BELLICUM PHARMACEUTICALS, INC
Form 10-K
March 13, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-36783

Bellicum Pharmaceuticals, Inc.
(Exact name of registrant as specified in its charter)

Delaware	20-1450200
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2130 W. Holcombe Blvd., Ste. 800, Houston, TX	77030
(Address of principal executive offices)	(Zip Code)

(832) 384-1100
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	The NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨
Emerging growth company	x		

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

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

The approximate aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based upon the last sale price of the common stock reported on The NASDAQ Global Market as of June 30, 2017 was $249,930,906 *

As of February 28, 2018, there were 33,571,884 shares of the Registrant's common stock, par value $0.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s definitive Proxy Statement relating to its 2017 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K. Such Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days following the Registrant’s fiscal year ended December 31, 2017.

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*Excludes 11,795,035 shares of common stock held by directors and officers and by stockholders that the registrant concluded were affiliates of the Registrant as of June 30, 2017. Exclusion of such shares should not be construed to indicate that any such holder possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the Registrant, or that such person is controlled by or under common control with the Registrant.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including the sections entitled “Business,” “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” may contain “forward-looking statements.” We may, in some cases, use words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “pot “predict,” “project,” “should,” “will,” “would” or the negative of those terms, and similar expressions that convey uncertainty o future events or outcomes to identify these forward-looking statements. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. Forward-looking statements in this Annual Report include, but are not limited to, statements about:

- the success, cost and timing of our product development activities and clinical trials;
- our ability to advance Chemical Induction of Dimerization, or CID, CID-based technologies, including CaspaCIDe and GoCAR-T;
- our ability to obtain and maintain regulatory approval of BPX-501 and any other product candidates, and any related restrictions, limitations and/or warnings in the label of an approved product candidate;
- our ability to obtain funding for our operations, including funding necessary to complete further development and commercialization of our product candidates;
- the commercialization of our product candidates, if approved;
- our plans to research, develop and commercialize our product candidates;
- our ability to attract collaborators with development, regulatory and commercialization expertise and the success of any such collaborations;
- future agreements with third parties in connection with the commercialization of our product candidates and any other approved product;
- the size and growth potential of the markets for our product candidates, and our ability to serve those markets;
- the rate and degree of market acceptance of our product candidates;
- regulatory developments in the United States, or U.S., and foreign countries;
- our ability to contract with third-party suppliers and manufacturers and their ability to perform adequately;
- the success of competing therapies that are or may become available;
- our ability to attract and retain key scientific or management personnel;
- our ability to grow our organization and increase the size of our facilities to meet our anticipated growth;
- the accuracy of our estimates regarding expenses, future revenue, capital requirements and needs for additional financing;
- our expectations regarding the period during which we qualify as an emerging growth company under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act;
- our use of cash and other resources; and
- our expectations regarding our ability to obtain and maintain intellectual property protection for our product candidates.

These forward-looking statements reflect our management’s beliefs and views with respect to future events and are based on estimates and assumptions as of the filing date of this Annual Report and are subject to risks and uncertainties. We discuss many of these risks in greater detail under the heading “Risk Factors.” Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Given these uncertainties, you should not place undue reliance on these forward-looking statements.

You should carefully read this Annual Report and the documents that we reference in this Annual Report completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of the forward-looking statements in this Annual Report by these cautionary statements.

Except as required by law, we undertake no obligation to update these forward-looking statements publicly, or to update the reasons that actual results could differ materially from those anticipated in any forward-looking statements, whether as a result of new information, future events or otherwise.

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ITEM 1. Business

Overview

We are a clinical stage biopharmaceutical company focused on discovering and developing novel cellular immunotherapies for various forms of cancer, including both hematological cancers and solid tumors, as well as orphan inherited blood disorders. We are using our proprietary Chemical Induction of Dimerization, or CID, technology platform to engineer our product candidates with switch technologies that are designed to control components of the immune system in real time. By incorporating our CID platform, our product candidates may offer better safety and efficacy outcomes than are seen with current cellular immunotherapies.

We are developing next-generation product candidates in some of the most important areas of cellular immunotherapy, including chimeric antigen receptor T cell therapy, or CAR T, T cell receptors, or TCRs and hematopoietic stem cell transplantation, or HSCT. CAR T and TCR cell therapies are an innovative approach in which a patient's T cells are genetically modified to carry chimeric antigen receptors, or CARs, or TCRs which redirect the T cells against cancer cells. While high objective response rates have been reported in some hematological malignancies, serious and sometimes fatal toxicities have arisen in patients treated with CAR T cell therapies. These toxicities include instances in which the CAR T cells have caused high levels of cytokines due to over-activation, referred to as "cytokine release syndrome," or CRS, neurologic toxicities and cases in which they have attacked healthy organs. In each case, these toxicities have sometimes resulted in death. In solid tumors, where the behavior of CAR T cells is particularly unpredictable and results have been inconsistent, researchers are developing enhanced CAR T cell approaches that raise even greater safety concerns. HSCT, also known as bone marrow transplantation, has for decades been curative for many patients with hematological cancers or orphan inherited blood disorders. However, adoption of HSCT to date has been limited by the risks of transplant-related morbidity and mortality from graft-versus-host-disease, or GvHD, and the potential for serious infections due to the lack of an effective immune system following a transplant.

Our proprietary CID platform is designed to address these challenges. Events inside a cell are controlled by cascades of specialized signaling proteins. CID consists of molecular switches, modified forms of these signaling proteins, which are triggered inside the patient by infusion of a small molecule, rimiducid, instead of by natural upstream signals. We include these molecular switches in the appropriate immune cells and deliver the cells to the patient in the manner of conventional cellular immunotherapy. We have developed two such switches: a "safety switch," designed to initiate programmed cell death, or apoptosis, of the immunotherapy cells, and an "activation switch," designed to stimulate activation and in some cases proliferation and/or persistence of the immunotherapy cells. Each of our product candidates incorporates one of these switches, for enhanced, real time control of safety and efficacy:

- CaspaCIDe (also known as inducible Caspase-9, or iC9) is our safety switch, incorporated into our HSCT and TCR product candidates, and into academic CAR T collaborations, where it is inactive unless the patient experiences a serious side effect. In that event, rimiducid is administered to induce Caspase-9 and eliminate a majority of the cells, with the goal of attenuating the therapy and resolving the serious side effect.

- Our activation switch incorporated into our GoCAR-T product candidates (also known as inducible MyD88/CD40, or iMC), is designed to enable control of the activation and proliferation of the T cells through the scheduled administration of a course of rimiducid infusions that may continue until the desired patient outcome is achieved. In the event of emergence of side effects, the level of activation of the GoCAR-T cells is designed to be attenuated by extending the interval between rimiducid doses, reducing the dosage per infusion, or suspending further rimiducid administration.

In addition, we have an active research effort to develop other advanced molecular switch approaches, including a "dual-switch" that is designed to provide a user-controlled system for managing proliferation and/or persistence and

safety of tumor antigen-specific CAR T cells.

By incorporating our novel switch technologies, we are developing product candidates with the potential to elicit positive clinical outcomes and ultimately change the treatment paradigm in various areas of cellular immunotherapy. Our clinical product candidates are described below.

- BPX-501 is a CaspaCIDe product candidate designed as an adjunct T cell therapy administered after allogeneic HSCT. BPX-501 is designed to improve transplant outcomes by enhancing the recovery of the immune system following an HSCT procedure. BPX-501 addresses the risk of infusing donor T cells by enabling the elimination of donor T cells through the activation of the CaspaCIDe safety switch if there is an emergence of uncontrolled GvHD.

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The European Commission has granted orphan drug designations to BPX-501 for treatment in HSCT, and for activator agent rimiducid for the treatment of GvHD. Additionally, BPX-501 and rimiducid have received orphan drug status from the U.S. Food and Drug Administration, or the FDA, as a combination replacement T-cell therapy for the treatment of immunodeficiency and GvHD after allogeneic HSCT.

Based on interactions with European Medicines Agency, or the EMA, we believe that data from the European arm of our BP-004 trial could form the basis of MAAs for BPX-501 and rimiducid for pediatric patients with certain orphan inherited blood disorders or treatment-refractory hematological cancers. In addition, the EMA's Committee for Medicinal Products for Human Use, or the CHMP, has agreed that review and approval under "exceptional circumstances" may be suitable, recognizing that a randomized trial may not be feasible in the pediatric haploidentical hematopoietic stem cell transplant setting. In place of a randomized trial, we are collecting data from a concurrent observational study in the pediatric matched unrelated donor hematopoietic stem cell transplant setting, which will include both retrospective patients and prospective patients. We expect to report updated results from the European BP-004 clinical trial in the fourth quarter of 2018 and to file MAAs for European marketing approvals in 2019.

We are currently planning additional clinical trials for BPX-50l. In the adult malignant patient setting, we are designing a randomized, controlled trial in adults with acute myeloid leukemia, and potentially other hematological cancers, to compare outcomes in patients receiving a haplo-transplant with and without BPX-501. For the U.S. pediatric patient setting, we are designing a clinical trial, that we believe could be registrational, to evaluate BPX-501 in a distinct orphan disease population. We expect to initiate both of these clinical trials in the second half of 2018.

- BPX-601 is a GoCAR-T product candidate containing our proprietary inducible MyD88/CD40, or iMC, activation switch, designed to treat solid tumors expressing prostate stem cell antigen, or PSCA. Preclinical data shows enhanced T cell proliferation, persistence and in vivo anti-tumor activity compared to traditional CAR T therapies. A Phase 1 clinical trial in patients with non-resectable pancreatic cancer is ongoing and we expect to report initial data from this clinical trial in the second half of 2018. In addition to pancreatic cancer, PSCA is expressed in several other solid tumor indications, including: gastric, esophageal, cholangiocarcinoma, glioblastoma, prostate and bladder cancers. In 2018 we are planning to expand the clinical development of BPX-601 to include additional PSCA expressing cancer types.

- BPX-701 is a CaspaCIDe-enabled natural high affinity TCR product candidate designed to target malignant cells expressing the preferentially-expressed antigen in melanoma, or PRAME. The ongoing Phase 1 clinical trial for BPX-701 is in adult patients with refractory or relapsed acute myeloid leukemia, or AML, and myelodysplastic syndromes, or MDS. We expect to report initial data from this clinical trial in the second half of 2018.

- CD19 CAR T Program - We are working with academic collaborators to establish clinical proof of concept for CaspaCIDe® in the CD19-expressing B cell malignancies setting. We believe that this strategy allows a cost-effective approach for clinical evaluation of CaspaCIDe in attenuating the acute toxicities of CD19-targeted therapies. As part of this strategy, in November 2016 we announced an expanded collaboration with Ospedale Pediatrico Bambino Gesù, or OPBG, a leading European pediatric research center and hospital. Clinical development of a CaspaCIDe-enabled CD19 CAR T cell therapy is ongoing at OPBG.

We have developed efficient and scalable processes to manufacture genetically modified T cells of high quality, which are currently being used to produce BPX-501, BPX-601 and BPX-701 for our clinical trials. We are leveraging this know how in combination with our proprietary cellular control technologies, resources, capabilities and expertise for the manufacture of CAR T and TCR product candidates to create and develop first and best-in-class product candidates.

We have established in-house cell manufacturing and vector production capabilities at our headquarters facility in Houston, Texas. In the first quarter of 2017, the initial phase of the build-out was completed and we began manufacturing clinical trial material from this site. We completed the facility build-out in early 2018, and we expect that our facilities will meet our U.S. clinical trial and early commercialization requirements. For the European market, we plan to continue working with established contract manufacturers, with our U.S. manufacturing facility as a potential backup supply source.

Pipeline

The following table summarizes our product candidate pipeline:

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Cellular Immunotherapy

Cellular immunotherapy harnesses a patient's own immune cells to attack and eliminate harmful diseased cells in the body. The immune system is the body's defense network. It consists of a number of cells (leukocyte) and organs that, working together, recognize and respond to threats in the form of pathogens-modified or transformed cells. T cells are a type of white blood cell that recognize pathogens and can target and eliminate them upon full activation through the addition of appropriate co-stimulatory signals.

The following therapeutic applications of cellular immunotherapy have been primary areas of research and development by research institutes and biopharmaceutical companies, given their promise of effectively treating patients suffering from severe and life-threatening diseases.

Genetically Modified T-cell Therapy (CAR T and TCR). This approach entails collecting a patient's T cells, genetically modifying them ex vivo, or outside of the body, to incorporate specific receptors which target cancer cells and then re-infusing the modified T cells back into the patient. Two types of cancer-specific receptors are typically used, CARs that recognize whole antigens on the surface of cancer cells, and TCRs that bind to cancer-associated peptides, or fragments of proteins, from either inside or on the surface of the cancer cells. In early human clinical trials, CAR T cell therapy has demonstrated an unprecedented ability to achieve durable complete responses in some leukemias and lymphomas, even in patients who have suffered multiple relapses.

HSCT. HSCT is the transplantation of stem cells and other immune cells derived from bone marrow, peripheral blood or umbilical cord blood. The transplantation may be autologous, using the patient's own cells, or allogeneic, using a donor's cells. HSCT is often the only curative option for a wide range of treatment-refractory hematological cancers, such as chronic myeloid leukemia. HSCT is also used as a high-risk treatment for orphan inherited blood disorders, such as sickle cell disease, beta-thalassemia and certain immune disorders.

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Limitations of Current Cellular Immunotherapy Approaches.

Despite rapid advances in various approaches to cellular immunotherapy and the biopharmaceutical industry's considerable investment in research and development, certain challenges have prevented these therapies from realizing their maximum potential. Some of these obstacles and issues are highlighted below:

Cellular Immunotherapy Approach	Safety Challenges	Efficacy Challenges
CAR T	Serious immune toxicity (CRS) or neurotoxicity and chance for on target/off tumor autoimmune responses Standard-of-care corticosteroids and/or cytokine receptor antagonists, such as tocilizumab, can be ineffective; requirement for hospitalization and intensive care management; relapse of underlying disease; infections; death Other safety approaches* have slow onset of action or have safety issues of their own	CARs have not demonstrated the same high response rates to solid tumor antigens as had been seen against CD19-positive or BCMA-positive hematological malignancies Small number of validated tumor-specific antigens that can be targeted
TCR	High risk of off-target or off-tumor toxicities, especially if affinity is enhanced	MHC-restricted to a subset of patient's human clinical data still early
Allogeneic HSCT	GvHD and viral infections are frequent and are potentially fatal side effects	Attempts to control GvHD (steroids, T Cell depletion, etc.) increase likelihood of non-engraftment, relapse of underlying disease and/or viral infection

* See discussion of other approaches below under "Our Proprietary Switch Technologies - CaspaCIDe"

Our Proprietary CID Technology Platform

Our proprietary CID technology platform is designed to address the challenges of current cellular immunotherapies. Cellular activities and functions, such as growth, activation, proliferation and cell death, are controlled by cascades of specialized signaling proteins. Our CID platform consists of molecular switches, modified forms of these signaling proteins, which are triggered inside the patient by infusion of a small molecule, rimiducid, instead of by natural upstream signals. Our current product candidates are based on either a "safety switch," or an "activation switch." After rimiducid is administered, the "safety switch" is designed to lead to apoptosis, and the "activation switch" is designed to lead to proliferation and/or activation and/or persistence of immune cells.

We incorporate the molecular switches in the appropriate immune cells and administer them to the patient. After the modified immune cells are inside the patient's body, specific functions of these cells may be controlled by administering rimiducid by intravenous infusion. Rimiducid has been designed to bind to a specifically designed domain of CID switch proteins. Once introduced, rimiducid couples, or aggregates, CID switch proteins together to create a cluster that triggers the signaling cascade. Aside from its impact on CID-modified immune cells bearing switch proteins, rimiducid has no other known effect on the body.

Our proprietary CID-based product candidates depend on the following signaling molecules to trigger signaling cascades, resulting in different cell activities:

- Caspase-9: Signaling Molecule for Apoptosis. Caspase-9 is the initiating enzyme in the apoptosis pathway. When activated, the caspase starts a signaling cascade, including the activation of caspase-3, which ultimately leads to apoptosis, a non-inflammatory process of cell elimination.
- iMC: Signaling Molecules for Activation and Proliferation. Myeloid differentiation primary response gene, or MyD88, is a protein that has functions in cellular responses to stimuli such as stress, cytokines and bacteria or viruses. CD40 is a co-stimulatory protein found on antigen-presenting cells, such as dendritic cells and B cells and is required for their activation. Although the effects of MyD88 and CD40 have been studied previously in dendritic cell therapies,

our novel approach applies them to T cell based immunotherapies.

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Our Proprietary Switch Technologies

With the CID platform as the foundation, we have created different molecular switch technologies customized for specific cellular immunotherapy approaches and therapeutic indications. The table below summarizes our two most advanced switch technologies.

	CaspaCIDe	GoCAR-T
Cell Type	Donor T cells (HSCT) or patient T cells (TCRs or CAR Ts)	Patient T cells
Proprietary Components	iCaspase-9 safety switch	iMC activation switch

	2,156	578	7,419	578
Professional Services	77,907	77,056	144,767	176,721
Rent Expense	26,321	38,290	58,643	74,880
Marketing & Sales	142,120	115,994	506,672	344,678
Depreciation & Amortization	54,265	167,706	109,094	337,106
Salaries and Related Expenses	327,949	243,472	634,236	483,509
Stock Compensation Expense	304,596	60,059	306,367	63,894
Other General & Administrative	71,844	34,194	144,888	76,404
Total Operating Expenses	1,007,158	737,349	1,912,086	1,557,770
Loss from Operations	(747,236)	(379,668)	(898,896)	(694,860)
Other Income (Expense):				
Other Income	10,641	10,313	21,057	20,512
Interest Expense	-	(1,186)	(1,145)	(1,186)
Interest Expense – Related Parties	(29,733)	(11,402)	(63,594)	(22,662)
Net Other Income (Expense)	(19,092)	(2,275)	(43,682)	(3,336)
Loss before Income Tax	(766,328)	(381,943)	(942,578)	(698,196)

Expense and Noncontrolling Interest				
Income Tax Expense	-	-	-	-
Net Loss	(766,328)	(381,943)	(942,578)	(698,196)
Net Loss attributable to Noncontrolling Interest	977	-	4,421	-
Net Loss attributable to Pacific Entertainment Corporation	$ (765,351)	$(381,943)	$(938,157)	$(698,196)
Net Loss per common share	$ (0.01)	$(0.01)	$(0.02)	$(0.01)
Weighted average shares outstanding	59,490,691	54,595,407	56,215,116	54,595,407

See accompanying notes to consolidated financial statements

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

	Common Stock		Additional Paid in	Noncontrolling	Accumulated	
	Shares	Amount	Capital	Interest	Deficit	Total
Balance, December 31, 2010	55,116,515	$ 3,390,875	$ 2,086,065	-	$ (6,768,156)	$ (1,291,216)
Common Stock Issued for Cash	4,300,000	858,230	-	-	-	858,230
Common Stock Issued for Services	32,300	9,690	-	-	-	9,690
Common Stock Issued in exchange for repayment of Note Payable	1,000,000	200,000	-	-	-	200,000
Stock Compensation Expense	-	-	306,367	-	-	306,367
Noncontrolling Interest	-	-	-	(4,421)	-	(4,421)
Net Loss	-	-	-	-	(938,157)	(938,157)
Balance, June 30, 2011	60,448,815	$ 4,458,795	$ 2,392,432	(4,421)	$ (7,706,313)	$ (859,507)

See accompanying notes to consolidated financial statements

Pacific Entertainment Corporation
Consolidated Statements of Cash Flows (unaudited)

	Six Months Ending 06/30/2011	Six Months Ending 06/30/2010
Cash Flows from Operating Activities:		
Net Loss	$(942,578)	$(698,196)
Adjustments to reconcile net loss to net cash provided in operating activities:		
Depreciation Expense	6,771	7,041
Amortization Expense	102,323	330,065
Issuance of Common Stock for Services	9,690	-
Stock Compensation Expense	306,367	63,894
Decrease (increase) in operating assets		
Accounts Receivable	611,585	100,560
Inventory	(25,672)	(67,463)
Prepaid Expenses & Other Assets	(209,249)	(20,710)
Increase (decrease) in operating liabilities		
Accounts Payable	(519,492)	24,326
Accrued Salaries	136,548	242,389
Accrued Interest – Related Party	63,594	22,662
Other Accrued Expenses	377,377	(45,645)
Net cash provided/(used) in operating activities	(82,736)	(41,077)
Cash Flows from Investing Activities:		
Investment in Intangible Assets	(116,422)	(99,924)
Purchase of Fixed Assets	(7,720)	(11,017)
Net cash provided/(used) by investing activities	(124,142)	(110,941)
Cash Flows from Financing Activities:		
Sale of Common Stock	860,000	-
Common Stock Subscription Payable	-	33,443
Common Stock Offering Cost	(1,770)	(10,470)
Payments on Related Party Debt	(120,000)	-
Net cash provided/(used) by financing activities	738,230	22,973
Net increase/(decrease) in cash	531,352	(129,045)
Beginning Cash Balance	207,880	247,865
Ending Cash Balance	$739,232	$118,820
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$-	$-
Cash paid for interest	$1,145	$1,186
Accrued Salaries and wages reclassified to Long Term Notes Payable	$-	$1,773,377
Related Party Note converted to Common Stock	$200,000	$-

See accompanying notes to consolidated financial statements

Pacific Entertainment Corporation
Notes to Consolidated Financial Statements
June 30, 2011 (unaudited)

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 which we believe are entertaining, educational and beneficial to the well-being of infants and young children under our Baby Genius brand. We create, market and sell children's DVDs, CD music and book products in the United States by distribution at wholesale to retail stores and outlets. We license the use of our brands, both domestically and internationally, to others to manufacture, market and sell products based on our characters and brand, 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 although we granted Battat the right to continue to distribute the existing line of toys through late Spring 2011. We received no royalty reporting from Battat during the three months ended June 30, 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 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 other non-exclusive categories. As part of the development of the new products, the Company has engaged in the creation of several new characters.

The Company also obtains licenses for other select brands we feel we can market and sell through our distribution channels and are distributing content obtained from various independent studios and producers.

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 and six month periods ended June 30, 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, as amended, filed on July 26, 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. 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 June 30, 2011, the Company had a consolidated accumulated deficit of $7,706,313 and total stockholders' deficit of $859,507. At June 30, 2011, the Company had consolidated current assets of $1,743,134, including cash of $739,232, and consolidated current liabilities of $1,246,200, resulting in working capital of $496,934. For the six month period ending June 30, 2011, the Company reported a consolidated net loss of $938,157, including stock option expense of $306,367 which has no cash expenditure requirement. The Company had net cash used by operating activities of $82,736. 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 June 30, 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:

	6/30/2011	12/31/2010
Furniture and Equipment	$84,705	$76,986
Less Accumulated Depreciation	(48,588)	(41,818)
Net Fixed Assets	$36,117	$35,168
Trademarks	$129,831	$129,831
Product Masters	3,202,712	3,202,712
Other Intangible Assets	224,604	223,282
Less Accumulated Amortization	(3,110,537)	(3,008,214)
Net Intangible Assets	$446,610	$547,611

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 the six months ending June 30, 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. As of June 30, 2011, the Company has $243,623 in Capitalized Product Development in Process representing DVD, CD, and toy development projects not yet completed.

Note 3: Accrued Liabilities

Accrued Salaries and Wages as of June 30, 2011 total $199,099 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 June 30, 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 $599,116 as of June 30, 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, as well as unearned revenue as of June 30, 2011 for a prepayment from a customer. 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 June 30, 2011 and December 31, 2010, the Company had the following notes payable and accrued interest balances outstanding:

	6/30/2011	12/31/2010
Related Party Note Payable to PEC	$146,840	$360,840
Accrued Interest on Related Party Note	29,620	22,142
Officer Loans to PEC	213,091	311,988
Subordinated Officer Loans to PEC	1,620,137	1,620,137
Accrued Interest on Subordinated Loans	73,103	24,090
Total Notes Payable and Accrued Interest	2,082,791	2,339,197
Less: Current Portion	-	-
Long Term Portion	$2,082,791	$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. Payments were made on the outstanding principal in the amount of $14,000 and $10,000 on February 9, 2011 and April 27, 2011, respectively. On April 1, 2011, Ms. Moeller converted $200,000 of the outstanding principle to 1,000,000 shares of the Company's common stock. The amount due to Ms. Moeller as of June 30, 2011 and December 31, 2010 includes $29,620 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. 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 and April 27, 2011 in the aggregate amounts of $66,000 and $30,000, respectively. The amount due to the Officers on these notes includes accrued but unpaid interest in the amounts of $7,104 and $11,755 for the six months ended June 30, 2011 and 2010, 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 date 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 June 30, 2011 and December 31, 2010, the accrued but unpaid interest totals $73,103 and $24,090, respectively.

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Note 5: Stockholders' Equity

As of June 30, 2011, 60,448,815 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 has a term 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 had been issued. Costs of the offering in the amount of $17,396 were offset against the common stock account. This offering expired.

During March and April, 2011, the Company 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 $860,000 and 4,300,000 shares have been issued. 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. Costs of the offering in the amount of $1,770 were offset against the common stock account.

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 June 30, 2011, stock option grant notices for up to 14,020,000 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 $1,753,409 has been recognized as Additional Paid in Capital as the value of these options granted, which includes $306,367 and $117,610 for the six months ended June 30, 2011 and the year ended December 31, 2010, respectively. Of the total grants for shares issued, 20,000 have expired as of June 30, 2011 and options to purchase up to 14,000,000 shares of common stock are outstanding. 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. In May 2011, the OTC Markets, Inc. moved the Company to the OTCQB trading platform. 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.

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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 June 30, 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 June 30, 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 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 was 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.

On April 1, 2011, pursuant to employment agreements between the Company and Messrs. Moeller, Meader, Larry Balaban and Howard Balaban each executive has been granted a non-qualified stock option to purchase up to 1,000,000 shares of the Company's common stock, vesting as to 250,000 shares on April 1, 2011 and 250,000 shares per year on the anniversary date of the agreements.

On April 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 June 30, 2011.

On June 1, 2011, as a result of a consulting agreement with Al Kahn to provide certain management and advisory services, the Company issued a stock option grant notice to purchase up to 1,000,000 shares of the Company's common stock, vesting as to 500,000 shares each on May 31, 2012 and 2013.

On June 30, 2011, options to purchase up to 20,000 shares of the Company's common stock previously issued in 2009 expired due to the termination of an employee.

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	3-10
Dividend yield	0
Expected volatility	68.54% - 106.31%

The following schedule summarizes the changes in the Company's stock option plan for the six months ended June 30, 2011:

	Options Outstanding				
	Number of Shares	Exercise Price per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value	Weighted Average Exercise Price per Share
Balance at December 31, 2010	8,970,000	$0.34-0.55	3.25 years	-	$0.44
Options Granted	5,050,000	$0.34-0.50	8.75 years	-	$0.44
Options Exercised	-	-	-	-	-
Options Expired	20,000	$0.50	-	-	-
Balance at June 30, 2011	14,000,000	$0.34-0.55	4.92 years	-	$0.44
Exercisable June 30, 2011	9,700,000	$0.34-0.55	3.37 years	-	$0.44

During the six months ended June 30, 2011 and 2010 the Company recognized $306,367 and $63,894 in Stock Compensation expense, respectively.

Note 9: Warrants

During the three months ended June 30, 2011, no new warrants were issued.

The following schedule summarizes the changes in the Company's warrants for the six months ended June 30, 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 June 30, 2011	471,108	$0.40	$0.40
Exercisable June 30, 2011	471,108	$0.40	$0.40

The following schedule summarizes the outstanding warrants at June 30, 2011:

Number of Warrants Outstanding at June 30, 2011	Number of Warrants Exercisable at June 30, 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 six month period ended June 30, 2011 with the results of COE. COE is currently developing products which have an estimated introduction for sale in the third quarter of 2012, resulting in no sales or cost of sales in the six month period ended June 30,2011. COE had general and administrative costs of $15,840, including legal costs related to the creation of the agreements and registration of the entity in the aggregate of $13,906, sales and marketing costs of $1,180 and product development costs of $244, for a total loss of $17,683. 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 $4,421, as Noncontrolling Interest on the financial statements for the six months ended June 30, 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.

On August 5, 2011, the Board of Directors voted to approve a change in domicile and to change the name of the Company to Genius Brands International. The matters will be submitted to shareholders for approval.

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

The following discussion and analysis of our results of operations, financial condition and liquidity and capital resources should be read in conjunction with our unaudited consolidated financial statements and related notes for the three months ended June 30, 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.

Forward Looking Statements

This report on Form 10-Q contains forward-looking statements which involve assumptions and describe our future plans, strategies and expectations. 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. These statements are expressed in good faith and based upon a reasonable basis when made, but there can be no assurance that these expectations will be achieved or accomplished.

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 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.

Overview

The MD&A is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make certain estimates and judgments that affect the reported amounts of assets, liabilities and expenses and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

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", "Child Genius", "123 Favorites" and "Wee Worship", and all then exi productions under those titles. We create and 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 domestically and internationally to others to manufacture, market and sell products based on our characters and brand, whereby we receive advances and royalties.

The Company released two new music products, "50 Classic Lullabies & Soothing Songs" and "Favorite Guitar and Piano Melodies" in June 2010 and 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.

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. The Company received no royalty revenue from Battat during the three month period ended June 30, 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® will immediately begin 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 other non-exclusive categories. As part of the development of the new products, the Company has engaged in the creation of several new characters as well as updating the existing characters.

Due to a gap between the termination of the Battat license and subsequent end of the extended sell off period and the introduction of the Jakks Pacific toy line 2012, we anticipate a reduction in royalty revenue during the remainder of 2011 and first half of 2012. As we cannot state with any certainty what the revenue would have been from the Battat toy line nor predict the sales for the new line of Jakks Pacific toys, we are unable to state the amount of the overall reduction for our licensed revenue category.

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. Circle of Education, LLC ("COE") 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. The results for COE are consolidated within our financial statements.

The Company also obtains licenses for other select brands we feel we can market and sell through our distribution channels.

During 2010, the Company launched a line of DVDs including classic movies and television programs under the brand “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. In 2011, we obtained the rights to distribute other studios’ films on DVD, Blu-Ray, digital and broadcast formats under our brand which will be included in our product catalog starting in the third quarter of 2011. The agreements vary in length from three to five years.

Results of Operations

Three and Six Month Period Ended June 30, 2011 Compared to June 30, 2010

Our summary results of operations are presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues	$835,736	$711,717	$2,142,912	$1,687,317
Costs and expenses	(1,528,707)	(923,679)	(2,932,714)	(2,045,071)
Depreciation and Amortization	(54,265)	(167,706)	(109,094)	(337,106)
Loss from Operations	(747,236)	(379,668)	(898,896)	(694,860)
Other Income	10,641	10,313	21,057	20,512
Interest Expense	(29,733)	(12,588)	(64,739)	(23,848)
Total Other Income	(19,092)	(2,275)	(43,682)	(3,336)
Net Loss	(766,328)	(381,943)	(942,578)	(698,196)
Net Loss attributable to Noncontrolling Interest	977	-	4,421	-
Net Loss attributable to Pacific Entertainment Corporation	$(765,351)	$(381,943)	$(938,157)	$(698,196)
Net Loss per common share	$(0.01)	$(0.01)	$(0.02)	$(0.01)
Weighted average shares outstanding	59,490,691	54,595,407	56,215,116	54,595,407

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Direct PEC Product Sales	$432,758	$451,745	$1,076,476	$825,203
Licensed and Distributed Products	358,810	111,881	608,383	482,182
Licensing & Royalties	44,168	148,091	458,053	379,932
Total Revenue	$835,736	$717,717	$2,142,912	$1,687,317

Direct product sales represent items in which the Company holds the patents and/or copyrights to the characters and which are manufactured and sold by the Company directly at wholesale to retail stores and outlets. The decrease of $18,987 (4.2%) for the three months ended June 30, 2011 compared to the three months ended June 30, 2010, was due to the slightly lower DVD sales. The increase of $251,273 (30.4%) for the six month period ended June 30, 2011 compared to the six month period ended June 30, 2010 is due to sales through a direct to consumer offering with Groupon. Management believes that the Company is on target to increase direct product sales volumes over 2010, although economic and retail conditions in the market could impact our future sales in a negative manner and we are unable to guarantee increased sales. We continue to explore additional sales opportunities with retail and distribution customers; however, there is no guarantee that our products will be accepted by these new customers.

The licensed and distributed 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 June 30, 2011, the category increased by $246,929 (220.7%) over the same period in 2010 as a result of an increase in outside overstock studio product acquired and sold. The increase of $126,201 (26.2%) for the six months ended June 30, 2011 compared to the six months ended June 30, 2010 is due to increases in licensed DVD products and an increase in outside overstock studio product acquired and sold. The timing of the sales of overstock product is intermittent and unpredictable as it is determined by the availability of excess inventory from outside studios.

Licensing and royalties is revenue for our brands licensed to others to manufacture and/or market, both internationally and domestically. For the three months ended June 30, 2011 compared to the same period in 2010, the decrease of $103,923 (70.2%) was caused by the termination of the toy license with Battat. For the six months ended June 30, 2011 compared to the six months ended June 30, 2010 the category increased $78,121 (20.6%) primarily due to the toy line which was launched in August 2009. 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 through the first two quarters of 2012 due to the cancellation of the Battat toy license agreement, then show increases in late 2012 and in the subsequent years with the introduction of the new toy line currently in development with Jakks Pacific's Tollytots® division. We cannot guarantee that the new toy line will be accepted nor that the royalty revenue will increase.

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 revenue growth in 2011. We continue to market direct 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 continued sales growth through our actions to improve our existing products, maintaining highly competitive price points, and adding content to our product catalog.

Costs. Costs and expenses, excluding depreciation and amortization, consisting of cost of sales, marketing and sales expenses, and general and administrative costs, increased $605,048 (65.5%) for the three months ended June 30, 2011, compared to the three months ended June 30, 2010 and $887,665 (43.4%) for the six months ended June 30, 2011 compared to the six months ended June 30, 2010.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Cost of Sales	$575,814	$354,036	$1,129,722	$824,407

Cost of sales increased $221,778 (62.6%) and $305,315 (37.0%) during the three months and six months ended June 30, 2011 compared to the three months and six months ended June 30, 2010, respectively, as a result of increased sales volumes, product mix variations, 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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
General and Administrative	$808,617	$453,071	$1,288,901	$875,408
Marketing and Sales	142,120	115,994	506,672	344,678
Product Development	2,156	578	7,419	578
Total Selling, General, and Administrative	$952,893	$569,643	$1,802,992	$1,220,664

General and administrative costs increased $355,546 (78.5%) for the three months ended June 30, 2011 compared to the three months ended June 30, 2010. This is a primarily the result of increases in salaries and related expenses of $84,477, partially offset by a decrease in accounting services expense of $22,118 due to the hiring of accounting staff previously outsourced, increased stock compensation expense of $244,536, increased legal fees of $35,482 predominately expended for the filing of the registration statement with the U.S. Securities & Exchange Commission, and increased investor relations expenses of $24,914. For the six months ended June 30, 2011 compared to the six months ended June 30, 2010, general and administrative expenses increased $413,493 (47.2%). This increase is due in part to increased salaries of $393,201, a decrease in outside accounting services of $47,959, increased legal costs in the amount of $62,905, and increases in investor relations of $47,100, less a reduction for rental expense of $16,238. Increases in the stock compensation expenses were the result of options to purchase shares of the Company's common stock granted to officers as part of the employment agreements and to a consultant for services (see Note 8 to financial statements for more detail).

Marketing and sales expenses include trade shows, public relations firms, sales and royalty commissions and personal contact. Marketing expenses exhibit some fluctuation due to timing of trade shows attended. For the three months ended June 30, 2011 compared to the same period in the prior year the total expense increased $26,126 (22.5%), due to attending the International Licensing Show and a reduction for a common marketing fund which was discontinued in January 2011. During the six month period ended June 30, 2011 compared to the six month period ended June 30, 2010, marketing and sales expenses increased $161,994 (47.0%). This increase was a result of increases in commission expense on royalty income of $210,860 and trade show costs of $24,154, with reductions in the common marketing fund of $46,739 and public relations expenditures of $13,000.

Product development expenses are for routine and periodic alterations to existing products. For the three and six months ended June 30, 2011 compared to June 30, 2010, these expense increased $1,578 (273.0%) and $6,841 (1183.6%), respectively. 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 June 30, 2011 and 2010 in the amounts of $3,096 and $5,908, respectively. For the six month period ended June 30, 2011 and 2010, interest expense was recorded in the amounts of $7,104 and $11,755, respectively. The decreases were due to partial repayments made in February 2011, April 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. Repayments on the principle balance were made in the aggregate of $24,000 during February and April 2011. On April 1, 2011, Ms. Moeller agreed to convert $200,000 of the outstanding balance to shares of common stock of the Company. The interest expense for the three months ended June 30, 2011 and June 30, 2010 was $2,184 and $5,494, respectively. For the six months ended June 30, 2011 and 2010, the interest expense recorded was $7,478 and $10,906, 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 June 30, 2011 and June 30, 2010, interest expense was recorded in the amount of $24,453 and $0. Interest expense was recorded for the six months ended June 30, 2011 and 2010 in the amounts of $49,012 and $0, respectively.

Liquidity and Capital Resources

Three and Six Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

To date, we have relied on a combination of revenue, loans from officers and private offerings of stock to meet our cash requirements. Currently, our principal source of liquidity is cash in the bank. Management believes that its increasing revenues 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 through equity and related party loans or be forced to scale back its development plans or to significantly reduce or terminate operations.

Cash totaled $739,232 and $119,208 at June 30, 2011 and 2010, respectively. The change in cash is as follows:

	Three Months Ended June 30,		
	2011	2010	Change
Cash provided (used) by operations	$(82,736)	$(41,077)	$(41,659)
Cash provided (used) in investing activities	(124,142)	(110,941)	(13,201)
Cash provided (used) in financing activities	738,230	22,973	715,257
Increase (decrease) in cash and cash equivalents	$531,352	$(129,045)	$660,397

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 six months ended June 30, 2011, compared to 2010, increased by $41,659 due to an increase in the prepaid expenses and a decrease in the accounts payable balance mitigated by a decrease in accounts receivable and an increase in the other accrued expenses. Cash used in the same periods for investing activities relates to investment in additional music and DVD products. The cash provided by financing activities for the six months ended June 30, 2011 of $738,230, is a result of sales of common stock pursuant to a private placement offering of $858,230 after related expenses offset by the partial repayment of related party notes in the aggregate of $120,000.

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 additional 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 offering has expired.

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 $860,000 during the six months ended June 30, 2011, reduced by offering costs of $1,770, and 5,300,000 shares were issued at a purchase price of $0.20 per share.

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 during the six months ended June 30, 2011in the aggregate amount of $96,000. Interest expense was recorded in the six months ended June 30, 2011 and 2010 in the amounts of $7,104 and $11,755 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 six months ended June 30, 2011 and June 30, 2010, interest expense was recorded in the amount of $49,012 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.

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Critical Accounting Policies

The Company's accounting policies are described in Note 1: The Company and Significant Accounting Policies of the notes to the Company's financial statements in Item 1 above. 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. 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.

Reclassifications – Certain amounts in the condensed consolidated financial statements as of December 31, 2010 have been reclassified to conform to the presentation as of June 30, 2011.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the ''Exchange Act''). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding

required disclosure. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective, for the three months ended June 30, 2011, in ensuring that material information that we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

Internal Control Over Financial Reporting

There were no changes in our system of internal controls over financial reporting during the three months ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. 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 1a. Risk factors.

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

Item 2. Unregistered sales of equity securities and use of proceeds.

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(2) of the Securities Act of 1933, as amended, in exchange for services valued at approximately $9,690 or $0.30 per share.

During March and April 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.

Item 3. Defaults upon senior securities.

There were no reportable events under this Item 3 during the three months ended June 30, 2011.

Item 4. [Removed and reserved].

Item 5. Other information.

There were no reportable events under this Item 5 during the three months ended June 30, 2011 which have not already been reported.

Item 6. Exhibits.

Exhibit No.	Description
31.1	Section 302 Certification of Chief Executive Officer.
31.2	Section 302 Certification of Chief Financial Officer.
32.1	Section 906 Certification of Chief Executive Officer.
32.2	Section 906 Certification of Chief Financial Officer
101	XBRL (Extensible Business Reporting Language) The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in Extensive Business Reporting Language (XBRL), (i) consolidated balance sheets, (ii) consolidated statements of operations, (iii) consolidated statements of stockholders' equity (deficit), (iv) consolidated statements of cash flows, and (iv) the notes to the consolidated financial statements.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

SIGNATURES

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

PACIFIC ENTERTAINMENT CORPORATION

Date: August 15, 2011 By: /s/ Klaus Moeller
Klaus Moeller, Chief Executive Officer