

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

**POW! ENTERTAINMENT, INC.**

CIK: **1505892** | IRS No.: **900139831** | State of Incorpor.: **DE** | Fiscal Year End: **1231**  
Type: **10-K** | Act: **34** | File No.: **000-54214** | Film No.: **12711703**  
SIC: **7812** Motion picture & video tape production

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

FORM 10-K

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

For the fiscal year ended **December 31, 2011**

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 000-52414

**POW! ENTERTAINMENT, INC.**  
(Exact name of registrant as specified in its charter)

**Delaware**

(State or Other Jurisdiction of Incorporation of Organization)

**90-0139831**

(I.R.S. Employer Identification No.)

**9440 Santa Monica Boulevard #620  
Beverly Hills, CA 90210**

(Address of principal executive offices) (ZIP Code)

**310-275-9933**

(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12 (g) of the Act: **Common Stock, \$0.001 par value**

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes   
No

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

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 shorter period that the registrant as required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  
Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of June 30, 2011 (the last business day of the registrant's second fiscal quarter), the aggregate market value of the registrant's common stock held by non-affiliates of the registrant (computed by reference to the closing price of \$0.20 per share as of the last business day of the most recently completed second fiscal quarter) was \$8,489,517:

Number of common shares outstanding at December 31, 2011 was 132,607,356.

**POW! Entertainment, Inc.**  
**2011 Form 10-K Annual Report**

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## **FORWARD-LOOKING STATEMENTS**

Some of the statements in the Form 10-K are forward-looking statements about what may happen in the future. Forward-looking statements include statements regarding our current beliefs, goals, and expectations about matters such as our expected financial position and operating results, our business strategy, and our financing plans. The forward-looking statements in the Form 10-K are not based on historical facts, but rather reflect the current expectations of our management concerning future results and events. The forward-looking statements generally can be identified by the use of terms such as “believe,” “expect,” “anticipate,” “intend,” “plan,” “foresee,” “likely” or other similar words or phrases. Similarly, statements that describe our objectives, plans or goals are or may be forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be different from any future results, performance and achievements expressed or implied by these statements. We cannot guarantee that our forward-looking statements will turn out to be correct or that our beliefs and goals will not change. Our actual results could be very different from and worse than our expectations for various reasons. You should review carefully all information, including the discussion of risk factors under Item 1A, along with the financial statements and the notes to the financial statements included in the Form 10-K. Any forward-looking statements in the Form 10-K are made only as of the date hereof and, except as may be required by law, we do not have any obligation to publicly update any forward-looking statements contained in this Form 10-K to reflect subsequent events or circumstances.

## **Item 1 Business**

### **Our Corporate History**

POW! Entertainment, Inc. (the “Company”) was formed as a Delaware corporation on August 17, 1998, under the name Megatek Legacy Systems, Inc., renamed Alta Pacific Minerals, Inc., in 1999, then Arturion Entertainment, Inc., in 2002, and finally POW! Entertainment, Inc. in 2004 in connection with the reorganization referred to below. The Company’s wholly-owned subsidiary, POW! Entertainment, LLC (“POW LLC”), was formed in November 2001 as a limited liability company under the laws of the State of Delaware. On May 5, 2004, POW LLC became a wholly owned subsidiary of Arturion Entertainment, Inc. and the former members of POW LLC received shares of Arturion Common Stock representing approximately 92% of the Common Stock outstanding and the Company’s name was changed to POW! Entertainment, Inc. The Company’s Common Stock is quoted on the OTCQB Market with the ticker symbol POWN.

The Company’s executive offices are at 9440 Santa Monica Boulevard, #620, Beverly Hills, California 90210. The Company’s phone number is 310-275-9933.

### **General**

#### **Overview**

The Company is a multimedia production and licensing company that creates and licenses animated and live-action fantasy and superhero entertainment content and merchandise, leveraging the creative output and branded image of Stan Lee. Prior to his association with the Company, Mr. Lee’s co-creations include Spider-Man™<sup>1</sup>, The Incredible Hulk™<sup>1</sup>, X-Men™<sup>1</sup>, The Fantastic Four™<sup>1</sup>, Iron Man™<sup>1</sup>, Daredevil™<sup>1</sup>, Silver Surfer™<sup>1</sup> and Dr. Strange™<sup>1</sup> as well as hundreds of others. **The Company does not receive any revenue in the form of royalties or otherwise from the foregoing creations.** The Company develops originally created franchises for new media such as on-line digital content and video games and for traditional entertainment media such as feature length films in both live action and animation, DVD, television programming, merchandising and related ancillary markets. All of the Company’s intellectual property, which may include characters and stories, are vertically integrated in that each property is developed into as many products as possible, to create a branded franchise to accelerate global identity from the synergy created across various media.

Currently, the Company is engaged in:

- creating project concepts, primarily in the form of story treatments,
- identifying select partners willing to participate in, and/or finance, the development of the Company’s projects,
- identifying talented and suitable writers to write scripts for the Company’s projects, and,
- negotiating agreements for the production of the projects ( *i.e.* , the filming of a movie or television series, the creation of the video game, etc.).

1 These are the registered trademarks and characters of Marvel Characters, Inc.

The Company's revenue for the year ended December 31, 2011 and 2010 was \$2,791,862 and \$2,092,830, respectively. The Company had net income for the year ended December 31, 2011 of \$24,628 and a net loss for the year ended December 31, 2010 of \$1,112,378.

### ***The Company's Strategy***

The Company's strategy is to leverage the creative output and branded image of Stan Lee and to outsource to, and work with, established production companies willing to finance and undertake the resource and labor intensive aspects of producing entertainment projects.

The Company plans to achieve its goals by licensing its creations to third party producers, or partnering with third parties to produce the Company's projects (movies, television shows, video games, comic books, merchandising and other ancillary opportunities) or to finance such productions. Due to the Company's limited responsibility for any given project in this business model, the Company is able to create and manage a very large number of projects with a small staff and relatively low overhead costs and project expenses. The Company expects that it will receive both up-front executive producer fees and back-end participation (revenues or profits from projects that are ultimately produced, are considered "back-end participations"). Since most of the project expenditures will be borne by the Company's development partners, the Company believes that it can profit from projects that are ultimately produced, even if they are not considered to be commercially successful. For example, a movie that makes little or no profit in theaters will generate revenues from executive producer fees and other fees and licensing. The Company intends to have a large number of projects produced, increasing the probability that a number of these projects will be commercially successful, resulting in on-going revenues from back-end participation.

### ***Working with Established Partners***

We believe that, with Stan Lee's history of creating or co-creating successful entertainment "franchises" and his branded image, the Company will be able to partner with studios or production houses willing to finance and produce its projects. To further enhance its business prospects, the Company on occasion teams up with well-known directors and writers.

Several of our projects are in development with varying levels of participation by established writers, directors, producers or studios. As part of this strategy, we offer key participants an equity interest in the project.

### ***Projects in Development***

The Company begins with story ideas from Stan Lee and presents the ideas to Disney pursuant to the "first look" contract (See *Transactions with Affiliates of The Walt Disney Company*), then third parties (such as writers, directors, producers or studios) to develop the project at the third party's expense. The Company considers a project to be "in development" once we have packaged the project and handed the project off to a third party. At that point, the project has left the control of the Company and is in the purview of the third party. Since the Company does not control the process once it is in the hands of others it is unable to indicate with much, if any, certainty when that project will be produced or the cost that such other party may incur to produce it. We currently have over 20 projects "in development." A majority of projects "in development" are never produced, or are produced only after lengthy delays.

We believe that the odds are against the typical project "in development" being produced because there are a very large number of people who come up with ideas for movies, television shows, and other forms of entertainment, but only a limited number of entities with the financial and personnel resources required to produce and distribute these projects. However, we believe that several factors improve the odds of the Company's projects being produced and, if produced being successful.

- First, Stan Lee's has co-created a large number of very successful characters and projects.
- Second, through Stan Lee, we have established relationships with a variety of well-known writers, directors and producers.
- Third, Stan Lee's natural inclination and focus are on superheroes, action characters and other characters that have potential to become "franchises" (i.e. that lend themselves to sequels, to licensing to other media, to merchandising and to other ancillary opportunities).

### **Recent Events**

During June 2011, the Company sold film rights to a third party for an Asian superhero epic. The contract called for a purchase price of \$500,000 upon transfer of copyrights filed with the US copyright office, and an additional \$375,000 upon commencement of principal

photography. The Company would also be entitled to additional payments if the project is made into sequels. There can be no assurance if or when such principal photography will commence, or that the project will result in sequels.



The Company's has several comic books published monthly in Japan and the United States in associations with third parties. These comic books generate royalties on a small scale, but the goal is to market and license the intellectual properties related to these comic book characters into branded franchises in other media forms i.e., full length feature films, television, video games, mobile applications and/or merchandising. We also have entered into agreements with other comic book publishers to publish future comic books under the Stan Lee Comics brand and Stan Lee's Kid Universe, set to be published in year 2012. The expected revenue to the Company, if any, related to these projects cannot be determine at this time.

The Company recently associated with other third parties to create digital worlds to develop our media platform. The associations will expand our storytelling into the digital realm more quickly and effectively to reach a global audience. The expected revenue to the Company, if any, related to these projects cannot be determine at this time.

(See "Risk Factors- Developing projects into commercially successful programs may be difficult.")

### ***Transactions with Affiliates of The Walt Disney Company***

Silver Creek Pictures, Inc. ("Silver Creek"), an affiliate of The Walt Disney Company ("Disney"), entered into an agreement with the Company in 2006 and subsequently amended (the "Silver Creek Agreement") pursuant to which, among other things, the Company provides Silver Creek with a "first look" at all of the Company's creative intellectual property and the right to acquire any such properties, in Silver Creek's discretion under prescribed terms, and Silver Creek compensates the Company for all properties that are developed by Silver Creek into revenue producing works pursuant to complex terms, typical in the film and media industry.

The Silver Creek Agreement provides for Silver Creek to pay the Company overhead allowance amounts equal to \$700,000 per annum from 2010 through 2014, and an additional \$550,000 per annum advance against certain future payments due from Silver Creek. Silver Creek is entitled to recoup the \$550,000 annual payments from proceeds of Company projects.

In addition to the foregoing \$1,250,000 in annual payments, Silver Creek has agreed to pay us \$1,250,000 in annual consideration for our lending Stan Lee's services to consult on the exploitation of the assets of Marvel Entertainment, which was acquired by Disney in late 2009. The payments of \$1,250,000 per year relating to Stan Lee's consulting services cease in the event of, and from the time of, Stan Lee's inability to perform such services due to disability or other incapacitation.

Furthermore, any properties that Silver Creek rejects or accepts and subsequently abandons may be offered by the Company elsewhere subject to participation by Silver Creek. Depending on the nature of the project so offered to a third party and the time when such project was originally offered to Silver Creek, Silver Creek is entitled to either up to \$100,000 per project, or the assignment of 50% or 25% of the Company's compensation from the third-party producer.

At present, in a typical deal for feature films, we believe we would receive an executive producer fee ranging between \$450,000 and \$750,000 per feature film project produced, plus a share of potential "back-end" revenues or profits, as well as a share of licensing and merchandising revenues. Although an amount in this range is payable to the Company by Silver Creek for any feature films produced, such amount would be subject to offsets to permit Silver Creek to recoup a portion of the advances and guaranteed payments that it is and has been paying the Company on a monthly basis.

The Silver Creek Agreement, including all amendments, are exhibits to the Form 10 filed with the Securities and Exchange Commission on December 10, 2010 and the foregoing summary is subject to the actual terms provided therein.

Additionally, Catalyst Investments, LLC ("Catalyst Investments"), another Disney affiliate, purchased on December 31, 2009 ten percent of the then-outstanding shares of common stock of the Company for \$2,500,000 (the "Catalyst Investment").

### **Planned Brand Creation and Anticipated Revenue Sources**

The Company's revenue model revolves around brand creation and management, and partnering with major live action and animation studios, distributors, and licensees to achieve effective development and distribution of branded properties at a relatively low cost to the Company. The model contemplates revenue and profit sharing arrangements with strategic partners who will fund all preliminary development and distribution for varying degrees of continued interests in the properties after recouping their original investments.

The main sources of revenues are expected to be:

- theatrical and television distribution;

- interactive games and on-line digital content;
- merchandising and licensing;
- comic and graphic novel publishing; and
- advertising and sponsorship.

### ***Theatrical and Television Distribution***

The development of traditional media franchises such as feature film, basic television and cable television, is a lucrative market for the exploitation of the Company's properties. The Company intends to develop properties into television and cable shows and feature films with the goal of creating "franchises" that will enable it to maximize merchandising and licensing opportunities. All of the projects will have fees payable to the Company for both Stan Lee and Gill Champion acting as a producer or executive producer, as well as a participation fee. We expect that, in the future, the amount of fees payable to the Company for projects that are produced will vary based on the circumstances of each project, market conditions, and the Company's and Stan Lee's reputation based on successes or failures of our projects. At present, we believe that, in a typical deal for feature films, it would receive an executive producer fee ranging between \$450,000 and \$750,000 per feature film project produced, plus a share of potential "back-end" revenues or profits, as well as a share of licensing and merchandising revenues. Although, under the Silver Creek Agreement an amount in this range is payable to the Company by Silver Creek for any feature films produced, the amount is subject to offsets to permit Silver Creek to recoup a portion of the advances and guaranteed payments it is and has been paying the Company on a monthly basis.

### ***Interactive Games and On-Line Digital Content***

Along with the vertical integration of traditional media franchises, significant revenue can be generated from the on-line digital markets. We believe that consumer demand for new and original properties will fuel the market for distribution of both stand-alone retail and multi-player on-line interactive games and will provide a viable platform for the Company's created characters.

### ***Merchandising and Licensing***

The Company plans to engage in the worldwide exploitation of its brands by pursuing advances and ongoing royalties from licensing Stan Lee brands. The Company intends to license its brands to apparel manufacturers, toy manufacturers, and third party publishers, among others.

### ***Comic and Graphic Novel Publishing***

Stan Lee is a recognized figure in the comic-book publishing industry, and print publication of his creations is a natural extension of these media brands. The Company plans to leverage off Stan Lee's structure and license character creations to third parties engaged in the publishing of both comic books and graphic novels.

### ***Advertising and Sponsorship***

The Company plans to establish co-branding ventures in order to add entertainment value to other party's intellectual properties.

### **Intellectual Property**

The Company's primary assets are the intellectual property created by Stan Lee, including our ownership of Stan Lee's name, likeness, brand and signature slogans, "Stan Lee Presents", "Excelsior", and "Stan's Soap Box" by assignment from Stan Lee, as well as all new properties being developed by the Company. The Company holds the registered trademarks "Stan Lee Presents" and "Excelsior" in the United States, and it believes it holds common law trademarks in the United States to "Stan Lee" and "Stan's Soapbox", among others. (See "Projects in Development" above).

### **The Animated and Live-Action Fantasy Entertainment Industry**

The animated and live-action fantasy entertainment industry continues to enjoy high growth, with animated and live-action fantasy and superhero characters being exploited through network and cable television and movies. The lucrative potential of entertainment media in this genre can be seen by the commercial success of full-length motion pictures such as: Spider-Man, X-Men and Iron Man and their sequels. However, there can be no guarantee that any of the Stan Lee's projects for the Company will be produced at all or, if so produced will be a commercial success like Spider Man, X-Men and Iron Man.

### **Competition**

The entertainment industry is highly competitive, with many companies vying for market share in specific industry segments. The Company has a broad array of competitors in creating and exploiting entertainment properties. Many of our competitors are very large

companies such as Disney, and Time Warner, Inc., with vastly greater resources than the Company. On the other end of the spectrum, we also compete with individuals or small companies with ideas for entertainment projects. Many of the large entertainment companies have financing and distribution capabilities and production facilities constantly seeking creative content to license and exploit. Thus, these entities may also be the Company's partners for collaboration on various projects. While this approach allows us to utilize the resources of these large companies, it makes us vulnerable to problems or business decisions at these companies that may cause them to delay or terminate production of various Company projects without our consent or control.

Competitors of ours that are or may be our customers or partners on various projects include:

- Disney, which is a major force in the creation and exploitation of properties and has exceptional distribution capabilities in traditional media and licensing. Disney also owns Marvel, which is one of the major comic book publishers in the world.
- Marvel has a library of superhero characters, the most famous of which were created or co-created by Stan Lee, that have formed the basis of many traditional media properties. Among these are Spider-Man™, the X-Men™, Iron-Man™, the Incredible Hulk™, and Daredevil™.
- Time Warner, Inc, which is not only a leading authority in film and television, but also owns DC Comics, a major competitor of Marvel.

## **Competitive Advantages and Challenges**

Our competitive advantage in the entertainment industry is Stan Lee's ability to create new intellectual properties and the Company's ability to promote projects with global appeal both production third parties and consumers. As a recognized figure in the comic book industry, Stan Lee created or co-created franchises for Marvel Comics that has sold millions of comic books. In addition, these franchises have enjoyed decades of derivative exposure in the form of merchandising, licensing, animated and live action television, and motion pictures. The Company now owns the Stan Lee name and brand, signature slogans, and the new properties developed and being developed by Stan Lee for the Company.

Additional advantages lie in the production, distribution, and licensing partners that the Company has and continues to engage, the Hollywood talent that wants to collaborate with Stan Lee in creating animated and live action properties, and Stan Lee's ability to attract the well-known writers and artists to assist in the development of his original creations. As noted above, the Company believes that its ability to operate by partnering with major production, distribution, development and licensing companies for revenue participation is also a major advantage.

The competitive challenges lay in the inherent nature of the entertainment industry with many intellectual companies vying for the limited opportunities of financial production to eventual distribution to the public consumer. We reside within the inherent limitations of the industry.

See "Risk Factors – Developing projects into commercially successful programs may be difficult"

## **Employees**

The Company had 12 employees as of March 9, 2012. We may engage independent consultants in the future as needed to assist in the execution of our strategy.

## **Item 1A. Risk Factors**

### **Risks relating to Our Business**

***We rely on one major partner.*** We are reliant on the Silver Creek Agreement for the majority of our working capital (See Transactions with Affiliates of the Walt Disney Company above). Relying on the extended term and the increased payments to be made by Silver Creek on a monthly basis, the Company eliminated the requirement that its key employees defer substantial portions of their salaries. If the amount of payments under the Silver Creek Agreement is scaled back due to our loss of Stan Lee's services or Silver Creek fails to pay us pursuant to the terms of the Silver Creek Agreement, we may not generate sufficient revenues in the future, not be able to implement our business plan, and need to scale back operations.

***Our future revenues are unpredictable.*** As a result of the competitive nature of the markets in which the Company competes, the unpredictability of revenue flow in the entertainment industry in general, and in the particular sector of the entertainment business that the Company intends to pursue, the Company is unable to accurately forecast its revenues. The Company's strategy, to engage, or partner with, third parties to implement the line production and provide the production costs of products based on the Company's concepts, means that the timing, and quality of the productions, and our resulting revenue have been and will continue to be affected by decisions and actions of third parties and therefore, to some extent, will be out of the Company's control.



**Fluctuations in operating results.** The Company is likely to experience significant fluctuations in its future quarterly and annual operating results due to a variety of factors, many of which are outside the Company's control. Factors that may adversely affect the Company's operating results include:

- the Company's ability to accurately predict consumer demands and to maintain consumer satisfaction with the Company's productions;
- the ability of entities that produce the Company's projects to complete productions on time and on budget;
- delays in revenue recognition at the end of a fiscal period as a result of logistical problems;
- the impact of governmental regulations; and
- general economic conditions.

**Developing projects into commercially successful programs may be difficult.** Although the Company has a number of projects in development, the term "in development" in the entertainment industry embraces a wide variety of activities, including writing a script and identifying and negotiating with potential actors, directors and/or producers willing to participate in the project. At any given time, there are hundreds of projects in development by various parties, the majority of which may never be produced or may be produced only after lengthy delays. Although a project in development may not be produced at the time that it is originally proposed, it may succeed in attracting sufficient interest in subsequent years when conditions change. Failure to produce successful projects will have a material adverse effect on our reputation and business prospects and condition.

**Stan Lee's creative output is important to our business plan.** Although the Company has an inventory of Stan Lee's treatments and holds the right and title to the Stan Lee brand by assignment from Stan Lee, the Company's success is still based on the future creative output and marketing presence of Stan Lee, who is 89 years old. The Company has a number of projects based on Stan Lee's creations in development at present and its goal is to develop a sufficient number of these projects in order to produce an ongoing revenue stream well after the time that Stan Lee remains active to alleviate this risk. The Company also intends to hire a number of writers to supplement and complement Stan Lee's output. However, no assurances can be given that these plans will be successful. Additionally, the Silver Creek Agreement (see Working with Established Partners above), provides that the Company's annual payment from Silver Creek will be reduced from \$2,500,000 to \$1,250,000 per year upon Stan Lee's disability.

**We depend on our management; loss of key management may be detrimental to the Company.** The Company's success is dependent to a large degree on the services and presence of Stan Lee, its Chairman and Chief Creative Officer, and Gill Champion, its Chief Executive Officer. The loss of either officer could have a material adverse effect on the Company's business or results of operations. The Company has an employment agreement with each of them that limits their right to compete with the Company. Stan Lee has a lifetime employment agreement with Marvel Comics, which currently requires Stan Lee to devote 10-15 hours per week to Marvel matters, and in return for which Stan Lee currently receives an annual salary of \$1,000,000. As a result, Stan Lee is unable to devote his full time and attention to the Company's business. Currently we do not hold key-man insurance for Stan Lee. The Company currently holds a key-man policy for Gill Champion with a death benefit of approximately \$4 million.

Our success also depends in large part on our ability to attract and retain highly skilled executive, technical, managerial, sales and marketing personnel and writing talent. If we lose the services of Stan Lee, Gill Champion or other personnel, we may not have the resources to implement our business plan, and may not be able to replace any of these personnel with similarly experienced individuals. Competition is intense for skilled and talented personnel in the entertainment industry, and it may be difficult to attract or retain qualified key employees. Without strong management and talented employees, business growth will be hindered and we are likely to experience a material adverse effect on our business results and future prospects.

**Our intellectual property rights may be violated or subject to litigation.** We believe that the creative output of Stan Lee on which our content and products are based is proprietary and is our intellectual property. We believe we have ownership rights to Stan Lee's name and likeness by assignment from Stan Lee and have a common law trademark in the "Stan Lee" name. We have filed for registration the name "Stan Lee" as a trademark in the United States. Our ability to develop our business and compete effectively depends to a significant extent on our ability to protect our intellectual property. We will rely primarily upon confidentiality procedures, trade secrets, and copyright, trademark and trade name laws to protect our intellectual property rights. We will generally control access to our content, technology and other proprietary information. Despite these precautions, however, it may be possible for competitors to copy all or part

of our ideas or to obtain information that we regard as proprietary. Misappropriation of our content or development by our competitors of content that are substantially equivalent or superior to our ideas would have a material adverse effect on our operations and financial condition. In addition, litigation may be necessary in the future to enforce our intellectual property rights, to protect trade secrets, or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of our financial and personnel resources. Additionally, we may not have adequate financial resources to effectively police our intellectual property or to institute and sustain legal action against infringers. As a result, the integrity and value of our intellectual property could erode having a material adverse effect on our business, financial condition and results of operations.



***We may become subject to infringement claims.*** One of the risks of the entertainment business is the possibility of claims that the Company's ideas infringe the intellectual property rights of third parties with respect to previously developed films, stories, characters or other creative content. The Company has in the past and may in the future receive notice of claims of infringement of other parties' proprietary rights. Irrespective of the merits of such claims, the Company would be forced to incur significant costs and diversion of resources to defend those claims which could have a material adverse effect on our business, financial condition or results of operations. If any claims or actions are asserted against us, we may seek to obtain a license under a third party's intellectual property rights to settle the matter. The Company cannot provide any assurances, however, that under such circumstances a license would be available on reasonable terms if at all. If a license is not available to us in these circumstances, we may be precluded from exploiting the intellectual property, forcing us to cancel projects at a substantial expense and causing us to incur significant monetary damages.

***The Company not being listed on a Securities Exchange may make it difficult for the Company to Obtain Future Financing.*** The absence of the Company's listing on a Securities Exchange may make it more difficult to obtain future equity financing because many investors are unwilling or unable to invest in companies not so listed.

### **Risks Relating to Our Securities.**

***The Company's Securities are quoted on the OTCQB which leads to lack of liquidity, volatility and other problems.*** The Company's Common Stock is quoted on the OTCQB under the symbol POWN. The quoted price of the Company's Common Stock has ranged from approximately \$0.33 to \$0.07 during the year daily volume has ranged from 100 shares to approximately 224,000 shares. No assurance can be given that an active trading market in the Company's securities will be sustained. Various factors, such as the Company's operating results, changes in laws, rules or regulations, general market fluctuations, changes in financial estimates and other factors may have a significant impact on the market price of the Company's securities. The market price for the securities of public companies often experience wide fluctuations, which are not necessarily related to the operating performance of such public companies. For companies traded in the OTCQB, it is more difficult to obtain accurate quotes and obtain coverage for significant news events to promote and gain exposure for companies. This may cause difficulty in conducting trades.

***Penny stock regulations may impose certain restrictions and limitations on the marketability of our securities.*** The Securities and Exchange Commission has adopted regulations which generally define a "penny stock" to be any equity security that has a market price (as defined) of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. As a result, our Common Stock is subject to rules that impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally those with assets in excess of \$1,000,000 or annual income exceeding \$200,000, or \$300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of such securities and have received the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the transaction, of a risk disclosure document mandated by the Commission relating to the penny stock market. The broker-dealer must also disclose the commission payable to both the broker-dealer and the registered representative, current quotations for the securities and, if the broker-dealer is the sole market maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market. Finally, monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. Consequently, the "penny stock" rules may restrict the ability of broker-dealers to sell our securities, may limit the number of broker-dealers willing to sell our securities, and may affect the ability of investors to sell our securities in the secondary market and the price at which such purchasers can sell any such securities.

***We have no history of paying dividends.*** We have never paid cash dividends on our Common Stock and do not anticipate paying any cash dividends on our Common Stock in the foreseeable future. We plan to retain any future earnings to finance growth.

***Shares eligible for future sale may adversely affect the market.*** From time to time, certain of the Company's stockholders may be eligible to sell all or some of their shares of Common Stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144, promulgated under the Securities Act, subject to certain limitations. In general, pursuant to Rule 144, a non-affiliate stockholder who has satisfied a six-month holding period may, under certain circumstances, sell its shares, without limitation. Any substantial sale of the Company's Common Stock pursuant to Rule 144 or pursuant to any resale prospectus may have a material adverse effect on the market price of the Common Stock.

***Future sales of the Company's Common Stock could adversely affect its price and the Company's future capital-raising activities could involve the issuance of equity securities, which would dilute your investment and could result in a decline in the trading price of the Company's Common Stock.*** The Company may sell securities in the public or private equity markets if and when conditions are favorable, even if it does not have an immediate need for additional capital at that time. Sales of substantial amounts of Common Stock, or the perception that such sales could occur, could adversely affect the Company's ability to raise capital and the prevailing market price of the Company's Common Stock. The Company may issue additional Common Stock and/or securities exercisable or convertible into Common Stock in the future, in financing transactions or as incentive compensation for its executive management and other key personnel, consultants and advisors. Issuing any equity securities would be dilutive to the equity interests represented by the Company's then-outstanding shares of Common Stock. The market price for the Company's Common Stock could decrease as the market takes into account the dilutive effect of any of these issuances. Furthermore, the Company may enter into financing transactions at prices that represent a substantial discount to the market price of its Common Stock. A negative reaction by investors and securities analysts to any discounted sale of the Company's equity securities could result in a decline in the trading price of the Company's Common Stock.

***The Company may be unable to remain in compliance with the reporting requirements of the Exchange Act.*** There can be no assurance that the Company will have the funding and personnel resources to comply with the Exchange Act periodic reporting requirements to prepare and file current, quarterly and annual reports on a timely basis or at all. Failure of the Company to maintain its reporting requirements could have a materially adverse effect on the liquidity of the market for the Company's Common Stock and the ability for an investor to sell the Common Stock.

***The Company's stock price may be volatile.*** We expect that the market price of the Company's Common Stock is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond its control, including:

- the loss of Stan Lee's services;
- additions or departures of other key personnel;
- sales of the Company's Common Stock and securities exercisable or convertible into Common Stock;
- the Company's ability to implement its business plan;
- operating results below expectations;
- loss of any strategic relationship;
- industry developments;
- economic and other external factors; and
- period-to-period fluctuations in the Company's financial results.

Because the Company has a limited operating history, any one of these factors would be material. In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of the Company's Common Stock.

***The Company has a concentration of stock ownership and control, which may have the effect of delaying, preventing, or deterring a change of control.*** The Company's Common Stock ownership is highly concentrated. The current officers and directors of the Company, including Stan Lee, Gill Champion, and Arthur Lieberman, and their respective affiliates, beneficially own an aggregate of 64.84% of the Company's total outstanding common stock. (See Item 12. Security Ownership of Certain Beneficial Owners and Management) As a result of the concentrated ownership of the Company's stock, a relatively small number of shareholders, acting together, will be able to control all matters requiring shareholder approval, including the election of directors and approval of mergers and other significant corporate transactions. This concentration of ownership may have the effect of delaying, preventing or deterring a change in control of the Company. It may affect the market price of the Company's Common Stock.

***Our corporate charter eliminates personal liability of our directors, officers, employees and agents.*** As permitted by the Delaware General Corporation Law, our Certificate of Incorporation eliminates the personal liability of the directors, officers, employees and

agents to the Company and its stockholders for monetary damages for breach of fiduciary duty except in certain circumstances. Accordingly, except in such circumstances, stockholders will have limited rights to recover money damages from our directors, officers, employees and agents for breach of such duty.

### **Item 1B—Unresolved Staff Comments**

None

### **Item 2 – Properties**

We lease 2,034 square feet of office space for our corporate office located at 9440 Santa Monica Boulevard, Beverly Hills, California pursuant to a lease which expires on June 30, 2016. The minimum future rents totals approximately \$100,000 per annum.

We also lease a corporate apartment located at 348 Hauser, Los Angeles pursuant to a lease which expired February 28, 2012. The lease is on month-to-month subsequent to the lease expiration.

### **Item 3—Legal Proceedings**

From time to time the Company may become involved in various legal proceedings in the normal conduct of its business.

#### ***Stan Lee Media, Inc. and Related Litigation***

Stan Lee Media, Inc. (“SLM”) was a publicly-traded entity listed on the NASDAQ during 1999. SLM operated as a typical dot com company during the dot com bubble, in that it created and developed new properties and franchises for the internet, in this case under the Stan Lee signature, but without any sustainable revenue source other than new debt or equity financings. While Stan Lee was the Chairman of the Board of Directors and Chief Creative Officer of SLM and Gill Champion was the Chief Operating Officer of SLM, the President and Chief Executive Officer of SLM was a party who is unrelated to the Company. Stan Lee terminated his employment agreement with SLM in January 2001 because, among other reasons, SLM had ceased paying him thereunder.

SLM filed for bankruptcy protection in February 2001 and ceased operations during July 2001. SLM does not have any working relationship, association or dealings with the Company, other than the Company having acquired the right to distribute some of SLM’s intellectual property, subject to an agreement to pay SLM a royalty out of any revenues received from such intellectual property. This SLM intellectual property has only produced approximately \$2,000 of revenues from December 2001 to December 2009 and the Company does not consider it material to its Company’s business. SLM’s bankruptcy petition was eventually dismissed as a result of SLM’s failure to pay required court fees and its corporate charter was revoked by its state of incorporation, Colorado, for failure to pay franchise taxes.

During 2006, the Company learned that certain individuals, purporting to be acting on behalf of SLM, were claiming that SLM owned various intellectual properties, including the SLM intellectual property which SLM had assigned to the Company. To prevent confusion, in January 2007, the Company, along with QED Productions LLC, a subsidiary of the Company (“QED”), and Stan Lee filed a lawsuit in the United States District Court for the Central District of California entitled QED Productions LLC, et al v. Nesfield, et al (the “QED Suit”). This suit was filed against three individuals who purported to be acting on behalf of SLM, alleging claims for copyright infringement, violation of the Lanham Act, cyber squatting, interference with contractual relations and prospective business advantage, unfair business practices and seeking a declaration regarding certain rights to intellectual property. After denying motions for summary judgment by both parties, in January 2009, the court stayed this action pending resolution of a suit in the state courts of Colorado, regarding the disputed election of a board of directors of SLM, which could determine whether the defendants legally represent SLM.

This Colorado action, captioned P.F.P. Family Holdings v. Stan Lee Media Inc. (the “PFP Suit”) was resolved in 2010 with the determination that certain individuals claiming to be the directors of SLM were validly elected.

On July 9, 2007, SLM filed a lawsuit in the United States District Court for the Central District of California against Stan Lee, QED and the Company entitled Stan Lee Media, Inc. v. Lee, et al. (the “SLM Suit”). In this suit, SLM sought declaratory relief and asserted claims for misappropriation of corporate opportunity, breach of contract, civil conspiracy, an accounting for profit, violation of the Lanham Act, copyright infringement, cyber squatting, and unfair business practices naming various defendants, including the Company. Specifically, SLM petitioned the court for an order declaring that SLM is the rightful owner of certain intellectual property and, as such, is the only entity that can use and benefit from such property. As in the QED Suit, the court stayed the case pending the outcome of the PFP Suit. In January 2011, the U.S. District Court for the Central District of California directed that SLM file a Consolidated Complaint in that Court, consolidating all the litigation pending in that Court. On February 14, 2011, SLM filed its Consolidated Complaint seeking substantially the same relief sought in the initial complaint described above and the complaints filed and dismissed in New York as described below. On March 15, 2011, the Company filed a motion to dismiss the newest complaint on the

grounds that the claims are barred by *res judicata* and statutes of limitation, among other grounds, based in part on the New York decisions described below. In the alternative, the Company's motion requested that the Court stay the proceedings pending resolution of SLM's appeal of Judge Sweet's decision to the U.S. Court of Appeals for the Second Circuit, described below. On May 6, 2011, the Court granted the Company's alternative motion and stayed the action proceedings. The Company believes that the claims are meritless.

In 2009 a \$750,000,000 lawsuit was filed on behalf of SLM against Marvel Entertainment, the Company and other defendants in an action entitled Abadin v. Marvel Entertainment, Inc., et al., in the U.S. District Court, Southern District of New York (the “Abadin Suit”), claiming, among other things, that SLM owned various intellectual property including the intellectual property at issue in the QED Suit and the SLM Suit, and including all the Marvel characters and the Marvel name. The various causes of action alleged by plaintiffs in this case were all dismissed pursuant to an Order of the Court filed on March 31, 2010. The Abadin Court noted first that “the heart of the alleged wrongdoing is the transfer to Marvel by Stan Lee of what Stan Lee had previously conveyed to and thus belonged to SLMI. That occurred in 1998 but Abadin and his co-plaintiff did not acquire their SLMI shares until 1999, more than a year after the purported illegal conduct. . . . [A]ccordingly they lack . . . standing.” The Court then noted that the Plaintiffs were included in a prior class action that was settled. Therefore the Court found that “Plaintiffs’ claims against Lee and Lieberman . . . are barred under . . . the Settlement”. The Court then noted that with regard to Plaintiffs’ Count I, a copyright claim, that “California law limits personal service contracts to 7 years. . . . Lee’s obligations were statutorily terminated in 2005.” With respect to Plaintiffs’ Count II, Lanham Act Claims against Lee and Marvel, the Court held that “The pleading of Lanham Act violation is inadequate” and that any claim would be time barred since any alleged violation would have “occurred no later than October or November, 1998” and that “The Statute of Limitation is six years”. As to Plaintiffs’ Count III, Breach of Contract, the Court held “There is absolutely no doubt that Lee terminated the 1998 agreement in writing in 2001. The statute of limitations began running at that time. It is now expired”. As to Plaintiffs’ Count IV, Tortious Interference with Contract, the Court held that “Plaintiffs’ claims . . . are insufficient.” The Court also held that “the three year statute of limitations . . . expired in 2001.” The Court found Plaintiffs’ Count V, Breach of Fiduciary Duty to be “redundant to Plaintiffs other claims” which he had dismissed; that the “statute of limitations . . . is 3 years” which had passed; and that this count was “internally inconsistent with other allegations”. The Court found that as to Plaintiffs Count VI, Aiding and Abetting Breach of Fiduciary Duty, “with respect to Lee, . . there is not a sufficient plausible allegation” and that with regard Lieberman “He owed no fiduciary duty to SLMI”. And with respect to Plaintiff’s last Counts, Count VII and VIII, Constructive Trust and Accounting, that these are “remedies for wrongs; and not wrongs themselves. Since Counts I-VI are dismissed, there is no basis for [such relief]. Further, substantially all of the alleged wrongs are barred by the statute of limitations.” The plaintiffs in the Abadin case filed an appeal of the dismissal of its case, but failed to perfect the appeal, which as a result was dismissed. Therefore, the dismissal of this case is now final and binding.

SLM sought to re-file almost identical claims to intellectual property created or co-created by Stan Lee by moving to become a party in another federal action in New York on July 26, 2010. On February 4, 2011, U. S. District Judge Robert W. Sweet of the Southern District of New York denied SLM’s application to file its proposed motion. Among numerous other reasons for denying SLM’s complaint, the court held that SLM’s “proposed Amended Complaint is barred” because SLM claims had already been dismissed based on the statute of limitations and other grounds, and that determination barred SLM from asserting the same claims in another action. SLM has appealed Judge Sweet’s decision to the United States Court of Appeals for the Second Circuit. On March 8, 2012, oral arguments were heard before the Court of Appeals for the Second Circuit.

## Item 4 – [Removed and Reserved]

## PART II

### Item 5. Market Price of and Dividends on the Registrant’s Common Equity and Related Stockholder Matters.

Our shares of Common Stock are quoted in the OTCQB under the trading symbol “POWN”.

The following table sets forth the high and low bid price for our Common Stock during 2011 and 2010. The quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

	<u>High</u>	<u>Low</u>
2010		
Quarter Ended March 31, 2010	\$ 0.70	\$ 0.10
Quarter Ended June 30, 2010	\$ 0.82	\$ 0.31
Quarter Ended September 30, 2010	\$ 0.37	\$ 0.10
Quarter Ended December 31, 2010	\$ 0.36	\$ 0.23
2011		
Quarter Ended March 31, 2011	\$ 0.35	\$ 0.20
Quarter Ended June 30, 2011	\$ 0.25	\$ 0.11
Quarter Ended September 30, 2011	\$ 0.30	\$ 0.11
Quarter Ended December 31, 2011	\$ 0.15	\$ 0.07

On March 9, 2012 the closing sale price of our common stock was \$0.08.

### Holders

As of March 9, 2012 there were 73 registered holders of our Common Stock. We believe that there are also a significant number of beneficial owners of our common stock whose shares are held in “street name.”

### Dividend Policy

We have not paid cash dividends on our common stock and do not plan to pay such dividends in the foreseeable future. Our Board of Directors will determine our future dividend policy on the basis of many facts, including results of operations, capital requirements, and general business conditions.

### Transfer Agent and Registrar

The transfer agent for the Common Stock is Broadridge Issuer Solutions, Inc., whose address is 44 W. Lancaster Ave., Ardmore PA 19003.

### Item 6 – Selected Financial Data

This item is not required to be completed by smaller reporting companies. Our consolidated financial statements appear elsewhere in this report in *Item 8. – “Financial Statements and Supplementary Data.”*

### Item 7 –Management’s Discussion and Analysis of Financial Condition and Results of Operations

#### Overview

The Company is a multimedia production and licensing company that creates and licenses animated and live-action fantasy and superhero entertainment content and merchandise, leveraging the creative output and branded image of Stan Lee. The Company develops originally created franchises for new media such as on-line digital content and videogames, where content is currently in high demand, and for traditional entertainment media such as feature length films in both live action and animation, DVD, television

programming, merchandising and related ancillary markets. All of the Company's intellectual property, which may include characters and stories, is vertically integrated in that each property is developed into as many products as possible, to create a branded franchise to accelerate global identity from the synergy created across various media.



During fiscal year 2012 and 2013, the Company plans to focus on

- creating project concepts, primarily in the form of story treatments,
- identifying select partners willing to participate in, and/or finance, the development of the Company's projects,
- identifying talented and suitable writers to write scripts for the Company's projects, and
- negotiating agreements, where appropriate, for the production of the projects ( *i.e.* , the filming of a movie or television series, the creation of the video game, etc.).

The Company's strategy is to outsource to, and work with, established production companies willing to finance and undertake the resource and labor intensive aspects of producing entertainment projects. The Company plans to achieve its goals by licensing its creations to third party producers, or partnering with third parties, to produce the Company's products (movies, television shows, video games, comic books, merchandising and other ancillary opportunities) or to finance such productions. Due to the Company's limited responsibility for any given project in this business model, the Company expects, consistent with past practices, to be able to create and manage a very large number of projects with a small staff and relatively low overhead costs and project expenses. As a result, the Company expects that it will profit from up-front fees from projects that are ultimately produced, even if they are not highly successful. The Company's goal is to have a large number of projects produced, increasing the probability that a number of these projects will be highly successful, resulting in on-going revenues from licensing, back-end participation, merchandising and other ancillary opportunities.

### **Recent Transactions**

During June 2011, the Company sold film rights to a third party for an Asian superhero epic. The contract called for a purchase price of \$500,000 upon transfer of copyrights filed with the US copyright office, and an additional \$375,000 upon commencement of principal photography. The Company would also be entitled to additional payments if the project is made into sequels. There can be no assurance if or when such principal photography will commence, or that the project will result in sequels.

The Company's has several comic books published monthly in Japan and the United States in association with third parties. These comic books generate royalties on a small scale, but the goal is to market and license the intellectual properties related to these comic book characters into branded franchises in other media forms *i.e.* full length feature films, television, video games, mobile applications and/or merchandising. We also have entered into agreements with other comic book publishers to publish future comic books under the Stan Lee Comics brand and Stan Lee's Kid Universe, set to be published in year 2012. The expected revenue to the Company, if any, related to these projects cannot be determine at this time.

The Company recently associated with other third parties to create digital worlds to develop our media platform. The associations will expand our storytelling into the digital realm more quickly and effectively to reach a global audience. The expected revenue to the Company, if any, related to these projects cannot be determine at this time.

### **Cash Requirements**

With current financial arrangements, we should be able to satisfy our operational cash requirements for fiscal years 2012 and 2013. The Company has an agreement with Silver Creek Pictures, Inc. ("Silver Creek"), an affiliate of The Walt Disney Company, pursuant to which Silver Creek will pay the Company \$2.5 million per year through the end of 2014. Of such \$2,500,000 payment, \$1,250,000 is made for making Stan Lee available to consult on the exploitation of the assets of Marvel Entertainment acquired by Disney in late 2009, \$700,000 is payment for the right to have a "first look" at the Company's development projects and the right to acquire any such properties, in Silver Creek's discretion and \$550,000 is an advance against future development projects. The Company is obligated to pay a commission to an unrelated third party equal to 10% of all net amounts paid by Silver Creek pursuant to its agreement with the Company. The annual amount of \$1,250,000 relating to Stan Lee's consulting services is paid monthly and will cease in the event of, and from the time of, Stan Lee's inability to perform such services due to disability or other incapacitation. With these payments made by Silver Creek on a monthly basis, the Company believes that it can continue its current operations and cover all of its general and administrative costs.

## ***Research and Development***

The Company is the process of completing a number of concepts that could be produced. The costs of production of these concepts are currently borne by other parties and not by the Company. During 2011, the Company incurred development fees \$35,000 to contracted writers for various scripts developments.

## **Results of Operations**

We believe that, due to the complex nature and long term cycle of our business operations, period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied on as an indication of future performance. However, it is still important that you review the audited financial statements and the related notes in addition to thoroughly reading our current plan of operations.

### **For Year Ended December 31, 2011 and 2010**

The Company's revenues for the year ended December 31, 2011 were \$2,791,862 compared to \$2,092,830 for the year ended December 31, 2010. The increase was primarily from the sale of film rights totaling \$500,000 to a third party. Other revenues stemmed from \$199,032 from various royalties.

For the year ended December 31, 2011, net income totaled \$24,628 compared to a net loss of \$1,112,378 for the year ended December 31, 2010. Included in the net income for December 31, 2011 is \$50,000 of earnings from a legal dispute which arose from 2010.

General and administrative expenses decreased by \$332,621 or 10.4% from the year ended December 31, 2011 compared to the year ended December 31, 2010. The decrease was attributable to the following:

- Decrease in wages and benefits by \$156,401 from savings from new health insurance and benefit plans;
- Decrease in stock-based compensation by \$272,601 attributable to warrants awarded to two executives for the year ended December 31, 2010;
- Professional fees increased by \$62,476 in legal expenses due primarily to legal fees related to various litigation support;
- Decrease of \$34,060 in change of derivative value of warrants issued to non-employee due to fluctuation of warrants' value;
- Rent increase of \$16,698 includes \$51,123 of non-cash adjustment for straight-lining of GAAP rent expense; exclusive of the non-cash adjustment, rent decreased by \$48,297 for six months of rent abatement from the new lease;
- Decrease in promotional fees of \$44,090 due to reduced spending for public relations and investor relations compared to 2010; and
- Increase in other general and administration expenses by \$43,234 due to travel and expenses related to the promotions of various projects.

## **Liquidity and Capital Resources**

Our current liquidity and capital resources are provided principally through our current agreement with Silver Creek Pictures. We have a deficiency in working capital of \$1,828,759 and \$1,723,618 as of December 31, 2011 and 2010, respectively. The Company has reclassified part of Deferred Compensation as long-term liabilities. A reduction in working capital at December 31, 2011 from December 31, 2010 is partly due to decrease in payments of deferred compensation offset by increases in advances payable from Silver Creek. As of December 31, 2011 and 2010 cumulative advances received from Silver Creek were \$2,546,667 and \$2,150,833, respectively. These amounts are recoupable by Silver Creek solely from any fixed and contingent compensation related to future developments, including box office bonuses and merchandising royalties.

If Silver Creek stops paying installments of the \$1,250,000 per annum that it pays for Stan Lee's consulting services paid to the Company as part of the \$2,500,000 obligation per annum as a result of any future death or disability of Stan Lee, the Company believes that revenues from various projects that it has "in development" with other parties or that may shortly go into development with other parties will make up all or a portion of the lost revenue. To the extent that it does not, and to the extent that the Company is unable to

raise funds from investments to cover any shortfall, the Company will have to reduce its expenses, as it has done in the past, by such approaches as deferring portions of its executive officer's salaries and reducing staff.

Deferred compensations to three executives totaled \$2,127,917 and \$2,277,917 as of December 31, 2011 and 2010, respectively. During 2011, the Company paid down deferred compensation totaling \$150,000.

### **Sources of Revenue**

The Company's revenue model revolves around brand creation and management, and partnering with major live action and animation studios, distributors, and licensees to achieve effective development and distribution of branded properties at a relatively low cost to the Company. The model contemplates revenue and profit sharing arrangements with strategic partners who will fund all preliminary development and distribution for varying degrees of continued interests in the properties after recouping their original investments.

The main sources of revenues are expected to be:

- theatrical and television distribution;
- interactive games and online digital content;
- merchandising and licensing;
- comic and graphic novel publishing; and
- advertising and sponsorship.

### **Off Balance Sheet Arrangements**

We are not party to any material off-balance sheet financing arrangements.

### **Critical Accounting Policies and Estimates.**

Our Management's Discussion and Analysis of Financial Condition and Results of Operations section discusses 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 management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

On an on-going basis, management evaluates its estimates and judgments, including those related to revenue recognition, accrued expenses, financing operations, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of our financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources.

We have identified the most significant areas of estimation and assumptions as being:

- estimation of the allowance for doubtful accounts;
- estimation on stock-based compensation;
- estimation of derivatives liabilities; and
- estimation of the net deferred income tax asset valuation allowance.

### **Item 7A-Quantitative and Qualitative Disclosure about Market Risk**

None

**ITEM 8. – FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY DATA**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
POW! Entertainment, Inc.

We have audited the accompanying consolidated balance sheets of POW! Entertainment, Inc. (a Delaware corporation) and Subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, shareholders' deficit, and cash flows for the years then ended. POW! Entertainment, Inc.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of POW! Entertainment, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Rose, Snyder & Jacobs LLP

Encino, California

March 20, 2012

POW! ENTERTAINMENT, INC.  
CONSOLIDATED BALANCE SHEETS  
December 31, 2011 and December 31, 2010

	December 31,	
	2011	2010
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 340,305	\$ 578,808
Letter of credit	32,544	32,544
Marketable securities	771,177	-
Accounts receivable, net of allowance for doubtful accounts of \$0	86,183	357,814
Other receivables	67,964	1,851
Prepaid expenses	19,005	68,425
Inventory	13,513	27,356
TOTAL CURRENT ASSETS	1,330,691	1,066,798
Property and Equipment, net	8,638	7,615
<b>INTANGIBLE AND OTHER ASSETS</b>		
Trademarks, net	18,747	19,107
Development Fees	35,000	
Deposits	2,192	2,192
TOTAL ASSETS	\$ 1,395,268	\$ 1,095,712
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 233,652	\$ 276,760
Advances payable	2,546,667	2,150,833
Deferred compensation-current	300,000	300,000
Deferred Rent	50,368	-
Derivatives Liability	28,763	62,823
TOTAL CURRENT LIABILITIES	3,159,450	2,790,416
Deferred compensation-long term	1,827,917	1,977,917
<b>COMMITMENT AND CONTINGENCIES, note 10</b>		
<b>SHAREHOLDERS' DEFICIT</b>		
Common shares, \$0.001 par value		
199,000,000 common shares authorized, 1,000,000 preferred shares authorized		
132,607,356 and 131,721,534, respectively, common shares issued and outstanding		
at December 31, 2011 and 2010, respectively	132,608	131,722
Additional paid in capital	9,522,904	9,453,956
Subscription receivable, net, note 3	(1,002,496)	(1,033,497)
Accumulated deficit	(12,200,174)	(12,224,802)
Accumulated other comprehensive income	(44,941)	-
TOTAL SHAREHOLDERS' DEFICIT	(3,592,099)	(3,672,621)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	\$ 1,395,268	\$ 1,095,712

See Report of the Independent Registered Public Accounting Firm and the accompanying notes to consolidated financial statements

POW! ENTERTAINMENT, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
Years Ended December 31, 2011 and 2010

	December 31,	
	2011	2010
<b>REVENUES</b>	<b>\$ 2,791,862</b>	<b>\$ 2,092,830</b>
<b>OPERATING COSTS AND EXPENSES</b>		
Wages and benefits	1,746,696	1,903,097
Commission	144,313	126,250
Stock-based Compensation	40,431	313,032
Professional fees	362,021	299,545
Promotional and Marketing	104,475	148,565
Rent and office	155,056	138,358
Other general and administration	303,561	260,327
<b>TOTAL OPERATING COSTS AND EXPENSES</b>	<b>2,856,553</b>	<b>3,189,174</b>
<b>INCOME( LOSS) FROM OPERATIONS</b>	<b>(64,691)</b>	<b>(1,096,344)</b>
<b>OTHER INCOME AND (EXPENSES)</b>		
Interest income (expense), net	19,593	5,605
Income from legal settlement	50,000	-
Gain (loss) on change of derivative value	34,060	(14,459)
<b>INCOME (LOSS) BEFORE TAXES</b>	<b>38,962</b>	<b>(1,105,198)</b>
Income taxes	(14,334)	(7,180)
<b>NET INCOME (LOSS)</b>	<b>24,628</b>	<b>(1,112,378)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Unrealized loss on marketable securities	(44,941)	-
<b>Total comprehensive income (loss)</b>	<b>\$ (20,313)</b>	<b>\$ (1,112,378)</b>
<b>Net Income (loss) per share</b>		
Basic and diluted	<b>\$ 0.00</b>	<b>\$ (0.01)</b>
Weighted average shares outstanding, basic	132,219,329	131,721,534
Weighted average shares outstanding, diluted	132,228,221	131,721,534

See Report of the Independent Registered Public Accounting Firm and the accompanying notes to consolidated financial statements



POW! ENTERTAINMENT, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2011 and December 31, 2010

	December 31,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 24,628	\$ (1,112,378)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	14,312	10,427
Loss on disposal of property and equipment	1,439	
Stock based compensation	40,431	313,032
Non-employee warrants and options	29,403	47,355
Changes in valuation of derivatives liability	(34,060)	14,459
Deferred Rent	50,368	-
Change in assets and liabilities:		
Accounts receivable	271,631	(300,952)
Prepaid expenses	49,420	(66,343)
Inventory	13,843	(20,212)
Other receivable	(66,113)	(429)
Deposits	-	460
Accounts payable and accrued expenses	(43,108)	91,355
Advances payable	395,834	837,500
Accrued commission		(125,000)
Deferred compensation	(150,000)	(769,300)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>598,028</b>	<b>(1,080,026)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments for trademarks	(10,623)	-
Payments for development fees	(35,000)	-
Purchase of property and equipment	(5,791)	(12,284)
Purchase of marketable securities	(816,118)	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(867,532)</b>	<b>(12,284)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of loans payable	-	(850,020)
Proceeds from subscriptions receivable	31,001	11,411
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>31,001</b>	<b>(838,609)</b>
<b>NET DECREASE IN CASH</b>	<b>(238,503)</b>	<b>(1,930,919)</b>
Cash and cash equivalents at beginning	578,808	2,509,727
Cash and cash equivalents at end of the year	<u>\$ 340,305</u>	<u>\$ 578,808</u>
<b>Supplemental disclosures of cash flow information:</b>		
Income taxes paid in cash	<u>\$ 14,334</u>	<u>\$ 7,180</u>
Interest paid in cash	<u>\$ -</u>	<u>\$ 135,559</u>

See Report of the Independent Registered Public Accounting Firm and the accompanying notes to consolidated financial statements



POW! ENTERTAINMENT, INC.  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT  
Years Ended December 31, 2011 and December 31, 2010

	Common Stock		Accumulated Other Comprehensive Income	Additional Paid-in Capital	Subscription Receivable	Accumulated Deficit	Total
	Shares	Amount					
Balance, December 31, 2009	131,721,534	\$ 131,722	\$ -	\$9,016,933	\$ (1,044,908)	\$ (11,112,424)	\$ (3,008,677)
Stock-based compensation				313,032			313,032
Proceeds from subscriptions receivable	-	-		-	11,411		11,411
Non-employee warrants and options				123,991			123,991
Net loss	-	-		-	-	(1,112,378)	(1,112,378)
Balance, December 31, 2010	131,721,534	131,722	-	9,453,956	(1,033,497)	(12,224,802)	(3,672,621)
Proceeds from subscriptions receivable					31,001		31,001
Non-employee warrants and options				29,403			29,403
Cashless conversion for options	227,214	227		(227)			-
Common Stock issuance for future services	658,608	659		39,772			40,431
Accumulated other comprehensive income			(44,941)				(44,941)
Net income						24,628	24,628
Balance, December 31, 2011	132,607,356	\$ 132,608	\$ (44,941)	\$9,522,904	\$ (1,002,496)	\$ (12,200,174)	\$ (3,592,099)

See Report of the Independent Registered Public Accounting Firm and the accompanying notes to consolidated financial statements.

**POW! ENTERTAINMENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. The Company and Basis of Presentation**

**Business Activity and Organization**--The Company is a Delaware corporation, incorporated on August 17, 1998. POW! Entertainment, Inc. ("POW", "Company", "we") has the following subsidiaries: POW! Entertainment, LLC (the operating company), QED Productions, LLC, PFD, LLC and an inactive Delaware corporation: Pharmelle, Inc.

QED Productions, LLC was formed in 2001 to acquire rights to license intellectual properties and creative assets of Mr. Stan Lee stemming from the bankruptcy of Stan Lee Media ("SLM"). The Company was not required to contribute any up-front consideration. The Company agreed with SLM that it would share revenue generated from the licensing of these properties. From the fiscal years ended December 31, 2001 to December 31, 2009, approximately \$2,200 of revenue has been generated for SLM and approximately \$14,000 of revenue has been generated for the Company. No revenues from the intellectual properties acquired by QED were earned for the year ended December 31, 2011 and 2010, respectively. Given the minimal revenues to date and the fact that none of the properties owned by QED are currently in development, the Company has valued these assets at \$0.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of its liabilities in the normal course of conducting its business. The Company's ability to continue as a going concern is dependent upon various factors including, among others, its ability to generate income and positive cash flows from operations. As described under Revenue Recognition below, the Company is expected to receive monthly payments totaling \$2,500,000 per year until year 2014. Although there is no assurance that we will be able to continue as a going concern, we believe these facts will help generate positive cash flows, and with a combined balance of cash and marketable securities of approximately \$1,100,000, we will be able to sustain our operations for at least 12 months. Accordingly, the financial statements do not include any adjustments to reflect the possible future effects on the recoverability or classification of assets and liabilities that may result should we not be able to continue as a going concern.

**2. Summary of Significant Accounting Policies**

**Principles of Consolidation**--The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company transactions and balances have been eliminated in consolidation.

**Revenue Recognition**--As a creator of intellectual property, the majority of the Company's business is derived from contracts with third parties providing for the development and use of intellectual property developed by the Company.

The Company records revenue from these sources: artist consulting, film rights, animated television and comic-book royalties. In accounting for these contracts, the Company recognizes revenue when services have been rendered or when contractual parameters have been satisfied and are measurable.

Our contract with Silver Creek Pictures ("Silver Creek"), an affiliate of The Walt Disney Company, calls for per annum payments of nonrecoupable overhead allowance of \$700,000 and nonrecoupable consulting services for Stan Lee of \$1,250,000. The contract expires in December 2014. The \$1,250,000 per annum for Stan Lee's consulting services cease in the event of his disability or incapacitation. Revenue from Silver Creek is recorded based on the guidance from ASC 605: revenues are considered to have been earned when the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues.

The Company also recognized revenues for the year ended December 31, 2011 for film rights sold to a third party for \$500,000. The Company established that revenue for the project was earned after the copyright was filed with the US copyright office to be transferred to the third party pursuant to the purchase contract.

**Related Party**— From time to time, Stan Lee has appeared and will continue to appear at certain events or projects for which both he and the Company receive payments. Payments related to 2011 to Mr. Lee amounted to approximately \$31,000.

**Advances Payable**-- The contract with Silver Creek also contains recoupable advance payments per annum of \$550,000. The Company recorded the full \$550,000 for the years ended December 31, 2011 and 2010, respectively, as advances payable pursuant to the contractual clause in which the advances are recoupable by Silver Creek solely from any fixed and contingent compensation related to future developments, including box office bonuses and merchandising royalties. The Company has not met the performance measurement of the revenue and accordingly has not recorded the payments as revenue. In addition, any properties that Silver Creek rejects or accepts and subsequently abandons may be offered by the Company elsewhere subject to participation by Silver Creek. Depending on the nature of the project so offered to a third party and the time when such project was originally offered to Silver Creek, Silver Creek is entitled to receive up to \$100,000 per project, and the assignment of 50% or 25% of the Company's compensation from the third-party producer.

For the year ended December 31, 2011, the Company offset \$50,000 against advances for professional services provided by Mr. Stan Lee related to a Silver Creek project considered completed after Mr. Lee met his professional obligations to the project. The Company also remitted to Silver Creek \$100,000 pursuant to the advances payable referenced above for the film rights sold to a third party.

**Use of Estimates** --The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the appropriate application of certain accounting policies, many of which require estimates and assumptions about future events and their impact on amounts reported in the financial statements and related notes. Since future events and their impact cannot be determined with certainty, the actual results will inevitably differ from our estimates. Such differences could be material to the financial statements. We have identified the most significant areas of estimation and assumptions as being estimation of the allowance for doubtful accounts, estimation of derivatives liabilities, estimation of stock compensation and estimation of the net deferred income tax asset valuation allowance.

**Cash, Cash Equivalents and Marketable Securities**—Cash, cash equivalents and marketable securities include cash, certificates of deposit, mutual funds and liquid investments with original maturities of three months or less.

**Concentration of Credit Risk**--The Company maintains cash at financial institutions which may, at times, exceed insured limits.

**Accounts Receivable**--The Company extends credit to its customers. These customers have specific contracts that detail the payments expected under their contract terms. Accounts receivable are customer obligations due under these contract terms. Management reviews accounts receivable on a regular basis, based on contracted terms and how recently payments have been received, to determine if any such amounts will potentially be uncollected. After all attempts to collect a receivable have failed, the receivable is written off.

**Property and Equipment**--Property and equipment are stated at cost. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets over five years. For the years ended December 31, 2011 and 2010, depreciation expenses were \$3,329 and \$10,426, respectively.

**Inventory**--Inventory consists of promotional items for sale, which are stated at the lower of cost or market using the first-in, first-out method.

**Development Costs**--The Company capitalizes costs directly related to the creation and development of intellectual properties that are incurred by non-employees, related to the development of scripts and stories. The Company periodically reviews the properties in development to determine whether they will ultimately be used in the production of a film. The costs capitalized are written off if the property has not been set for production within three years from the time of the first capitalized transaction.

**Intellectual Property**--Intellectual property consisted of trademarks registered with the US Patent and Trademark Office. Trademarks are being amortized over 10 years to 20 years. Amortization expense was \$10,983 for the year ended December 31, 2011.

**Fair Value Measurements**--The Company measures its financial assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. exit price) in an orderly transaction between market participants at the measurement date. Additionally, the Company is required to provide disclosure and categorize assets and liabilities measured at fair value into one of three different levels depending on the assumptions (i.e. inputs) used in the valuation. Level 1 provides the most reliable measure of fair value while Level 3 generally requires significant management judgment. Financial assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The fair value hierarchy is defined as follows:

1. Level I – Quoted prices in active markets for identical assets and liabilities.
2. Level II – Other significant observable inputs for assets or liabilities through corroboration with market data at measurement date,



3. Level III – Significant unobservable inputs that reflect management’s best estimate of what market participants would use to price assets or liabilities at the measurement date.

The following table summarizes fair value measurements by level at December 31, 2010 for assets and liabilities measured at fair value on a recurring basis:

	Level I	Level II	Level III	Total
Cash	\$ 578,808			\$ 578,808
Letter of credit	\$ 32,544			\$ 32,544
Derivatives liability			\$ 62,823	\$ 62,823

The following table summarizes fair value measurements by level at December 31, 2011 for assets and liabilities measured at fair value on a recurring basis:

	Level I	Level II	Level III	Total
Cash	\$ 340,305			\$ 340,305
Letter of credit	\$ 32,544			\$ 32,544
Marketable securities	\$ 771,177			\$ 771,177
Derivatives liability			\$ 28,763	\$ 28,763

The table below sets forth a summary of changes in fair value of the Company’s Level 3 liabilities for the year ended December 31, 2011.

Balance as of December 31, 2010	\$ 62,823
Issuance of warrants	
Change in Value	(34,060)
Balance as of December 31, 2011	\$ 28,763

The Company’s management believes the carrying amounts of accounts receivable, accounts payable and accrued expense approximate fair value due to their short maturity.

**Accounting for Stock-Based Compensation to Employees** --The Company measures and recognizes compensation expense for all share-based payment awards to employees based on estimated fair values on the grant date. The Company recognizes the expense on a straight-line basis over the requisite service period, which is the vesting period.

**Income Taxes**—Income taxes are accounted for under an asset and liability approach that requires the recognition of deferred income tax assets and liabilities for the expected future consequences of events that have been recognized in the Company’s financial statements and income tax returns. The Company provides a valuation allowance for deferred income tax assets when it is considered more likely than not that all or a portion of such deferred income tax assets will not be realized.

The Company adopted guidance issued by the FASB that clarifies the accounting for uncertainties in income taxes recognized in an enterprise’s financial statements and prescribes a recognition threshold of more likely than not and a measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In making this assessment, a company must determine whether it is more likely than not that a tax position will be sustained upon examination, based solely on the technical merits of the position and must assume that the tax position will be examined by taxing authorities. The Company’s policy is to include interest and penalties related to unrecognized tax benefits in income tax expense. Interest and penalties totaled \$0 for the years ended December 31, 2011 and 2010.

**Earnings Per Share**-Basic earnings per share is computed by dividing earnings available to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings per share is computed similar to basic earnings per



share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common share equivalents had been issued and if the additional common shares were dilutive. Common equivalent shares are excluded from the computation if their effect is anti-dilutive. For the years ended December 31, 2010, the diluted earnings per share are the same as basic earnings per share as the 1,300,000 warrants outstanding would have an anti-dilutive effect.

	Year Ended December 31, 2011
Numerator -	
Net income attributable to common	
Shareholders	\$ 24,628
Denominator -	
Weighted-average number of common	
Shares outstanding during the period	132,219,329
Dilutive effect of stock options and warrants	8,892
Common stock and common stock	
Equivalents used for diluted earnings per share	132,228,221

**Valuation of Derivative Instruments**--ASC 815-40 (formerly SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities") requires that embedded derivative instruments be bifurcated and assessed, along with free-standing derivative instruments such as warrants, on their issuance date and in accordance with ASC 815-40-15 (formerly EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock") to determine whether they should be considered a derivative liability and measured at their fair value for accounting purposes. In determining the appropriate fair value, the Company uses the Black-Scholes option pricing formula. At December 31, 2011, the Company adjusted its derivative liability to its fair value, and reflected the decrease of \$34,060, which represents the gain on change in derivative.

**Other Comprehensive Income**--The Company's other comprehensive income consists of unrealized losses on marketable securities categorized as available-for-sale, that under GAAP are recorded as an element of shareholders' equity but are excluded from net income.

**Concentrations**—The Company has two major customers that individually exceeded 10% of total revenue. Revenue from these two customers accounted for 88% of total revenue for the year ended December 31, 2011. Revenue from one customer accounted for 94% of total revenue for the year ended December 31, 2010.

Two customers who are not major customers accounted for 100% of total accounts receivable as of December 31, 2011. Two customers, one a major customer, accounted for 88% of total accounts receivable as of December 31, 2010.

**Reclassifications**—Certain reclassifications have been made to the prior period consolidated financial statements in order for them to be in conformity with the current year presentation.

**Recently Issued or Newly Adopted Accounting Standards**--In May 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-04, Fair Value Measurement ("ASU 2011-04"), which amended ASC 820, Fair Value Measurements ("ASC 820"), providing a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles, clarifies the application of existing fair value measurement and expands the disclosure requirements. ASU 2011-04 will be effective for us beginning January 1, 2012. The adoption of ASU 2011-04 is not expected to have a material effect on our consolidated financial statements or disclosures.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income ("ASU 2011-05"). ASU 2011-05 requires the presentation of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. ASU 2011-05 will be effective for us beginning January 1, 2012. The adoption of ASU 2011-05 is not expected to have a material effect on our consolidated financial statements or disclosures.

In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment (“ASU 2011-08”), which amends the guidance in ASC 350-20, Intangibles—Goodwill and Other – Goodwill. ASU 2011-08 provides entities with the option of performing a qualitative assessment before calculating the fair value of the reporting unit when testing goodwill for impairment. If the fair value of the reporting unit is determined, based on qualitative factors, to be more likely than not less than the carrying amount of the reporting unit, the entities are required to perform a two-step goodwill impairment test. ASU 2011-08 will be effective for us beginning January 1, 2012. The adoption of ASU 2011-08 is not expected to have a material effect on our consolidated financial statements or disclosures.

### 3. Subscription Receivable

On July 22, 2005, a subscription for the principal amount of \$1,150,000 was entered into, fully amortized with monthly payments of interest only for 18 months starting August 30, 2005 and then principal and interest payments of \$12,197 monthly for an additional 10 years with the interest rate of 5% per annum. The payments on the subscription have defaulted. An allowance for uncollectibility of 50% was recorded in year 2007 to reduce the principal amount. The subscription receivable is disputed by the shareholders.

On November 15, 2005, another subscription for the principal amount of \$525,000 was entered into, fully amortized over thirty years with the interest rate of 5% per annum. The subscription is payable in equal monthly payments of \$2,818. The payments on the subscription were defaulted during the years 2005 to August 2010. For the year ended December 31, 2011, eleven payments of \$31,001 have been received. The subscription is collateralized by a Deed of Trust granting rights to a residential property.

### 4. Deferred Compensation

Deferred compensation consists of accrued but unpaid salaries of executives, which will be paid as the Company increases its cash, over time, or by obtaining additional financing. The balance at December 31, 2011 reflects a repayment of \$150,000 during the year ended December 31, 2011. At the end of 2011, the Company entered into amended employment agreements with the executives whereby deferred salaries are paid down by \$100,000 per annum per executive. The Company has reclassified amounts in deferred compensation deemed payable over 1 year as long-term.

### 5. Other Receivable—Related Party

During March 2011, the Company entered into an agreement with a minority shareholder, who is also a former employee, to loan the individual an amount totaling \$66,667. The loan is non-interest bearing and is collateralized by the stock of the Company already owned by such shareholder. The loan is due in full. At December 31, 2011, the balance of the receivable was \$66,667.

### 6. Share-based Compensation

On March 15, 2010, the Company granted warrants to purchase a total of 1,300,000 shares of common stock to two of its executives, 650,000 shares each. The warrants vested immediately and are exercisable for five years from the date of issuance, at a strike price of \$0.40 per share. The warrants were issued in conjunction with Deferred Compensation Agreements entered into which limits payment of the outstanding deferred compensation to the two executives. These warrants have an anti-dilution clause, whereby the exercise price can be adjusted downward in the event of equity raised at a price lower than \$0.40 per share.

The Company adopted the provisions of ASC 718 (formerly SFAS.123(R), Share-based payments which requires the measurement and recognition of compensation expense for all stock-based awards made to employees.

The fair value of stock warrants at the date of grant was estimated using the Black-Scholes option-pricing model, based on the following assumptions for the year ended December 31, 2010:

Risk-free interest rate	1.0%
Expected life	5 years
Expected Volatility	49.0%
Dividend yield	00.0%

Total expense related to the warrants during the year ended December 31, 2010 was \$313,032. The outstanding number of warrants at December 31, 2011 was 1,300,000 shares.

## 7. Restricted Stock Grant

On June 1, 2011, the Company granted restricted stock to an employee. The agreement called for grants of common stock priced at \$0.17 per share, which was the closing market price, equaling to 0.05% of the company outstanding shares or 658,608 shares to be vested equally each on December 1, 2011, 2012 and 2013. Future expenses related to this grant are expected to be approximately \$35,000 per year for 2012 and 2013.

The Company adopted the guidance provided by ASC 718 to measure and record the expense over the requisite service period for the entire award. Stock-based compensation recognized by the Company for the year ended December 31, 2011 totaled \$40,431.

## 8. Warrants and Options for Non-Employees

On September 9, 2010, the Company granted options to purchase 800,000 shares of common stock to its investor relations advisor at strike price of \$0.14 per share. These options vest quarterly over a 12-month period beginning December 9, 2010, and mature in September 2015. On November 18, 2010, the agreement was amended to increase the number of options to 830,000 shares at a strike price of \$0.1905. The Company uses the guidance in FASB ASC 505-50 (formerly EITF 96-18) to scope and measure the stock options for non-employees.

Total expense related to the investor relations' options during the year ended December 31, 2011 was \$29,403.

On June 1, 2011, the Company terminated the contract with the investor relations advisor. Pursuant to the contract, the Company reserved the right to cancel one-third vesting of the options to purchase 830,000 shares. On July 13, 2011, the investor relations advisor exercised all vested shares or 622,500 shares on a cashless basis. The below illustrates the conversion of 622,500 shares on a cashless basis to derive the 227,214 shares issued:

- a) Cash exercise price = 622,500 option shares x \$0.1905 (exercise price) = \$118,586
- b) Shares needed to pay for exercise price = \$118,586 cash exercise price/ \$0.30 (closing market price on 7/13/11) = 395,286 shares
- c) Shares to issue per option exercise = 622,500 shares - 395,286 shares = 227,214 shares

On December 2, 2010, the Company issued warrants to purchase 350,000 shares of common stock at \$0.1905 per share in lieu of the remaining balance of an accrued commission of \$125,000 to a consultant. The contract has an anti-dilutive clause, vests immediately and expires in December 2012. Accordingly, the Company uses the guidance in ASC 815-40-15 to scope and measure the warrants for non-employees as a derivative liability.

A gain on change in derivative liability was recorded to reflect a decrease of \$34,060 for the year ended December 31, 2011, respectively.

The fair value of stock warrants and options at the date of grant and derivative liability were estimated using the Black-Scholes option-pricing model, based on the following assumptions for the year ended December 31, 2011:

Risk-free interest rate	0.36%
Expected life	1 year
Expected Volatility	180.0%
Dividend yield	00.0%

## 9. Income taxes

The Company files income tax returns with the Internal Revenue Service ("IRS") and various state jurisdictions. For jurisdictions in which tax filings are prepared, the Company is subject to income tax examinations by state tax authorities and federal tax authorities for all tax years.

The deferred tax assets are mainly comprised of net loss carryforwards and expenses not currently deductible. The Company has Federal net loss carryforwards of approximately \$7.8 million that expires through 2031. The net loss carryforwards can be

used to offset a certain amount of taxable income in future years, therefore generating deferred income tax assets. The net loss carryforwards are subject to significant limitations by Section 382 of IRS code due to changes in ownership.

A reconciliation of the provision for income tax expense with the expected income tax computed by applying the federal statutory income tax rate to income before provision for income taxes was as follows for the years ended December 31, 2011 and 2010:

	2011	2010
Income tax computed at federal statutory tax rate	\$ (13,247)	\$ 375,767
Non-deductible expenses	(17,986)	(8,954)
Change in valuation allowance	34,677	(464,513)
State taxes, net of federal benefit	(17,778)	90,520
Total expense	<u>\$ (14,334)</u>	<u>\$ (7,180)</u>

At December 31, 2011, based on the weight of available evidence, including cumulative losses in recent years and expectations of future taxable income, the Company determined that it was more likely than not that its deferred tax assets of approximately \$3 million would not be realized. Accordingly, the Company has recorded a valuation allowance equal to 100% of its total deferred tax assets.

## 10. Commitments and Contingencies

### Operating leases

The Company has an operating lease agreement for its corporate office facility, which expires on June 30, 2016. The lease contains a 6.5 months of rent abatement. The Company has an operating lease agreement for its corporate apartment, which expired on February 28, 2012. The lease is on a month-to-month basis after the lease expiration.

Future minimum rental payments are as follows:

Year ended December 31	
2012	107,000
2013	103,000
2014	106,000
2015	110,000
Thereafter	57,000
	<u>\$483,000</u>

Total lease expense was \$134,716 and \$124,250 for the years ended December 31, 2011 and 2010, respectively.

### Legal Proceedings

From time to time the Company is involved in legal proceedings in the normal conduct of its business, but the Company believes that such proceedings will not have a material affect on the Company's financial statements.

On February 14, 2011, the Company and its subsidiary, QED Productions, LLC, were named in a lawsuit citing, among other things, trademark infringement. The Company filed a motion to dismiss the lawsuit on March 15, 2011. In the alternative, the Company's motion requested that the Court stay the proceedings pending resolution of SLM's appeal to the U.S. Court of Appeals for the Second Circuit. On May 6, 2011, the Court granted the Company's alternative motion and stayed the proceedings. While the outcome of the foregoing proceedings cannot be predicted with certainty, after consulting with legal counsel, the Company believes that it will prevail. The range of any potential loss cannot be determined at this time should we not prevail, however we believe that the foregoing litigation will not have a material adverse affect on our financial statements taken as a whole.

## Item 9-Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

## Item 9A-Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining a system of disclosure controls and procedures (as defined in Rule 13a-15(e)) under the Exchange Act) that is designed to ensure that information required to be disclosed by the Company in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time specified in the Commission's rules and forms. 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 officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the end of the period covered by this report, we have carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Under the direction of our Chief Executive Officer, we evaluated our disclosure controls and procedures and internal control over financial reporting and concluded that our disclosure controls and procedures were not effective as of December 31, 2011. We have disclosed to our auditors and the Board of Directors such deficiencies. There were no changes in the Company's internal controls over financial reporting during the most recently completed fiscal year that have materially affected or are reasonable likely to materially affect the Company's internal control over financial reporting.

## Item 9B- Other Information

None

## PART III

## Item 10-Directors, Executive Officers, and Corporate Governance

Our directors, executive officers and other significant employees, their ages and positions are as follows:

<u>Name</u>	<u>AGE</u>	<u>Position with the Company</u>
Stan Lee	89	Chairman of the Board, Director and Chief Creative Officer
Gill Champion	70	President, Director and Chief Executive Officer
Arthur Lieberman	75	Director, Chief Operating Officer and Chief Legal Counsel
Bick Le	38	Chief Financial Officer

### Stan Lee -- Chairman of the Board, Director and Chief Creative Officer

Stan Lee has served as the Company's Chairman of the Board and Chief Creative Officer since 2004. Prior to that, in 2001, Mr. Lee co-founded POW! Entertainment, LLC with Messrs. Champion and Lieberman, which was acquired by the Company in 2004. Mr. Lee also has a non-exclusive, part-time employment agreement with Marvel Entertainment, LLC and serves as its Chairman Emeritus. Mr. Lee was the Chairman of the Board of Directors and Chief Creative Officer of Stan Lee Media, Inc. ("SLM") from July 1999 until approximately January 2001. SLM filed for bankruptcy protection in February 2001 and terminated operations in July 2001. Mr. Lee was employed on a full time basis by Marvel Comics or its predecessor entities for over 50 years. Mr. Lee started in the comic book industry in 1940 when he started with Timely Comics which eventually became Marvel Comics. Stan Lee's co-creations include Spider-Man<sup>TM 1</sup>, The Incredible Hulk<sup>TM 1</sup>, X-Men<sup>TM 1</sup>, The Fantastic Four<sup>TM 1</sup>, Iron Man<sup>TM 1</sup>, Daredevil<sup>TM 1</sup>, Silver Surfer<sup>TM 1</sup> and Dr. Strange<sup>TM 1</sup>.

<sup>1</sup> These are the registered trademarks and characters of Marvel Characters, Inc.



### **Gill Champion -- President, Director and Chief Executive Officer**

Gill Champion is the President and, since January 26, 2011, Chief Executive Officer and a director of the Company. Previously, he served as President and Chief Operating Officer of the Company since 2004. Prior to 2001, Mr. Champion co-founded POW! Entertainment LLC with Messrs. Lee and Lieberman, which was acquired by the Company in 2004. He has been executive producer on all Company projects and continues to supervise their development. Mr. Champion was Chief Operating Officer of SLM from July 1999 until June 2001. SLM filed for bankruptcy protection in February 2001. Mr. Champion has over 30 years of executive experience in global entertainment, marketing, retail and licensing industries. Prior to SLM, he was COO and Vice President of Mirage Holdings, Inc. and concurrently worked as a production executive on the motion picture Jinnah. Mr. Champion was CEO and Chairman of American CinemaStores, Inc., a public company that operated approximately 150 location-based retailing outlets and an extensive apparel division that created designs and marketing strategies for Baywatch and Forrest Gump. Mr. Champion was executive in charge of Faerie Tale Theatre with Shelley Duvall while Vice President of Gaylord Productions. He was the Producer for Fort Apache the Bronx with Paul Newman and won the Producer of the Year Award in 1981. In addition, he was in charge of production for The Shining and The Boys from Brazil, while Vice President of the Producers Circle Company.

### **Arthur M. Lieberman, Esq., Director, Chief Operating Officer and Chief Business & Legal Counsel**

Arthur Lieberman has served as the Company's Secretary, Chief Business & Legal Officer and a director since 2004. He assumed the additional position of Chief Operating Officer on January 26, 2011 when Mr. Champion became the Company's Chief Executive Officer. Concurrently with his service to the Company Mr. Lieberman has been of counsel to the New York City based law firm of Ganfer & Shore for over the past five years. He is an attorney specializing in Intellectual Property Law, an area in which he has practiced, taught, litigated and negotiated rights with respect to for over 35 years. He has been involved in litigating over 100 cases; negotiated hundreds of licenses; and counseled hundreds of clients. Approximately 50% of his work is in the area of character rights and, in this connection, he negotiated the grant of rights to characters to Universal Studios, Fox Studios, Warner Bros., Bantam Books, Ace Books, Marvel Comics, Mattel and Hasbro, among others. Mr. Lieberman has also rendered many opinions regarding Intellectual Property valuations and has been involved with the production of "Conan the Barbarian," "Red Sonja," "Kull", and "Tulsa Doom". In 2001, Mr. Lieberman founded, together with Messrs. Lee and Champion, POW! Entertainment LLC, the Company's principle operating subsidiary, which was acquired by the Company in 2004.

### **Bick Le, Chief Financial Officer**

Bick Le joined the Company in December 2010. Prior to joining the Company, Ms. Le served as Manager of Financial Reporting at the apparel company Frederick's of Hollywood for three years and spent five years at Fineman, West & Company, a boutique CPA firm located in Beverly Hills.

To the best of the Company's knowledge, during the past ten years, except as described herein and Item 3, none of the following occurred with respect to a present or former director or executive officer of the Company: (1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of any competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; and (4) being found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the commodities futures trading commission to have violated a Federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.

### **Committees of the Board of Directors**

We presently do not have an audit committee, compensation committee, or other committee or committees performing similar functions.

### **Family Relationships**

There are no family relationships among our directors or officers.

### **Shareholder Communications**

Although we do not have a formal policy regarding communications with the Board, shareholders may communicate with the Board by writing to us at the POW! Entertainment, Inc., 9440 Santa Monica Boulevard, #620, Beverly Hills California 90120, Attention Gill Champion. Shareholders who would like their submission directed to a member of the Board may so specify, and the communication will be forwarded, as appropriate.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended (“Exchange Act”), requires our officers, directors and persons who beneficially own more than ten percent of our common stock to file reports of ownership and changes in ownership with the Securities and Exchange Commission (“SEC”). These reporting persons are also required to furnish us with copies of all Section 16(a) forms they file. The obligation to make such filing commenced February 8, 2011.

## Code of Ethics

The Company has not adopted a Code of Ethics. Given the small size of the Company and the fact that the Board of Directors and senior executives are the same individuals, the Company believes that the fiduciary duties imposed by Delaware General Corporation Law provides sufficient protection to the shareholders.

## ITEM 11. Executive Compensation

**Summary Compensation Table**

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Warrants Awards (\$)(1)	Nonqualified Deferred Compensation Earnings (\$)(2)	All other Compensation (\$)(4)	Total (\$)
Stan Lee, Chairman of the Board, Chief Creative Officer	2011	\$ 300,000			\$ 50,000		\$ 350,000
Gill Champion, President, Chief Executive Officer, Director	2010	\$ 300,000		\$ 156,516	\$ 50,000		\$ 506,516
Arthur Lieberman, Chief Operating Officer, Director	2011	\$ 475,000(3)				\$ 73,076	\$ 548,076
	2010	\$ 475,000(3)					\$ 475,000
	2011	\$ 200,000			\$ 100,000		\$ 300,000
	2010	\$ 200,000		\$ 156,516	\$ 100,000		\$ 456,516

- The values shown in this column represent the aggregate grant date fair value of share-based compensation granted during the year ended March 15, 2010, in accordance with ASC 718, "Share-Based Payment". The fair value of the stock warrants at the date of grant was estimated using the Black-Scholes option-pricing model, based on the assumptions described in Note 6 of the Notes to the Consolidated Financial Statements included in this Annual Report.
- (1) Includes payments for compensation previously deferred during the period from 2001 through 2008. No interest was paid on any of the deferred compensation.
  - (2) Includes in this amount is \$100,000 of deferred compensation pursuant to the employment contract referenced above.
  - (3) Payment for accrued vacation for prior years but never taken.

In 2010 under his employment agreement, Mr. Lee's salary was increased to \$300,000 per annum, he was no longer required to defer any part of his ongoing salary and the Company began paying his accrued deferred salary at the rate of \$50,000 per year. In consideration for Stan Lee and Arthur Lieberman agreeing to restrict payment of their deferred compensation as provided for in the Deferred Compensation Agreement, each received a warrant to purchase 650,000 shares of Common Stock, which is exercisable for five years at a price of \$0.40 per share. In addition to his compensation from the Company, Stan Lee has a lifetime employment agreement with Marvel, which currently requires Stan Lee to devote 10-15 hours per week to Marvel matters, and in return for which Stan Lee currently receives a salary. At the end of 2011, the employment agreement was amended to pay deferred compensation at the rate of \$100,000 per year. The Amendment to the employment agreement is filed herewith.

In 2010 under his employment agreement, Mr. Champion's salary was increased to \$475,000 per annum, but he is required to defer \$100,000 yearly until the Company obtains \$2,000,000 of additional investment. During 2011, an amended agreement no longer required the deferral of \$100,000 per annum. The deferred compensation balance at December 31, 2011 was \$100,000. The amended agreement is filed herewith.

In 2010 under his employment agreement, Mr. Lieberman's salary was increased to \$200,000 per annum, he was no longer required to defer any part of his ongoing salary and the Company began paying his accrued deferred salary at the rate of \$50,000 per year. The

outstanding balance of his deferred compensation is payable pursuant to the terms of the Deferred Compensation Agreement, described above in the discussion of Stan Lee's compensation. During 2011, an amended agreement calls for pay downs of deferred compensation of \$100,000 per annum. The amended agreement is filed herewith.

The Company also has Indemnity Agreements for its three executives who are also directors. The agreements are filed herewith.

### Outstanding Equity Awards at Fiscal Year-End

The following table summarizes the outstanding equity awards as of December 31, 2011 for each of the named executive officers:

Name	Warrants Awards		
	Number of Securities Underlying Unexercised Exercisable warrants (#)	Warrants Exercise Price per share (\$)	Warrants Expiration Date
Stan Lee	650,000	0.40	03/14/2015
Arthur Lieberman	650,000	0.40	03/14/2015

The warrants vest immediately on grant date of March 15, 2010. All warrants are still outstanding as of December 31, 2011.

### Director Compensation.

None of the Company's Directors is paid for serving on its Board of Directors.

### Item 12. Security Ownership of Certain Beneficial Owners and Management

#### Security Ownership of Certain Beneficial Owners.

The following tables set forth information as of March 9, 2012, with respect to the beneficial ownership of the outstanding shares of the Company's Common Stock by: (i) each person known by the Company to beneficially own five percent or more of the outstanding shares; (ii) executive officers and directors; and (iii) all executive officers and directors as a group. A person is deemed to be a beneficial owner of any securities of which that person has the right to acquire beneficial ownership within sixty (60) days.

Name and Address of Owner	Amount and Nature of Beneficial Owner	Percentage (%) Of Class
<b>Directors and Executive Officers</b>		
Stan Lee (1) (2)(3) 9440 Santa Monica Blvd, #620 Beverly Hills, CA 90210	42,399,626	31.58%
Gill Champion (1)(2) 9440 Santa Monica Blvd, #620 Beverly Hills, CA 90210	24,739,998	18.43%
Arthur Lieberman (1)(2)(4) 9440 Santa Monica Blvd,#620 Beverly Hills, CA 90210	19,911,538	14.83%
<b>Total shares owned by Executive Officers and Directors (5)</b>	<b>87,709,770</b>	<b>66.14%</b>

#### 5% Shareholders

Joan Lee (6) 9440 Santa Monica Blvd, #620 Beverly Hills, CA 90210	42,399,626	31.58%
Catalyst Investments, LLC(7) c/o The Walt Disney Company 500 South Buena Vista St Burbank, CA, 91521	13,172,153	9.8%

(1) Executive Officer of the Company.

(2) Director of the Company.

Includes 32,953,273 shares held by his wife, Joan Lee, that may be deemed to be beneficially owned by Stan Lee. Stan Lee disclaims beneficial ownership of the shares owned by Joan Lee. Includes in shares deemed held by Stan Lee, and the total (3) deemed outstanding for the purposes of calculating Stan Lee's percentage, 650,000 shares which Stan Lee has the right to purchase at \$0.40 per share pursuant to a warrant issued to him in connection with a Deferred Compensation Agreement dated March 15, 2010.

Includes in shares deemed held by Arthur Lieberman, and the total deemed outstanding for the purposes of calculating (4) Arthur Lieberman's percentage, 650,000 share which Arthur Lieberman has the right to purchase at \$0.40 per share pursuant to a warrant issued to him in connection with a Deferred Compensation Agreement dated March 15, 2010.

Includes shares held by his wife, Joan Lee, that may be deemed to be beneficially owned by Stan Lee. Stan Lee disclaims (5) beneficial ownership of the shares owned by Joan Lee. Includes in shares deemed outstanding and for the purposes of calculating the percentage owned by all Executive Officers and Directors the shares that Stan Lee and Arthur Lieberman have the right to purchase pursuant to the Warrants described in footnotes (3) and (4) above.

Includes 9,446,353 shares held by her husband, Stan Lee, as well as 650,000 shares which Stan Lee has the right to purchase (6) at \$0.40 per share pursuant to a warrant described in footnote 3 above, that may be deemed to be beneficially owned by Joan Lee. Joan Lee disclaims beneficial ownership of the shares owned by Stan Lee.

(7) Catalyst Investments, LLC is affiliated with The Walt Disney Company.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

#### **Certain Relationships and Related Transactions.**

During the period from 2001 through 2009 the Company had deferred payments of a total of \$3,007,917 salaries to its officers (\$1,382,500 due to Stan Lee, \$1,445,417 due to Arthur Lieberman, and \$180,000 due to Gill Champion). No interest was accrued or paid with respect to these deferred salary amounts. After receiving the proceeds from Catalyst, the Company paid \$680,000 of this deferred salary (\$250,000 to each of Stan Lee and Arthur Lieberman, and \$180,000 to Gill Champion). At December 31, 2010, the balance outstanding was \$2,277,917 for deferred compensation, consisting of \$100,000 increase in deferred compensation pursuant to Gill Champion's employment agreement, \$1,082,500 to Stan Lee and \$1,095,417 to Arthur Lieberman. At December 31, 2011, the balance outstanding was \$2,127,917 for deferred compensation, consisting of \$100,000 in deferred compensation to Gill Champion, \$1,032,500 to Stan Lee and \$995,417 to Arthur Lieberman.

The employment agreements for Messrs Lee, Lieberman and Champion are described in Item 11 above. Copies of such agreements have been filed as exhibits to the Company's Form 10-K.

From time to time, Stan Lee has appeared and will continue to appear at certain events or projects for which both he and the Company receive payments. Payments related to 2011 to Mr. Lee amounted to approximately \$31,000. The Company believes that his ability to appear at these events enhances the Company's brand without additional costs to the Company.

#### **Director Independence**

Our Board has determined that none of our directors are independent under the NASDAQ Stock Market listing rules.

#### **Item 14. Principal Accountant Fees and Services.**

Rose, Snyder & Jacobs LLP serve as our independent registered public accounting firm and their report on the Company's audited financial statements is included in Item 8 above for the years ended December 31, 2011 and 2010. The aggregate fees billed by the Rose, Snyder & Jacobs LLP for professional services rendered for the audited financial statements and other services are as follows for the years ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Audit fees	\$ 58,125	\$ 69,650
Tax fees	\$ 10,385	\$ 7,525
Total	<u>\$ 68,510</u>	<u>\$ 77,175</u>

The Company currently does not have an audit committee. All audit and non-audit services are approved by the Board of Directors.

### **PART IV**

#### **ITEM 15. Exhibits and Financial Statement Schedules.**

The following documents are filed as a part of this report or incorporated herein by reference:

- 1) Our Consolidated Financial Statements are contained found in response to Item 8 of this Form 10-K.
- 2) Financial Statement Schedules, none
- 3) See Exhibit Index included as the last part of this report on this Form 10-K, which index is incorporated herein by this reference.



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

March 23, 2012

POW! Entertainment, Inc.

By: /s/ GILL CHAMPION  
Gill Champion  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>/s/ GILL CHAMPION</u> Gill Champion	President, Chief Executive Officer (Principal Executive Officer)	March 23, 2012
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<u>/s/ STAN LEE</u> Stan Lee	Chairman and Chief Creative Officer	March 23, 2012
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<u>/s/ ARTHUR LIEBERMAN</u> Arthur Lieberman	Chief Operating Officer and Director	March 23, 2012
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<u>/s/ BICK LE</u> Bick Le	Chief Financial Officer (Principal Financial Officer)	March 23, 2012
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<b>Exhibit No.</b>	<b>Exhibit Index</b>	<b>Method of Filing</b>
3.1	Restated Certificate of Incorporation of POW! Entertainment, Inc., dated December 6, 2010	Incorporated by reference as Exhibit 3.1 to Form 10 filed December 10, 2010
3.2	By-Laws of POW! Entertainment Inc., dated December 3, 2010	Incorporated by reference as Exhibit 3.2 to Form 10 filed December 10, 2010
4.1	Form of Warrant granted to the Stanley L. Compton, Trustee of the Compton Family Trust dated April 11, 1988	Incorporated by reference as Exhibit 4.1 to Form 10 filed December 10, 2010
4.2	Form of Warrant Agreement granting warrants to Arthur Lieberman and Stan Lee	Incorporated by reference as Exhibit 4.2 to Form 10 filed December 10, 2010
10.1	Overall Agreement Dated as of March 20, 2006 Between Silver Creek Pictures, Inc. and POW! Entertainment, Inc. For Services of Stan Lee ("Silver Creek Agreement")	Incorporated by reference as Exhibit 10.1 to Form 10 filed December 10, 2010
10.2	Amendment Letter to Silver Creek Agreement, dated March 20, 2006	Incorporated by reference as Exhibit 10.2 to Form 10 filed December 10, 2010
10.3	Amendment Letter to Silver Creek Agreement, dated September 12, 2006	Incorporated by reference as Exhibit 10.3 to Form 10 filed December 10, 2010
10.4	Amendment Letter to Silver Creek Agreement, dated March 13, 2007 ("Second Amendment")	Incorporated by reference as Exhibit 10.4 to Form 10 filed December 10, 2010
10.5	Amendment Letter to Silver Creek Agreement, dated September 10, 2007 ("Third Amendment")	Incorporated by reference as Exhibit 10.5 to Form 10 filed December 10, 2010
10.6	Amendment Letter to Silver Creek Agreement, dated May 2, 2008 ("Fourth Amendment")	Incorporated by reference as Exhibit 10.6 to Form 10 filed December 10, 2010
10.7	Amendment Letter to Silver Creek Agreement, dated December 18, 2009 ("Fifth Amendment")	Incorporated by reference as Exhibit 10.7 to Form 10 filed December 10, 2010
10.8	Stock Purchase Agreement, dated December 31, 2009 by and between POW! Entertainment, Inc. and Catalyst Investments, LLC	Incorporated by reference as Exhibit 10.8 to Form 10 filed December 10, 2010
10.09	Letter Agreement between Catalyst and the Company dated December 31, 2009	Incorporated by reference as Exhibit 10.09 to Form 10 filed December 10, 2010
10.10	Employment Agreement-Stan Lee, dated as of January 1, 2010 between POW! Entertainment, Inc. and Stan Lee	Incorporated by reference as Exhibit 10.10 to Form 10 filed December 10, 2010
10.11	Employment Agreement-Champion, dated as of January 1, 2010 between POW! Entertainment, Inc. and Gill Champion	Incorporated by reference as Exhibit 10.11 to Form 10 filed December 10, 2010
10.12	Employment Agreement-Lieberman, dated as of January 1, 2010 between POW! Entertainment, Inc. and Arthur Lieberman	Incorporated by reference as Exhibit 10.12 to Form 10 filed December 10, 2010
10.13	Amended and Restated Deferred Compensation Payment Agreement dated as of November 22, 2010 by and among POW! Entertainment, Inc., Stan Lee and Arthur Lieberman	Incorporated by reference as Exhibit 10.13 to Form 10 filed December 10, 2010
10.14	Agreement, dated as of June 8, 2005 between Stanley L. Compton and POW! Entertainment, Inc.	Incorporated by reference as Exhibit 10.14 to Form 10 filed December 10, 2010

10.15	Agreement, dated as of September 9, 2010 between Cooper Global Communications and POW! Entertainment, Inc.	Incorporated by reference as Exhibit 10.15 to Form 10-K filed March 28, 2011
10.16	Amendment to Employment Agreements-Stan Lee, Dated December 1, 2011 and referred to in Exhibit 10.10	Filed herewith
10.17	Agreement dated June 1, 2011 between POW! Entertainment and Bick Le	Incorporated by reference as Exhibit 10.17 to Form 10-Q filed August 4, 2011
10.18	Amendment to Employment Agreements-Gill Champion, dated December 1, 2011 and referred to in Exhibit 10.11	Filed herewith

<b>Exhibit No.</b>	<b>Exhibit Index</b>	<b>Method of Filing</b>
10.19	Amendment to Employment Agreements-Arthur Lieberman, dated December 1, 2011 and referred to in Exhibit 10.12	Filed herewith
10.20	Indemnity Agreements dated December 2004.	Filed herewith
21	Subsidiaries of Registrant	Incorporated by reference as Exhibit 21 to Form filed December 10, 2010
31.1	Certification by Chief Executive Officer	Filed herewith
31.2	Certification by Chief Financial Officer	Filed herewith
32.1	Section 1350 Certification by Principal Executive Officer	Filed herewith
32.2	Section 1350 Certification by Principal Financial Officer	Filed herewith





As of December 1, 2011

## DEFERRED COMPENSATION PAYMENT AGREEMENT AMENDMENT

Reference is made to the Deferred Compensation Payment Agreement dated March 15, 2010 between POW! Entertainment, Inc. (the "Company") and Stan Lee ("Lee"). The Agreement was made as a requirement pursuant to the Celadon Financial Group ("Celadon") Placement Agent Agreement dated March 15, 2010. The Private Placement was not executed by Celadon in year 2010. The parties hereby amend the agreement as follows:

### 1. Payments.

- 1.1.1. Commencing on year 2012, Deferred Compensation will be paid to Lee in the amount of \$100,000 per annum on a monthly installment.
- 1.1.2. In the event of death or incapacity of Lee, Deferred Compensation owed to Lee will be paid to his wife Joan Lee in the amount of \$100,000 per annum until the entire Deferred Compensation owed to Lee has been paid.
- 1.1.3. All appropriate income taxes will be withheld by the Company on behalf of Joan Lee as if she was employed by the Company.
- 1.1.4. The death or incapacity of Lee shall not delay or accelerate any payments due hereunder.

2. Miscellaneous. This Agreement shall be governed by the laws of the state of California. This Agreement sets forth the entire understanding of the parties with respect to the subject matter hereof and shall not be orally amended. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.







In Witness Whereof, the Parties have caused this Agreement to Executed as of the day and date first set forth above.

POW! Entertainment, Inc.

By:   
Gill Champion, Chief Executive Officer

By:   
Stan Lee

Execution Date: 2/8, 2012







As of December 1, 2011

## DEFERRED COMPENSATION PAYMENT AGREEMENT AMENDMENT

Reference is made to the Deferred Compensation Payment Agreement dated March 15, 2010 between POW! Entertainment, Inc. (the "Company") and Gill Champion ("Champion"). The Agreement was made as a requirement pursuant to the Celadon Financial Group ("Celadon") Placement Agent Agreement dated March 15, 2010. The Private Placement was not executed by Celadon in year 2010. The parties hereby amend the agreement as follows:

### 1. Payments.

- 1.1.1. Base Salary payable to Champion will remain the amount of \$475,000 per annum.
- 1.1.2. The Company will no longer retain \$100,000 per annum as deferred compensation.
- 1.1.3. As of December 31, 2011, the balance of Deferred Compensation payable to Champion shall equal \$100,000.
- 1.1.4. The death or incapacity of Champion shall not delay or accelerate any payments due hereunder.

- 2. Miscellaneous. This Agreement shall be governed by the laws of the state of California. This Agreement sets forth the entire understanding of the parties with respect to the subject matter hereof and shall not be orally amended. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.



In Witness Whereof, the Parties have caused this Agreement to Executed as of the day and date first set forth above.

POW! Entertainment, Inc.

By:  \_\_\_\_\_

Arthur Lieberman  
Chief Operating Officer  
Chief Legal and Business

BY:  \_\_\_\_\_

Gill Champion

Execution Date: 2/4, 2012









As of December 1, 2011

## DEFERRED COMPENSATION PAYMENT AGREEMENT AMENDMENT

Reference is made to the Deferred Compensation Payment Agreement dated March 15, 2010 between POW! Entertainment, Inc. (the "Company") and Arthur Lieberman ("Lieberman"). The Agreement was made as a requirement pursuant to the Celadon Financial Group ("Celadon") Placement Agent Agreement dated March 15, 2010. The Private Placement was not executed by Celadon in year 2010. The parties hereby amend the agreement as follows:

### 1. Payments.

- 1.1. Deferred Compensation will be paid to Lieberman in the amount of \$100,000 per annum on a monthly installment.
- 1.2. Arthur Lieberman wishes to assign the entire Deferred Compensation upon his death or incapacitation to his children Luke Lieberman and Samantha Lieberman.
- 1.3. Deferred Compensation payments to Lieberman of \$100,000 per annum will be assigned and payable to Luke Lieberman and Samantha Lieberman ("Lieberman Children") in monthly installments upon his incapacitation until the entire Deferred Compensation owed to Lieberman has been paid.
- 1.4. All appropriate income taxes will be withheld by the Company on behalf of Lieberman Children as if they were employees of the Company.
- 1.5. The death or incapacity of Lieberman shall not delay or accelerate any payments due hereunder.

2. Miscellaneous. This Agreement shall be governed by the laws of the state of California. This Agreement sets forth the entire understanding of the parties with respect to the subject matter hereof and shall not be orally amended. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.



In Witness Whereof, the Parties have caused this Agreement to Executed as of the day and date first set forth above.

POW! Entertainment, Inc.

By:  \_\_\_\_\_

Gill Champion, Chief Executive Officer

By:  \_\_\_\_\_  
Arthur Lieberman

Execution Date:  2012





POW! ENTERTAINMENT, INC.  
INDEMNIFICATION AGREEMENT

This INDEMNIFICATION AGREEMENT, dated as of December 1, 2004, is between POW! Entertainment, INC., a Delaware corporation (the "Company"), and Stan Lee ("Indemnitee").

RECITALS

- A. Indemnitee is a director or officer of the Company and in such capacity is performing valuable services for the Company.
- B. The Company and Indemnitee recognize the difficulty in obtaining directors' and officers' liability insurance, the significant cost of such insurance and the periodic reduction in the coverage of such insurance.
- C. The Company and Indemnitee further recognize the substantial increase in litigation subjecting directors and officers to expensive litigation risks at the same time such liability insurance is being severely limited.
- D. The Company has adopted and its stockholders have approved bylaws (the "Bylaws") providing for the indemnification of the Company's directors and officers to the full extent permitted by Section 145 of the General Corporation Law of Delaware (the "Statute").
- E. The Bylaws and the Statute specifically provide that they are not exclusive, and they thereby contemplate that contracts may be entered into between the Company and its directors and officers with respect to indemnification of such directors and officers.
- F. To induce Indemnitee to serve or continue to serve the Company, the Company desires to confirm the contract indemnification rights provided in the Bylaws and agrees to provide Indemnitee with the benefits contemplated by this Agreement.

AGREEMENTS

ARTICLE 1.  
INDEMNITY OF INDEMNITEE

***Section 1.1 SCOPE***

The Company agrees to hold harmless and indemnify Indemnitee to the full extent permitted by law, notwithstanding that the basis for such indemnification is not specifically enumerated in this Agreement, the Company's Restated Certificate of Incorporation, the Bylaws, any other statute or otherwise. In the event of any change, after the date of this Agreement, in any applicable law, statute or rule regarding the right of a Delaware corporation to indemnify a member of its Board of Directors or an officer, such change, to the extent it would expand Indemnitee's rights hereunder, shall be







included within Indemnitee's rights and the Company's obligations hereunder, and, to the extent it would narrow Indemnitee's rights or the Company's obligations hereunder, shall be excluded from this Agreement; provided, however, that any change required by applicable laws, statutes or rules to be applied to this Agreement shall be so applied regardless of whether the effect of such change is to narrow Indemnitee's rights or the Company's obligations hereunder.

***Section 1.2 NONEXCLUSIVITY***

The indemnification provided by this Agreement shall not be deemed exclusive of any rights to which Indemnitee may be entitled under the Company's Restated Certificate of Incorporation, the Bylaws, any agreement, any vote of stockholders or disinterested directors, the Statute or otherwise, whether as to action in Indemnitee's official capacity or otherwise.

***Section 1.3 INCLUDED COVERAGE***

If Indemnitee was or is made a party, or is threatened to be made a party, to or is otherwise involved (including, without limitation, as a witness) in any Proceeding (as defined below), the Company shall hold harmless and indemnify Indemnitee from and against any and all losses, claims, damages, liabilities or expenses, including, without limitation, attorneys' fees, judgments, fines, ERISA excise taxes or penalties, witness fees, amounts paid in settlement and other expenses incurred in connection with such Proceeding (collectively, "Damages").

***Section 1.4 DEFINITION OF PROCEEDING***

For purposes of this Agreement, "Proceeding" shall mean any completed, actual, pending or threatened action, suit, claim or proceeding, whether civil, criminal, administrative or investigative (including an action by or in the right of the Company) and whether formal or informal, in which Indemnitee is, was or becomes involved by reason of the fact that Indemnitee is or was a director, officer, employee, trustee or agent of the Company or that, being or having been such a director, officer, employee, trustee or agent, Indemnitee is or was serving at the request of the Company as a director, officer, employee, trustee or agent of another corporation or of a partnership, joint venture, trust or other enterprise (collectively, a "Related Company"), including service with respect to an employee benefit plan, whether the basis of such proceeding is alleged action (or inaction) by Indemnitee in an official capacity as a director, officer, employee, trustee or agent or in any other capacity while serving as a director, officer, employee, trustee or agent; provided, however, that, except with respect to an action to enforce the provisions of this Agreement, "Proceeding" shall not include any action, suit, claim or proceeding instituted by or at the direction of Indemnitee, unless such action, suit, claim or proceeding is or was authorized by the Company's Board of Directors.

***Section 1.5 DETERMINATION OF ENTITLEMENT***

In the event that a determination of Indemnitee's entitlement to indemnification is required pursuant to Section 145(d) of the Statute or a successor statute or pursuant to other applicable law, the appropriate decision maker shall make such determination; provided, however, that Indemnitee shall initially be presumed in all cases to be entitled



to indemnification. that Indemnitee may establish a conclusive presumption of any fact necessary to such a determination by delivering to the Company a declaration made under penalty of perjury that such fact is true and that, unless the Company shall deliver to Indemnitee a written notice that Indemnitee is not entitled to indemnification within 20 days after the Company's receipt of Indemnitee's initial written request for indemnification, such determination shall conclusively be deemed to have been made in favor of the Company's provision of indemnification, and that the Company hereby agrees not to assert otherwise.

#### ***Section 1.6 CONTRIBUTION***

If the indemnification provided under Section 1.1 is unavailable by reason of a court decision, based on grounds other than any of those set forth in paragraphs (b) through (d) of Section 4.1, then, in respect of any Proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such Proceeding), the Company shall contribute to the amount of Damages (including attorneys' fees) actually and reasonably incurred and paid or payable by Indemnitee in such proportion as is appropriate to reflect (i) the relative benefits received by the Company on the one hand and Indemnitee on the other from the transaction from which such Proceeding arose and (ii) the relative fault of the Company on the one hand and of Indemnitee on the other in connection with the events that resulted in such Damages as well as any other relevant equitable considerations. The relative fault of the Company on the one hand and of Indemnitee on the other shall be determined by reference to, among other things, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent the circumstances resulting in such Damages. The Company agrees that it would not be just and equitable if contribution pursuant to this Section 1.6 were determined by pro rata allocation or any other method of allocation that does not take account of the foregoing equitable considerations.

#### ***Section 1.7 SURVIVAL***

The indemnification and contribution provided under this Agreement shall apply to any and all Proceedings, notwithstanding that Indemnitee has ceased to serve the Company or a Related Company, and shall continue so long as Indemnitee shall be subject to any possible Proceeding, whether civil, criminal or investigative, by reason of the fact that Indemnitee was a director or officer of the Company or serving in any other capacity referred to in Section 1.4 of this Agreement.

### **ARTICLE 2. EXPENSE ADVANCES**

#### ***Section 2.1 GENERALLY***

The right to indemnification of Damages conferred by Section 1 shall include the right to have the Company pay Indemnitee's expenses in any Proceeding as such expenses are incurred and in advance of such Proceeding's final disposition (such right, an "Expense Advance").





**Section 2.2 CONDITIONS TO EXPENSE ADVANCE**

The Company's obligation to provide an Expense Advance is subject to the following conditions:

(a). **UNDERTAKING.** If the Proceeding arose in connection with Indemnatee's service as a director or officer of the Company (and not in any other capacity in which Indemnatee rendered service, including service to any Related Company), then Indemnatee or Indemnatee's representative shall have executed and delivered to the Company an undertaking, which need not be secured and shall be accepted without reference to Indemnatee's financial ability to make repayment, by or on behalf of Indemnatee, to repay all Expense Advances if it shall ultimately be determined by a final, unappealable decision rendered by a court having jurisdiction over the parties that Indemnatee is not entitled to be indemnified by the Company

(b) **COOPERATION.** Indemnatee shall give the Company such information and cooperation as it may reasonably request and as shall be within Indemnatee's power.

**ARTICLE 3.  
PROCEDURES FOR ENFORCEMENT**

**Section 3.1 ENFORCEMENT**

In the event that any claim for indemnity, whether an Expense Advance or otherwise, is made hereunder and is not paid in full within 60 days after written notice of such claim is delivered to the Company, Indemnatee may, but need not, at any time thereafter bring suit against the Company to recover the unpaid amount of the claim (an "Enforcement Action").

**Section 3.2 PRESUMPTIONS IN ENFORCEMENT ACTION**

In any Enforcement Action, the following presumptions (and limitation on presumptions) shall apply:

(a) The Company expressly affirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereunder to induce Indemnatee to continue as a director or officer of the Company;

(b) Neither (i) the failure of the Company (including the Company's Board of Directors, independent or special legal counsel or the Company's stockholders) to have made a determination prior to the commencement of the Enforcement Action that indemnification of Indemnatee is proper in the circumstances nor (ii) an actual determination by the Company, its Board of Directors, independent or special legal counsel or stockholders that Indemnatee is not entitled to indemnification shall be a defense to the Enforcement Action or create a presumption that Indemnatee is not entitled to indemnification hereunder: and

(c) If Indemnatee is or was serving as a director or officer of a corporation of which a majority of the shares entitled to vote in the election of its







directors is held by the Company or in an Indemnitee or management capacity in a partnership, joint venture, trust or other enterprise of which the Company or a wholly owned subsidiary of the Company is a general partner or has a majority ownership, then such corporation, partnership, joint venture, trust or other enterprise shall conclusively be deemed a Related Company and Indemnitee shall conclusively be deemed to be serving such Related Company at the Company's request.

**Section 3.3 ATTORNEYS' FEES AND EXPENSES FOR ENFORCEMENT ACTION**

In the event Indemnitee is required to bring an Enforcement Action, the Company shall pay all of Indemnitee's fees and expenses in bringing and pursuing the Enforcement Action (including attorneys' fees at any stage, including on appeal); provided, however, that the Company shall not be required to provide such payment for such attorneys' fees or expenses if a court of competent jurisdiction determines that each of the material assertions made by Indemnitee in such Enforcement Action was not made in good faith.

**ARTICLE 4.**

**LIMITATIONS ON INDEMNITY; MUTUAL ACKNOWLEDGMENT**

**Section 4.1 LIMITATIONS ON INDEMNITY**

No indemnity pursuant to this Agreement shall be provided by the Company:

- (a) On account of any suit in which a final, unappealable judgment is rendered against Indemnitee for an accounting of profits made from the purchase or sale by Indemnitee of securities of the Company in violation of the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended;
- (b) For Damages that have been paid directly to Indemnitee by an insurance carrier under a policy of directors' and officers' liability insurance maintained by the Company;
- (c) With respect to remuneration paid to Indemnitee if it shall be determined by a final judgment or other final adjudication that such remuneration was in violation of law;
- (d) On account of Indemnitee's conduct which is finally adjudged to have been intentional misconduct, a knowing violation of law, a violation of Section 174 of the Statute or a transaction from which Indemnitee derived an improper personal benefit; or
- (e) If a final decision by a court having jurisdiction in the matter shall determine that such indemnification is not lawful.

**Section 4.2 SEC UNDERTAKING**

Indemnitee understands and acknowledges that the Company may be required in the future to undertake with the Securities and Exchange Commission (the "SEC") to submit in certain circumstances the question of indemnification to a court for a determination of the Company's right under public policy to indemnify Indemnitee.

**ARTICLE 5.**



## NOTIFICATION AND DEFENSE OF CLAIM

### Section 5.1. NOTIFICATION

Promptly after receipt by Indemnitee of notice of the commencement of any Proceeding, Indemnitee shall, if a claim in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement thereof; but the omission so to notify the Company will not, however, relieve the Company from any liability which it may have to Indemnitee under this Agreement unless and only to the extent that such omission can be shown to have prejudiced the Company's ability to defend the Proceeding.

### Section 5.2 DEFENSE OF CLAIM

With respect to any such Proceeding as to which Indemnitee notifies the Company of the commencement thereof:

- (a) The Company may participate therein at its own expense;
- (b) The Company, jointly with any other indemnifying party similarly notified, may assume the defense thereof, with counsel satisfactory to Indemnitee. After notice from the Company to Indemnitee of its election so to assume the defense thereof, the Company shall not be liable to Indemnitee under this Agreement for any legal or other expenses (other than reasonable costs of investigation) subsequently incurred by Indemnitee in connection with the defense thereof unless (i) the employment of counsel by Indemnitee has been authorized by the Company, (ii) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company (or any other person or persons included in the joint defense) and Indemnitee in the conduct of the defense of such action, or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such action, in each of which cases the fees and expenses of counsel shall be at the Company's expense. The Company shall not be entitled to assume the defense of any Proceeding brought by or on behalf of the Company or as to which Indemnitee shall have reasonably made the conclusion provided for in (ii) above;
- (c) The Company shall not be liable to Indemnitee under this Agreement for any amounts paid in settlement of any Proceeding effected without its written consent;
- (d) The Company shall not settle any action or claim in any manner that would impose any penalty or limitation on Indemnitee without Indemnitee's written consent; and
- (e) Neither the Company nor Indemnitee shall unreasonably withhold its consent to any proposed settlement, provided that Indemnitee may withhold consent to any settlement that does not provide a complete release of Indemnitee.



ARTICLE 6.  
MISCELLANEOUS

Section 6.1 SEVERABILITY

Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or to fail to do any act in violation of applicable law. The Company's inability, pursuant to court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. The provisions of this Agreement shall be severable, as provided in this Section 6, and if this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, the Company shall nevertheless indemnify or make contribution to Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

Section 6.2 GOVERNING LAW; BINDING EFFECT; AMENDMENT AND TERMINATION

(a) This Agreement shall be interpreted and enforced in accordance with the laws of Delaware.

(b) This Agreement shall be binding on Indemnitee and on the Company and its successors and assigns (including any transferee of all or substantially all of its assets and any successor by merger or otherwise by operation of law), and shall inure to the benefit of Indemnitee and Indemnitee's heirs, personal representatives and assigns and to the benefit of the Company and its successors and assigns. The Company shall not effect any sale of substantially all of its assets, merger, consolidation or other reorganization in which it is not the surviving entity, unless the surviving entity agrees in writing to assume all such obligations of the Company under this Agreement.

(c) No amendment, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by both parties hereto.

Section 6.3 NOTICES

All notices, claims and other communications hereunder shall be in writing and made by hand delivery, registered or certified mail (postage prepaid, return receipt requested), facsimile or overnight air courier guaranteeing next-day delivery:

*If to the Company, to:*

POW! Entertainment, Inc.  
9440 Santa Monica Boulevard  
Suite 620  
Beverly Hills, CA 90210

*with a copy to:*

Paul Share, Esq.  
The Law Offices of Share And Blejec LLP  
236 West 30<sup>th</sup> Street, Suite 5-R  
New York, NY 10001





If to Indemnitee, to the address specified on the last page of this Agreement;  
or to such other address as either party may from time to time furnish to the other party  
by a notice given in accordance with the provisions of this Section 6.3. All such notices,  
claims and communications shall be deemed to have been duly given if (i) personally  
delivered, at the time delivered, (ii) mailed, five days after dispatched, (iii) sent by  
facsimile transmission, upon confirmation of receipt, and (iv) sent by any other means,  
upon receipt.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on  
and as of the day and year first above written.

POW! ENTERTAINMENT. INC.,  
a Delaware corporation

By: *Dave Champion*  
Title: *President/COO*

INDEMNITEE:  
with a copy to:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

*Stanley*

[signature of indemnitee] *St*

Address: ~~9143 Opie Way~~  
*9143 Opie Way*  
*Los Angeles, CA 90069*





POW! ENTERTAINMENT, INC.  
INDEMNIFICATION AGREEMENT

This INDEMNIFICATION AGREEMENT, dated as of December 1, 2004, is between POW! Entertainment, INC., a Delaware corporation (the "Company"), and Gill Champion ("Indemnitee").

RECITALS

- A. Indemnitee is a director or officer of the Company and in such capacity is performing valuable services for the Company.
- B. The Company and Indemnitee recognize the difficulty in obtaining directors' and officers' liability insurance, the significant cost of such insurance and the periodic reduction in the coverage of such insurance.
- C. The Company and Indemnitee further recognize the substantial increase in litigation subjecting directors and officers to expensive litigation risks at the same time such liability insurance is being severely limited.
- D. The Company has adopted and its stockholders have approved bylaws (the "Bylaws") providing for the indemnification of the Company's directors and officers to the full extent permitted by Section 145 of the General Corporation Law of Delaware (the "Statute").
- E. The Bylaws and the Statute specifically provide that they are not exclusive, and they thereby contemplate that contracts may be entered into between the Company and its directors and officers with respect to indemnification of such directors and officers.
- F. To induce Indemnitee to serve or continue to serve the Company, the Company desires to confirm the contract indemnification rights provided in the Bylaws and agrees to provide Indemnitee with the benefits contemplated by this Agreement.

AGREEMENTS

ARTICLE 1.  
INDEMNITY OF INDEMNITEE

*Section 1.1 SCOPE*

The Company agrees to hold harmless and indemnify Indemnitee to the full extent permitted by law, notwithstanding that the basis for such indemnification is not specifically enumerated in this Agreement, the Company's Restated Certificate of Incorporation, the Bylaws, any other statute or otherwise. In the event of any change, after the date of this Agreement, in any applicable law, statute or rule regarding the right of a Delaware corporation to indemnify a member of its Board of Directors or an officer, such change, to the extent it would expand Indemnitee's rights hereunder, shall be



included within Indemnitee's rights and the Company's obligations hereunder, and, to the extent it would narrow Indemnitee's rights or the Company's obligations hereunder, shall be excluded from this Agreement; provided, however, that any change required by applicable laws, statutes or rules to be applied to this Agreement shall be so applied regardless of whether the effect of such change is to narrow Indemnitee's rights or the Company's obligations hereunder.

***Section 1.2 NONEXCLUSIVITY***

The indemnification provided by this Agreement shall not be deemed exclusive of any rights to which Indemnitee may be entitled under the Company's Restated Certificate of Incorporation, the Bylaws, any agreement, any vote of stockholders or disinterested directors, the Statute or otherwise, whether as to action in Indemnitee's official capacity or otherwise.

***Section 1.3 INCLUDED COVERAGE***

If Indemnitee was or is made a party, or is threatened to be made a party, to or is otherwise involved (including, without limitation, as a witness) in any Proceeding (as defined below), the Company shall hold harmless and indemnify Indemnitee from and against any and all losses, claims, damages, liabilities or expenses, including, without limitation, attorneys' fees, judgments, fines, ERISA excise taxes or penalties, witness fees, amounts paid in settlement and other expenses incurred in connection with such Proceeding (collectively, "Damages").

***Section 1.4 DEFINITION OF PROCEEDING***

For purposes of this Agreement, "Proceeding" shall mean any completed, actual, pending or threatened action, suit, claim or proceeding, whether civil, criminal, administrative or investigative (including an action by or in the right of the Company) and whether formal or informal, in which Indemnitee is, was or becomes involved by reason of the fact that Indemnitee is or was a director, officer, employee, trustee or agent of the Company or that, being or having been such a director, officer, employee, trustee or agent, Indemnitee is or was serving at the request of the Company as a director, officer, employee, trustee or agent of another corporation or of a partnership, joint venture, trust or other enterprise (collectively, a "Related Company"), including service with respect to an employee benefit plan, whether the basis of such proceeding is alleged action (or inaction) by Indemnitee in an official capacity as a director, officer, employee, trustee or agent or in any other capacity while serving as a director, officer, employee, trustee or agent; provided, however, that, except with respect to an action to enforce the provisions of this Agreement, "Proceeding" shall not include any action, suit, claim or proceeding instituted by or at the direction of Indemnitee, unless such action, suit, claim or proceeding is or was authorized by the Company's Board of Directors.

***Section 1.5 DETERMINATION OF ENTITLEMENT***

In the event that a determination of Indemnitee's entitlement to indemnification is required pursuant to Section 145(d) of the Statute or a successor statute or pursuant to other applicable law, the appropriate decision maker shall make such determination; provided, however, that Indemnitee shall initially be presumed in all cases to be entitled



to indemnification. that Indemnitee may establish a conclusive presumption of any fact necessary to such a determination by delivering to the Company a declaration made under penalty of perjury that such fact is true and that, unless the Company shall deliver to Indemnitee a written notice that Indemnitee is not entitled to indemnification within 20 days after the Company's receipt of Indemnitee's initial written request for indemnification, such determination shall conclusively be deemed to have been made in favor of the Company's provision of indemnification, and that the Company hereby agrees not to assert otherwise.

#### ***Section 1.6 CONTRIBUTION***

If the indemnification provided under Section 1.1 is unavailable by reason of a court decision, based on grounds other than any of those set forth in paragraphs (b) through (d) of Section 4.1, then, in respect of any Proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such Proceeding), the Company shall contribute to the amount of Damages (including attorneys' fees) actually and reasonably incurred and paid or payable by Indemnitee in such proportion as is appropriate to reflect (i) the relative benefits received by the Company on the one hand and Indemnitee on the other from the transaction from which such Proceeding arose and (ii) the relative fault of the Company on the one hand and of Indemnitee on the other in connection with the events that resulted in such Damages as well as any other relevant equitable considerations. The relative fault of the Company on the one hand and of Indemnitee on the other shall be determined by reference to, among other things, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent the circumstances resulting in such Damages. The Company agrees that it would not be just and equitable if contribution pursuant to this Section 1.6 were determined by pro rata allocation or any other method of allocation that does not take account of the foregoing equitable considerations.

#### ***Section 1.7 SURVIVAL***

The indemnification and contribution provided under this Agreement shall apply to any and all Proceedings, notwithstanding that Indemnitee has ceased to serve the Company or a Related Company, and shall continue so long as Indemnitee shall be subject to any possible Proceeding, whether civil, criminal or investigative, by reason of the fact that Indemnitee was a director or officer of the Company or serving in any other capacity referred to in Section 1.4 of this Agreement.

### **ARTICLE 2. EXPENSE ADVANCES**

#### ***Section 2.1 GENERALLY***

The right to indemnification of Damages conferred by Section 1 shall include the right to have the Company pay Indemnitee's expenses in any Proceeding as such expenses are incurred and in advance of such Proceeding's final disposition (such right, an "Expense Advance").



**Section 2.2 CONDITIONS TO EXPENSE ADVANCE**

The Company's obligation to provide an Expense Advance is subject to the following conditions:

(a) **UNDERTAKING.** If the Proceeding arose in connection with Indemnatee's service as a director or officer of the Company (and not in any other capacity in which Indemnatee rendered service, including service to any Related Company), then Indemnatee or Indemnatee's representative shall have executed and delivered to the Company an undertaking, which need not be secured and shall be accepted without reference to Indemnatee's financial ability to make repayment, by or on behalf of Indemnatee, to repay all Expense Advances if it shall ultimately be determined by a final, unappealable decision rendered by a court having jurisdiction over the parties that Indemnatee is not entitled to be indemnified by the Company

(b) **COOPERATION.** Indemnatee shall give the Company such information and cooperation as it may reasonably request and as shall be within Indemnatee's power.

**ARTICLE 3.  
PROCEDURES FOR ENFORCEMENT**

**Section 3.1 ENFORCEMENT**

In the event that any claim for indemnity, whether an Expense Advance or otherwise, is made hereunder and is not paid in full within 60 days after written notice of such claim is delivered to the Company, Indemnatee may, but need not, at any time thereafter bring suit against the Company to recover the unpaid amount of the claim (an "Enforcement Action").

**Section 3.2 PRESUMPTIONS IN ENFORCEMENT ACTION**

In any Enforcement Action, the following presumptions (and limitation on presumptions) shall apply:

(a) The Company expressly affirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereunder to induce Indemnatee to continue as a director or officer of the Company;

(b) Neither (i) the failure of the Company (including the Company's Board of Directors, independent or special legal counsel or the Company's stockholders) to have made a determination prior to the commencement of the Enforcement Action that indemnification of Indemnatee is proper in the circumstances nor (ii) an actual determination by the Company, its Board of Directors, independent or special legal counsel or stockholders that Indemnatee is not entitled to indemnification shall be a defense to the Enforcement Action or create a presumption that Indemnatee is not entitled to indemnification hereunder: and

(c) If Indemnatee is or was serving as a director or officer of a corporation of which a majority of the shares entitled to vote in the election of its





directors is held by the Company or in an Indemnitee or management capacity in a partnership, joint venture, trust or other enterprise of which the Company or a wholly owned subsidiary of the Company is a general partner or has a majority ownership, then such corporation, partnership, joint venture, trust or other enterprise shall conclusively be deemed a Related Company and Indemnitee shall conclusively be deemed to be serving such Related Company at the Company's request.

**Section 3.3 ATTORNEYS' FEES AND EXPENSES FOR ENFORCEMENT ACTION**

In the event Indemnitee is required to bring an Enforcement Action, the Company shall pay all of Indemnitee's fees and expenses in bringing and pursuing the Enforcement Action (including attorneys' fees at any stage, including on appeal); provided, however, that the Company shall not be required to provide such payment for such attorneys' fees or expenses if a court of competent jurisdiction determines that each of the material assertions made by Indemnitee in such Enforcement Action was not made in good faith.

**ARTICLE 4.**

**LIMITATIONS ON INDEMNITY; MUTUAL ACKNOWLEDGMENT**

**Section 4.1 LIMITATIONS ON INDEMNITY**

No indemnity pursuant to this Agreement shall be provided by the Company:

- (a) On account of any suit in which a final, unappealable judgment is rendered against Indemnitee for an accounting of profits made from the purchase or sale by Indemnitee of securities of the Company in violation of the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended;
- (b) For Damages that have been paid directly to Indemnitee by an insurance carrier under a policy of directors' and officers' liability insurance maintained by the Company;
- (c) With respect to remuneration paid to Indemnitee if it shall be determined by a final judgment or other final adjudication that such remuneration was in violation of law;
- (d) On account of Indemnitee's conduct which is finally adjudged to have been intentional misconduct, a knowing violation of law, a violation of Section 174 of the Statute or a transaction from which Indemnitee derived an improper personal benefit; or
- (e) If a final decision by a court having jurisdiction in the matter shall determine that such indemnification is not lawful.

**Section 4.2 SEC UNDERTAKING**

Indemnitee understands and acknowledges that the Company may be required in the future to undertake with the Securities and Exchange Commission (the "SEC") to submit in certain circumstances the question of indemnification to a court for a determination of the Company's right under public policy to indemnify Indemnitee.

**ARTICLE 5.**



## NOTIFICATION AND DEFENSE OF CLAIM

### Section 5.1. NOTIFICATION

Promptly after receipt by Indemnitee of notice of the commencement of any Proceeding, Indemnitee shall, if a claim in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement thereof; but the omission so to notify the Company will not, however, relieve the Company from any liability which it may have to Indemnitee under this Agreement unless and only to the extent that such omission can be shown to have prejudiced the Company's ability to defend the Proceeding.

### Section 5.2 DEFENSE OF CLAIM

With respect to any such Proceeding as to which Indemnitee notifies the Company of the commencement thereof:

- (a) The Company may participate therein at its own expense;
- (b) The Company, jointly with any other indemnifying party similarly notified, may assume the defense thereof, with counsel satisfactory to Indemnitee. After notice from the Company to Indemnitee of its election so to assume the defense thereof, the Company shall not be liable to Indemnitee under this Agreement for any legal or other expenses (other than reasonable costs of investigation) subsequently incurred by Indemnitee in connection with the defense thereof unless (i) the employment of counsel by Indemnitee has been authorized by the Company, (ii) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company (or any other person or persons included in the joint defense) and Indemnitee in the conduct of the defense of such action, or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such action, in each of which cases the fees and expenses of counsel shall be at the Company's expense. The Company shall not be entitled to assume the defense of any Proceeding brought by or on behalf of the Company or as to which Indemnitee shall have reasonably made the conclusion provided for in (ii) above;
- (c) The Company shall not be liable to Indemnitee under this Agreement for any amounts paid in settlement of any Proceeding effected without its written consent;
- (d) The Company shall not settle any action or claim in any manner that would impose any penalty or limitation on Indemnitee without Indemnitee's written consent; and
- (e) Neither the Company nor Indemnitee shall unreasonably withhold its consent to any proposed settlement, provided that Indemnitee may withhold consent to any settlement that does not provide a complete release of Indemnitee.



ARTICLE 6.  
MISCELLANEOUS

Section 6.1 SEVERABILITY

Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or to fail to do any act in violation of applicable law. The Company's inability, pursuant to court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. The provisions of this Agreement shall be severable, as provided in this Section 6, and if this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, the Company shall nevertheless indemnify or make contribution to Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

Section 6.2 GOVERNING LAW; BINDING EFFECT; AMENDMENT AND TERMINATION

(a) This Agreement shall be interpreted and enforced in accordance with the laws of Delaware.

(b) This Agreement shall be binding on Indemnitee and on the Company and its successors and assigns (including any transferee of all or substantially all of its assets and any successor by merger or otherwise by operation of law), and shall inure to the benefit of Indemnitee and Indemnitee's heirs, personal representatives and assigns and to the benefit of the Company and its successors and assigns. The Company shall not effect any sale of substantially all of its assets, merger, consolidation or other reorganization in which it is not the surviving entity, unless the surviving entity agrees in writing to assume all such obligations of the Company under this Agreement.

(c) No amendment, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by both parties hereto.

Section 6.3 NOTICES

All notices, claims and other communications hereunder shall be in writing and made by hand delivery, registered or certified mail (postage prepaid, return receipt requested), facsimile or overnight air courier guaranteeing next-day delivery:

*If to the Company, to:*

POW! Entertainment, Inc.  
9440 Santa Monica Boulevard  
Suite 620  
Beverly Hills, CA 90210

*with a copy to:*

Paul Share, Esq.  
The Law Offices of Share And Blejec LLP  
236 West 30<sup>th</sup> Street, Suite 5-R  
New York, NY 10001

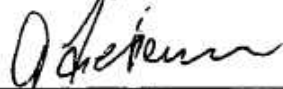


If to Indemnitee, to the address specified on the last page of this Agreement;  
or to such other address as either party may from time to time furnish to the other party by a notice given in accordance with the provisions of this Section 6.3. All such notices, claims and communications shall be deemed to have been duly given if (i) personally delivered, at the time delivered, (ii) mailed, five days after dispatched, (iii) sent by facsimile transmission, upon confirmation of receipt, and (iv) sent by any other means, upon receipt.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the day and year first above written.

POW! ENTERTAINMENT, INC.,

a Delaware corporation

By: 

Title: Exec. V Pres.

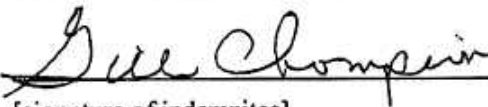
INDEMNITEE:

with a copy to:

GILL CHAMPION

\_\_\_\_\_

\_\_\_\_\_



[signature of indemnitee]

Address:

\_\_\_\_\_





POW! ENTERTAINMENT, INC.  
INDEMNIFICATION AGREEMENT

This INDEMNIFICATION AGREEMENT, dated as of September 1, 2007, is between POW! Entertainment, INC., a Delaware corporation (the "Company"), and Arthur Lieberman ("Indemnitee").

RECITALS

- A. Indemnitee is a director or officer of the Company and in such capacity is performing valuable services for the Company.
- B. The Company and Indemnitee recognize the difficulty in obtaining directors' and officers' liability insurance, the significant cost of such insurance and the periodic reduction in the coverage of such insurance.
- C. The Company and Indemnitee further recognize the substantial increase in litigation subjecting directors and officers to expensive litigation risks at the same time such liability insurance is being severely limited.
- D. The Company has adopted and its stockholders have approved bylaws (the "Bylaws") providing for the indemnification of the Company's directors and officers to the full extent permitted by Section 145 of the General Corporation Law of Delaware (the "Statute").
- E. The Bylaws and the Statute specifically provide that they are not exclusive, and they thereby contemplate that contracts may be entered into between the Company and its directors and officers with respect to indemnification of such directors and officers.
- F. To induce Indemnitee to serve or continue to serve the Company, the Company desires to confirm the contract indemnification rights provided in the Bylaws and agrees to provide Indemnitee with the benefits contemplated by this Agreement.

AGREEMENTS

ARTICLE 1.  
INDEMNITY OF INDEMNITEE

*Section 1.1 SCOPE*

The Company agrees to hold harmless and indemnify Indemnitee to the full extent permitted by law, notwithstanding that the basis for such indemnification is not specifically enumerated in this Agreement, the Company's Restated Certificate of Incorporation, the Bylaws, any other statute or otherwise. In the event of any change, after the date of this Agreement, in any applicable law, statute or rule regarding the right of a Delaware corporation to indemnify a member of its Board of Directors or an officer, such change, to the extent it would expand Indemnitee's rights hereunder, shall be



included within Indemnitee's rights and the Company's obligations hereunder, and, to the extent it would narrow Indemnitee's rights or the Company's obligations hereunder, shall be excluded from this Agreement; provided, however, that any change required by applicable laws, statutes or rules to be applied to this Agreement shall be so applied regardless of whether the effect of such change is to narrow Indemnitee's rights or the Company's obligations hereunder.

***Section 1.2 NONEXCLUSIVITY***

The indemnification provided by this Agreement shall not be deemed exclusive of any rights to which Indemnitee may be entitled under the Company's Restated Certificate of Incorporation, the Bylaws, any agreement, any vote of stockholders or disinterested directors, the Statute or otherwise, whether as to action in Indemnitee's official capacity or otherwise.

***Section 1.3 INCLUDED COVERAGE***

If Indemnitee was or is made a party, or is threatened to be made a party, to or is otherwise involved (including, without limitation, as a witness) in any Proceeding (as defined below), the Company shall hold harmless and indemnify Indemnitee from and against any and all losses, claims, damages, liabilities or expenses, including, without limitation, attorneys' fees, judgments, fines, ERISA excise taxes or penalties, witness fees, amounts paid in settlement and other expenses incurred in connection with such Proceeding (collectively, "Damages").

***Section 1.4 DEFINITION OF PROCEEDING***

For purposes of this Agreement, "Proceeding" shall mean any completed, actual, pending or threatened action, suit, claim or proceeding, whether civil, criminal, administrative or investigative (including an action by or in the right of the Company) and whether formal or informal, in which Indemnitee is, was or becomes involved by reason of the fact that Indemnitee is or was a director, officer, employee, trustee or agent of the Company or that, being or having been such a director, officer, employee, trustee or agent, Indemnitee is or was serving at the request of the Company as a director, officer, employee, trustee or agent of another corporation or of a partnership, joint venture, trust or other enterprise (collectively, a "Related Company"), including service with respect to an employee benefit plan, whether the basis of such proceeding is alleged action (or inaction) by Indemnitee in an official capacity as a director, officer, employee, trustee or agent or in any other capacity while serving as a director, officer, employee, trustee or agent; provided, however, that, except with respect to an action to enforce the provisions of this Agreement, "Proceeding" shall not include any action, suit, claim or proceeding instituted by or at the direction of Indemnitee, unless such action, suit, claim or proceeding is or was authorized by the Company's Board of Directors.

***Section 1.5 DETERMINATION OF ENTITLEMENT***

In the event that a determination of Indemnitee's entitlement to indemnification is required pursuant to Section 145(d) of the Statute or a successor statute or pursuant to other applicable law, the appropriate decision maker shall make such determination; provided, however, that Indemnitee shall initially be presumed in all cases to be entitled





to indemnification, that Indemnitee may establish a conclusive presumption of any fact necessary to such a determination by delivering to the Company a declaration made under penalty of perjury that such fact is true and that, unless the Company shall deliver to Indemnitee a written notice that Indemnitee is not entitled to indemnification within 20 days after the Company's receipt of Indemnitee's initial written request for indemnification, such determination shall conclusively be deemed to have been made in favor of the Company's provision of indemnification, and that the Company hereby agrees not to assert otherwise.

#### ***Section 1.6 CONTRIBUTION***

If the indemnification provided under Section 1.1 is unavailable by reason of a court decision, based on grounds other than any of those set forth in paragraphs (b) through (d) of Section 4.1, then, in respect of any Proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such Proceeding), the Company shall contribute to the amount of Damages (including attorneys' fees) actually and reasonably incurred and paid or payable by Indemnitee in such proportion as is appropriate to reflect (i) the relative benefits received by the Company on the one hand and Indemnitee on the other from the transaction from which such Proceeding arose and (ii) the relative fault of the Company on the one hand and of Indemnitee on the other in connection with the events that resulted in such Damages as well as any other relevant equitable considerations. The relative fault of the Company on the one hand and of Indemnitee on the other shall be determined by reference to, among other things, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent the circumstances resulting in such Damages. The Company agrees that it would not be just and equitable if contribution pursuant to this Section 1.6 were determined by pro rata allocation or any other method of allocation that does not take account of the foregoing equitable considerations.

#### ***Section 1.7 SURVIVAL***

The indemnification and contribution provided under this Agreement shall apply to any and all Proceedings, notwithstanding that Indemnitee has ceased to serve the Company or a Related Company, and shall continue so long as Indemnitee shall be subject to any possible Proceeding, whether civil, criminal or investigative, by reason of the fact that Indemnitee was a director or officer of the Company or serving in any other capacity referred to in Section 1.4 of this Agreement.

### **ARTICLE 2. EXPENSE ADVANCES**

#### ***Section 2.1 GENERALLY***

The right to indemnification of Damages conferred by Section 1 shall include the right to have the Company pay Indemnitee's expenses in any Proceeding as such expenses are incurred and in advance of such Proceeding's final disposition (such right, an "Expense Advance").





**Section 2.2 CONDITIONS TO EXPENSE ADVANCE**

The Company's obligation to provide an Expense Advance is subject to the following conditions:

(a) **UNDERTAKING.** If the Proceeding arose in connection with Indemnitee's service as a director or officer of the Company (and not in any other capacity in which Indemnitee rendered service, including service to any Related Company), then Indemnitee or Indemnitee's representative shall have executed and delivered to the Company an undertaking, which need not be secured and shall be accepted without reference to Indemnitee's financial ability to make repayment, by or on behalf of Indemnitee, to repay all Expense Advances if it shall ultimately be determined by a final, unappealable decision rendered by a court having jurisdiction over the parties that Indemnitee is not entitled to be indemnified by the Company

(b) **COOPERATION.** Indemnitee shall give the Company such information and cooperation as it may reasonably request and as shall be within Indemnitee's power.

**ARTICLE 3.  
PROCEDURES FOR ENFORCEMENT**

**Section 3.1 ENFORCEMENT**

In the event that any claim for indemnity, whether an Expense Advance or otherwise, is made hereunder and is not paid in full within 60 days after written notice of such claim is delivered to the Company, Indemnitee may, but need not, at any time thereafter bring suit against the Company to recover the unpaid amount of the claim (an "Enforcement Action").

**Section 3.2 PRESUMPTIONS IN ENFORCEMENT ACTION**

In any Enforcement Action, the following presumptions (and limitation on presumptions) shall apply:

(a) The Company expressly affirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereunder to induce Indemnitee to continue as a director or officer of the Company;

(b) Neither (i) the failure of the Company (including the Company's Board of Directors, independent or special legal counsel or the Company's stockholders) to have made a determination prior to the commencement of the Enforcement Action that indemnification of Indemnitee is proper in the circumstances nor (ii) an actual determination by the Company, its Board of Directors, independent or special legal counsel or stockholders that Indemnitee is not entitled to indemnification shall be a defense to the Enforcement Action or create a presumption that Indemnitee is not entitled to indemnification hereunder; and

(c) If Indemnitee is or was serving as a director or officer of a corporation of which a majority of the shares entitled to vote in the election of its



directors is held by the Company or in an Indemnitee or management capacity in a partnership, joint venture, trust or other enterprise of which the Company or a wholly owned subsidiary of the Company is a general partner or has a majority ownership, then such corporation, partnership, joint venture, trust or other enterprise shall conclusively be deemed a Related Company and Indemnitee shall conclusively be deemed to be serving such Related Company at the Company's request.

**Section 3.3 ATTORNEYS' FEES AND EXPENSES FOR ENFORCEMENT ACTION**

In the event Indemnitee is required to bring an Enforcement Action, the Company shall pay all of Indemnitee's fees and expenses in bringing and pursuing the Enforcement Action (including attorneys' fees at any stage, including on appeal); provided, however, that the Company shall not be required to provide such payment for such attorneys' fees or expenses if a court of competent jurisdiction determines that each of the material assertions made by Indemnitee in such Enforcement Action was not made in good faith.

**ARTICLE 4.**

**LIMITATIONS ON INDEMNITY; MUTUAL ACKNOWLEDGMENT**

**Section 4.1 LIMITATIONS ON INDEMNITY**

No indemnity pursuant to this Agreement shall be provided by the Company:

- (a) On account of any suit in which a final, unappealable judgment is rendered against Indemnitee for an accounting of profits made from the purchase or sale by Indemnitee of securities of the Company in violation of the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended;
- (b) For Damages that have been paid directly to Indemnitee by an insurance carrier under a policy of directors' and officers' liability insurance maintained by the Company;
- (c) With respect to remuneration paid to Indemnitee if it shall be determined by a final judgment or other final adjudication that such remuneration was in violation of law;
- (d) On account of Indemnitee's conduct which is finally adjudged to have been intentional misconduct, a knowing violation of law, a violation of Section 174 of the Statute or a transaction from which Indemnitee derived an improper personal benefit; or
- (e) If a final decision by a court having jurisdiction in the matter shall determine that such indemnification is not lawful.

**Section 4.2 SEC UNDERTAKING**

Indemnitee understands and acknowledges that the Company may be required in the future to undertake with the Securities and Exchange Commission (the "SEC") to submit in certain circumstances the question of indemnification to a court for a determination of the Company's right under public policy to indemnify Indemnitee.

**ARTICLE 5.**



## NOTIFICATION AND DEFENSE OF CLAIM

### Section 5.1. NOTIFICATION

Promptly after receipt by Indemnitee of notice of the commencement of any Proceeding, Indemnitee shall, if a claim in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement thereof; but the omission so to notify the Company will not, however, relieve the Company from any liability which it may have to Indemnitee under this Agreement unless and only to the extent that such omission can be shown to have prejudiced the Company's ability to defend the Proceeding.

### Section 5.2 DEFENSE OF CLAIM

With respect to any such Proceeding as to which Indemnitee notifies the Company of the commencement thereof:

- (a) The Company may participate therein at its own expense;
- (b) The Company, jointly with any other indemnifying party similarly notified, may assume the defense thereof, with counsel satisfactory to Indemnitee. After notice from the Company to Indemnitee of its election so to assume the defense thereof, the Company shall not be liable to Indemnitee under this Agreement for any legal or other expenses (other than reasonable costs of investigation) subsequently incurred by Indemnitee in connection with the defense thereof unless (i) the employment of counsel by Indemnitee has been authorized by the Company, (ii) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company (or any other person or persons included in the joint defense) and Indemnitee in the conduct of the defense of such action, or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such action, in each of which cases the fees and expenses of counsel shall be at the Company's expense. The Company shall not be entitled to assume the defense of any Proceeding brought by or on behalf of the Company or as to which Indemnitee shall have reasonably made the conclusion provided for in (ii) above;
- (c) The Company shall not be liable to Indemnitee under this Agreement for any amounts paid in settlement of any Proceeding effected without its written consent;
- (d) The Company shall not settle any action or claim in any manner that would impose any penalty or limitation on Indemnitee without Indemnitee's written consent; and
- (e) Neither the Company nor Indemnitee shall unreasonably withhold its consent to any proposed settlement, provided that Indemnitee may withhold consent to any settlement that does not provide a complete release of Indemnitee.



ARTICLE 6.  
MISCELLANEOUS

Section 6.1 SEVERABILITY

Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or to fail to do any act in violation of applicable law. The Company's inability, pursuant to court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. The provisions of this Agreement shall be severable, as provided in this Section 6, and if this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, the Company shall nevertheless indemnify or make contribution to Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

Section 6.2 GOVERNING LAW; BINDING EFFECT; AMENDMENT AND TERMINATION

(a) This Agreement shall be interpreted and enforced in accordance with the laws of Delaware.

(b) This Agreement shall be binding on Indemnitee and on the Company and its successors and assigns (including any transferee of all or substantially all of its assets and any successor by merger or otherwise by operation of law), and shall inure to the benefit of Indemnitee and Indemnitee's heirs, personal representatives and assigns and to the benefit of the Company and its successors and assigns. The Company shall not effect any sale of substantially all of its assets, merger, consolidation or other reorganization in which it is not the surviving entity, unless the surviving entity agrees in writing to assume all such obligations of the Company under this Agreement.

(c) No amendment, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by both parties hereto.

Section 6.3 NOTICES

All notices, claims and other communications hereunder shall be in writing and made by hand delivery, registered or certified mail (postage prepaid, return receipt requested), facsimile or overnight air courier guaranteeing next-day delivery:

*If to the Company, to:*

POW! Entertainment, Inc.  
9440 Santa Monica Boulevard  
Suite 620  
Beverly Hills, CA 90210

*with a copy to:*

Paul Share, Esq.  
The Law Offices of Share And Blejec LLP  
236 West 30<sup>th</sup> Street, Suite 5-R  
New York, NY 10001





If to Indemnitee, to the address specified on the last page of this Agreement;  
or to such other address as either party may from time to time furnish to the other party by a notice given in accordance with the provisions of this Section 6.3. All such notices, claims and communications shall be deemed to have been duly given if (i) personally delivered, at the time delivered, (ii) mailed, five days after dispatched, (iii) sent by facsimile transmission, upon confirmation of receipt, and (iv) sent by any other means, upon receipt.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the day and year first above written.

POW! ENTERTAINMENT, INC.,  
a Delaware corporation

By: *Bill Champion*  
Title: *President/COO*

INDEMNITEE:  
with a copy to:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
*J. Sub*  
\_\_\_\_\_

[signature of indemnitee]

Address:  
  
\_\_\_\_\_



**RULE 13a-14(a) [SECTION 302] CERTIFICATION OF PRINCIPAL EXUCTIVE OFFICER**

I, Gill Champion, certify that:

1. I have reviewed this report on Form 10-K of POW! Entertainment, Inc.;
2. based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. the registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and concluded that our disclosure controls and procedures were not effective as of December 31, 2011. There were no changes in the Company's internal controls over financial reporting during the most recently completed fiscal year that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting ;and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. the registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 23, 2012

/s/ Gill Champion  
\_\_\_\_\_  
Gill Champion  
President and Chief Executive Officer  
(Principal Executive Officer)

**RULE 13a-14(a) [SECTION 302] CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

I, Bick Le, certify that:

1. I have reviewed this report on Form 10-K of POW! Entertainment, Inc.;
2. based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. the registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and concluded that our disclosure controls and procedures were not effective as of December 31, 2011. There were no changes in the Company's internal controls over financial reporting during the most recently completed fiscal year that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting ;and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. the registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 23, 2012

/s/Bick Le

\_\_\_\_\_  
Bick Le  
Chief Financial Officer  
(Principal Financial Officer)

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

In connection with the annual report of POW! Entertainment, Inc. on Form 10-K for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof, the undersigned hereby certifies, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of the Company, that:

1. the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and the results of operations of the Company.

Date: March 23, 2012

By: /s/ Gill Champion  
Gill Champion  
President and Chief Executive Officer

---

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

In connection with the annual report of POW! Entertainment, Inc. on Form 10-K for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof, the undersigned hereby certifies, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, in her capacity as an officer of the Company, that:

1. the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and the results of operations of the Company.

Date: March 23, 2012

By: /s/ Bick Le  
Bick Le  
Principal Financial Officer

---

## Subscription Receivable

**12 Months Ended  
Dec. 31, 2011**

### Subscription Receivable

#### **3. Subscription Receivable**

On July 22, 2005, a subscription for the principal amount of \$1,150,000 was entered into, fully amortized with monthly payments of interest only for 18 months starting August 30, 2005 and then principal and interest payments of \$12,197 monthly for an additional 10 years with the interest rate of 5% per annum. The payments on the subscription have defaulted. An allowance for uncollectibility of 50% was recorded in year 2007 to reduce the principal amount. The subscription receivable is disputed by the shareholders.

On November 15, 2005, another subscription for the principal amount of \$525,000 was entered into, fully amortized over thirty years with the interest rate of 5% per annum. The subscription is payable in equal monthly payments of \$2,818. The payments on the subscription were defaulted during the years 2005 to August 2010. For the year ended December 31, 2011, eleven payments of \$31,001 have been received. The subscription is collateralized by a Deed of Trust granting rights to a residential property.

## Summary of Significant Accounting Policies

12 Months Ended  
Dec. 31, 2011

### [Summary of Significant Accounting Policies](#)

#### 2. Summary of Significant Accounting Policies

**Principles of Consolidation**--The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company transactions and balances have been eliminated in consolidation.

**Revenue Recognition**--As a creator of intellectual property, the majority of the Company's business is derived from contracts with third parties providing for the development and use of intellectual property developed by the Company.

The Company records revenue from these sources: artist consulting, film rights, animated television and comic-book royalties. In accounting for these contracts, the Company recognizes revenue when services have been rendered or when contractual parameters have been satisfied and are measurable.

Our contract with Silver Creek Pictures ("Silver Creek"), an affiliate of The Walt Disney Company, calls for per annum payments of nonrecoupable overhead allowance of \$700,000 and nonrecoupable consulting services for Stan Lee of \$1,250,000. The contract expires in December 2014. The \$1,250,000 per annum for Stan Lee's consulting services cease in the event of his disability or incapacitation. Revenue from Silver Creek is recorded based on the guidance from ASC 605: revenues are considered to have been earned when the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues.

The Company also recognized revenues for the year ended December 31, 2011 for film rights sold to a third party for \$500,000. The Company established that revenue for the project was earned after the copyright was filed with the US copyright office to be transferred to the third party pursuant to the purchase contract.

**Related Party**— From time to time, Stan Lee has appeared and will continue to appear at certain events or projects for which both he and the Company receive payments. Payments related to 2011 to Mr. Lee amounted to approximately \$31,000.

**Advances Payable**-- The contract with Silver Creek also contains recoupable advance payments per annum of \$550,000. The Company recorded the full \$550,000 for the years ended December 31, 2011 and 2010, respectively, as advances payable pursuant to the contractual clause in which the advances are recoupable by Silver Creek solely from any fixed and contingent compensation related to future developments, including box office bonuses and merchandising royalties. The Company has not met the performance measurement of the revenue and accordingly has not recorded the payments as revenue. In addition, any properties that Silver Creek rejects or accepts and subsequently abandons may be offered by the Company elsewhere subject to participation by Silver Creek. Depending on the nature of the project so offered to a third party and the time when such project was originally offered to Silver Creek, Silver Creek is entitled to receive up to \$100,000 per project, and the assignment of 50% or 25% of the Company's compensation from the third-party producer.

For the year ended December 31, 2011, the Company offset \$50,000 against advances for professional services provided by Mr. Stan Lee related to a Silver Creek project considered completed after Mr. Lee met his professional obligations to the project. The Company also remitted to Silver Creek \$100,000 pursuant to the advances payable referenced above for the film rights sold to a third party.



**Use of Estimates** --The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the appropriate application of certain accounting policies, many of which require estimates and assumptions about future events and their impact on amounts reported in the financial statements and related notes. Since future events and their impact cannot be determined with certainty, the actual results will inevitably differ from our estimates. Such differences could be material to the financial statements. We have identified the most significant areas of estimation and assumptions as being estimation of the allowance for doubtful accounts, estimation of derivatives liabilities, estimation of stock compensation and estimation of the net deferred income tax asset valuation allowance.

**Cash, Cash Equivalents and Marketable Securities**—Cash, cash equivalents and marketable securities include cash, certificates of deposit, mutual funds and liquid investments with original maturities of three months or less.

**Concentration of Credit Risk**--The Company maintains cash at financial institutions which may, at times, exceed insured limits.

**Accounts Receivable**--The Company extends credit to its customers. These customers have specific contracts that detail the payments expected under their contract terms. Accounts receivable are customer obligations due under these contract terms. Management reviews accounts receivable on a regular basis, based on contracted terms and how recently payments have been received, to determine if any such amounts will potentially be uncollected. After all attempts to collect a receivable have failed, the receivable is written off.

**Property and Equipment**--Property and equipment are stated at cost. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets over five years. For the years ended December 31, 2011 and 2010, depreciation expenses were \$3,329 and \$10,426, respectively.

**Inventory**--Inventory consists of promotional items for sale, which are stated at the lower of cost or market using the first-in, first-out method.

**Development Costs**--The Company capitalizes costs directly related to the creation and development of intellectual properties that are incurred by non-employees, related to the development of scripts and stories. The Company periodically reviews the properties in development to determine whether they will ultimately be used in the production of a film. The costs capitalized are written off if the property has not been set for production within three years from the time of the first capitalized transaction.

**Intellectual Property**--Intellectual property consisted of trademarks registered with the US Patent and Trademark Office. Trademarks are being amortized over 10 years to 20 years. Amortization expense was \$10,983 for the year ended December 31, 2011.

**Fair Value Measurements**--The Company measures its financial assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. exit price) in an orderly transaction between market participants at the measurement date. Additionally, the Company is required to provide disclosure and categorize assets and liabilities measured at fair value into one of three different levels depending on the assumptions (i.e. inputs) used in the valuation. Level 1 provides the most reliable measure of fair value while Level 3 generally requires significant management judgment. Financial assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The fair value hierarchy is defined as follows:

1. Level I – Quoted prices in active markets for identical assets and liabilities.
2. Level II – Other significant observable inputs for assets or liabilities through corroboration with market data at measurement date,

3. Level III – Significant unobservable inputs that reflect management’s best estimate of what market participants would use to price assets or liabilities at the measurement date.

The following table summarizes fair value measurements by level at December 31, 2010 for assets and liabilities measured at fair value on a recurring basis:

	Level I	Level II	Level III	Total
Cash	\$578,808			\$578,808
Letter of credit	\$ 32,544			\$ 32,544
Derivatives liability			\$62,823	\$ 62,823

The following table summarizes fair value measurements by level at December 31, 2011 for assets and liabilities measured at fair value on a recurring basis:

	Level I	Level II	Level III	Total
Cash	\$340,305			\$340,305
Letter of credit	\$ 32,544			\$ 32,544
Marketable securities	\$771,177			\$771,177
Derivatives liability			\$28,763	\$ 28,763

The table below sets forth a summary of changes in fair value of the Company’s Level 3 liabilities for the year ended December 31, 2011.

Balance as of December 31, 2010	\$	62,823
Issuance of warrants		
Change in Value		(34,060)
Balance as of December 31, 2011	\$	28,763

The Company’s management believes the carrying amounts of accounts receivable, accounts payable and accrued expense approximate fair value due to their short maturity.

**Accounting for Stock-Based Compensation to Employees** --The Company measures and recognizes compensation expense for all share-based payment awards to employees based on estimated fair values on the grant date. The Company recognizes the expense on a straight-line basis over the requisite service period, which is the vesting period.

**Income Taxes**—Income taxes are accounted for under an asset and liability approach that requires the recognition of deferred income tax assets and liabilities for the expected future consequences of events that have been recognized in the Company’s financial statements and income tax returns. The Company provides a valuation allowance for deferred income tax assets when it is considered more likely than not that all or a portion of such deferred income tax assets will not be realized.

The Company adopted guidance issued by the FASB that clarifies the accounting for uncertainties in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold of more likely than not and a measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In making this assessment, a company must determine whether it is more likely than not that a tax position will be sustained upon examination, based

solely on the technical merits of the position and must assume that the tax position will be examined by taxing authorities. The Company's policy is to include interest and penalties related to unrecognized tax benefits in income tax expense. Interest and penalties totaled \$0 for the years ended December 31, 2011 and 2010.

**Earnings Per Share**-Basic earnings per share is computed by dividing earnings available to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common share equivalents had been issued and if the additional common shares were dilutive. Common equivalent shares are excluded from the computation if their effect is anti-dilutive. For the years ended December 31, 2010, the diluted earnings per share are the same as basic earnings per share as the 1,300,000 warrants outstanding would have an anti-dilutive effect.

	Year Ended December 31, 2011
Numerator -	
Net income attributable to common	
Shareholders	\$ 24,628
Denominator -	
Weighted-average number of common	
Shares outstanding during the period	132,219,329
Dilutive effect of stock options and warrants	8,892
Common stock and common stock	
Equivalents used for diluted earnings per share	132,228,221

**Valuation of Derivative Instruments**--ASC 815-40 (formerly SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities") requires that embedded derivative instruments be bifurcated and assessed, along with free-standing derivative instruments such as warrants, on their issuance date and in accordance with ASC 815-40-15 (formerly EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock") to determine whether they should be considered a derivative liability and measured at their fair value for accounting purposes. In determining the appropriate fair value, the Company uses the Black-Scholes option pricing formula. At December 31, 2011, the Company adjusted its derivative liability to its fair value, and reflected the decrease of \$34,060, which represents the gain on change in derivative.

**Other Comprehensive Income**--The Company's other comprehensive income consists of unrealized losses on marketable securities categorized as available-for-sale, that under GAAP are recorded as an element of shareholders' equity but are excluded from net income.

**Concentrations**—The Company has two major customers that individually exceeded 10% of total revenue. Revenue from these two customers accounted for 88% of total revenue for the year ended December 31, 2011. Revenue from one customer accounted for 94% of total revenue for the year ended December 31, 2010.

Two customers who are not major customers accounted for 100% of total accounts receivable as of December 31, 2011. Two customers, one a major customer, accounted for 88% of total accounts receivable as of December 31, 2010.

**Reclassifications**—Certain reclassifications have been made to the prior period consolidated financial statements in order for them to be in conformity with the current year presentation.

**Recently Issued or Newly Adopted Accounting Standards**--In May 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-04, Fair Value Measurement ("ASU 2011-04"), which amended ASC 820, Fair Value Measurements ("ASC 820"), providing a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles, clarifies the application of existing fair value measurement and expands the disclosure requirements. ASU 2011-04 will be effective for us beginning January 1, 2012. The adoption of ASU 2011-04 is not expected to have a material effect on our consolidated financial statements or disclosures.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income ("ASU 2011-05"). ASU 2011-05 requires the presentation of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. ASU 2011-05 will be effective for us beginning January 1, 2012. The adoption of ASU 2011-05 is not expected to have a material effect on our consolidated financial statements or disclosures.

In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment ("ASU 2011-08"), which amends the guidance in ASC 350-20, Intangibles—Goodwill and Other – Goodwill. ASU 2011-08 provides entities with the option of performing a qualitative assessment before calculating the fair value of the reporting unit when testing goodwill for impairment. If the fair value of the reporting unit is determined, based on qualitative factors, to be more likely than not less than the carrying amount of the reporting unit, the entities are required to perform a two-step goodwill impairment test. ASU 2011-08 will be effective for us beginning January 1, 2012. The adoption of ASU 2011-08 is not expected to have a material effect on our consolidated financial statements or disclosures.

**CONSOLIDATED  
BALANCE SHEETS (USD  
\$)**

	<b>Dec. 31, 2011</b>	<b>Dec. 31, 2010</b>
<b><u>CURRENT ASSETS</u></b>		
<u>Cash and cash equivalents</u>	\$ 340,305	\$ 578,808
<u>Letter of credit</u>	32,544	32,544
<u>Marketable securities</u>	771,177	
<u>Accounts receivable, net of allowance for doubtful accounts of \$0</u>	86,183	357,814
<u>Other receivables</u>	67,964	1,851
<u>Prepaid expenses</u>	19,005	68,425
<u>Inventory</u>	13,513	27,356
<b><u>TOTAL CURRENT ASSETS</u></b>	<b>1,330,691</b>	<b>1,066,798</b>
<u>Property and Equipment, net</u>	8,638	7,615
<b><u>INTANGIBLE AND OTHER ASSETS</u></b>		
<u>Trademarks, net</u>	18,747	19,107
<u>Development Fees</u>	35,000	
<u>Deposits</u>	2,192	2,192
<b><u>TOTAL ASSETS</u></b>	<b>1,395,268</b>	<b>1,095,712</b>
<b><u>CURRENT LIABILITIES</u></b>		
<u>Accounts payable and accrued expenses</u>	233,652	276,760
<u>Advances payable</u>	2,546,667	2,150,833
<u>Deferred compensation-current</u>	300,000	300,000
<u>Deferred Rent</u>	50,368	
<u>Derivatives Liability</u>	28,763	62,823
<b><u>TOTAL CURRENT LIABILITIES</u></b>	<b>3,159,450</b>	<b>2,790,416</b>
<u>Deferred compensation-long term</u>	1,827,917	1,977,917
<b><u>COMMITMENT AND CONTINGENCIES, note 10</u></b>		
<b><u>SHAREHOLDERS' DEFICIT</u></b>		
<u>Common shares, \$0.001 par value 199,000,000 common shares authorized, 1,000,000 preferred shares authorized 132,607,356 and 131,721,534, respectively, common shares issued and outstanding at December 31, 2011 and 2010, respectively</u>	132,608	131,722
<u>Additional paid in capital</u>	9,522,904	9,453,956
<u>Subscription receivable, net, note 3</u>	(1,002,496)	(1,033,497)
<u>Accumulated deficit</u>	(12,200,174)	(12,224,802)
<u>Accumulated other comprehensive income</u>	(44,941)	
<b><u>TOTAL SHAREHOLDERS' DEFICIT</u></b>	<b>(3,592,099)</b>	<b>(3,672,621)</b>
<b><u>TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT</u></b>	<b>\$ 1,395,268</b>	<b>\$ 1,095,712</b>

<b>CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT (USD \$)</b>	<b>Total</b>	<b>Common Stock</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Additional Paid-in Capital</b>	<b>Subscription Receivable</b>	<b>Accumulated Deficit</b>
<u>Beginning Balance at Dec. 31, 2009</u>	\$ (3,008,677)	\$ 131,722		\$ 9,016,933	\$ (1,044,908)	\$ (11,112,424)
<u>Beginning Balance (in shares) at Dec. 31, 2009</u>		131,721,534				
<u>Stock-based compensation</u>	313,032			313,032		
<u>Proceeds from subscriptions receivable</u>	11,411				11,411	
<u>Non-employee warrants and options</u>	123,991			123,991		
<u>Net income (loss)</u>	(1,112,378)					(1,112,378)
<u>Ending Balance at Dec. 31, 2010</u>	(3,672,621)	131,722		9,453,956	(1,033,497)	(12,224,802)
<u>Beginning Balance (in shares) at Dec. 31, 2010</u>		131,721,534				
<u>Proceeds from subscriptions receivable</u>	31,001				31,001	
<u>Non-employee warrants and options</u>	29,403			29,403		
<u>Cashless conversion for options (in shares)</u>		227,214				
<u>Cashless conversion for options</u>		227		(227)		
<u>Common Stock issuance for future services (in shares)</u>		658,608				
<u>Common Stock issuance for future services</u>	40,431	659		39,772		
<u>Accumulated other comprehensive income</u>	(44,941)		(44,941)			
<u>Net income (loss)</u>	24,628					24,628
<u>Ending Balance at Dec. 31, 2011</u>	\$ (3,592,099)	\$ 132,608	\$ (44,941)	\$ 9,522,904	\$ (1,002,496)	\$ (12,200,174)
<u>Ending Balance (in shares) at Dec. 31, 2011</u>		132,607,356				

## The Company and Basis of Presentation

12 Months Ended  
Dec. 31, 2011

### [The Company and Basis of Presentation](#)

#### 1. The Company and Basis of Presentation

**Business Activity and Organization**--The Company is a Delaware corporation, incorporated on August 17, 1998. POW! Entertainment, Inc. ("POW", "Company", "we") has the following subsidiaries: POW! Entertainment, LLC (the operating company), QED Productions, LLC, PFD, LLC and an inactive Delaware corporation: Pharmelle, Inc.

QED Productions, LLC was formed in 2001 to acquire rights to license intellectual properties and creative assets of Mr. Stan Lee stemming from the bankruptcy of Stan Lee Media ("SLM"). The Company was not required to contribute any up-front consideration. The Company agreed with SLM that it would share revenue generated from the licensing of these properties. From the fiscal years ended December 31, 2001 to December 31, 2009, approximately \$2,200 of revenue has been generated for SLM and approximately \$14,000 of revenue has been generated for the Company. No revenues from the intellectual properties acquired by QED were earned for the year ended December 31, 2011 and 2010, respectively. Given the minimal revenues to date and the fact that none of the properties owned by QED are currently in development, the Company has valued these assets at \$0.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of its liabilities in the normal course of conducting its business. The Company's ability to continue as a going concern is dependent upon various factors including, among others, its ability to generate income and positive cash flows from operations. As described under Revenue Recognition below, the Company is expected to receive monthly payments totaling \$2,500,000 per year until year 2014. Although there is no assurance that we will be able to continue as a going concern, we believe these facts will help generate positive cash flows, and with a combined balance of cash and marketable securities of approximately \$1,100,000, we will be able to sustain our operations for at least 12 months. Accordingly, the financial statements do not include any adjustments to reflect the possible future effects on the recoverability or classification of assets and liabilities that may result should we not be able to continue as a going concern.

**CONSOLIDATED  
BALANCE SHEETS  
(Parentetical) (USD \$)**

**Dec. 31, 2011 Dec. 31, 2010**

<u>Accounts receivable, allowance for doubtful accounts</u>	\$ 0	\$ 0
<u>Common shares, par value</u>	\$ 0.001	\$ 0.001
<u>Common shares, authorized</u>	199,000,000	199,000,000
<u>Preferred shares, authorized</u>	1,000,000	1,000,000
<u>Common shares, issued</u>	132,607,356	131,721,534
<u>Common shares, outstanding</u>	132,607,356	131,721,534



**Document and Entity  
Information (USD \$)**

**12 Months Ended  
Dec. 31, 2011**

**Jun. 30, 2011**

**Document Information [Line Items]**

<u>Document Type</u>	10-K	
<u>Amendment Flag</u>	false	
<u>Document Period End Date</u>	Dec. 31, 2011	
<u>Document Fiscal Year Focus</u>	2011	
<u>Document Fiscal Period Focus</u>	FY	
<u>Trading Symbol</u>	POWN	
<u>Entity Registrant Name</u>	POW! ENTERTAINMENT, INC.	
<u>Entity Central Index Key</u>	0001505892	
<u>Current Fiscal Year End Date</u>	--12-31	
<u>Entity Well-known Seasoned Issuer</u>	No	
<u>Entity Current Reporting Status</u>	Yes	
<u>Entity Voluntary Filers</u>	No	
<u>Entity Filer Category</u>	Smaller Reporting Company	
<u>Entity Common Stock, Shares Outstanding</u>	132,607,356	
<u>Entity Public Float</u>		\$ 8,489,517

**CONSOLIDATED  
STATEMENTS OF  
OPERATIONS (USD \$)**

**12 Months Ended  
Dec. 31, 2011 Dec. 31, 2010**

<u>REVENUES</u>	\$ 2,791,862	\$ 2,092,830
<b><u>OPERATING COSTS AND EXPENSES</u></b>		
<u>Wages and benefits</u>	1,746,696	1,903,097
<u>Commission</u>	144,313	126,250
<u>Stock-based Compensation</u>	40,431	313,032
<u>Professional fees</u>	362,021	299,545
<u>Promotional and Marketing</u>	104,475	148,565
<u>Rent and office</u>	155,056	138,358
<u>Other general and administration</u>	303,561	260,327
<b><u>TOTAL OPERATING COSTS AND EXPENSES</u></b>	<b>2,856,553</b>	<b>3,189,174</b>
<b><u>INCOME( LOSS) FROM OPERATIONS</u></b>	<b>(64,691)</b>	<b>(1,096,344)</b>
<b><u>OTHER INCOME AND (EXPENSES)</u></b>		
<u>Interest income (expense), net</u>	19,593	5,605
<u>Income from legal settlement</u>	50,000	
<u>Gain (loss) on change of derivative value</u>	34,060	(14,459)
<b><u>INCOME (LOSS) BEFORE TAXES</u></b>	<b>38,962</b>	<b>(1,105,198)</b>
<u>Income taxes</u>	(14,334)	(7,180)
<b><u>NET INCOME (LOSS)</u></b>	<b>24,628</b>	<b>(1,112,378)</b>
<b><u>OTHER COMPREHENSIVE INCOME (LOSS)</u></b>		
<u>Unrealized loss on marketable securities</u>	(44,941)	
<b><u>Total comprehensive income (loss)</u></b>	<b>\$ (20,313)</b>	<b>\$ (1,112,378)</b>
<b><u>Net Income (loss) per share</u></b>		
<u>Basic and diluted</u>	\$ 0.00	\$ (0.01)
<u>Weighted average shares outstanding, basic</u>	132,219,329	131,721,534
<u>Weighted average shares outstanding, diluted</u>	132,228,221	131,721,534

## Share-based Compensation

12 Months Ended

Dec. 31, 2011

### [Share-based Compensation](#)

#### 6. Share-based Compensation

On March 15, 2010, the Company granted warrants to purchase a total of 1,300,000 shares of common stock to two of its executives, 650,000 shares each. The warrants vested immediately and are exercisable for five years from the date of issuance, at a strike price of \$0.40 per share. The warrants were issued in conjunction with Deferred Compensation Agreements entered into which limits payment of the outstanding deferred compensation to the two executives. These warrants have an anti-dilution clause, whereby the exercise price can be adjusted downward in the event of equity raised at a price lower than \$0.40 per share.

The Company adopted the provisions of ASC 718 (formerly SFAS.123(R), Share-based payments which requires the measurement and recognition of compensation expense for all stock-based awards made to employees.

The fair value of stock warrants at the date of grant was estimated using the Black-Scholes option-pricing model, based on the following assumptions for the year ended December 31, 2010:

Risk-free interest rate	1.0%
Expected life	5 years
Expected Volatility	49.0%
Dividend yield	00.0%

Total expense related to the warrants during the year ended December 31, 2010 was \$313,032. The outstanding number of warrants at December 31, 2011 was 1,300,000 shares.

**Other Receivable-Related  
Party**

**12 Months Ended  
Dec. 31, 2011**

[Other Receivable-Related  
Party](#)

**5. Other Receivable—Related Party**

During March 2011, the Company entered into an agreement with a minority shareholder, who is also a former employee, to loan the individual an amount totaling \$66,667. The loan is non-interest bearing and is collateralized by the stock of the Company already owned by such shareholder. The loan is due in full. At December 31, 2011, the balance of the receivable was \$66,667.

## Income taxes

## 12 Months Ended Dec. 31, 2011

### [Income taxes](#)

#### 9. Income taxes

The Company files income tax returns with the Internal Revenue Service (“IRS”) and various state jurisdictions. For jurisdictions in which tax filings are prepared, the Company is subject to income tax examinations by state tax authorities and federal tax authorities for all tax years.

The deferred tax assets are mainly comprised of net loss carryforwards and expenses not currently deductible. The Company has Federal net loss carryforwards of approximately \$7.8 million that expires through 2031. The net loss carryforwards can be used to offset a certain amount of taxable income in future years, therefore generating deferred income tax assets. The net loss carryforwards are subject to significant limitations by Section 382 of IRS code due to changes in ownership.

A reconciliation of the provision for income tax expense with the expected income tax computed by applying the federal statutory income tax rate to income before provision for income taxes was as follows for the years ended December 31, 2011 and 2010:

	2011	2010
Income tax computed at federal statutory tax rate	\$(13,247)	\$ 375,767
Non-deductible expenses	(17,986)	(8,954)
Change in valuation allowance	34,677	(464,513)
State taxes, net of federal benefit	(17,778)	90,520
Total expense	<u>\$(14,334)</u>	<u>\$ (7,180)</u>

At December 31, 2011, based on the weight of available evidence, including cumulative losses in recent years and expectations of future taxable income, the Company determined that it was more likely than not that its deferred tax assets of approximately \$3 million would not be realized. Accordingly, the Company has recorded a valuation allowance equal to 100% of its total deferred tax assets.

## Restricted Stock Grant

**12 Months Ended  
Dec. 31, 2011**

### [Restricted Stock Grant](#)

#### 7. Restricted Stock Grant

On June 1, 2011, the Company granted restricted stock to an employee. The agreement called for grants of common stock priced at \$0.17 per share, which was the closing market price, equaling to 0.05% of the company outstanding shares or 658,608 shares to be vested equally each on December 1, 2011, 2012 and 2013. Future expenses related to this grant are expected to be approximately \$35,000 per year for 2012 and 2013.

The Company adopted the guidance provided by ASC 718 to measure and record the expense over the requisite service period for the entire award. Stock-based compensation recognized by the Company for the year ended December 31, 2011 totaled \$40,431.

## Warrants and Options for Non-Employees

12 Months Ended  
Dec. 31, 2011

### Warrants and Options for Non-Employees

#### 8. Warrants and Options for Non-Employees

On September 9, 2010, the Company granted options to purchase 800,000 shares of common stock to its investor relations advisor at strike price of \$0.14 per share. These options vest quarterly over a 12-month period beginning December 9, 2010, and mature in September 2015. On November 18, 2010, the agreement was amended to increase the number of options to 830,000 shares at a strike price of \$0.1905. The Company uses the guidance in FASB ASC 505-50 (formerly EITF 96-18) to scope and measure the stock options for non-employees.

Total expense related to the investor relations' options during the year ended December 31, 2011 was \$29,403.

On June 1, 2011, the Company terminated the contract with the investor relations advisor. Pursuant to the contract, the Company reserved the right to cancel one-third vesting of the options to purchase 830,000 shares. On July 13, 2011, the investor relations advisor exercised all vested shares or 622,500 shares on a cashless basis. The below illustrates the conversion of 622,500 shares on a cashless basis to derive the 227,214 shares issued:

- a) Cash exercise price = 622,500 option shares x \$0.1905 (exercise price) = \$118,586
- b) Shares needed to pay for exercise price = \$118,586 cash exercise price / \$0.30 (closing market price on 7/13/11) = 395,286 shares
- c) Shares to issue per option exercise = 622,500 shares - 395,286 shares = 227,214 shares

On December 2, 2010, the Company issued warrants to purchase 350,000 shares of common stock at \$0.1905 per share in lieu of the remaining balance of an accrued commission of \$125,000 to a consultant. The contract has an anti-dilutive clause, vests immediately and expires in December 2012. Accordingly, the Company uses the guidance in ASC 815-40-15 to scope and measure the warrants for non-employees as a derivative liability.

A gain on change in derivative liability was recorded to reflect a decrease of \$34,060 for the year ended December 31, 2011, respectively.

The fair value of stock warrants and options at the date of grant and derivative liability were estimated using the Black-Scholes option-pricing model, based on the following assumptions for the year ended December 31, 2011:

Risk-free interest rate	0.36%
Expected life	1 year
Expected Volatility	180.0%
Dividend yield	00.0%

## Commitments and Contingencies

### [Commitments and Contingencies](#)

12 Months Ended  
Dec. 31, 2011

#### 10. Commitments and Contingencies

##### Operating leases

The Company has an operating lease agreement for its corporate office facility, which expires on June 30, 2016. The lease contains a 6.5 months of rent abatement. The Company has an operating lease agreement for its corporate apartment, which expired on February 28, 2012. The lease is on a month-to-month basis after the lease expiration.

Future minimum rental payments are as follows:

Year ended December 31	
2012	107,000
2013	103,000
2014	106,000
2015	110,000
Thereafter	57,000
	<u>\$483,000</u>

Total lease expense was \$134,716 and \$124,250 for the years ended December 31, 2011 and 2010, respectively.

##### Legal Proceedings

From time to time the Company is involved in legal proceedings in the normal conduct of its business, but the Company believes that such proceedings will not have a material affect on the Company's financial statements.

On February 14, 2011, the Company and its subsidiary, QED Productions, LLC, were named in a lawsuit citing, among other things, trademark infringement. The Company filed a motion to dismiss the lawsuit on March 15, 2011. In the alternative, the Company's motion requested that the Court stay the proceedings pending resolution of SLM's appeal to the U.S. Court of Appeals for the Second Circuit. On May 6, 2011, the Court granted the Company's alternative motion and stayed the proceedings. While the outcome of the foregoing proceedings cannot be predicted with certainty, after consulting with legal counsel, the Company believes that it will prevail. The range of any potential loss cannot determined at this time should we not prevail, however we believe that the foregoing litigation will not have a material adverse affect on our financial statements taken as a whole.



**CONSOLIDATED  
STATEMENTS OF CASH  
FLOWS (USD \$)**

**12 Months Ended  
Dec. 31,    Dec. 31,  
2011        2010**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

<u>Net income (loss)</u>	\$ 24,628	\$ (1,112,378)
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**Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:**

<u>Depreciation and amortization</u>	14,312	10,427
<u>Loss on disposal of property and equipment</u>	1,439	
<u>Stock based compensation</u>	40,431	313,032
<u>Non-employee warrants and options</u>	29,403	47,355
<u>Changes in valuation of derivatives liability</u>	(34,060)	14,459
<u>Deferred Rent</u>	50,368	

**Change in assets and liabilities:**

<u>Accounts receivable</u>	271,631	(300,952)
<u>Prepaid expenses</u>	49,420	(66,343)
<u>Inventory</u>	13,843	(20,212)
<u>Other receivable</u>	(66,113)	(429)
<u>Deposits</u>		460
<u>Accounts payable and accrued expenses</u>	(43,108)	91,355
<u>Advances payable</u>	395,834	837,500
<u>Accrued commission</u>		(125,000)
<u>Deferred compensation</u>	(150,000)	(769,300)
<b><u>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</u></b>	<b>598,028</b>	<b>(1,080,026)</b>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

<u>Payments for trademarks</u>	(10,623)	
<u>Payments for development fees</u>	(35,000)	
<u>Purchase of property and equipment</u>	(5,791)	(12,284)
<u>Purchase of marketable securities</u>	(816,118)	
<b><u>NET CASH USED IN INVESTING ACTIVITIES</u></b>	<b>(867,532)</b>	<b>(12,284)</b>

**CASH FLOWS FROM FINANCING ACTIVITIES:**

<u>Repayment of loans payable</u>		(850,020)
<u>Proceeds from subscriptions receivable</u>	31,001	11,411
<b><u>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</u></b>	<b>31,001</b>	<b>(838,609)</b>
<b><u>NET DECREASE IN CASH</u></b>	<b>(238,503)</b>	<b>(1,930,919)</b>
<u>Cash and cash equivalents at beginning</u>	578,808	2,509,727
<u>Cash and cash equivalents at end of the year</u>	340,305	578,808

**Supplemental disclosures of cash flow information:**

<u>Income taxes paid in cash</u>	14,334	7,180
<u>Interest paid in cash</u>		\$ 135,559

## Deferred Compensation

**12 Months Ended  
Dec. 31, 2011**

### [Deferred Compensation](#)

#### **4. Deferred Compensation**

Deferred compensation consists of accrued but unpaid salaries of executives, which will be paid as the Company increases its cash, over time, or by obtaining additional financing. The balance at December 31, 2011 reflects a repayment of \$150,000 during the year ended December 31, 2011. At the end of 2011, the Company entered into amended employment agreements with the executives whereby deferred salaries are paid down by \$100,000 per annum per executive. The Company has reclassified amounts in deferred compensation deemed payable over 1 year as long-term.