

PCS EDVENTURES COM INC
Form 10-Q
November 14, 2012

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

[] TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission File No. 000-49990

PCS EDVENTURES!.COM, INC.

(Exact name of Registrant as specified in its charter)

Idaho
(State or Other Jurisdiction of
incorporation or organization)

82-0475383
(I.R.S. Employer Identification No.)

Edgar Filing: PCS EDVENTURES COM INC - Form 10-Q

345 Bobwhite Court, Suite 200

Boise, Idaho 83706

(Address of Principal Executive Offices)

(208) 343-3110

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the Registrant has (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act) during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes 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 whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company 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 Exchange Act).

Yes No

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS**

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Not applicable.

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date:

November 9, 2012: 47,973,931 shares of Common Stock

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

The Financial Statements of the Registrant required to be filed with this 10-Q Quarterly Report were prepared by management and commence below, together with related notes. In the opinion of management, the Financial Statements fairly present the financial condition of the Registrant.

INDEX

	Page
PART I - FINANCIAL INFORMATION	
Consolidated Balance sheet (Unaudited)	4
Consolidated Statement of Operations (Unaudited)	6
Consolidated Statement of Stockholders' Equity (Unaudited)	7
Consolidated Statement of Cash Flows (Unaudited)	8
Notes to Consolidated Financial Statements (Unaudited)	10
Management's Discussion and Analysis of Financial Conditions and Results of Operations	22
Controls and Procedures	25
PART II - OTHER INFORMATION	25
EXHIBIT INDEX	26
SIGNATURES	28

PCS EDVENTURES!.COM, INC.

Consolidated Balance Sheets

ASSETS

September 30, 2012

March 31, 2012

(Unaudited)

CURRENT ASSETS

Cash	\$	81,846	\$	15,780
Accounts receivable, net of allowance for doubtful accounts of \$4,805 and \$4,805, respectively		160,661		362,748
Prepaid expenses		190,124		58,309
Finished goods inventory		152,763		55,335
Other receivable		5,520		26,616
Total Current Assets		590,914		518,788

FIXED ASSETS, net of accumulated depreciation of \$244,040 and \$234,682, respectively

	47,534	56,892
--	--------	--------

OTHER ASSETS

Mold Cost		14,091		15,868
Deposits		7,371		7,822
Total Other Assets		21,462		23,690
TOTAL ASSETS	\$	659,910	\$	599,370

The accompanying notes are an integral part of these consolidated financial statements.

PCS EDVENTURES!.COM, INC.

Consolidated Balance Sheets

LIABILITIES & STOCKHOLDERS EQUITY

September 30, 2012

March 31, 2012

(Unaudited)

CURRENT LIABILITIES

Accounts payable and other current liabilities	\$	521,828	\$	459,672
Payroll liabilities payable		85,681		100,967
Accrued expenses		94,722		103,770
Deferred revenue		114,640		117,314
Convertible notes payable, net of discount		274,082		315,000
Derivative liabilities		253,811		-
Note payable, net of discount		95,667		283,668
Lines of credit payable		33,993		36,335
Total Current Liabilities		1,474,424		1,416,726
Note payable, long term		25,000		-
Total Long Term Note Payable		25,000		-
Total Liabilities		1,499,424		1,416,726

STOCKHOLDERS EQUITY

Preferred stock, no par value, 20,000,000 authorized shares, no shares issued and outstanding		-		-
Common stock, no par value, 90,000,000 and 60,000,000 authorized shares, respectively; 47,532,429 and 44,889,336 shares issued and outstanding, respectively		35,864,852		35,630,855
Stock payable		110,205		93,741
Accumulated comprehensive income/(loss)		(3,638)		4,554
Accumulated deficit		(36,810,933)		(36,546,506)
Total Stockholders Equity		(839,514)		(817,356)
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$	659,910	\$	599,370

The accompanying notes are an integral part of these consolidated financial statements.

PCS EDVENTURES!.COM, INC.

Consolidated Statements of Stockholders Equity

(Unaudited)

	# of Common Shares O/S	Capital Stock	Stock Payable	Accumulated Deficit	Other Comprehensive Income	Total Stockholders Equity
Balance at 03/31/12	44,889,336	\$35,630,855	\$93,741	\$(36,546,506)	\$4,558	\$(817,356)
Stock for Services	814,540	39,863	(6,201)	-	-	33,662
Stock for Bonuses	498,343	39,401	(22,335)	-	-	17,066
Stock for RSU's	-	-	45,000	-	-	45,000
Conversion of Notes Payable	1,330,210	63,496	-	-	-	63,496
Option Expense	-	46,652	-	-	-	46,652
Change in Derivative Liability due to Debt Conversion	-	36,349	-	-	-	36,349
Extension of Warrants	-	8,236	-	(8,236)	-	-
Foreign Currency Translation	-	-	-	-	(8,192)	(8,192)
Net Loss through 09/30/2012	-	-	-	(256,191)	-	(256,191)
Balance at 09/30/2012 (unaudited)	47,532,429	\$35,864,852	\$110,205	\$(36,810,933)	\$(3,638)	\$839,514

The accompanying notes are an integral part of these financial statements.

PCS EDVENTURES!.COM, INC.

Consolidated Statements of Cash Flows

(Unaudited)

	For the Six Months Ended September 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (256,191)	\$ (900,582)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Debt discount amortization	18,971	201,745
Depreciation and amortization	9,358	67,122
Change in fair value of derivative liabilities	205,271	-
Common stock issued for services	95,728	38,105
Stock payable for service	-	68,582
Amortization of fair value of stock options	46,652	90,689
Warrants issued for extension of debt	-	90,211
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	202,087	(142,303)
(Increase) decrease in prepaid expenses	(131,815)	(28,220)
(Increase) decrease in inventories	(97,428)	(52,652)
(Increase) decrease in other current assets	21,096	76,593
(Increase) decrease in other assets	2,228	-
(Decrease) increase in accounts payable and accrued liabilities	36,976	229,170
Increase (decrease) in unearned revenue	(2,674)	62,596
Net Cash Provided (Used) by Operating Activities	150,259	(198,944)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for purchase of fixed assets	-	(3,200)
Net Cash Used by Investing Activities	-	(3,200)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	682,000	100,000
Principal payments on debt	(758,001)	(100,000)
Proceeds from exercise of warrants	-	36,000
Proceeds from bank line of credit	-	39,050
Net Cash Used by Financing Activities	(76,001)	75,050
Foreign currency translation	(8,192)	(23,245)

Edgar Filing: PCS EDVENTURES COM INC - Form 10-Q

Net Increase (Decrease) in Cash		66,066		(150,339)
Cash at Beginning of Period		15,780		215,780
Cash at End of Period	\$	81,846	\$	65,441

The accompanying notes are an integral part of these financial statements

PCS EDVENTURES!.COM, INC.

Consolidated Statements of Cash Flows (continued)

(Unaudited)

NON-CASH INVESTING & FINANCING ACTIVITIES	For the Six Months Ended September 30,	
	2012	2011
Common stock issued for services (stock payable)	\$ 18,908	\$ 13,918
Common stock issued for employee bonus (stock payable)	22,333	-
Common stock issued for cash (stock payable)	-	8,000
Common stock issued for conversion of RSUs (stock payable)	-	52,500
Conversion of debt	63,496	-
Adjustment to derivative liability due to debt conversion	36,349	-
Debt discount	84,889	76,138
Deemed dividend	8,236	-

Edgar Filing: PCS EDVENTURES COM INC - Form 10-Q

CASH PAID FOR	For the Six Months Ended	
	2012	September 30, 2011
Interest	\$ 22,534	\$ 1,458
Income Taxes	1,600	800

The accompanying notes are an integral part of these financial statements.

PCS EDVENTURES!.COM, INC

Notes to the Consolidated Financial Statements

September 30, 2012

(Unaudited)

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS

The consolidated financial statements presented are those of PCS Edventures!.com, Inc., an Idaho corporation, and its wholly owned subsidiary, PCS LabMentors, Ltd., a Canadian company (collectively, the Company).

On August 3, 1994, PCS Education Systems, Inc. was incorporated under the laws of Idaho to develop and operate stand-alone learning labs.

In October 1994, PCS exchanged common stock on a one-for-one basis for common stock of PCS Schools, Inc. As a result of this exchange, PCS Schools, Inc. became a wholly owned subsidiary of PCS. In the late 1990s, the Company divested the stand-alone learning labs to focus more on a hands-on module coupled with web-based technology for use in the classroom.

On March 27, 2000, PCS changed its name from PCS Education Systems, Inc. to PCS Edventures!.com, Inc.

On November 30, 2005, PCS entered into an agreement with 511092 N.B. LTD., a Canadian corporation (LabMentors) to exchange PCS common stock for common stock of 511092 N.B. LTD. as disclosed in the 8-K as filed with the Securities and Exchange Commission (the SEC) on December 9, 2005 and amended on February 15, 2006. As a result of the definitive Share Exchange Agreement, 511092 N.B. LTD. became a wholly owned subsidiary of the Company. In December 2005, the name of this subsidiary was formally changed to PCS LabMentors, Ltd. It remains a Canadian corporation.

NOTE 2 - UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The September 30, 2012, consolidated financial statements presented herein are unaudited, and in the opinion of management, include all adjustments (consisting of only normal recurring accruals) necessary for a fair presentation of financial position, results of operations and cash flows. Such financial statements do not include all of the information

and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America. This Quarterly Report on Form 10-Q should be read in conjunction with the Annual Report on Form 10-K for PCS Edventures!.com for the fiscal year ended March 31, 2012. The March 31, 2012, consolidated balance sheet is derived from the audited balance sheet included therein.

The operating results for the three and six-month periods ended September 30, 2012, are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2013.

NOTE 3 - GOING CONCERN

The Company's consolidated financial statements are prepared using accounting principles generally accepted in the United States of America applicable to a going concern that contemplates the realization of assets and liquidation of liabilities in the normal course of business. The established sources of revenues are not sufficient to cover the Company's operating costs. The Company has accumulated significant losses and payables and generated negative cash flows. The combination of these items raises substantial doubt about its ability to continue as a going concern. Management's plans with respect to alleviating this adverse position are as follows:

During the fiscal year ended March 31, 2012, PCS began the transition to a new marketing model that would address the challenges presented by the current budgetary cuts in the educational market. First, PCS has focused its primary development and marketing resources on the afterschool market where funding is more predictable and available than traditional school budgets, many of which are undergoing significant cuts. Second, PCS recognizes that its experience in operating learning centers creates a unique opportunity to supplement the current PCS business model through opening learning centers in partnership with schools. This approach combines

PCS expertise in experiential learning with its considerable store of intellectual property comprised of learning frameworks, content, proprietary hardware, and software developed over the past two decades while increasing the throughput of our existing direct sales efforts. This marketing approach will incorporate the large body of PCS intellectual property into an afterschool program that families will pay tuition to attend. PCS developed a relationship with Sage International, an International Baccalaureate charter school based in Boise, to provide the facility and classroom for the afterschool program, and PCS, in exchange, provides the equipment and support. The school uses the material during the day as part of the curriculum, and PCS operates for-profit afterschool classes on weekends, evenings, during breaks and after the close of the school day. PCS conducted market tests of holiday camps during November and December of 2011 and in March of 2012, refining and confirming basic assumptions related to the business plan, and opened for afterschool and summer programs in April of 2012. The PCS Learning Center at Sage generated \$8,522 and \$20,429 of revenue in the three and six months ended September 30, 2012, respectively.

The business plan proposes the continued promotion and growth of the PCS Learning Center at Sage to further demonstrate proof of the concept, and the opening of two additional learning centers in FY2013, one more located in the Boise market, partnering with another local school, and a third opening in a market of strategic importance yet to be determined. The premise of the business plan is two-fold: 1) learning center revenues will be more consistent and predictable for the Company to plan and manage cash and growth; and 2) an established network of learning centers will serve as highly effective showrooms for sales of PCS products and services into neighboring districts. Also of note, close partnerships with schools provide an opportunity to test and improve PCS products on a regular basis.

Also related to the learning center business, PCS signed a license and royalty agreement with Creya Learning of India (CL). CL will use PCS content and support services to implement experiential learning curriculums into Indian schools and to build out a network of experiential learning centers in India that will function as premier afterschool locations as well as product showrooms. PCS, as part of the agreement, will receive ongoing royalties on the tuition charged to students attending PCS based programs. In Q1, FY2013, PCS also executed a STEM consulting agreement with Cultural Innovations for science center and STEM consulting services in the Kingdom of Saudi Arabia and concluded work associated with a tender competition contract initiated in Q2 of FY2012 with Tatweer Holding Company of Saudi Arabia. PCS will continue to pursue additional international opportunities to offset the continued challenges to the domestic economy and to take advantage of global market needs for PCS type products and services.

Product development in FY2013 has focused on continued improvements and refinements to PCS products and curriculum, primarily PCS Robotics related materials. Executive management continues in its conviction that the K12 educational robotics market represents a viable market opportunity for PCS.

The Company reported record results for the quarter ended September 30, 2012. Revenue of \$1,308,510, up 73% from the same quarter last year, and net income of \$99,627, compared to a loss of (\$295,802) in the same quarter last year, was driven by a \$740,000 sale that involved the delivery and implementation of afterschool robotics programs into 74 sites in 13 states. Educational robotics kit sales worldwide are projected to exceed \$1.6B in 2014, and PCS Edventures is actively pursuing this market. These 74 sites are part of a much larger network of programs that the Company is working with to expand on this opportunity. Offsetting the positive income effect of the increase in sales was a charge of \$128,044 due to the change in fair value of the derivatives related to a portion of our debt (see Note 7). Revenue for the six months ended September 30, 2012, were \$1,873,542, an increase of 42% compared to the same period in the prior year. Net loss for the six-month period ended September 30, 2012 was (\$256,191) after the

charge of \$205,271 for the change in fair value of the derivatives related to a portion of our debt (see Note 7). Net loss for the same period of the prior year, during which time there was no derivative charge, was (\$900,582), thus showing a marked improvement in the results of operations. Cash flow from operations for the six months ended was \$150,259.

While the efforts put in by management and the entire employee team are beginning to be realized, as illustrated by the improved results for the first and second quarters of this fiscal year, the ability of the Company to continue as a going concern is dependent upon our ability to successfully accomplish the plans described in the preceding paragraphs, to raise capital as needed, to continue to monitor and reduce overhead costs, and to attain profitable operations. The accompanying consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

NOTE 4 - PREPAID EXPENSES

Prepaid expenses for the periods are as follows:

	September 30, 2012	March 31, 2012
Prepaid insurance	\$ 10,292	\$ 15,991
Prepaid trade show/travel	5,531	3,354
Prepaid inventory	131,162	17,000
Prepaid software	28,641	11,964
Prepaid expenses, other	14,498	10,000
Total Prepaid Expenses	\$ 190,124	\$ 58,309

NOTE 5 - FIXED ASSETS

Assets and depreciation for the periods are as follows:

	September 30, 2012	March 31, 2012
Computer/office equipment	\$ 10,112	\$ 10,112
Server equipment	154,107	154,107
Software	127,355	127,355
Accumulated depreciation	(244,040)	(234,682)
Total Fixed Assets	\$ 47,534	\$ 56,892

Fixed Asset depreciation expense for the three months ended September 30, 2012 and 2011 was \$4,679 and \$11,782, respectively. Fixed Asset depreciation expense for the six months ended September 30, 2012 and 2011 was \$9,358 and \$67,122, respectively.

NOTE 6 - ACCRUED EXPENSES

Accrued expenses for the periods are as follows:

	September 30, 2012	March 31, 2012
Credit card debt	\$ 53,572	\$ 56,872
Interest payable	40,122	31,915
Sales tax payable	1,028	14,030
Other	-	953
Total accrued expenses	\$ 94,722	\$ 103,770

NOTE 7 NOTES PAYABLE

Notes payable consisted of the following:

		September 30, 2012	March 31, 2012
Notes Payable	Current	\$ 95,667	\$ 283,668
Notes Payable	Long Term	25,000	-
Line of Credit		33,993	36,335
Convertible Notes		340,000	315,000
Debt Discount		(65,918)	-
	Total Notes Payable	\$ 428,742	\$ 635,003

Notes Payable

On December 30, 2011, the Company entered into a note payable in the amount of \$30,000. The note bears interest at ten percent (10%) per annum and was due on February 28, 2012. This note was subsequently extended to July 31, 2012. A second extension was issued on this note, under the same terms and conditions, with a new maturity date of December 31, 2012.

On January 6, 2012, the Company entered into a promissory note in the amount of \$35,000. The note paid interest at ten percent (10%) per annum. The note was due and payable with accrued interest on or before March 6, 2012, and was secured by certain accounts receivable of the Company. Upon collection of the pledged receivables the amount was rolled into a new promissory note dated January 26, 2012, in the aggregate amount of \$175,000 with interest payable at fifteen percent (15%) per annum. This note was due and payable on or before April 10, 2012. The aggregate amount of \$175,000 plus accrued interest was paid in full on April 18, 2012, upon receipt of the receivable related to the pledged purchase order used to secure the January 26, 2012 note. The January 26, 2012 note included attached warrants to purchase 175,000 shares of restricted Rule 144 common stock at a rate of \$0.12 per share for the first 18 months and \$0.18 per share for the remaining 18 months. The warrants expire 36 months from the date of the agreement. The warrants attached to the note were valued using the Black Scholes Valuation Model, resulting in a fair value of \$8,006, the balance of which was fully amortized as of March 31, 2012.

On January 13, 2012, the Company entered into two separate promissory notes in the amount of \$35,000 each for an aggregate amount of \$70,000. The notes bear interest at nine percent (9%) per annum and are due and payable on or before January 10, 2013. Minimum monthly payments of 1.5% of the loan balances are required and are submitted to Lenders financial institution. Principal payments of \$4,333 had been paid as of September 30, 2012.

On March 14, 2012, the Company entered into a promissory note for \$10,000. The note bears interest at ten percent (10%) per annum and was due and payable on or before April 30, 2012. This note was subsequently extended and was due and payable on or before July 31, 2012. On July 30, 2012, the Company repaid this note in the amount of \$10,380.83. The payment consisted of \$10,000 in principal and \$380.83 in accrued interest. The interest paid included \$46.58 that was accrued in Interest Payable and expensed as of March 31, 2012.

On April 18, 2012, we entered into a promissory note with Anthony A. Maher for \$25,000 with an interest rate of 7.5% per annum. The balance is due in full on or before April 18, 2017.

On June 14, 2012, we executed a promissory note with one of our shareholders, for \$60,000 at 15% interest per annum, secured by seven of our sales orders to finance inventory purchases. The promissory note was due on or before August 14, 2012. There is no conversion feature associated with this promissory note. This note was subsequently rolled into a \$560,000 note dated July 17, 2012. This transaction involved the issuance of a promissory note, which was payable with interest of 15% per annum, in cash on or before September 30, 2012. The \$60,000 due August 14, 2012 was rolled in-to the new promissory note agreement as part of the amount borrowed. The Company

issued 100,000 warrants with a 36 month term at \$0.15 per share exercise price as part of this agreement. The promissory note was secured by a purchase order in the amount of \$741,780 dated July 16, 2012. The loan proceeds were utilized to purchase inventory to fulfill the Purchase Order, bring certain vendors and payable accounts current, and finance the operations and logistics required to fulfill and support the order. This loan was repaid in full, including accrued interest of \$11,277, on September 4, 2012.

Line of Credit

On September 13, 2011, the Company drew down a line of credit at a financial institution in the amount of \$39,050. The line of credit bears interest at 17.5% per annum. The Company makes variable monthly payments. As of September 30, 2012, the Company has paid \$5,057 in principal leaving a balance of \$33,993 payable.

Convertible Notes

On March 31, 2011, the Company entered into several convertible promissory notes in the aggregate amount of \$215,000. The notes are convertible into common stock at a rate of \$0.15 per share. The notes bear interest at ten percent (10%) per annum and include attached warrants to purchase two shares of restricted Rule 144 common stock for every dollar loaned, at a rate of \$0.15 per share, for an aggregate total of 430,000 restricted Rule

144 common shares. The notes were due on June 29, 2011, and are secured by that portion or percentage of the Borrower's Intellectual Property which the principal amount of the note bears to the fair market value of all Intellectual Property of the Borrower. Intellectual Property of the Borrower is defined to mean all trademarks, registered or unregistered, marks, logos, business names, proprietary computer software, curriculum, copyrighted material, registered or unregistered, trade names, patents and patent applications, and all general intangibles relating to the foregoing. Notwithstanding the foregoing, Intellectual Property shall not include any license, property or contract right the granting of a security in which would be prohibited by law or contract. The warrants expire 36 months from date of agreements. The Company recognized a discount on the debt issued, which was composed of an embedded beneficial conversion feature and attached warrants. The Company measured the beneficial conversion feature by allocating a portion of the proceeds equal to the intrinsic value of the feature to additional paid-in-capital. The intrinsic value of the feature was calculated on the commitment date using the effective conversion price of the notes. This intrinsic value is limited to the portion of the proceeds allocated to the notes, and was calculated as \$58,000. The warrants attached to the notes were valued using the Black Scholes Valuation Model, resulting in a fair value of \$63,479, the balance of which was fully amortized as of June 30, 2011.

The Company extended the due date on the convertible notes payable dated March 31, 2011 in the aggregate amount of \$215,000. These notes were originally due on June 29, 2011 and subsequently extended. In consideration for the first note extension, the Company issued an additional 430,000 restricted Rule 144 common stock warrants. The restricted Rule 144 common stock warrants allow for the purchase of one share of restricted Rule 144 common stock at \$0.15 per restricted Rule 144 common stock warrant. The warrants expire 36 months from the date of the original warrant agreement. The fair market value of these warrants was calculated using the Black Scholes Valuation Model, resulting in an expense of \$61,995 during the quarter ended June 30, 2011. On February 10, 2012, the notes were extended to August 25, 2013, with repayments to be made quarterly beginning in May, 2012, in the amount of \$40,000 per quarter, with the remaining balance due in August 2013. No additional warrants were issued in connection with subsequent extensions.

On August 1, 2012, the Company issued amendments to the convertible note agreements and extended the due date with the repayments in the amount of \$40,000 per quarter to begin April, 2013, and the final payments due in August, 2014, with any remaining balance due at that time. In consideration for extending the due date of the promissory notes, the expiration dates on the warrants issued on March 31, 2011 and June 27, 2011, were amended and extended an additional three years, making the new expiration dates August 1, 2017. At the Lender's sole option, Lenders may elect to receive payment of their respective note and all accrued interest in restricted common stock of the Borrower at the price per share of said common stock at same rate as the warrants.

On February 29, 2012, the Company entered into three separate convertible promissory notes in the aggregate amount of \$100,000. The notes bear interest at ten percent (10%) per annum and were due on May 30, 2012. At the sole option each respective Lender, the outstanding balance of the notes may be converted into shares of restricted Rule 144 common stock of the Borrower at a price per share of \$0.05. In the event Lender elects to convert any outstanding balance due under this note into such shares, Lender shall give written notice to the Borrower seven (7) days prior to the effective date of such exercise. At Borrower's sole option, Borrower may elect to pay Lender in cash up to one-half (1/2) of the then principal and interest due under the note. In such event, the remaining balance of principal and interest shall be converted as provided under the note agreement. On June 14, 2012, one of the notes, in the amount of \$50,000, was converted into 1,028,770 shares of our restricted common stock in accordance with the terms of the convertible promissory note. A second extension was issued for the remaining two notes in an aggregate amount of \$50,000, under the same terms and conditions, with a new maturity date of October 31, 2012. These two

notes were subsequently extended, with no changes to the terms, and are now due and payable on or before December 31, 2012.

On April 23, 2012, we entered into a Securities Purchase Agreement whereby we issued an 8% convertible promissory note in an aggregate amount of \$32,500, convertible into shares of common stock of the Company at the expiration of six months, at a discount to market of 42% of the Market Price, which means the average of the lowest three (3) Closing Bid Prices for the common stock during the ten (10) Trading Day period ending on the latest complete Trading Day prior to the Conversion Date. The Company recognized a discount on the debt issued related to the derivative liability. The Company measured the derivative liability using a lattice model as described in Note 8, of which \$4,850 was amortized during the six months ended September 30, 2012.

The convertible promissory note has a due date of January 26, 2013; can be pre-paid, subject to varying Optional Prepayment Date payments ranging from 125% if prepaid during the first 30 days to 150% if prepaid prior

to the expiration of 180 days. Conversion is restricted so that conversions will not result in an ownership of more than 4.99% of the outstanding common stock of the Company by the note holder. The Company is at all times required to reserve at least four times the amount of shares that may be subject to conversion at any time for issuance on conversion. The note holder also has a first right of refusal on any additional funding of up to \$100,000.

The agreements contain customary representations and warranties, customary affirmative and negative covenants, customary anti-dilution provisions, and customary events of default that entitle the note holder to accelerate the due date of the unpaid principal amount of, and all accrued and unpaid interest on, the convertible promissory note.

On June 4, 2012, we entered into a second Securities Purchase Agreement with the same party as the April 23, 2012 agreement, whereby we issued an 8% convertible promissory note in an aggregate amount of \$28,750, convertible into shares of common stock of the Company under the same terms as the first note dated April 23, 2012. The Company recognized a discount on the debt issued related to the derivative liability. This debt discount was calculated as \$28,750, of which \$5,174 was amortized during the six months ended September 30, 2012.

On July 16, 2012, we entered into a third Securities Purchase Agreement with the same party as our April 23 and June 4, 2012 agreements, whereby we issued an 8% convertible promissory note in an aggregate amount of \$13,750, convertible into shares of common stock of the Company under the same terms as the first note dated April 23, 2012. The Company recognized a discount on the debt issued related to the derivative liability. This debt discount was calculated as \$13,750, of which \$1,436 was amortized during the six months ended September 30, 2012.

On June 7, 2012, Leann R. Gilberg, Robert O. Grover and Brett A. Newbold, three of our officers, as well as one employee shareholder, and one additional shareholder, each converted his/her respective \$2,400 convertible promissory note dated May 3, 2012, into 60,288 shares of our restricted common stock in accordance with the terms of said convertible promissory notes. Forms 4 were filed for the three officers on June 12, 2012. The Company recognized a discount on the debt issued related to the embedded beneficial conversion feature. The Company measured the beneficial conversion feature by allocating a portion of the proceeds equal to the intrinsic value of the feature to additional paid-in-capital. The intrinsic value of the feature was calculated on the commitment date using the effective conversion price of the notes. This intrinsic value was calculated as \$9,889, of which \$7,184 was amortized during the three months ended June 30, 2012, at the time of conversion with the remaining balance included in the gain on redemption at conversion.

The above transactions were entered into with parties who meet the definition of an accredited investor as that term is defined in Rule 501 of Regulation D of the SEC. The securities were offered and sold pursuant to an exemption from registration under the Securities Act of 1933, as amended (the Securities Act), pursuant Section 4(2) thereof.

NOTE 8 DERIVATIVE FINANCIAL INSTRUMENTS

The Company generally does not use derivative financial instruments to hedge exposures to cash-flow risks or market-risks that may affect the fair values of its financial instruments. The Company utilizes various types of financing to fund our business needs, including convertible debts with conversion features and other instruments not indexed to our stock. The convertible notes include fluctuating conversion rates. The Company uses a lattice model for valuation of the derivative. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and then re-valued at each reporting date, with changes in the fair value reported in income in accordance with ASC 815. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is reassessed at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether net cash settlement of the derivative instrument could be required within the 12 months of the balance sheet date.

As discussed in Note 7 under convertible notes, the Company issued convertible notes payable that provide for the issuance of convertible notes with variable conversion provisions. The conversion terms of the convertible notes are variable based on certain factors, such as the future price of the Company's common stock. The number of shares of common stock to be issued is based on the future price of the Company's common stock. As of September 30, 2012, the number of shares of common stock issuable upon conversion of promissory notes and warrants could exceed the Company's maximum number of authorized common shares. Due to the fact that the

Edgar Filing: PCS EDVENTURES COM INC - Form 10-Q

number of shares of common stock issuable is not able to be determined definitively, the equity environment is tainted and all additional convertible debentures and warrants are included in the value of the derivative. Pursuant to ASC 815-15 Derivatives, the fair values of the variable conversion option and warrants and shares to be issued were recorded as derivative liabilities on the issuance date. The fair values of the Company's derivative liabilities were estimated at the issuance date and are revalued at each subsequent reporting date, using a lattice model. The Company recorded current derivative liabilities of \$253,811 at September 30, 2012. The change in fair value of the derivative liabilities for the three and six months ended September 30, 2012 resulted in a loss of \$128,044 and \$205,271, respectively, which was reported as other income/(expense) in the consolidated statements of operations.

The following presents the derivative liability value by instrument type at September 30, 2012:

	September 30, 2012	
Convertible Notes	\$	219,121
Common Stock Warrants		34,690
	\$	253,811

The fair market value determined for the derivative liability is \$253,811. A total of \$84,889 was recorded as a debt discount up to the face value of the notes and the excess of \$4,254 was expensed.

The following is a summary of changes in the fair market value of the derivative liability during the six months ended September 30, 2012:

	Derivative Liability Total
Balance, April 23, 2012	
Increase in derivative value due to issuances of convertible notes and tainting of other convertible notes and warrants	\$ 108,905
Promissory notes converted during the period	(36,349)
Change in fair market value of derivative liabilities due to mark to market adjustments	39,461
Balance, June 30, 2012	112,017
Increase in derivative value due to issuances of convertible notes and warrants	18,054
Change in fair market value of derivative liabilities due to mark to market adjustments	123,740
Balance, September 30, 2012	\$ 253,811

Edgar Filing: PCS EDVENTURES COM INC - Form 10-Q

Key inputs and assumptions used to value the convertible debentures and warrants issued during the six months ended September 30, 2012:

.

The projected volatility curve for each valuation period was based on the historical volatility of the Company.

.

The stock price would fluctuate with the Company projected volatility.

.

An event of default for the convertible note would occur 5% of the time, increasing 1.00% per month to a maximum of 10%.

.

Alternative financing for the convertible note would be initially available to redeem the note 0% of the time and increase monthly by 1% to a maximum of 10%.

.

The monthly trading volume would average \$200,000 in the period and would increase at 5% per month.

.

The Holder would automatically convert the notes at the greater of two times the conversion price or stock price if the registration was effective and the Company was not in default.

.

The Holder would exercise the warrant at maturity if the stock price was above the exercise price.

.

The Holder would exercise the warrant at target prices starting at the greater of two times the exercise price or the stock price; and lowering such target as the warrants approached maturity.

.

The Holder would automatically convert all of the shares at a stock price of price equal to the target price.

.

The Holder would convert on a monthly basis in amounts not to exceed the average quarters trading volume based on historical performance, assuming the volume would increase by 5% each month.

NOTE 9 FAIR VALUE OF FINANCIAL INSTRUMENTS

On January 1, 2008, the Company adopted guidance which defines fair value, establishes a framework for using fair value to measure financial assets and liabilities on a recurring basis, and expands disclosures about fair value measurements. Beginning on January 1, 2009, the Company also applied the guidance to non-financial assets and liabilities measured at fair value on a non-recurring basis, which includes goodwill and intangible assets. The guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions of what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of the inputs as follows:

Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 - Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 - Unobservable inputs that reflect our assumptions about the assumptions that market participants would use in pricing the asset or liability.

The following schedule summarizes the valuation of financial instruments at fair value on a recurring basis in the balance sheets as of September 30, 2012:

	Fair Value Measurements at September 30, 2012				Gain/(loss)
	Level 1	Level 2	Level 3		
Liabilities					
Derivative Liabilities	\$ -	\$ -	\$ 253,811		\$(205,271)
	\$ -	\$ -	\$ 253,811		\$(205,271)

NOTE 10 - COMMITMENTS AND CONTINGENCIES

a. Operating Lease Obligation

The Company leases its main office under a non-cancelable lease agreement accounted for as an operating lease. The lease expired in May 2012. This lease was extended for 13 months beginning June 1, 2012. Rent expense for the corporate offices was \$26,041 and \$32,291 for the quarter ended September 30, 2012 and 2011, and \$55,632 and \$63,170 for the six months ended September 30, 2012 and 2011, respectively, under this lease arrangement.

The Company leases additional warehouse space in Boise, Idaho. This warehouse space consists of approximately 2,880 square feet. The lease expired in June 2012. This lease was extended for 24 months, beginning July 1, 2012. Rent expense for the warehouse was \$4,050 and \$4,200 for the quarter ended September 30, 2012 and 2011, and \$8,250 and \$8,400 for the six months ended September 30, 2012 and 2011, respectively.

Effective March 31, 2010, the Company relinquished its leased space for the LabMentors subsidiary located in Fredericton, New Brunswick, Canada. For the period April 2010 through September 2010 the employees of LabMentors worked from their respective homes. There was no rent expense during that period. Effective October 2010 LabMentors entered into a five year office lease. This lease was cancelled effective July 1, 2012, which resulted in a penalty for early termination of the lease equal to three months rent. The Company was able to obtain a new, fully furnished office at the National Research Council facility effective July 1, 2012. The new lease is a three year commitment to be paid in Canadian dollars each month. Lease payments are \$395 per month CAD, before 13% tax, for the first nine months, then increases annually over the three-year term with payments for the final three months of the term being \$558 per month CAD, before tax. The move was initiated as part of cost savings efforts being implemented within LabMentors and reduces the monthly lease payments. Rent expense, converted to USD, for LabMentors was \$1,215 and \$4,601 for the quarter ended September 30, 2012 and 2011, and \$6,198 and \$9,274 for the six months ended September 30, 2012, respectively.

Minimum lease obligation
over the next 5 years

Fiscal Year	Amount (USD)
2013	\$131,897
2014	47,456
2015	10,430
2016	1,646
2017	-

b. Litigation

(i) On January 3, 2012, the U.S. District Court for the District of Idaho signed the Final Judgment in the SEC case pursuant to the Consent that the Company and Mr. Anthony Maher, its former CEO, had previously executed. Without admitting or denying the allegations of the Complaint, the Company and Mr. Maher consented to the entry of the Final Judgment. There were no monetary sanctions imposed against the Company.

(ii) Class Action Lawsuit: The Company, along with its former CEO and former Controller, was named in a class action lawsuit (Niederklein v. PCS Edventures!.com, Inc., et al., U.S. District Court for the District of Idaho, Case 1:10-cv-00479-CWD). The class action was brought on behalf of shareholders who purchased shares of the Company's common stock during the period between March 28, 2007 and August 15, 2007. The class action was settled for \$665,000, with the Company's insurance carrier providing most of the settlement funds. In accordance with the Court ordered settlement, all settlement funds were paid on or before February 29, 2012.

c. Contingencies

During the year ended March 31, 2012, the Company worked with the State of California and a private consulting firm specializing in California State sales and use tax in relation to a review of sales and use tax for our California customers during the period April 1, 2002 through June 30, 2011. During this period, there was an estimated \$0.6 million in reportable sales in which the Company did not file or collect sales and use tax, as required by California State law. The review determined that approximately \$60,000 in prior period sales and use tax, including interest and late fees, was due to the California State Board of Equalization (BOE) as of June 30, 2011. Of this amount the Company was successful in collecting approximately \$41,000 from prior customers. A check in the amount of \$41,473 was mailed to the BOE on August 31, 2011 and applied against the liability leaving a balance of \$7,146 in sales and use tax and \$13,316 in interest. The Company was able to work with the BOE to have all penalties allotted,

relieved from the account. The estimated recognized loss due to the inability to collect from customers was decreased to adjust the reported loss during fiscal year 2011 from \$30,000 to approximately \$7,100 during the quarter ending September 30, 2011. The Company was able to establish a payment plan with the Board of Equalization to begin payments starting February 20, 2012 in the amount of \$3,542 per month until the remaining balance is paid in full. The final payment was paid in July 2012.

NOTE 11 - STOCKHOLDERS EQUITY

The Company is required to recognize expense of options or similar equity instruments issued to employees using the fair-value-based method of accounting for stock-based payments in compliance with the financial accounting standard pertaining to share-based payments. This standard covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. Application of this standard requires significant judgment regarding the assumptions used in the selected option pricing model, including stock price volatility and employee

exercise behavior. Most of these inputs are either highly dependent on the current economic environment at the date of grant or forward-looking over the expected term of the award.

On April 4, 2012, the Company reconvened the Special Meeting of Shareholders which was adjourned on March 14, 2012, due to lack of a quorum present. Two proposals were submitted to and approved by the Company's shareholders. The holders of 24,537,546 shares of common stock, representing 55.16% of the outstanding shares entitled to vote as of the record date and which constituted a quorum, were represented at the meeting in person or by proxy. Proposal No. 1 increased our authorized no par value common stock from 60,000,000 to 90,000,000. Proposal No. 2 increased the shares of common stock available for grants, incentive or other purposes under our 2009 Equity Incentive Plan from 4,000,000 shares to 8,000,000.

The Articles of Amendment to the Second Amended and Restated Articles of Incorporation of the Company were filed with the Secretary of State, of the State of Idaho effective April 9, 2012.

On April 27, 2012, a Registration Statement on Form S-8 was filed adding the additional 4,000,000 shares to the 2009 Equity Compensation Plan (the Plan) of the Company and incorporated by reference all of the information contained in the Company's S-8 Registration Statement filed with the Securities and Exchange Commission on November 19, 2009 (SEC File No. 333-163232), related to the registration of the initial 4,000,000 shares authorized by the Company's Board of Directors and stockholders for grants, awards and stock issuances under the Plan.

On August 1, 2012, the Company issued amendments to the convertible note agreements dated March 31, 2011, and extended the due date. In consideration for extending the due date of the promissory notes, the expiration dates on the warrants issued on March 31, 2011, and June 27, 2011, were amended and extended an additional three years, making the new expiration dates August 1, 2017. The extension of the expiration date of the warrants resulted in a deemed dividend of \$8,236 consistent with current accounting guidance. The deemed dividend was valued using the Black-Scholes model.

During the six months ended September 30, 2012, the Company issued 714,540 shares of common stock for services. The per share value ranged from \$0.038 to \$0.15 per share for a net value of \$35,684 based on the closing price of the Company's common stock on the date of grant. Of these 714,540 shares of common stock, 378,149 shares were issued for services prior to March 31, 2012. These shares were valued at \$18,908 and were included in Stock payable for the year ended March 31, 2012. During the period, \$12,705 has been accrued in Stock Payable related to shares subscribed for services performed that will be issued in future periods. The net reduction in Stock Payable for services during the six month period was \$3,773.

During the six-month period ended September 30, 2012, the Company issued 200,000 shares of restricted Rule 144 common stock to an officer at \$0.11 per share. The total value of the award was \$22,000. The officer received the grant in fiscal year 2012 and the shares vested over six months. Stock Payable was accrued during the year ended March 31, 2012 in the amount of \$18,334

During the six-month period ended September 30, 2012, the Company issued 100,000 shares of restricted Rule 144 common stock to an officer at \$0.04 per share for a signing bonus. The total value of the award was \$4,000.

During the six months ended September 30, 2012, the Company accrued \$17,400 for stock bonuses to be paid to two officers and one employee. The net change in stock payable for bonuses during the period was a decrease of \$934.

During the six-month period ended September 30, 2012, the Company recognized \$45,000 of restricted stock units payable to non-management directors for services rendered at a rate of one share of common stock for each restricted stock unit. Each restricted stock unit is valued at \$0.20, based on the closing price of the Company's common stock at the date of grant. These agreements call for payment of current year director fees via issuance of restricted stock units over a vesting period of not less than twelve months, and require continued service for twelve months and reelection at the next annual shareholder meeting. These directors were reelected at the Annual Meeting on September 28, 2012 and the shares are fully vested and will be issued to those directors who chose not to defer their compensation.

During the three months ended June 30, 2012, the Company accrued \$63,496 representing 1,330,210 shares of common stock to be issued for conversion of notes payable. The notes were converted within the terms of the convertible note agreements, therefore, no gain or loss was recorded. The shares were issued during the quarter ended September 30, 2012.

During the six-month period ended September 30, 2012, the Company expensed amounts related to stock options granted in the current period as well as prior periods valued at \$46,652.

During the three months ended June 30, 2012, the Company recognized \$36,349 for the change in Derivative Liabilities due to conversion of convertible notes payable. See Note 8. There were no conversions during the three months ended September 30, 2012.

NOTE 12 - BASIC AND DILUTED NET LOSS PER COMMON SHARE

Basic and diluted net income (loss) per common share for the three-month periods ended September 30, 2012 and 2011, are based on 46,841,373 and 43,009,239, respectively, of weighted average common shares outstanding.

Basic and diluted net loss per common share for the six-month periods ended September 30, 2012 and 2011, are based on 46,067,013 and 42,919,612, respectively, of weighted average common shares outstanding. No adjustment has been made for any common stock equivalents outstanding because their effects would be antidilutive.

NOTE 13 - DILUTIVE INSTRUMENTS

Stock Options and Warrants

The Company is required to recognize expense of options or similar equity instruments issued to employees using the fair-value-based method of accounting for stock-based payments in compliance with the financial accounting standard pertaining to share-based payments. This standard covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. Application of this standard requires significant judgment regarding the assumptions used in the selected option pricing model, including stock price volatility and employee exercise behavior. Most of these inputs are either highly dependent on the current economic environment at the date of grant or forward-looking over the expected term of the award.

Edgar Filing: PCS EDVENTURES COM INC - Form 10-Q

	Issued	Cancelled	Executed	Total Issued and Outstanding	Exercisable	Not Vested
Balance as of March 31, 2012	25,181,655	10,784,836	9,952,210	4,444,609	3,337,109	1,107,500
Warrants	100,000	-	-	100,000		
Common Stock Options	1,450,000	1,075,000	-	375,000		
Balance as of September 30, 2012	26,731,655	11,859,836	9,952,210	4,919,609	2,812,109	2,107,500

On March 16, 2012, the Company granted 150,000 incentive stock options to an officer. The incentive stock options are convertible to restricted Rule 144 common stock. The restricted Rule 144 shares have an expected volatility rate of 219.31% calculated using the Company stock price over the period beginning June 1, 2009 through the date of issue. A risk free interest rate of 0.21% was used to value the options. The options were valued using the Black-Scholes valuation model. The total value of this option was \$5,915. The options vest over a 12-month period and are exercisable at \$0.04 per share which represents the fair market value at the date of grant in accordance with the 2009 Equity Incentive Plan. As of September 30, 2012, \$2,958 in value of the options was expensed.

On April 13, 2012, the Company granted 450,000 incentive stock options to an officer. The incentive stock options are convertible to restricted Rule 144 common stock. The restricted Rule 144 shares have an expected volatility rate of 220.15% calculated using the Company stock price over the period June 1, 2009 through date of

issue. A risk free interest rate of 0.41% was used to value the options. The options were valued using the Black-Scholes valuation model. The total value of this option was \$22,192. The options vest over a two year period and are exercisable at \$0.05 per share which represents the fair market value at the date of grant in accordance with the 2009 Equity Incentive Plan. As of September 30, 2012, \$11,096 in value of the options was expensed.

On May 15, 2012, the Company granted 850,000 incentive stock options to an officer. The incentive stock options are convertible to restricted Rule 144 common stock. The restricted Rule 144 shares have an expected volatility rate of 223.62% calculated using the Company stock price over the period beginning June 1, 2009 through date of issue. A risk free interest rate of 0.38 % was used to value the options. The options were valued using the Black-Scholes valuation model. The total value of this option was \$46,175. The options vest over a three year period and are exercisable at \$0.06 per share which represents the fair market value at the date of grant in accordance with the 2009 Equity Incentive Plan. As of September 30, 2012, \$5,131 in value of the options was expensed.

On July 17, 2012, the Company issued 100,000 warrants with a 36 month term at \$0.15 per share exercise price in conjunction with a promissory note agreement.

NOTE 14 - SUBSEQUENT EVENTS

On October 12, 2012, we entered into a loan transaction in the amount of \$75,000 with an accredited investor as that term is defined in Rule 501 of Regulation D of the SEC. The transaction involved the issuance of a Promissory Note, which is payable with interest of 12.5% per annum, in cash on or before December 14, 2012. The Promissory Note is secured by a Purchase Order in the amount of \$220,405 dated August 1, 2012 and by the proceeds from the Accounts Receivable, after shipping to and receipt by the customer. The loan proceeds will be utilized to finance operations and logistics required to fulfill and support the remaining unshipped portion of the order.

On October 23, 2012, we entered into a loan transaction in the amount of \$25,000 with an accredited investor as that term is defined in Rule 501 of Regulation D of the SEC. The transaction involved the issuance of a Promissory Note, which is payable with interest of 12.5% per annum, in cash on or before December 23, 2012. The Promissory Note is secured by a Purchase Order in the amount of \$220,405 dated August 1, 2012 and by the proceeds from the Accounts Receivable, after shipping to and receipt by the customer. The loan proceeds will be utilized to finance operations and logistics required to fulfill and support the remaining unshipped portion of the order.

On October 30, 2012, the holder of our convertible promissory note dated April 23, 2012 converted \$10,000 of their note. They received 215,517 shares of PCS common stock as a result of the conversion.

On October 31, 2012, the Company obtained extensions of two promissory notes dated February 29, 2012, in an aggregate amount of \$50,000, under the same terms and conditions. These notes are now due and payable on or

before December 31, 2012.

Effective November 1, 2012, the Company's Board of Directors accepted the resignation of Michael K. McMurray as a member of the board of directors of the Company. Mr. McMurray has resigned his position as a director with the Company to pursue other interests and had discussed his intent to do so during this fiscal year with the Board previously. There were no disagreements between the Company and Mr. McMurray regarding his resignation.

On November 8, 2012, the holder of our convertible promissory note dated April 23, 2012, converted \$8,000 of their note. They received 225,989 shares of PCS common stock as a result of the conversion.

On November 12, 2012, the Company's CFO, Ms. Gilberg, announced her intent to resign from PCS effective November 30, 2012, to pursue other interests. Ms. Gilberg has accepted another position and there were no disagreements between the Company and her leading to her resignation. The Company is actively conducting a search for a new CFO.

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

Cautionary Statements for Purposes of Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995:

Except for historical facts, all matters discussed in this report, which are forward-looking, involve a high degree of risk and uncertainty. Certain statements in this report set forth management's intentions, plans, beliefs, expectations, or predictions of the future based on current facts and analyses. When we use the words "believe", "expect", "anticipate", "estimate", "intend" or similar expressions, we intend to identify forward-looking statements. You should not place undue reliance on these forward-looking statements. Actual results may differ materially from those indicated in such statements, due to a variety of factors, risks and uncertainties. Potential risks and uncertainties include, but are not limited to, competitive pressures from other companies within the Educational Industries, economic conditions in the Company's primary markets, exchange rate fluctuation, reduced product demand, increased competition, inability to produce required capacity, unavailability of financing, government action, weather conditions and other uncertainties, including those detailed in the Company's Securities and Exchange Commission filings. The Company assumes no duty to update forward-looking statements to reflect events or circumstances after the date of such statements.

The following discussion should be read in conjunction with our audited consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") contained in our Form 10-K for the year ended March 31, 2012.

Plan of Operation

In fiscal year 2013, PCS will expand its commitment to the research and development of PreK-16, brain-based learning programs in Science, Technology, Engineering and Math (STEM) that embed 21st century thinking skills and new technologies through targeted sales to the US afterschool market and through the deployment of PCS Learning Centers starting in Boise, Idaho. PCS implemented a new Strategic Business Unit (SBU) and subsidiary structure in fiscal year 2011 that targeted sales efforts to the following markets:

- 1) K6 programs for the elementary classroom
- 2) Tech Ed programs for grades 6-12
- 3) Afterschool programs
- 4) Services that provide K-16 educational solutions for the international market
- 5) Virtual labs for community colleges and universities

Fiscal year 2012 was the second year of implementation of the K6 and Tech Ed SBUs and saw PCS programs becoming well accepted in the core classroom market as evidenced by our presence in over 350 Idaho classrooms, classroom deployments of our programs in Texas, Illinois Florida, California, Maryland, and many other states that we have established over the past five years. Despite the challenges presented by a discouraging economy and school budget landscape, we feel we have demonstrated our ability to move beyond the afterschool market, however the current economy and school budget climate makes this a challenging and slow moving marketplace For this reason, our executive management team has concluded that the best use for our resources is to target the afterschool market with the majority of our sales and marketing dollars. The afterschool market, represented by such large scale budgets as the 21st Century Community Learning Center federal grant program (\$1.15B budget in 2012) is more flexible, has more predictable funding patterns, and is already a market that PCS is well established in. We will continue to support the customers and presence we have in the classroom Tech-Ed space and the K6 space and envision organic growth in these areas, but we will target afterschool sales as our primary customer going forward.

During fiscal year 2013 we will continue to develop stronger marketing ties and support with our subsidiary, LabMentors. This will include a more focused approach to our web-based marketing efforts and tightened sales processes. The PCS Learning Centers are a key strategic addition to our plan for FY2013 as they will serve the following purposes: 1) R&D test bed for product improvement and refinement; 2) Revenue generation through afterschool and summer course fees. This course revenue stream will be more predictable and consistent compared to the seasonal revenues associated with education budgets; 3) The centers will serve as showrooms for PCS products in strategic locations and key districts around the country. We believe this will provide PCS with significant competitive advantages over other solution providers since administrators and educators can visit local

centers for support, training, and demonstrations of our products in action; and 4) Revenues from experiential retail. We believe e-commerce sales of kits associated with STEM learning targeting the families of students attending the courses will provide a boost in Q3 revenues to offset low education sales traditionally anticipated during this time frame.

To capitalize on the expansion of the Learning Centers, we are actively pursuing funding vehicles such as private financing on an individual center basis, EB5 foreign investment capital, and private equity and licensing arrangements. Our plan is to refine operations in our first center in Boise, then deploy a second program in Eagle, Idaho in Q3 of FY2013, and a third in a yet to be determined market in Q4 of FY2013. The establishment of this initial network of centers will enable more rapid expansion in FY2014 and beyond. We believe the strategic deployment of PCS Learning Centers to be a viable and sound approach based on our initial trial programs.

PCS continues to develop International opportunities in the Middle East and elsewhere through the development of strong partnerships such as the license agreement with Creya Learning in India. PCS will continue to pursue targeted International opportunities where we have developed presence and respond to unsolicited inquiries to explore potential opportunities.

Results of Operations

For the quarter ended September 30, 2012, the Company reported a net comprehensive income of \$97,986, as compared to a net comprehensive loss for the quarter ended September 30, 2011, of (\$316,707). For the six months ended September 30, 2012, the Company reported a net comprehensive loss of (\$264,383), as compared to a net comprehensive loss of (\$923,827) for the six-months ended September 30, 2011, an improvement of 71%. An increase in revenue, reduced operating expenses and a decrease in interest and debt expense due to the discounting of debt and the issuance of warrants attached to financing in the prior year, partially offset by the loss on the change in fair value of derivatives in the current year contributed to the improved results.

The Company issued convertible notes payable that provide for the issuance of convertible notes with variable conversion provisions. The conversion terms of the convertible notes are variable based on certain factors, such as the future price of the Company's common stock. The number of shares of common stock to be issued is based on the future price of the Company's common stock. Due to the fact that the number of shares of common stock issuable is not able to be determined definitively, the equity environment is tainted and all additional convertible debentures and warrants are included in the value of the derivative. Pursuant to ASC 815-15 Derivatives, the fair values of the variable conversion option and warrants and shares to be issued were recorded as derivative liabilities on the issuance date. The fair values of the Company's derivative liabilities were estimated at the issuance date and are revalued at each subsequent reporting date, using a lattice model. The Company recorded current derivative liabilities of \$253,811 at September 30, 2012. The change in fair value of the derivative liabilities for the three and six months ended September 30, 2012 resulted in a loss of \$128,044 and \$205,271, respectively, which was reported as other income/(expense) in the consolidated statements of operations.

Edgar Filing: PCS EDVENTURES COM INC - Form 10-Q

Revenue for the quarter ended September 30, 2012, was \$1,308,510, as compared to revenue during the quarter ended September 30, 2011 of \$754,383, an increase of 73% this quarter over the same quarter last year. Cost of sales and gross profit as a percentage of sales were consistent between the periods.

Revenue for the six-months ended September 30, 2012, was \$1,873,542, as compared to revenue during the six-months ended September 30, 2011 of \$1,318,173, an increase of 42% over the same period in the prior year. Cost of sales and gross profit as a percentage of sales were consistent between the periods.

Operating expenses for the three and six-month periods ended September 30, 2012, decreased by \$136,314 (20%) and \$329,851 (23%) as compared to the same periods ended September 30, 2011. The table below identifies the period over period changes:

	Operating Expenses		
	3 months ended	6 months ended	
	September 30,	September 30,	
	2012	2012	
Option Warrant expense	(\$ 52,494)	(\$ 134,248)	(1)
Salaries	(43,879)	(39,766)	(2)
Contract labor	(27,272)	(56,350)	(3)
Employee Insurance Benefits	(10,874)	(21,303)	(4)
Depreciation	(7,103)	(57,766)	(5)
Marketing	(5,997)	(17,721)	(6)
Legal	(965)	(11,365)	(7)
Learning Center Overhead	18,733	19,765	(8)
Public Relations	137	13,166	(9)
Other, net	(6,600)	(24,263)	
	(\$ 136,314)	(\$ 329,851)	

1)

Option Warrant expense decreased due to older grants expiring and fully vesting.

2)

Salaries decreased due to reduced headcount and lower salaries for positions that have turned over.

3)

Contract labor decreased due to termination of the relationship with the public relations firm and business development consultant.

4)

Employee insurance benefits decreased due to larger portions being paid by employees.

5)

Depreciation decreased due to full impairment recorded on LabMentors assets in Q4 FY2012.

6)

Marketing costs decreased due fewer trade shows attended and fewer lead generation campaigns.

7)

Decrease in legal expense due to negotiated settlement with insurance carrier as related to the SEC investigation.

8)

Learning Center Overhead is related to the Learning Center that started up in spring 2012, thus no prior year expense.

9)

Public Relations expense increased due to the cost of a public relations firm that was retained on a contract basis during the period.

Total Other Income (Expense) for Q2 FY 2013 and FY 2012 was (\$156,462) and (\$72,684), respectively. For the six months ended September 30, 2012 Total Other Income (Expense) was (\$248,280) compared to (\$217,594). In the current year the Change in Fair Value of Derivatives made up the significant portion of the expense, compared to the same periods in the prior year when Interest expense was higher due to discounting of debt and issuance of warrants attached to financings, accrued settlement costs related to a class action lawsuit, recoupment of previously accrued losses in the California sales tax matter and gain on issuance of stock for services.

Liquidity

Cash provided by operations for the six-months ended September 30, 2012 was \$150,259, compared to cash used by operations of (\$198,944) in the same period last year. As of September 30, 2012, the Company had \$81,846 in cash, total current assets of \$590,914 and total current liabilities of \$1,474,424, resulting in a working capital deficit of \$883,510 compared to a working capital deficit of \$897,938 for the six-months ended September 30, 2011. The Company had a current ratio at September 30, 2012 and 2011 of 0.40 and 0.37, respectively. We have an accumulated deficit of (\$36,810,933) and shareholders' equity of (\$839,514).

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company is a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the Exchange Act) and is not required to provide the information required under this item.

Item 4. Controls and Procedures

Changes in Internal Control Over Financial Reporting.

None.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as the Securities and Exchange Commission (SEC) defines such term. We have designed these controls and procedures to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, such as this Form 10-Q, is recorded, processed, summarized, and reported within the periods specified in the SEC s rules and forms. We have also designed our disclosure controls to provide reasonable assurance that such information is accumulated and communicated to the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow them to make timely decisions regarding our required disclosures.

Our management, including the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934) as of September 30, 2012. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our Company s disclosure controls and procedures, including the accumulation and communication of disclosures to the Company s Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure, were effective as of this date to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC s rules and forms.

Management s Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our management assessed the effectiveness of our internal control over financial reporting as of September 30, 2012. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Management has concluded that the Company maintained effective internal control over financial reporting as of September 30, 2012, based on the criteria established in Internal Control-Integrated Framework issued by the COSO.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

(i) On January 3, 2012, the U.S. District Court for the District of Idaho signed the Final Judgment in the SEC case pursuant to the Consent that the Company and Mr. Anthony Maher, its former CEO, had previously executed. Without admitting or denying the allegations of the Complaint, the Company and Mr. Maher consented to the entry of the Final Judgment. There were no monetary sanctions imposed against the Company.

(ii) Class Action Lawsuit: The Company, along with its former CEO and former Controller, was named in a class action lawsuit (Niederklein v. PCS Edventures!.com, Inc., et al., U.S. District Court for the District of Idaho, Case 1:10-cv-00479-CWD). The class action was brought on behalf of shareholders who purchased shares of the Company's common stock during the period between March 28, 2007 and August 15, 2007. The class action was settled for \$665,000, with the Company's insurance carrier providing most of the settlement funds. In accordance with the Court ordered settlement, all settlement funds were paid on or before February 29, 2012.

Item 2. Recent Sale of Unregistered Securities.

Name of Person or Group	Shares	Consideration	
**Consultants	66,350		\$ 3,980
**Legal Consultants	233,067		10,681
* Employees: Bonus	398,343		21,401
* Employees: Benefits	85,574		4,726
** Note Holders: Conversion	1,330,210		63,496
	2,113,544		\$ 104,284

Name of Person or Group	Warrants	Consideration	
*Note Holders	100,000		Promissory Note

* Issued as restricted securities under the 2009 Equity Incentive Plan; the shares issuable thereunder are registered on Form S-8 of the SEC.

** We issued these securities to persons who were either accredited investors or sophisticated investors as those terms are respectively defined in Rules 501 and 506 of the SEC; and each person had prior access to all material information about us. We believe that the offer and sale of these securities was exempt from the registration requirements of the Securities Act pursuant to Sections 4(2) and 4(6) thereof, and Rule 506 of Regulation D of the SEC. Section 18 of the Securities Act preempts state registration requirements for sales to these classes of persons, save for compliance with state notice and fee requirements, as may be applicable.

Item 3. Defaults Upon Senior Securities.

None; not applicable.

Item 4. Mine Safety Disclosures

None; not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Identification of Exhibit.

31.1	Rule 13a-14(a) or 15d-14(a) Certification of the Registrant's principal executive officer. Filed herewith.
31.2	Rule 13a-14(a) or 15d-14(a) Certification of the Registrant's chief accounting officer. Filed herewith.
32.1	Rule 13a-14(b) or 15d-14(b) Certification of the Registrant's principal executive officer pursuant to 18 U.S.C Section 1350 as adopted pursuant to Rule 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.
32.2	Rule 13a-14(b) or 15d-14(b) Certification of the Registrant's chief accounting officer pursuant to 18 U.S.C Section 1350 as adopted pursuant to Rule 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.
101.INS	XBRL Instance Document*
101.PRE.	XBRL Taxonomy Extension Presentation Linkbase*
101.LAB	XBRL Taxonomy Extension Label Linkbase*
101.DEF	XBRL Taxonomy Extension Definition Linkbase*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase*
101.SCH	XBRL Taxonomy Extension Schema*

*Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed furnished and not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, or deemed furnished and not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, and otherwise are not subject to liability under these sections.

SIGNATURES

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

PCS EDVENTURES!.COM, INC.

Dated: November 14, 2012

By: /s/Robert O. Grover
Robert O. Grover
Chief Executive Officer and Director

Dated: November 14, 2012

By: /s/Leann R. Gilberg
Leann R. Gilberg
Chief Financial Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: November 14, 2012

By: /s/ Donald J. Farley
Donald J. Farley
Secretary and Director

Dated: November 14, 2012

By: /s/ Dehyrl A Dennis
Dehyrl A. Dennis
Director

Dated: November 14, 2012

By: /s/Todd R. Hackett
Todd R. Hackett
Director

