors to ensure that appointees have experience and qualifications which are commensurate with the relevant appointment and dismiss employees, including officers, appointed by him in accordance with Board instructions and any applicable laws. The initial Chief Executive officer shall be Mr. Larry Balaban. Officers appointed pursuant to this Section 7.3.1 may only receive compensation for services to the Company as is standard in the industry for applicable services both in terms of time devoted and character of services.

7.3.2 Removal And Resignation. Any officer may be removed, either with or without cause, by the Board, at any regular or special meeting thereof, or by any officer upon whom such power of removal may be conferred by the Board (subject, in each case, to the rights, if any, of an officer under any contract of employment). Any officer may resign at any time by giving written notice to the Board or to the Chief Executive Officer or the President or Secretary of the Company, without prejudice, however, to the rights, if any, of the Company under any contract to which such officer is a party. Any such resignation shall take effect at the date of the receipt of such notice or at any time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

7.3.3 Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in this Agreement for regular appointments to such office.

7.4 Acts Of Officers As Conclusive Evidence Of Authority. Any note, mortgage, evidence of indebtedness, contract, agreement, certificate (including, without limitation, the Articles), statement, conveyance, or other instrument in writing, and any assignment or endorsement thereof, executed or entered into between the Company and any other Person, when signed by any officer, shall not be rendered invalid as to the Company solely by any lack of authority unless the other Person had actual knowledge that the officer had no authority to execute the same. In this respect, each officer shall be an "authorized person" within the meaning of the Act.

7.5 Payments To Members. Except as authorized by the Board, no Member is entitled to remuneration for services rendered to the Company.

7.6 Nature Of Relationship.

7.6.1 The Board and each officer shall conduct the affairs of the Company in the best interests of the Company and the mutual best interests of the Members, including, without limitation, the safekeeping and use of all Company funds and assets and the use thereof for the benefit of the Company. Each member of the Board and each officer at all times shall act with integrity and in good faith and utilize all reasonable efforts in all activities relating to the conduct of the business of the Company and in resolving conflicts of interest arising in connection therewith.

7.6.2 Notwithstanding anything to the contrary in this Agreement, nothing in this Agreement shall be construed as an agreement by the Company, express or implied, to employ a Member or contract for the services of a Member, to restrict the right of the Company to discharge a Member or cease contracting for the services of a Member or to modify, extend or otherwise affect in any manner whatsoever, the terms of any employment agreement or contract for services which may exist between the Company and a Member.

7.7 Initial Members' Right Of Investment. In the event that the Board determines to raise capital through the issuance of debt or equity of the Company, the Company shall first offer the Initial Members the right to make such investment based upon the Percentage Interest pursuant to the terms and conditions of the Joint Venture Agreement.

ARTICLE VIII
CONVERSION TO CORPORATION

8.1 Authority. The Board may, subject to Section 7.2.3(i), either (i) cause the Company to contribute all or substantially all of its assets to a corporation in a transaction qualified under Section 351 of the Code, and thereupon liquidate and dissolve the Company, (ii) elect to have all Members contribute their Units to a corporation, in a transaction qualifying under Section 351 of the Code, as long as the value of the shares of the corporation received by all Members has a value equal to the value of the Units transferred, or (iii) otherwise cause the Company to convert into a corporation, by way of merger, consolidation or otherwise, so long as such conversion does not result in any material liability of any of the Members without their consent and provided that the value of the shares of the corporation received by each Member has a value equal to the value of the Units transferred. Subject to the foregoing, the conversion of the Company or its business into a corporation shall be accomplished pursuant to such terms and in such manner as the Board shall deem appropriate.

8.2 Cooperation By Members. Each Member, as a condition to becoming a Member, hereby agrees to cooperate in whatever way required by the Board to facilitate the conversion of the Company into a corporation as provided in Section 8.1 above.

8.3 Stockholders Agreement. If the Company shall elect to convert into a corporation as provided in Section 8.1 above prior to a Qualified Public Offering (other than in connection with a Qualified Public Offering), the Members shall use all reasonable efforts to negotiate and enter into an agreement containing substantially identical terms and provisions to those set forth herein as such terms and provisions relate to the operation and governance of a closely held non-public corporation.

ARTICLE IX
TAX MATTERS

9.1 Tax Returns. The Company shall prepare or cause to be prepared and filed all necessary federal, state and local income tax returns for the Company. The Company shall furnish to each Member copies of all returns that are actually filed and shall keep them informed of any and all pending or threatened tax proceedings regarding the Company.

9.2 Tax Matters Member. PEC shall be the "tax matters partner" of the Company pursuant to section 6231(a)(7) of the Code (the "*Tax Matters Member*"). PEC shall take such commercially reasonable actions as may be necessary to cause each other Member to become a "notice partner" within the meaning of section 6231(a)(8) of the Code, shall inform each other Member of all significant matters that may come to its attention in its capacity as the Tax Matters Member, and shall forward to each Member copies of all significant written communications it may receive in such capacity. PEC shall not take any action contemplated by sections 6222 through 6231 of the Code without the consent of the other Members.

9.3 Tax Elections. The Company shall make the following elections on the appropriate tax returns:

9.3.1 to adopt the calendar year as the Company's fiscal year;

9.3.2 to adopt an appropriate method of accounting and to keep the Company's books and records on that method;

9.3.3 if (i) a distribution of Company property as described in Section 734 of the Code occurs or (ii) a transfer of a Membership Interest as described in Section 743 of the Code occurs, an election, in the discretion of the Board, pursuant to Section 754 of the Code, to adjust the basis of the Company properties; and

9.3.4 any other election the Board deems appropriate and in the best interests of the Company and the Members. It is the intent of the Members that the Company be treated as a partnership for federal income tax purposes and, to the extent permitted by applicable law, for state and local franchise and income tax purposes. Neither the Company nor any Member may make an election for the Company to be excluded from the application of the provisions of subchapter K of chapter 1 of subtitle A of the Code or any similar provisions of applicable state or local law, and no provision in this Agreement shall be construed to sanction or approve such an election.

9.4 Withholding. With respect to any Member, any tax required to be withheld under Section 1446 or other provisions of the Code, or under state law, shall be treated as a distribution of such cash to such Member or, in the discretion of the Board, as a demand loan to such Member for all purposes of this Agreement.

ARTICLE X
BOOKS, RECORDS, REPORTS, AND BANK ACCOUNTS

10.1 Maintenance Of Books. The books of account for the Company shall be maintained on the accounting basis determined to be appropriate under Section 9.3.2, except that Capital Accounts shall be maintained in accordance with Article IV hereof. The calendar year shall be the accounting year of the Company, unless the Board selects a different accounting year.

10.2 Financial Information; Access.

10.2.1 The Company shall maintain a comparative system of accounts in accordance with generally accepted accounting principles of the United States of America, keep full and complete financial records and shall furnish to the Members within ninety (90) days after the end of each fiscal year, a copy of the consolidated balance sheet of the Company as at the end of such year, together with a consolidated statement of income and retained earnings (net loss) of the Company for such year, audited and certified by independent public accountants of recognized national standing selected by the Board, prepared in accordance with generally accepted accounting principles and practices consistently applied. The Company shall also prepare such other reports as the Board may reasonably request.

10.2.2 The Company shall permit, upon reasonable request and notice and during normal business hours and without undue disruption to the Company's business, each Member or any employees, agents or representatives thereof, access to such information and records as set forth in and in accordance with Section 17106 of the Act and to examine and make copies of and extracts from the records and books of account of, and visit and inspect the properties of the Company, and to discuss the affairs, finances and accounts of the Company with any of its officers, key employees, attorneys and independent accountants; provided, however, each Member, employee, agent or representative thereof, as the case may be, agrees to hold all information so received in accordance with Section 10.3 hereof.

10.3 Confidentiality. Unless the Board agree otherwise, each Member shall hold in strict confidence any Proprietary Information (as hereinafter defined) it receives regarding the Company, or any Proprietary Information regarding the business or affairs of any other Member in respect of the Company, whether such information is received from the Company, another Member or Affiliate or partner of a Member or another Person for the period commencing on the date of this Agreement and ending on the second anniversary of the date such Member shall no longer be a Member of the Company. "*Proprietary Information*" means any information that derives independent economic value, actual or potential, from not being generally known to the public or to other Persons who can obtain economic value from its disclosure or use, and includes information of the Company, any Member, and any Person with whom the Company or any Member does business; provided, however, that Proprietary Information shall not include (a) information that is or becomes available to the public generally without breach of this Section 10.3; (b) disclosures required to be made by applicable laws and regulations or stock exchange requirements or requirements of the Financial Industry Regulatory Authority (FINRA); (c) disclosures required to be made pursuant to an order, subpoena or legal process; (d) disclosures to members, partners, officers, fiduciaries, directors or Affiliates of such Member (and the members, partners, officers, fiduciaries or directors of such Affiliates), and to auditors, counsel, and other professional advisors to such Persons or the Company (provided, however, that such Persons have been informed of the confidential nature of the information, and, in any event, the Member disclosing such information shall be liable for any failure by such Persons to abide by the provisions of this Section 10.3), or (e) disclosures in connection with any litigation or dispute among the Members and the Company; and provided further than any disclosure pursuant to clause (b), (c), (d) or (e) of this sentence shall be made only subject to such procedures the Member making such disclosure determines in good faith are reasonable and appropriate in the circumstances, taking into account the need to maintain the confidentiality of such information and the availability, if any, of procedures under laws, regulations, subpoenas, or other legal process. Each Member acknowledges that disclosure of information in violation of the provisions of this Section 10.3 may cause irreparable injury to the Company and the Members for which monetary damages are inadequate, difficult to compute, or both. Accordingly, each Member agrees that its obligations under this Section 10.3 may be enforced by specific performance and that breaches or prospective breaches of this Section 10.3 may be enjoined. The provisions of this Section 10.3 shall survive and remain enforceable against each Member for a period of two years following the date such Member ceases to be a Member of the Company, whether through a Disposition of all of such Member's Units or otherwise.

ARTICLE XI
DISSOLUTION AND WINDING UP

11.1 Conditions Of Dissolution. The following and only the following shall cause the Company to be dissolved, liquidated and terminated:

(a) the vote, consent or approval of the Member or Members required by Section 7.2.3 to dissolve the Company;

(b) the entry of a decree of judicial dissolution under the Act; or

(c) the Disposition of all or substantially all of the assets of the Company in one transaction or a series of related transactions;

provided, however, that in no event shall a merger or consolidation of the Company, regardless of whether the Company is the surviving or resulting entity in the merger or consolidation, be deemed to be a dissolution under this Section 11.1 unless otherwise required by law.

11.2 Liquidation And Termination.

11.2.1 Upon the dissolution of the Company as provided in Section 11.1 above, the Company shall continue solely for the purpose of winding up its affairs in an orderly manner, liquidating its assets, and satisfying the claims of its creditors. The Board shall act as liquidator. The liquidator shall oversee the winding up and liquidation of the Company, take full account of the liabilities of the Company and assets, either cause the Company's assets to be sold as promptly as is consistent with obtaining fair market value therefor or distributed to the Members and, if sold, shall cause the proceeds therefrom, to the extent sufficient therefor, to be applied and distributed as provided in paragraph (c) below. Until final distribution, the liquidator shall manage the Company's business and other property and assets with all of the power and authority of the Members. The steps to be accomplished by the liquidator are as follows:

(a) ensure that any remaining portion of the Reserved Units is issued to PEC prior to final distribution and the books and records of the Company are adjusted accordingly;

(b) as promptly as possible after dissolution and again after final liquidation, the liquidator shall cause a proper accounting to be made by a recognized firm of certified public accountants of the Company's assets, liabilities, and operations through the last day of the calendar month in which the dissolution shall occur or the final liquidation shall be completed, as applicable;

(c) during the period commencing on the first day of dissolution pursuant to Section 11.1 above and ending on the date on which all of the assets of the Company have been distributed to the Members in accordance with this Section 11.2, the Members shall continue to share Net Profits, Net Losses, and other items of Company income, gain, loss or deduction in the manner provided in Article V hereof, provided that no distributions shall be made pursuant to Section 5.4 above;

(d) the liquidator shall pay or discharge from Company funds all of the debts, liabilities and obligations of the Company (including, without limitation, the establishment of a cash escrow fund for contingent liabilities in such amount and for such terms as the liquidator may reasonably determine, or the distribution of property to the Members in kind subject to debts, liabilities or other obligations); and

(e) all remaining assets of the Company shall be distributed to the Members as follows:

(i) the liquidator may sell any or all Company property, including to Members, and any resulting gain or loss from each sale shall be computed and allocated to the Members in accordance with Section 5.1 above;

(ii) with respect to any Company property that has not been sold, the fair market value of such property shall be determined and the Members' Capital Accounts shall be adjusted to reflect the manner in which the unrealized gain and unrealized income, gain, loss, and deduction inherent in that property (and that has not been reflected in the Capital Accounts previously) would be allocated among the Members if there were a taxable disposition of that property for the fair market value of that property on the date of distribution; and

(iii) all liquidation proceeds, as well as any Company property that is to be distributed to the Members, shall be distributed in accordance with Section 5.4 above; provided, however, that all liquidating distributions shall be made in accordance with the Members positive Capital Account balances within the meaning of Treas. Reg. ss. 1.704-1(b)(2)(ii)(b)(2).

11.3 Cancellation Of Filings. Upon completion of the distribution of Company assets as provided herein, the Company is terminated, and the liquidator shall file a certificate of cancellation with the California Secretary of State and take such other actions as may be necessary to terminate the Company.

11.4 No Capital Contribution Upon Dissolution. Each Member shall look solely to the assets of the Company for all distributions with respect to the Company, its Capital Contribution thereto, its Capital Account, its share of Net Profits or Net Losses or other items and shall have no recourse therefor (upon dissolution or otherwise) against any Member. No Member shall be obligated to restore to the Company any negative balance that may exist or continue in such Member's Capital Account.

ARTICLE XII
EXCULPATION AND INDEMNIFICATION

12.1 No Indemnified Person shall be liable, including under any legal or equitable theory of fiduciary duty or other theory of liability, to the Company or to any other Indemnified Person for any losses, claims, damages or liabilities incurred by reason of any act or omission performed or omitted by such Indemnified Person in good faith on behalf of the Company. Whenever in this Agreement an Indemnified Person is permitted or required to make decisions in good faith, the Indemnified Person shall act under such standard and shall not be subject to any other or different standard (including any legal or equitable standard of fiduciary or other duty) imposed by this Agreement or any relevant provisions of law or in equity or otherwise.

12.2 The Company shall indemnify and defend each Member, each Board member, each officer or other agent of the Company and the Affiliates and partners of each of the foregoing (each, an "*Indemnified Person*") who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (a "*Proceeding*") by reason of the fact that such Indemnified Person is or was a Member, Board member, officer or other agent of the Company or that, being or having been such a Member, Board member, officer or other agent, it is or was serving at the request of the Company as director, officer, employee or other agent of another Person, to the fullest extent permitted by applicable law in effect on the date hereof and to such greater extent as applicable law may hereafter from time to time permit; provided, however, that no Indemnified Person shall be entitled to indemnification hereunder for any act or omission constituting gross negligence, willful misconduct or material breach of this Agreement. Furthermore, the Company may, but shall not be obligated to, upon the approval of the Board, indemnify any other Person who was or is a party or is threatened to be made a party to, or otherwise becomes involved in, a Proceeding by reason of the fact that such person is or was an agent to the same extent as is provided for in the preceding sentence with respect to an Indemnified Person. The indemnification provided by, or granted pursuant to, the provisions of this Article XII shall not be deemed exclusive of any other rights to which any Person seeking indemnification may be entitled under any agreement, vote of the Board or the Members, or otherwise, both as to action in such Person's capacity as an agent of the Company and as to action in another capacity while serving as such an agent. All rights to indemnification under this Article XII shall be deemed to be provided by a contract between the Company and each Indemnified Person who serves in such capacity at any time while this Agreement and relevant provisions of the Act and other applicable law, if any, are in effect. Any repeal or modification hereof or thereof shall not affect any such rights then existing.

ARTICLE XIII
GENERAL PROVISIONS

13.1 **Notices.** All notices and other communications provided for or permitted to be given under this Agreement shall be in writing and shall be given by depositing the notice in the United States mail, addressed to the Person to be notified, postage paid, and registered or certified with return receipt requested, or by such notice being delivered in person or by facsimile communication to such party. Notices given or served pursuant hereto shall be effective upon receipt by the Person to be notified. All notices to be sent to a Member shall be sent to or made at, and all payments hereunder shall be made at, the address given for that member on Appendix A attached hereto or such other address as that Member may specify by notice to the Company and the other Members. Any notice to the Company or the Board also shall be given to the Board members. The address of a Board member shall, unless notice to the contrary is given by the Board member to the Company and the Members, be the same as the address of the Member that designated such Board member, except that notices to such Board member shall specify that they are directed to the attention of such Board member.

13.2 **Entire Agreement; Waivers And Modifications.**

13.2.1 With the exception of the Joint Venture Agreement between the Initial Members (which shall apply to them), the Articles and this Agreement constitute the entire agreement of the Members and their respective Affiliates and partners relating to the Company and supersedes any and all prior contracts, understandings, negotiations, and agreements with respect to the Company and the subject matter hereof, whether oral or written; provided, however, that with respect to the Initial Members, the Joint Venture Agreement shall control as between them.

13.2.2 Subject to Section 13.2.3 hereof and except as otherwise provided herein, the Articles and this Agreement may be amended or modified from time to time only in accordance with Section 7.2.3.

13.2.3 In the event of an inconsistency or conflict between the provisions of this Agreement and any resolution adopted by the Members, such resolution shall be deemed an amendment to this Agreement and a waiver by the Members of the inconsistent or conflicting provision of this Agreement (except that provisions herein requiring a Supermajority Vote will be deemed amended only by a resolution adopted by a Supermajority Vote). Any waiver or consent, express, implied or deemed to or of any breach or default by any Person in the performance by that Person of its obligations with respect to the Company or any action inconsistent with this Agreement is not a consent or waiver to or of any other breach or default in the performance by that Person of the same or any other obligations of that Person with respect to the Company or any other such action. Failure on the part of a Person to complain of any act of any Person or to declare any Person in default with respect to the Company, irrespective of how long that failure continues, does not constitute a waiver by that Person of its rights with respect to that default until the applicable statute-of-limitations period has run. Except with respect to the matters described in the first sentence of this Section 13.2.3, all waivers and consents hereunder shall be in writing and shall be delivered to the Company and the Members in the manner set forth in Section 13.1 above. A Member may grant or withhold any waiver or consent in its absolute sole discretion.

13.3 Binding Effect; No Third-Party Beneficiaries. Subject to the restrictions on Dispositions set forth herein, this Agreement is binding on and inures to the benefit of the Members and each Indemnified Person and their respective heirs, legal representatives, successors and assigns. Except as provided in Article XII hereof, nothing in this Agreement shall provide any benefit to any third party or entitle any third party to any claim, cause of action, remedy or right of any kind, it being the intent of the parties that this Agreement shall not be construed as a thirty-party beneficiary contract.

13.4 Governing Law. This Agreement is governed by and shall be construed in accordance with the law of the State of California, excluding any conflict-of-laws rule or principle that might refer the governance or construction of this Agreement to the law of another jurisdiction. If any provision of this Agreement or the application thereof to any Person or circumstance is held invalid or unenforceable to any extent, the remainder of this Agreement and the application of that provision to other Persons or circumstances is not affected thereby, and that provision shall be enforced to the greatest extent permitted by law.

13.5 Further Assurances. In connection with this Agreement and the transactions contemplated hereby, each Member shall execute and deliver any additional documents and instruments and perform any additional acts that may be necessary or appropriate to effectuate and perform the provisions of this Agreement and those transactions.

13.6 Waiver Of Certain Rights. Each Member irrevocably waives any right it might have to maintain any action for partition of the property of the Company.

13.7 Multiple Counterparts; Facsimile Transmission. This Agreement may be executed in multiple counterparts with the same effect as if the signing parties had signed the same document. All counterparts shall be construed together and constitute the same instrument. Delivery of an executed counterpart of this Agreement by facsimile shall be equally as effective as delivery of a manually executed counterpart of this Agreement. Upon the request of any party, any party who shall have delivered an executed counterpart of this Agreement by facsimile shall deliver a manually executed counterpart as well, but the failure to so deliver a manually executed counterpart shall not affect the validity, enforceability and binding effect of this Agreement.

13.8 Arbitration. Except in the case where the remedy sought is specific performance or other equitable relief, the parties to this Agreement agree that any and all legal disputes, controversies or claims arising out of or relating to this Agreement shall be resolved by binding arbitration at the local San Diego County, California offices of the Judicial Arbitration & Mediation Services, Inc. ("J.A.M.S."). Judgment upon any determination or award may be entered in any court of competent jurisdiction. The parties may agree on a jurist from the J.A.M.S. panel. If they are unable to agree, J.A.M.S. will provide a list of three available panel members and each party may strike one. The remaining panel member will serve as the arbitrator. The aggrieved party may initiate arbitration by: (i) sending thirty (30) days written notice of an intention to arbitrate by registered or certified mail to all parties and to J.A.M.S.; and (ii) depositing with J.A.M.S. the advanced fees required by J.A.M.S. to initiate the arbitration process for the parties. The notice must contain a description of the dispute, the amount involved and the remedies sought. Upon notice of demand for arbitration, the parties agree to execute a submission agreement, provided by J.A.M.S., which agreement shall provided for discovery in accordance with the Federal Rules of Civil Procedure and for the Commercial Arbitration rules and procedures established by the American Arbitration Association. The prevailing party in any arbitration proceeding under this Section 13.8 shall be entitled to recover from the other reasonable attorneys' fees, reasonable costs and expenses in connection with such arbitration proceeding.

13.9 Attorneys' Fees. Subject to Section 13.8 above, in the event of any arbitration, litigation, or other legal proceeding involving the interpretation of this Agreement or enforcement of the rights or obligations of the parties hereto, the prevailing party or parties shall be entitled to recover reasonable attorneys' fees and costs as determined by the arbitrator or other adjudicator.

13.10 Submission To Jurisdiction. Each of the Members hereby consents to the jurisdiction of any state or federal court located within the County of San Diego, State of California, and, subject to the provisions of Section 13.8 above, irrevocably agrees that all actions or proceedings relating to this Agreement shall be instituted and heard by the courts of the State of California. Each Member hereby waives any objection that it may have based on improper venue or forum non conveniens to the conduct of any proceeding in any such courts and personal service of any and all proceedings upon it, and consents to any such service of process made in the manner provided herein for the giving of notices under this Agreement.

13.11 Attorney-in-Fact And Agent. Each Member, by execution of this Agreement, irrevocably constitutes and appoints each member of the Board of Managers and any of them acting alone as such Member's true and lawful attorney-in-fact and agent, with full power and authority in such Member's name, place, and stead to execute, acknowledge, and deliver, and to file or record in any appropriate public office: (a) any certificate or other instrument that may be necessary, desirable, or appropriate to qualify the Company as a limited liability company or to transact business as such in any jurisdiction in which the Company conducts business; (b) any certificate or amendment to the Company's articles of organization or to any certificate or other instrument that may be necessary, desirable, or appropriate to reflect an amendment approved by the Members in accordance with the provisions of this Agreement; (c) any certificates or instruments that may be necessary, desirable, or appropriate to reflect the dissolution and winding up of the Company; and (d) any certificates necessary to comply with the provisions of this Agreement. This power of attorney will be deemed to be coupled with an interest and will survive the Disposition of the Member's economic interest. Notwithstanding the existence of this power of attorney, each Member agrees to join in the execution, acknowledgment, and delivery of the instruments referred to above if requested to do so by a director. This power of attorney is a limited power of attorney and does not authorize any director to act on behalf of a Member except as described in this Section 13.11.

[SIGNATURES ON FOLLOWING PAGE.]

In Witness Whereof, the parties hereto have duly executed this Agreement as of the day and year first above written.

MEMBERS:

PACIFIC ENTERTAINMENT CORPORATION

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

SHULAMIT RITBLATT

/s/ Shulamit Ritblatt
Shulamit Ritblatt

COMPANY:

CIRCLE OF EDUCATION, LLC

By: /s/ Larry Balaban
Larry Balaban, Chief Executive Officer

APPENDIX A
TO
OPERATING AGREEMENT OF
CIRCLE OF EDUCATION, LLC

CAPITAL CONTRIBUTIONS OF INITIAL MEMBERS

Member Name and Address	Signature and Date of Execution	Capital Contribution	No. of Units	Percentage Interest	Capital Account Balance
Shulamit Ritblatt _____ _____	/s/ Shulamitt Ritblatt Signature 9/20/10 Date	All right, title and interest retained in the Curriculum and Intellectual Property, including all necessary and advisable documentation necessary to the transfer thereof to the Company, with the exception that both Partners acknowledge and agree that the Curriculum was developed through extensive know-how developed by Ritblatt over the course of years and which, subject to non-compete provisions of the Joint Venture Agreement, is and may continue to be utilized by her in other educational and business activities and that Ritblatt should retain the rights to publish her research, including research utilized in the development of the Curriculum and Intellectual Property. In addition, the Partners acknowledge the contribution of Ritblatt's sweat equity in the development of the Curriculum and Intellectual Property to the Company.	5,000,000	25%	$_____

Pacific Entertainment Corp. _____ _____	By: /s/ Klaus Moeller Klaus Moeller, CEO 9/20/10 Date	All right, title and interest in and to the Intellectual Property held by it or hereafter obtained by it, including all necessary and advisable documentation necessary to the transfer thereof to the Company.	10,000,000	75%	$_____

CAPITAL CONTRIBUTIONS OF ADDITIONAL MEMBERS

Member Name and Address	Signature and Date of Execution	Capital Contribution	No. of Units	Percentage Interest	Capital Account Balance
					$_____
					$_____
					$_____
					$_____
					$_____
					$_____

APPENDIX B
TO
OPERATING AGREEMENT OF
CIRCLE OF EDUCATION, LLC

NAMES AND CONTACT INFORMATION FOR
INITIAL MEMBERS OF THE BOARD OF MANAGERS

PEC Directors

Klaus Moeller
_____

_____

Tel: _____

Fax: _____

Email: _____

Larry Balaban
_____

_____

Tel: _____

Fax: _____

Email: _____

Michael G. Meader
_____

_____

Tel: _____

Fax: _____

Email: _____

Ritblatt Director

Shulamit Ritblatt
_____

_____

Tel: _____

Fax: _____

Email: _____

Exhibit 10.16

PROMISSORY NOTE

Principal and Interest $377,323.07 San Diego, California

September 30, 2010

1. Principal, Interest, Maturity Date: Pacific Entertainment Corporation, a California corporation ("PEC"), for value received, hereby promises to pay to Isabel Moeller, an individual ("Moeller"), in lawful money of the United States at the address of Moeller set forth below, the Principal amount of three hundred sixty thousand, eight hundred forty dollars and forty-six cents ($360,840.46) together with accrued interest in the amount of sixteen thousand, four hundred eighty-two dollars and sixty-one cents ($16,482.61) through September 30, 2010. This Note is delivered in complete and full payment of all amounts owed by PEC to Moeller for that certain promissory note dated December 31, 2009. Interest on the outstanding principal amount of the Note at a rate of six percent (6%) per annum shall accrue from October 1, 2010 until the Note (principal and interest) has been fully repaid. Interest will be computed on the basis of the actual number of days elapsed over a 360-day year of twelve (12) 30-day months. The outstanding principal amount and accrued interest on this Note may be prepaid at any time by PEC without premium or penalty. Each prepayment shall be accompanied by payment of all interest accrued on the amount of such prepayment. PEC shall be required to pay Moeller the entire unpaid principal and accrued interest by the close of business, California time, on December 31, 2012 (Maturity Date).

2. Defaults and Remedies: An "Event of Default" shall mean the occurrence of one or more of the following described events: (a) any default in the payment when due of principal or of interest on the Note whether at maturity or otherwise; (b) a Corporate Transaction; (c) the commencement of any proceeding in a court seeking a decree or order for relief in respect of PEC in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of PEC or for any substantial part of its property, or for the winding-up or liquidation of its affairs, which proceeding shall not have been stayed or dismissed within sixty (60) days after the commencement thereof; or (d) the commencement by PEC of any voluntary case under any applicable bankruptcy, insolvency, or other similar law now or hereafter in effect, or PEC's consent to the entry of an order for relief in an involuntary case under such law, or PEC's consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of PEC or for any substantial part of its property, or PEC making a general assignment for the benefit of creditors, or PEC generally failing to pay its debts as they become due, or PEC taking any action in furtherance of any of the foregoing.

In any Event of Default occurs, Moeller may at any time thereafter declare this entire Note to be due and payable immediately by written notice to PEC. Notwithstanding the foregoing, in the case of an Event of Default arising from certain events of bankruptcy or insolvency described in clauses (c) and (d) above, this Note will become due and payable immediately without further action or notice. Moeller may waive any existing Event of Default, provided that any such waiver must be in writing in order to be effective.

A "Corporate Transaction" shall mean a merger or consolidation in which PEC is not the surviving entity, except for a transaction the principal purpose of which, is to change the State in which PEC is incorporated, (i) the sale, transfer or other disposition of all or substantially all of the assets of PEC, including the sale of the "Baby Genius" brand; (ii) the liquidation or dissolution of PEC involving all or substantially all PEC's assets; (iii) any reverse merger or series of related transactions culminating in a reverse merger (including, but not limited to, a tender offer followed by a reverse merger, in which PEC is the surviving entity, but in which securities possessing more than forty percent (40%) of the total combined voting power of PEC's outstanding securities are transferred to a person or persons different from those who held such securities immediately before such merger or the initial transaction culminating in such merger; or (iv) acquisition in a single or series of related transactions, by any person or related group of persons (other than PEC or by a PEC sponsored employee benefit plan) of beneficial ownership, (within the meaning of rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of PEC's outstanding securities.

3. Attorney's Fees: If the indebtedness represented by this Note or any part thereof is collected in bankruptcy, receivership, or other judicial proceedings, or if this Note is placed for collection after an Event of Default, PEC agrees to pay all reasonable fees and costs incurred by Moeller for the collection of payment under this Note.

4. Amendment, Supplement and Waiver: This Note may be amended only with the written consent of both PEC and Moeller.

5. Notices: All notices, requests, demands or other communications required or permitted under this Note shall be sent to the parties hereto by courier, express delivery or facsimile transmission to the parties' respective addresses set forth below, and the notice shall be deemed given as of the date the notice is received if sent by courier or when transmitted if sent by facsimile:

   a. If to PEC — 5820 Oberlin Dr, Ste 203
   San Diego, CA 92121

   b. If to Moeller — Isabel Moeller
   345 N. Canon Drive
   Beverly Hills, CA 90210

   Each of the above parties may change its address for purposes of the Paragraph 5 by giving to all other parties written notice of such new address in conformance with this paragraph.

6. Waivers: To the fullest extent permitted by law, PEC hereby waives presentment demand for performance, notice of non-performance, protest, notice of protest and notice of dishonor. No delay on the part of Moeller in exercising any right hereunder shall operate as a waiver of such right or any other right.

7. Governing Law; Consent to Jurisdiction: This Note shall be governed by, and construed in accordance with the laws of the State of California (without giving effect to its choice of law principals). Each of the parties hereto irrevocably submits to the exclusive jurisdiction of (a) the Supreme Court of the State of California, and (b) the United States District Court for the Southern District of California, for the purpose of any Action arising out of the Note or any matter referred to in this Note. Each of the parties hereto agrees to commence any Action relating hereto either in the United States District Court of the Southern District of California or in the Supreme Court of the State of California. Each of the parties hereto irrevocably and unconditionally waives any objection to the laying of venue of any Actions arising out of the Note or any transaction contemplated hereby in (i) the Supreme court of the State of California, or (ii) the United States District Court for the Southern District of California, and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such Action brought in any such court has been brought in an inconvenient forum.

8. Parties in Interest: This Note shall bind PEC and its successors and assigns. Nothing in this Note, whether expressed or implied, is intended to confer any rights or remedies under or by reason of this Note on any Persons other than the parties to it and their respective successors, legal representatives and assigns, nor is anything in this Note intended to relieve or discharge the obligation or liability of any third Persons to any party to this Note, nor shall any provisions give any third Persons any rights of subrogation or action over or against any party to this Note.

9. Paragraph Headings, Construction: The headings of paragraphs in this Note are provided for convenience only and will not affect its construction or interpretation. All references to "paragraph" or "paragraphs" refer to the corresponding paragraph or paragraphs of this Note unless otherwise specified.

10. Severability: If any provision of this Note is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Note will remain in full force and effect. Any provision of this Note held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

11. Attorney-in-Fact: PEC will, upon Moeller's request, execute, acknowledge and deliver to Moeller such additional, further and other documents as Moeller may reasonably deem necessary to evidence and/or effectuate Moeller's rights hereunder, and PEC hereby appoints Moeller as PEC's irrevocable attorney-in-fact to execute, acknowledge, deliver and record any and all such documents if PEC shall fail to execute the same within five (5) days after being so requested by Moeller, the foregoing appointment being a power coupled with an interest.

12. Assignment: Moeller may not assign this Note without the prior written consent of PEC. Any assignment without PEC's prior written consent shall be null and void.

IN WITNESS WHEREOF, Moeller has delivered this Note as of the date first written above.

/s/ Mike Meader
Mike Meader, President
Pacific Entertainment Corporation

/s/ Isabel Moeller
Isabel Moeller

Exhibit 10.17

AGREEMENT TO CONVERT DEBT INTO EQUITY

This Agreement to Convert Debt into Equity ("Agreement") is made as of April 1, 2011, by and between the Pacific Entertainment Corporation, a California corporation (the "Company"), and Isabel Moeller, an individual ("Ms. Moeller" and collectively with the Company, the "Parties").

WHEREAS, on September 30, 2010, the Company issued that certain promissory note to Ms. Moeller wherein Ms. Moeller agreed to extend the maturity date for repayment of all accrued interest and principal then owed her by the Company pursuant to previously issued notes in the amount of $377,323.07, including accrued but unpaid interest (the "Debt") to December 31, 2012 and agreed to a revised rate of 6% per annum (the "Note"); and

WHEREAS, Ms. Moeller desires to invest $200,000 in the Company's current private placement of restricted, no par value common stock (the "Common Stock"), which is being offered pursuant to applicable exemptions from registration to accredited investors only at a purchase price of $0.20 per share (the "Offering"); and

WHEREAS, it is the desire of the Parties that $200,000 of the principal balance of the Debt be converted into 1,000,000 shares of the Common Stock in lieu of Ms. Moeller making cash payment for the Common Stock in the Offering; and

NOW THEREFORE, in consideration of the covenants and agreements hereafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Conversion of the Debt into the Shares. Ms. Moeller and the Company hereby agree that, effective April 1, 2011, $200,000 of the principal balance of the Debt shall be converted into 1,000,000 shares of restricted Common Stock (the "Shares"). No fractional shares will be issued in the conversion. After the conversion, the principal balance of the Debt shall be reduced by $200,000 and such portion of the Debt shall no longer be outstanding and is hereby extinguished in its entirety.

2. Representations and Warranties of Ms. Moeller. The conversion of the Debt is conditioned upon Ms. Moeller submitting all required subscription documents in the Offering, including verification of her status as an "accredited investor" pursuant to Rule 501(a) of the Securities Act of 1933, as amended, and all representations and warranties required thereby. Ms. Moeller further represents and warrants as follows:

a. Ms. Moeller has the power and authority to execute and deliver this Agreement, and to consummate the transactions contemplated hereby and thereby.

b. Ms. Moeller is not a U.S. Person, as defined in Rule 901 of Regulation S, promulgated under the Securities Act, and Ms. Moeller represents and warrants to the Company that:

(i) Ms. Moeller is not acquiring the Shares as a result of, and Ms. Moeller covenants that she will not engage in any "directed selling efforts" (as defined in Regulation S under the Securities Act) in the United States in respect of the Shares which would include any activities undertaken for the purpose of, or that could reasonably be expected to have the effect of, conditioning the market in the United States for the resale of any of the Shares;

(ii) Ms. Moeller is not acquiring the Shares for the account or benefit of, directly or indirectly, any U.S. Person;

(iii) Ms. Moeller is a resident of Portugal; and

(iv) Ms. Moeller is outside the United States when receiving and executing this Agreement and that Ms. Moeller will be outside the United States when acquiring the Shares.

3. Miscellaneous. This Agreement may be executed in any number of facsimile counterparts, all of which shall be but a single original. This Agreement will be binding upon and inure to the benefit of the Parties hereto and their respective successors and assigns. The Parties shall execute and deliver from time to time hereafter, upon written request, all such further documents and instruments and shall do and perform all such acts as may be reasonably necessary to give full effect to the intent of this Agreement.

4. Governing Law. This Agreement and all actions arising out of or in connection with it shall be governed by and construed in accordance with the laws of the State of California, without regard to the conflicts of law provisions of the State of California, or of any other state.

IN WITNESS WHEREOF, the Parties have entered into this Agreement as of the date first set forth above.

Pacific Entertainment Corporation

By: /s/ Mike Meader
Name: Mike Meader
Title: President

Isabel Moeller

/s/ Isabel Moeller
Isabel Moeller