

QUARTERLY REPORT
PURSUANT TO
PINK SHEETS GUIDELINES FOR PROVIDING ADEQUATE PUBLIC DISCLOSURE

COVERING PERIOD ENDED JUNE 30, 2010

PACIFIC ENTERTAINMENT CORPORATION
A CALIFORNIA CORPORATION

All information contained in this Quarterly Report has been compiled to fulfill the disclosure requirements of Rule 15c2-11(a)(5) promulgated under the Securities Act of 1934 as amended. The enumerated captions contained herein correspond to the sequential format as set forth in the Guidelines for Providing Adequate Current Public Information provided by Pink OTC Markets Inc.



QUARTERLY REPORT

PART A GENERAL COMPANY INFORMATION

Item I. Exact Name Of The Issuer And The Address Of Its Principal Executive Offices

Pacific Entertainment Corporation (the "Company")
5820 Oberlin Drive, Suite 203
San Diego, California 92121
Office – (858) 450-2900
Fax – (858) 450-2907
<http://www.pacificentcorp.com/>
<http://babygenius.com/>

Investor relations for Pacific Entertainment Corporation is handled by:

ICR, Inc
Anne Rakunas, Senior Vice President
12121 Wilshire Blvd, Ste 300
Los Angeles, CA 90025
Telephone: (310) 954-1100
E-Mail: Anne.Rakunas@icrinc.com

Pacific Entertainment Corporation
Klaus Moeller, C.E.O.
5820 Oberlin Drive, Suite 203
San Diego, California 92121
Telephone: (310) 858-7838
E-mail - Klaus@pacificentcorp.com

Item II. Shares Outstanding.

As of June 30, 2010, December 31, 2009 and December 31, 2008, the Issuer's outstanding and authorized common shares, and shareholders, were approximately as follows:

- (i) June 30, 2010;
 - (ii) 100,000,000 shares of common stock authorized;
 - (iii) 54,595,407 shares of common stock outstanding;
 - (iv) 13,476,459 common shares were free trading;
 - (v) 129 beneficial shareholders; and
 - (vi) 134 shareholders of record.
-
- (i) December 31, 2009;
 - (ii) 100,000,000 shares of common stock authorized;
 - (iii) 54,595,407 shares of common stock outstanding;
 - (iv) 13,395,834 common shares were free trading;
 - (v) 129 beneficial shareholders; and
 - (vi) 134 shareholders of record.

- (i) December 31, 2008;
- (ii) 100,000,000 shares of common stock authorized;
- (iii) 53,932,500 shares of common stock outstanding;
- (iv) No free trading common shares;
- (v) 58 beneficial shareholders; and
- (vi) 11 shareholders of record

Item III. Interim Financial Statements.

Our unaudited financial reports for the period ended June 30, 2010 are attached to the end of this Quarterly Report and are hereby incorporated by reference as follows:

Balance Sheets
Statements of Operations
Statements of Stockholder's Equity (Deficit)
Statements of Cash Flows
Notes to Financial Statements

The afore-mentioned financial statements can be found immediately following the certification of this Quarterly Report.

Item IV. Management's Discussion and Analysis Or Plan Of Operation.

The following management's discussion and analysis of financial condition and results of operations (MD&A) is intended to help the reader understand the results of operations and financial condition of Pacific Entertainment Corporation. The MD&A is provided as a supplement to, and should be read in conjunction with, our Financial Statements and the accompanying Notes to the Financial Statements in this report.

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 within the meaning of Section 27a of the Securities Act of 1933 and Section 21e of the Securities Exchange Act of 1934 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 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 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 and original music under those titles.

Our products consist primarily of music based family and children’s DVDs, CD music, and book products, that are educational and entertaining for infants and young children, sold globally through retailers, distributors, and through licensing of the brand. We currently have 25 CD and 11 DVD titles in distribution. The majority of our CD titles are a 2 CD compilation, with an average of 30 songs per title, and our DVD’s, all of which are bilingual in English and Spanish, are usually accompanied by a bonus CD, adding exceptional value to our product line. We have also developed 13 bilingual English and Spanish books that will be distributed in Central and South America starting in 2010.

The Company released two new music products, “50 Classic Lullabies & Soothing Songs” and “Favorite Guitar and Piano Melodies” for pre-order in June 2010. In addition, production of a new DVD based on the concept of shapes and colors was begun in June and is scheduled for release in December 2010.

In August 2009, the Company launched a line of Baby Genius pre-school toys, manufactured under license by master toy manufacturer Battat Incorporated. The initial line includes 24 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 toy line is produced and distributed pursuant to a written license agreement granting Battat an exclusive license for the marketing and distribution of a line of toys based on the Baby Genius brand in the United States and Canada, and non-exclusive rights of distribution in other parts of the world. The agreement has a term of four years, expiring on December 31, 2012, and is subject to cancellation by either party in the event certain minimum purchase commitments by Battat’s primary customer are not met. The Company is pleased to report that our toy licensee distributed over 2 million Baby Genius toys since August 2009. Due to the success of the line, we have developed four additional Baby Genius toys for release in 2010. The majority of the toy line is also available for purchase on BabyGenius.com.

Through our licensing arrangement with Meadowbrook Press, a line of Baby Genius books, which currently consists of four titles, with another four planned for introduction in 2011, has been launched and is being distributed through Simon & Schuster.

The Company has signed licensing agreements to develop additional product lines based on the Baby Genius characters, including children’s games and puzzles, electronic learning aides, “sippy cups”, shoes, socks, and infant and toddler layette items. We continue to explore opportunities for brand expansion into new product lines, including apparel, accessories and bedding, and continue to work with distributors, manufacturers and licensees in the industry to not only expand our product lines but also build brand awareness.

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.

Our products have received multiple prestigious awards, including the iParenting 2008 Excellent Product Award, *Home Media Magazine*, Latino DVD Awards for Best Children’s DVD, the Film Advisory Board Award of Excellence, *Parents Magazine* “Video of the Year,” “Dr. Toy’s 100 Best Children’s Products 2009” and the “iParenting 2010 Best Product”, among others.

The Company, in partnership with San Diego State University, has developed “The Circle of Education,” an early childhood education curriculum using music as the basis for skills required to prepare pre-school children for Kindergarten. This groundbreaking system will be a subscription service to assist parents in providing their pre-school children with the skills required to succeed in their first steps of education. We are currently exploring the best way to introduce the product to market.

The Company also obtains licenses for the use of 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 produced three CD's released in fourth quarter 2009. In addition, the Company signed an amendment in September 2009 to include licensing for six DVD's created by PMI. The "Precious Moments" products join our previously licensed brands including "Guess How Much I Love You" and "The Snowman".

Results of Operations

Please refer to the unaudited financial statements, which are attached immediately following this Quarterly Report and are incorporated herein by reference, for further information regarding the results of operations of the Company. All references to notes in the financial statements are references to the financial statements attached to this Quarterly Report.

Three and Six -Month Periods Ended June 30, 2010 Compared to June 30, 2009

Our summary results are presented below:

	Three Months Ended 6/30/2010	Three Months Ended 6/30/2009	Six Months Ended 6/30/2010	Six Months Ended 6/30/2009
Revenues	\$ 711,717	\$ 452,791	\$ 1,687,317	\$ 1,449,506
Costs and expenses	(923,679)	(763,832)	(2,045,071)	(2,041,426)
Depreciation and Amortization	(167,706)	(151,893)	(337,106)	(303,200)
Loss from Operations	(379,668)	(462,934)	(694,860)	(895,120)
Other Income	10,313	32	20,512	495
Interest Expense	(12,588)	(76,681)	(23,848)	(158,671)
Loss on Disposition of Assets	-	-	-	(2,775)
Total Other Income	(2,275)	(76,649)	(3,336)	(160,951)
Net Loss	<u>\$ (381,943)</u>	<u>\$ (539,583)</u>	<u>\$ (698,196)</u>	<u>\$ (1,056,071)</u>
Net Loss per common share	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>
Weighted average shares outstanding	<u>54,595,407</u>	<u>54,290,742</u>	<u>54,595,407</u>	<u>54,163,163</u>

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

	Three Months Ended 6/30/2010	Three Months Ended 6/30/2009	Six Months Ended 6/30/2010	Six Months Ended 6/30/2009
Direct PEC Product Sales	\$ 451,745	\$ 376,890	\$ 825,203	\$ 1,345,091
Licensed Products	111,881	12,993	482,182	26,700
Licensing & Royalties	148,091	62,908	379,932	77,715
Total Revenue	\$ 711,717	\$ 452,791	\$ 1,687,317	\$ 1,449,506

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 increase of the three month period ended June 30, 2010 compared to the three month period ended June 30, 2009, was the effect of additional customer relationships. The decrease of the six month period ended June 30, 2010 compared to the six month period ended June 30, 2009 was due in part to sales of approximately \$508,105 in Baby Genius surplus inventory received from the Genius Products settlement agreements. Exclusive of these items, direct sales were approximately \$836,986 for the six month period in 2009 compared to \$825,203 for the six month period in 2010, a decrease of 1.4%. Management believes that the Company is on target to meet its sales projections for 2010, although economic and retail conditions in the market could impact our future sales in a negative manner. We have made significant progress in our self distribution program subsequent to the termination of the Genius Products distribution agreement in December 2008; however, we continue to explore additional sales opportunities with retail and distribution customers and 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. For the three months ended June 30, 2010, the category increased over the same period in 2009 as a result of additional product lines added in fourth quarter 2009. In the six months ended June 30, 2010 compared to 2009, the category also includes \$318,323 of remainder product purchased from outside vendors for resale through our distribution channels. Exclusive of this product, the licensed product category had an increase of \$163,859 or 57% over the previous year, partially a result of the Precious Moments license added in late 2009.

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 continue to experience continued growth throughout the next few years.

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 significant growth in revenue in 2009 and the first half of 2010. We continue to aggressively 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 2010 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 pallet.

Costs. Costs and expenses, excluding depreciation and amortization, consisting primarily of cost of sales, marketing and sales expenses, and general and administrative costs, increased \$159,847 (21%) for the three month period ended June 30, 2010 compared to the three month period ended June 30, 2009. The costs decreased \$3,645 for the six month periods ended June 30, 2010 and 2009.

Cost of Sales increased \$164,628, or 87%, during the second quarter of 2010 compared to the same period of 2009. The increase was a result of increased sales volume, increased material costs and royalties on licensed product lines. For the six months ended June 30, 2010 compared to the same period in 2009, cost of sales increased \$123,387 or 18%. The primary factor was inventory received from Genius Products as part of the settlement agreement and sold in 2009 valued at a reduced cost due to the nature and age of the inventory.

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:

	Three Months Ended 6/30/2010	Three Months Ended 6/30/2009	Six Months Ended 6/30/2010	Six Months Ended 6/30/2009
General and Administrative	\$ 453,071	\$ 491,899	\$ 875,408	\$ 1,155,248
Marketing and Sales	115,994	73,888	344,678	175,982
Product Development	578	8,637	578	9,176
Total Selling, General, and Administrative	<u>\$ 569,643</u>	<u>\$ 574,424</u>	<u>\$ 1,220,664</u>	<u>\$ 1,340,406</u>

General and administrative costs decreased \$38,828 (8%) for the three months ended June 30, 2010 compared to June 30, 2009. This is a result of reductions in Stock Compensation Expense of \$61,575, offset by increased liability and health insurance costs, as well as outside services for consultants retained to increase licensing opportunities. For the six month period ended June 30, 2010 compared to June 30, 2009, general and administrative costs decreased \$279,840.

The stock compensation expense in 2009, for options granted at 110% of current market price on the date of the grant to officers of the Company with a two year vesting period, was valued using the Black-Scholes model as required by the provisions of Topic 718, Compensation, of the Accounting Standards Codification. In six months ended June 30, 2009, \$243,269 of stock compensation expense was recorded, and the total expense for these options was fully recorded in 2009. In June 2010, an option was granted to a consultant in exchange for services for the purchase of up to 250,000 shares of common stock at the five day average market price prior to the option grant date. The option expense was valued using the Black-Scholes model at \$63,894. The option is fully vested and the total expense was recorded in the six month period ended June 30, 2010. There is no cash outflow associated with the granting of the options or recognition of the expense.

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. Increased commission expense of \$48,399 and \$154,851 for the three and six month period ended June 30, 2010, respectively, compared to the same periods in the prior year were the result of the increase in royalty revenue associated with new licensing agreements. There is also an associated cost for a Common Marketing Fund contractually established with licensees, some of which

require a matching contribution by the Company. In the six month period ended June 30, 2010, this expense increased \$46,739. These funds are used exclusively for brand building and awareness.

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 2006 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. Partial repayment on the notes was made in March 2009. On December 31, 2009, the Officers each agreed to issue new note agreements for the full unpaid principal and interest outstanding. These notes have a maturity of December 31, 2010 and a stated interest rate of 6% on the unpaid balance. There is no prepayment penalty. Interest expense was recorded in the six month period ended June 30, 2010 in the amount of \$11,756 for these officer notes.

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 at that time. On December 31, 2009, Ms. Moeller agreed to issue a new note for the full amount then due, including principal and unpaid interest, at a stated interest rate of 6% with maturity on December 31, 2010. For the six month period ended June 30, 2010, interest expense was \$10,906.

Interest expense for related party notes payable reduced \$9,936 for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 due to a repayment of part of the outstanding balance in March 2009 in the amount of \$400,000.

As part of the agreement for conversion of the debentures to common stock, interest expense continued to accrue on the full amount of the debentures, payable in common stock at a rate of 1 share per \$.40 of interest, until a secondary trading market was created. 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. The application was cleared for un-priced quotations on July 13, 2009 and the debenture interest was terminated on July 24, 2009. In the six months ended June 30, 2009, interest expense for the debentures accrued in the amount of \$125,000 with no corresponding expense in 2010.

Liquidity and Capital Resources

Six Month Period Ended June 30, 2010 Compared to Six Month Period Ended June 30, 2009

Cash and cash equivalents totaled \$118,820 and \$131,518 at June 30, 2010 and 2009, respectively. The change in cash and cash equivalents is as follows:

	Six Months Ended 6/30/2010	Six Months Ended 6/30/2009	Change
Cash provided/(used) by operations	\$ (41,077)	\$ (24,565)	\$ (16,512)
Cash provided/(used) in investing activities	(110,941)	(77,072)	(33,869)
Cash provided/(used) in financing activities	22,973	(314,569)	337,542
Increase/(decrease) in cash and cash equivalents	<u>\$ (129,045)</u>	<u>\$ (416,206)</u>	<u>\$ 287,161</u>

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 month period ended June 30, 2010, compared to 2009, decreased \$16,512 primarily due to increases in the Accounts Receivable and Inventory balances mitigated by an increase in Accounts Payable and Accrued Salaries. Cash used in the same period for investing activities relates to investment in additional music and DVD products, as well as development of additional toys. Cash was used for financing activities in 2009 as repayment was made on a portion of the related party notes payable, offset in part by sales of common stock to accredited investors prior to the suspension of the Company's private placement.

Management believes that its increasing sales 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.

On April 6, 2010, the Company commenced a 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 to fund business development projects and related party debt reduction, based on proceeds of the offering. Subscriptions sold through June 30, 2010 totaled \$33,443, representing 83,608 shares.

On July 13, 2010, the Board of Directors approved an amended offering to include the issuance of one warrant per 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.

On July 19, 2010, four of the Officers agreed to convert the amounts outstanding as unpaid salaries through June 30, 2010 to notes payable. The notes, in the aggregate amount of \$1,773,337, have a maturity of December 31, 2011 and a stated interest rate of six percent (6%) per annum, said interest accruing from July 1, 2010 on the unpaid balance of principle and interest. There is no prepayment penalty. These loans are classified as long term liabilities and are subordinated debt. As of June 31, 2010, there is no accrued interest on these notes.

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. 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 – 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.

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.

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 V. Legal Proceedings.

There are no current or past, pending or threatened legal proceedings or administrative actions either by or against the Company that could have a material effect on its business, financial condition or operations, and there are no current, past or pending suspensions by any securities regulator.

Item VI. Defaults Upon Senior Securities.

Not applicable.

Item VII. Other Information.

There was no change in the number of outstanding shares as of June 30, 2010 from December 31, 2009.

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 \$.50 in exchange for consulting services. The Option was issued on June 21, 2010 and expires the earlier of three years from the date of the grant or ninety days following termination of the agreement. The Company has the right to terminate the agreement with fifteen days written notice.

On July 19, 2010, four of the Officers agreed to convert the amounts outstanding as unpaid salaries through June 30, 2010 to notes payable. The notes, in the aggregate amount of \$1,773,337, have

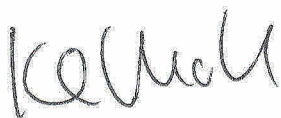
a maturity of December 31, 2011 and a stated interest rate of six percent (6%) per annum, said interest accruing from July 1, 2010 on the unpaid balance of principle and interest. There is no prepayment penalty. These loans are classified as long term liabilities and are subordinated debt. As of June 30, 2010, there is no accrued interest on these notes.

Item XXI. Issuer's Certifications

I, Klaus Moeller, certify that:

1. I have reviewed this initial disclosure statement of Pacific Entertainment Corporation;
2. Based on my knowledge, this initial disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this initial disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this initial disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this initial disclosure statement.

Date: July 21, 2010



Klaus Moeller, Chief Executive Officer and
Chief Financial Officer of Pacific Entertainment
Corporation

**PACIFIC ENTERTAINMENT CORPORATION
COMPARATIVE FINANCIAL STATEMENTS
AS OF AND FOR THE PERIOD ENDING
June 30, 2010 (Unaudited)**

TABLE OF CONTENTS

	<u>Page No.</u>
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	3
FINANCIAL STATEMENTS	
Balance Sheets	4
Statements of Operations	5
Statements of Stockholders' Equity (Deficit)	6
Statements of Cash Flows	7
Notes to Financial Statements	8



Report of Independent Registered Public Accounting Firm

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

We have reviewed the accompanying condensed balance sheet of Pacific Entertainment Corporation as of June 30, 2010, and the related condensed statements of operations for the three-month and six-month periods ended June 30, 2010 and 2009 and the related condensed statements of stockholders equity and cash flows for the six-month periods ended June 30, 2010 and 2009. These condensed financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board, the balance sheet of Pacific Entertainment Corporation as of December 31, 2009, and the related statements of operations, stockholder's equity, and cash flows for the year then ended (not presented herein); and in our report dated February 25, 2010, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed balance sheet as of December 31, 2009, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

HJ Associates & Consultants, LLP

HJ Associates & Consultants, LLP
Salt Lake City, Utah
July 22, 2010

Pacific Entertainment Corporation
Balance Sheets
June 30, 2010 (Unaudited) and December 31, 2009

<u>ASSETS</u>	<u>06/30/2010</u>	<u>12/31/2009</u>
Current Assets:		
Cash	\$ 118,820	\$ 247,865
Accounts Receivable, net	703,846	804,406
Inventory	224,961	157,498
Prepaid and Other Assets	65,710	45,000
Total Current Assets	<u>1,113,337</u>	<u>1,254,769</u>
Property and Equipment, net	35,908	31,932
Capitalized Product Development	144,649	44,724
Intangible Assets, net	712,642	1,042,708
Total Assets	<u>\$ 2,006,536</u>	<u>\$ 2,374,133</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</u>		
Current Liabilities:		
Accounts Payable	\$ 705,113	\$ 680,787
Accrued Expenses	186,454	232,099
Accrued Salaries and Wages	71,872	1,602,820
Accrued Interest - Debentures	18,052	18,052
Notes Payable – Related Party	775,027	752,365
Total Current Liabilities	<u>1,756,518</u>	<u>3,286,123</u>
Long Term Liabilities:		
Notes Payable – Related Party	1,773,337	-
Total Liabilities	<u>3,529,855</u>	<u>3,286,123</u>
Stockholders' Equity (Deficit)		
Common Stock, no par value, 100,000,000 shares authorized; 54,595,407 and 54,595,407 shares issued and outstanding, respectively	3,184,358	3,194,828
Common Stock Subscription Payable	33,443	-
Additional Paid in Capital	2,032,349	1,968,455
Accumulated Deficit	(6,773,469)	(6,075,273)
Total Stockholders' Equity (Deficit)	<u>(1,523,319)</u>	<u>(911,990)</u>
Total Liabilities & Stockholders' Equity (Deficit)	<u>\$ 2,006,536</u>	<u>\$ 2,374,133</u>

See accompanying notes to financial statements

Pacific Entertainment Corporation
Statements of Operations
Periods Ending June 30, 2010 and 2009 (Unaudited)

	Three Months Ending		Six Months Ending	
	6/30/10	6/30/09	6/30/10	6/30/09
Revenues:				
Product Sales	\$ 563,626	\$ 389,883	\$ 1,307,385	\$1,371,790
Licensing & Royalties	148,091	62,908	379,932	77,716
Total Revenues	711,717	452,791	1,687,317	1,449,506
Cost of Sales (Excluding Depreciation)	354,036	189,408	824,407	701,020
Gross Profit	357,681	263,383	862,910	748,486
Operating Expenses:				
Product Development	578	8,637	578	9,176
Professional Services	77,056	68,964	176,721	216,392
Rent Expense	38,290	32,238	74,880	59,088
Marketing & Sales	115,994	73,888	344,678	175,982
Depreciation & Amortization	167,706	151,893	337,106	303,200
Salaries and Related Expenses	243,472	239,396	483,509	563,415
Stock Compensation Expense	60,059	121,635	63,894	243,269
General & Administrative	34,194	29,666	76,404	73,084
Total Operating Expenses	737,349	726,317	1,557,770	1,643,606
Loss from Operations	(379,668)	(462,934)	(694,860)	(895,120)
Other Income (Expense):				
Other Income	10,313	32	20,512	495
Interest Expense	(1,186)	(62,645)	(1,186)	(126,074)
Interest Expense – Related Parties	(11,402)	(14,036)	(22,662)	(32,597)
Loss on Disposition of Intangible Assets	-	-	-	(2,775)
Net Other Income (Expense)	(2,275)	(76,649)	(3,336)	(160,951)
Loss before Income Taxes	(381,943)	(539,583)	(698,196)	(1,056,071)
Income Tax	-	-	-	-
Net Loss	\$ (381,943)	\$ (539,583)	\$ (698,196)	\$ (1,056,071)
Net Loss per common share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.02)
Weighted average shares outstanding	54,595,407	54,290,742	54,595,407	54,163,163

See accompanying notes to financial statements

Pacific Entertainment Corporation
Statements of Stockholders' Equity (Deficit)
June 30, 2010 (Unaudited) and December 31, 2009

	<u>Common Stock</u>		Common Stock Subscription Payable	Additional Paid in Capital	Accumulated Deficit	Total
	Shares	Amount				
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 Subscription Payable	-	-	33,443	-	-	33,443
Stock Offering Costs	-	(10,470)	-	-	-	(10,470)
Stock Compensation Expense	-	-	-	63,894	-	63,894
Net Loss	-	-	-	-	(698,196)	(698,196)
Balance, June 30, 2010	54,595,407	\$ 3,184,358	\$ 33,443	\$ 2,032,349	\$ (6,773,469)	\$ (1,523,319)

See accompanying notes to financial statements

Pacific Entertainment Corporation
Statements of Cash Flows
Periods Ended and June 30, 2010 and 2009 (Unaudited)

	Six Months Ending 06/30/2010	Six Months Ending 06/30/2009
Cash Flows from Operating Activities:		
Net Loss	\$(698,196)	\$(1,056,071)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation Expense	7,041	5,538
Amortization Expense	330,065	297,662
Loss on Disposal of Intangible Assets	-	2,775
Issuance of Common Stock for Interest	-	60,000
Capital Contribution Related Party Interest	-	10,333
Stock Compensation Expense	63,894	243,269
Decrease (increase) in operating assets		
Accounts Receivable	100,560	(199,317)
Inventory	(67,463)	96,018
Prepaid Expenses & Other Assets	(20,710)	(29,210)
Other Receivable	-	218,811
Increase (decrease) in operating liabilities		
Accounts Payable	24,326	(17,910)
Accrued Salaries	242,389	144,466
Accrued Interest	-	65,000
Accrued Interest – Related Party	22,662	22,265
Other Accrued Expenses	(45,645)	111,806
Net cash provided/(used) in operating activities	<u>(41,077)</u>	<u>(24,565)</u>
Cash Flows from Investing Activities:		
Investment in Product Masters	(99,924)	(65,318)
Purchase of Fixed Assets	(11,017)	(11,754)
Net cash provided/(used) by investing activities	<u>(110,941)</u>	<u>(77,072)</u>
Cash Flows from Financing Activities:		
Sale of Common Stock	-	100,000
Common Stock Subscription Payable	33,443	-
Common Stock Offering Cost	(10,470)	(15,569)
Proceeds from Related Party Debt	-	1,000
Payments on Related Party Debt	-	(400,000)
Net cash provided/(used) by financing activities	<u>22,973</u>	<u>(314,569)</u>
Net increase/(decrease) in cash	(129,045)	(416,206)
Beginning Cash Balance	247,865	547,724
Ending Cash Balance	<u>\$ 118,820</u>	<u>\$ 131,518</u>

Supplemental disclosures of cash flow information:

Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -
Accrued Salaries and wages reclassified to Long Term Notes Payable	\$ 1,773,337	\$ -
Accrued Stock Compensation reclassified to Additional Paid in Capital	\$ -	\$ 810,898

See accompanying notes to financial statements

Pacific Entertainment Corporation
Notes to Financial Statements
June 30, 2010 (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 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 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. The agreement has a term of four years, expiring in 2012, and is subject to cancellation by either party in the event certain minimum purchase commitments are not met. Due to the success of the line, we have developed four additional Baby Genius toys for release in 2010, and our intention is to add new items throughout the term of the agreement.

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 also discussing other licensing opportunities for introduction in 2010 and 2011 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 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”.

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.

Pacific Entertainment Corporation
Notes to Financial Statements
June 30, 2010 (Unaudited)

Interim Financial Statements

The accompanying condensed financial statements of the Company have been prepared without audit or review. Certain information and disclosures required by accounting principles generally accepted in the United States have been condensed or omitted. These condensed 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 six month period ended June 30, 2010, are not necessarily indicative of the results that may be expected for any future period or the fiscal year ending December 31, 2010.

These financial statements should be read in conjunction with the financial statements included in the Company's 2009 Annual Report filed with the Pink OTC Markets on March 2, 2010.

Liquidity

Historically, the Company has incurred net losses and negative cash flows from operations. As of June 30, 2010, the Company had an accumulated deficit of \$6,773,469 and total stockholders' deficit of \$1,523,319. At June 30, 2010, the Company had current assets of \$1,113,337, including cash of \$118,820, and current liabilities of \$1,756,518, resulting in a working capital deficiency of \$643,181. The working capital deficiency includes \$403,280 in amounts due to the officers of the Company for loans and accrued interest. These officers are also majority shareholders of the Company. For the six month period ending June 30, 2010, the Company reported a net loss of \$698,196. The Company had net cash used in operating activities of \$41,077. Management believes that its increasing sales 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.

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:

	<u>6/30/2010</u>	<u>12/31/2009</u>
Furniture and Equipment	\$ 65,116	\$ 54,099
Less Accumulated Depreciation	(29,208)	(22,167)
Net Fixed Assets	\$ 35,908	\$ 31,932
Trademarks	\$ 129,831	\$ 129,831
Website Development	17,000	-
Books	11,454	-
Toys	59,107	-
Product Masters	3,122,778	3,122,779
Other Intangible Assets	35,703	123,264
Less Accumulated Amortization	(2,663,231)	(2,333,166)
Net Intangible Assets	\$ 712,642	\$ 1,042,708

Pacific Entertainment Corporation
Notes to Financial Statements
June 30, 2010 (Unaudited)

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, 2010 and twelve months ending December 31, 2009 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 June 30, 2010 total \$71,872 and \$59,483 as of December 31, 2009. Debenture Interest accrued and unpaid for the original \$2.5 million principal balance is \$18,052 as of June 30, 2010 and \$18,052 as of December 31, 2009. Interest on the debentures was terminated effective July 24, 2009 in accordance with the conversion agreement (See Note 4: Stockholder's Equity). Other accrued liabilities totaling \$186,454 as of June 30, 2010 and \$232,099 as of December 31, 2009, 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.

On July 19, 2010, four of the Officers agreed to convert amounts outstanding as salaries to notes payable with a maturity of December 31, 2011. The amount of \$1,773,337 as of June 30, 2010 has been restated to Long Term Liabilities (see Note 5: Long Term Liabilities).

Note 4: Notes Payable - Current

As of June 30, 2010 and December 31, 2009, the Company had the following current notes payable balances outstanding:

	6/30/2010	12/31/2009
Related Party Note to PEC	\$ 371,747	\$ 360,840
Officer Loans to PEC	403,280	391,525
Total Related Party Notes	\$ 775,027	\$ 752,365

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,

Pacific Entertainment Corporation
Notes to Financial Statements
June 30, 2010 (Unaudited)

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. The amounts stated include \$11,756 in accrued but unpaid interest as of June 30, 2010, which represents interest accrued on the principal and unpaid interest as of December 31, 2009 due to the refinancing agreement. 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.

In 2006, the Company issued \$2.5 million in convertible debentures with a maturity date of December 31, 2010 to certain accredited investors. On June 30, 2008, the entire \$2.5 million in convertible debentures were converted to common stock for a total of 12,500,000 shares, with a continued interest obligation payable in common stock of the Company until a secondary trading market was established. The interest accrual for the debentures terminated on July 24, 2009.

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. In August 2008, the note was amended to require payment of all principal and accrued interest on June 30, 2009. A subsequent agreement extended the maturity date to December 31, 2009. The funds were borrowed from Ms. Moeller in order to reduce outstanding obligations due to Genius Products at that time. On December 31, 2009, Ms. Moeller agreed to issue a new note agreement for the balance due, including principal and unpaid interest. The new note has a maturity date of December 31, 2010 and a stated interest rate of 6% per annum. The amount due to Ms. Moeller as of June 30, 2010 is \$371,747, including \$10,906 in accrued but unpaid interest on the principal and interest balance as of December 31, 2009.

Note 5: Long Term Liabilities

On July 19, 2010, four of the Officers agreed to convert the amounts outstanding as unpaid salaries through June 30, 2010 to notes payable. The notes, in the aggregate amount of \$1,773,337, have a maturity of December 31, 2011 and a stated interest rate of six percent (6%) per annum, said interest accruing from July 1, 2010 on the unpaid balance of principle and interest. There is no prepayment penalty.

Note 6: Stockholders' Equity

As of June 30, 2010, 54,595,407 shares of common stock were outstanding out of the 100,000,000 shares of common stock authorized.

During 2009, additional shares were sold subject to the Confidential Private Placement offering of September 5, 2008, whereby the Company offered 25,000,000 shares of common stock to certain accredited investors. 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. 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 \$.40 per share. As of June 30, 2010, a total subscription of \$33,443 had been received and share certificates had not

Pacific Entertainment Corporation
Notes to Financial Statements
June 30, 2010 (Unaudited)

been issued. The total outstanding shares would be 54,679,015 had the 83,608 shares been issued prior to the end of the period. As of the date of issuance of these financial statements the share certificates had not yet been issued. Costs of the offering in the amount of \$10,470 were offset against the common stock account through June 30, 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.

65,000 shares of common stock were issued in 2009 in exchange for services valued at \$26,000 or \$.40 per share.

In addition, four of the officers were issued stock option grant notices on January 20, 2009 pursuant to the 2008 Stock Option plan and in accordance with the employment agreements entered into on January 1, 2008 of 8 million shares vesting over a period of two years. On December 31, 2009, stock option grant notices were issued to seven employees and service providers of the Company for the purchase of up to 130,000 shares. Total additional paid in capital was recognized for the options granted in the amount of \$1,329,432. 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 \$.50 in exchange for consulting services rendered. The grant notice was issued on June 21, 2010 and will expire the earlier of three years from the date of the grant or ninety days following termination of the agreement. Additional Paid in Capital was recognized in the total amount of \$63,894 for these options. Additional information regarding this subject is found in Note 10: 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.PK.

Note 7: 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 June 30, 2010 and December 31, 2009, the Company had no accrued interest or penalties related to uncertain tax positions.

Pacific Entertainment Corporation
Notes to Financial Statements
June 30, 2010 (Unaudited)

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 8: Related Party Transactions

Officer Loans

Throughout the years 2009, 2008, and 2007, the Company borrowed \$4,000, \$280,000 and \$444,500 respectively from four of the Officers of the Company and issued promissory notes in favor of the Officers. Under the aforementioned notes, interest was due on the unpaid principal balance plus accrued but unpaid interest at an annual rate of one point sixty-three percent (1.63%) on the amounts added during the period September 2008 to January 2009, and six percent (6%) on notes prior to September 2008. Under various extension agreements, the notes were payable on or before December 31, 2009. Partial repayment on the notes was made March 4, 2009 in the aggregate amount of \$400,000. The proceeds from the notes were used to pay operating obligations of the Company. On December 31, 2009, the Officers each agreed to issue new note agreements for the full unpaid principal and interest outstanding. These notes have a maturity of December 31, 2010 and a stated interest rate of 6% on the unpaid balance. There is no prepayment penalty. As of June 30, 2010 and December 31, 2009, an aggregate of \$403,280 and \$391,525, respectively, in principal and accrued interest expense were outstanding under the notes.

On July 19, 2010, four of the Officers agreed to convert the amounts outstanding as unpaid salaries through June 30, 2010 to notes payable. The notes, in the aggregate amount of \$1,773,337, have a maturity of December 31, 2011 and a stated interest rate of six percent (6%) per annum, said interest accruing from July 1, 2010 on the unpaid balance of principle and interest. There is no prepayment penalty. These loans are classified as long term liabilities and are subordinated debt. As of June 31, 2010, there is no accrued interest on these notes.

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. In August 2008, the note was amended to require payment of all principal and accrued interest on June 30, 2009. A subsequent agreement extended the maturity date to December 31, 2009. The funds were borrowed from Ms. Moeller in order to reduce outstanding obligations due to Genius at that time. On December 31, 2009, Ms. Moeller agreed to issue a new note for the full amount then due, including principal and unpaid interest, in the amount of \$360,840 with a maturity date of December 31, 2010 and a stated interest rate of 6%. As of June 30, 2010, the outstanding balance, including principal and accrued interest, was \$371,747.

Note 9: 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.

Pacific Entertainment Corporation
Notes to Financial Statements
June 30, 2010 (Unaudited)

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.

Note 10: 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 are to vest over a two-year period.

On December 29, 2008, the Company adopted the Pacific Entertainment Corporation 2008 Stock Plan (the "Plan"), which provides for the issuance of statutory and non-statutory 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 four of its 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 was 10% above the current trading price on the date of grant, and become 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 \$.55 per share were granted with a 5 year life, fully vesting on

Pacific Entertainment Corporation
Notes to Financial Statements
June 30, 2010 (Unaudited)

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 \$.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 calculations of the fair market value of each stock-based award that were granted, on June 21, 2010, used the following assumptions:

Risk-free interest rate	1.21%
Expected life in years	3
Dividend yield	0
Expected volatility	78.28%

Using the above assumptions the company calculated the fair market value of the 250,000 options on June 21, 2010 to be \$0.26 per option, or \$63,894. The full value of the options was expensed in 2010.

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

	Options Outstanding		Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value	Weighted Average Exercise Price per Share
	Number of Shares	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	250,000	\$0.50	3.00 years	-	\$ 0.50
Options Exercised	-	-	-	-	-
Options Expired	-	-	-	-	-
Balance at June 30, 2010	8,380,000	\$0.44-0.55	3.56 years	-	\$ 0.44
Exercisable June 30, 2010	8,380,000	\$0.44-0.55	3.56 years	-	\$ 0.44

Pacific Entertainment Corporation
Notes to Financial Statements
June 30, 2010 (Unaudited)

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

2010	545,600
2011	945,600
2012	1,025,600
Total	<u><u>\$2,516,800</u></u>

On June 30, 2009, the Board of Directors ratified and approved an offer by the Officers of a salary reduction to \$125,000 annually effective April 1, 2009 and continuing until further notice. As of June 30, 2010, the salaries remain at the reduced level. The Officers can, at any time and effective on the date of notice, require that all future salary payments be returned to the level of the employment agreement in effect at that time.

Note 12: Subsequent Events

The Company has evaluated subsequent events in accordance with Financial Accounting Standards Board Codification Topic 855, Subsequent Events, through July 22, 2010, the date the financial statements were issued.

On April 6, 2010, the Company commenced a Private Placement 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 one 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 \$.40 per share.

On July 19, 2010, four of the Officers agreed to convert the amounts outstanding as unpaid salaries through June 30, 2010 to notes payable. The notes, in the aggregate amount of \$1,773,337, have a maturity of December 31, 2011 and a stated interest rate of six percent (6%) per annum, said interest accruing from July 1, 2010 on the unpaid balance of principle and interest. There is no prepayment penalty. These loans are classified as long term liabilities and are subordinated debt. As of June 31, 2010, there is no accrued interest on these notes.