

PCS EDVENTURES COM INC
Form 10-Q
August 12, 2009

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 June 30, 2009

[] 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

82-0475383

(State or Other Jurisdiction of

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

incorporation or organization)

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 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 [X]

**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 and 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:

July 31, 2009

38,017,482 Shares of Common Stock.

PART I

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.

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PCS EDVENTURES!.COM, INC.

Consolidated Balance Sheets

ASSETS

June 30, 2009

March 31, 2009

(unaudited)

(audited)

CURRENT ASSETS

Cash

\$ 592,301

\$ 548,443

Accounts receivable, net of
allowance for doubtful
accounts of \$1,573 and
\$1,573, respectively

235,161

339,430

Interest receivable

6,062

2,650

Prepaid expenses	9,460
	17,824
Deferred costs	20,286
	792
Finished goods inventory	223,749
	268,143
Total Current Assets	1,087,019
	1,177,282

FIXED ASSETS, net of accumulated depreciation of \$119,649 and \$110,424, respectively	114,217
	113,662

EDUCATIONAL SOFTWARE, net of accumulated amortization of \$183,086 and \$162,531, respectively	
--	--

197,263

161,610

INTELLECTUAL
PROPERTY, net of
accumulated amortization of
\$519,385 and \$498,072,
respectively

18,750

37,500

GOODWILL

202,688

202,688

OTHER ASSETS

Mod cost

27,636

28,134

Deposits

7,371

7,371

Total Other Assets

35,007

35,505

TOTAL ASSETS

\$ 1,654,944

\$ 1,728,247

The accompanying notes are an integral part of these financial statements

PCS EDVENTURES!.COM, INC.

Consolidated Balance Sheets

LIABILITIES &
STOCKHOLDERS'
EQUITY

June 30, 2009

March 31, 2009

(unaudited)

(audited)

CURRENT
LIABILITIES

Accounts payable
and other current
liabilities

\$ 151,618

	\$ 213,581
Accrued compensation	
	41,139
	6,960
Payroll liabilities payable	
	14,201
	12,377
Accrued expenses	
	133,364
	146,847
Deferred revenue	
	399,909
	97,603
Notes payable	
	2,485
	6,142
Total Current Liabilities	
	742,716
	483,510
Total Liabilities	
	742,716
	483,510

STOCKHOLDERS'
EQUITY

Preferred stock, no
par value,
20,000,000

-

-

authorized
shares, no shares
issued and
outstanding

Common stock, no
par value,
60,000,000

31,881,934

31,658,921

authorized shares,
38,017,482 and
37,660,200 shares
issued and
outstanding,
respectively

Stock payable

12,448

90,409

Accumulated
comprehensive loss

(16,577)

	(32,195)
Accumulated deficit	
	(30,965,577)
	(30,472,398)
Total Stockholders' Equity	
	912,228
	1,244,737
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	
	\$ 1,654,944
	\$ 1,728,247

The accompanying notes are an integral part of these financial statements

PCS EDVENTURES!.COM, INC.

Consolidated Statements of Operations

For the Three
Months Ended

June 30,

2009

2008

REVENUES

(unaudited)

(unaudited)

Lab revenue

\$ 440,024

\$ 887,745

License revenue

24,858

53,035

Total Revenues

464,882

940,780

COST OF SALES

230,908

554,657

GROSS PROFIT

233,974

386,123

**OPERATING
EXPENSES**

Salaries and wages

300,557

286,366

Depreciation and
amortization expense

27,410

37,752

Gain on forgiveness
of debt

-

97,195

Loss on stock
compensation

2,740

-

General and
administrative
expenses

386,659

303,658

Total Operating
Expenses

717,366

724,971

OPERATING LOSS

(483,392)

(338,848)

OTHER INCOME
AND EXPENSES

Interest income

4,756

4,878

Other income

28,954

315

Other expense

-

(5,008)

Total Other Income
and Expenses

33,710

185

NET LOSS

(449,682)

(338,663)

Foreign currency
translation

15,618

1,369

NET
COMPREHENSIVE
LOSS

\$ (434,064)

\$ (337,294)

Loss per Share Basic
and Diluted

\$ (0.01)

\$ (0.01)

Weighted Average
Number of Shares
Outstanding

37,721,262

32,657,473

The accompanying notes are an integral part of these financial statements

PCS EDVENTURES!.COM, INC.

Consolidated Statement of Stockholders' Equity

(Unaudited)

Other

Total

Common Stock

Stock

Accumulated

Comprehensive

Stockholders'

(shares/amount)

Payable

Deficit

Income

Equity

Balance at
March 31, 2009

37,660,200

\$ 31,658,921

\$ 90,409

\$
(30,472,398)

\$ (32,195)

\$ 1,244,737

Change in
Accounting
Policy

-

-

-

(43,497)

-

(43,497)

Stock for
Exercise of
Options

234,976

2,600

-

-

-

2,600

Stock for
Services

47,306

42,500

(14,211)

-

-

28,329

Stock for
Settlement

75,000

63,750

(63,750)

-

-

-

Option Expense

-

114,163

-

-

-

114,163

Foreign
Currency
Translation

-
-
-
-

15,618

15,618

Net Loss

-

-
-
(449,682)
-
(449,682)

Balance at June
30, 2009
38,017,482
\$ 31,881,934
\$ 12,448
\$ (30,965,577)
\$ (16,577)
\$ 912,228

The accompanying notes are an integral part of these financial statements

PCS EDVENTURES!.COM, INC.
Consolidated Statements of Cash Flows
(unaudited)

For the Three
Months Ended

June 30,

2009

2008

CASH FLOWS
FROM
OPERATING
ACTIVITIES

Net Loss

\$ (449,682)

\$
(338,663)

Adjustments to
reconcile net loss
to net cash
provided by
operating
activities:

Depreciation

27,410

37,365

Amortization of
fair value of
stock options

114,163

97,147

Stock and
options issued
for services

28,329

48

Change in
accounting
policy

(43,497)

-

Changes in
operating assets
and liabilities:

Decrease in
accounts
receivable

104,269

273,190

37

Decrease in
prepaid expenses

8,363

-

Increase in
interest
receivable

(3,411)

-

(Increase)
decrease in
inventories

44,891

(11,692)

Decrease in
deferred costs

(19,493)

-

(Decrease)
increase in

accounts payable
and accrued
liabilities

(39,482)

5,302

Increase in
unearned
revenue

302,305

445,180

Increase in other
assets

-

(21,071)

Net Cash
Provided by
Operating
Activities

74,165

486,806

CASH FLOWS
FROM
INVESTING
ACTIVITIES

Capitalized
software
development
expense

(42,996)

(39,027)

Cash outflow
from fixed asset
purchase

(1,871)

-

Net Cash Used
by Investing
Activities

(44,867)

(39,027)

CASH FLOWS
FROM
FINANCING
ACTIVITIES

Payments on
notes payable

(3,658)

(4,588)

Proceeds from
common stock,
exercise of
options, and
warrant
conversion

2,600

372,800

Net Cash
Provided (Used)
by Financing
Activities

(1,058)

368,212

Foreign currency
translation

15,618

1,369

Net Increase in
Cash

43,858

817,360

Cash at
Beginning of
Year
548,443

1,082,622

Cash at End of
Year
\$ 592,301

\$ 1,899,982

The accompanying notes are an integral part of these financial statements

PCS EDVENTURES!.COM, INC.

Consolidated Statements of Cash Flows (continued)

(Unaudited)

For the Three
Months Ended

June 30,

2009

2008

CASH PAID
FOR:

Interest

\$
-

\$ -

Income taxes

\$

-

\$ -

For the Three
Months Ended

June 30,

2009

2008

NON-CASH
TRANSACTIONS:

Stock for payable

\$ 90,409

\$ -

PCS EDVENTURES!.COM, INC

Notes to the Consolidated Financial Statements

June 30, 2009

(unaudited)

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS

On August 3, 1994, PCS Edventures!.com, Inc., was incorporated under the laws of Idaho to engage in web-based and site-licensable educational products.

In October 1994, an agreement was authorized allowing the Company to exchange, on a one-for-one basis, common stock for stock of PCS Schools, Inc. As a result of this agreement, PCS Schools, Inc. became a wholly owned subsidiary of the Company. In the late 1990 s, 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, the Company changed its name from PCS Education Systems, Inc. to PCS Edventures!.com, Inc.

On November 30, 2005, the Company entered into an agreement with 511092 N.B. LTD. dba LabMentors to exchange PCS stock for stock of 511092 N.B. LTD. as disclosed in the 8-K as filed with the Securities and Exchange Commission (SEC) on December 9, 2005, and amended on February 15, 2006. As a result of the 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 remained a Canadian corporation.

NOTE 2 - UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The June 30, 2009 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 principals 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 (PCS or the Company) for the year ended March 31, 2009. The June 30, 2009, consolidated balance sheet is derived from the audited balance sheet included therein.

The operating results for the three-month period ended June 30, 2009, are not necessarily indicative of the results that may be expected for the year ending March 31, 2010.

NOTE 3 - GOING CONCERN

The Company's consolidated financial statements are prepared using Generally Accepted Accounting Principals applicable to a going concern that contemplates the realization of assets and liquidation of liabilities in the normal course of business. The established source of revenues is not sufficient to cover its operating costs. Although the Company has positive working capital, it has accumulated significant losses. 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 quarter ended June 30, 2009, the Company continued to strengthen its strategic alliances with K NEX, Science Demo, fischertechnik, MR Block, Integrating Technology, Minds-i, Follette, Whole School, Trudy Corporation and Eduwise for further product development and enhancement. With the addition of a Marketing Director, in August of 2008, the Company has developed clearly defined plans to align product development and marketing efforts to further penetrate the educational market. The marketing campaign is focused on distinct segments within the education market to more clearly communicate the products' competitive positioning in both the Domestic and International markets. Additionally, the Company is actively developing branding, product identity, and messaging that is specifically aligned to target market segments.

PCS EDVENTURES!.COM, INC

Notes to the Consolidated Financial Statements

June 30, 2009

(unaudited)

NOTE 3 - GOING CONCERN (continued)

The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish the plans described in the preceding paragraph and eventually 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 - FIXED ASSETS

Assets and depreciation for the periods are as follows:

	June 30,	March 31,
	2009	2009
Computer/office equipment		
	\$ 20,157	\$ 19,606

Server equipment	
	123,334
	114,105
Software	
	90,375
	90,375
Accumulated depreciation	
	(119,649)
	(110,424)
Total Fixed Assets	
	\$ 114,217
	\$ 113,662

NOTE 5 - EDUCATIONAL SOFTWARE

The Company's inventory consists of internally developed educational computer programs and exercises to be accessed on the Internet. In accordance with Statement of Financial Accounting Standards (FAS) No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed, the costs associated with research and initial feasibility of the programs and exercises are expensed as incurred. Once economic feasibility has been determined, the costs to develop the programs and exercises are capitalized until they are ready for sale and access and are reported at the lower of unamortized cost or net realizable value. Capitalized program and exercise inventory are amortized on a straight-line basis over the estimated useful life of the program or exercise, generally 36 to 48 months.

NOTE 6 - INTELLECTUAL PROPERTY

The Company's intellectual property consists of capitalized costs associated with the development of the Internet software and delivery platform developed by the Company to enable access to the various educational programs and exercises developed by the Company. In accordance with FAS 86 as discussed previously regarding inventory, the initial costs associated with researching the delivery platform and methods were expensed until economic feasibility

and acceptance were determined. Thereafter, costs incurred to develop the Internet delivery platform and related environments were capitalized until ready for use and able to deliver and access the Company's educational programs and exercises. Costs incurred thereafter to maintain the delivery and access platform are expensed as incurred. These capitalized costs are being amortized on a straight-line basis over the estimated useful life of the delivery and access platform, which has been determined to be 36 to 60 months.

NOTE 7 - GOODWILL

The goodwill balance of \$202,688 at June 30, 2009, is related to the Company's acquisition of PCS LabMentors in December 2005. With the acquisition of PCS LabMentors, the Company gained LabMentors' significant interest in the technical college market and increased the products available to educational outlets. The Company also obtained the information technology and programming expertise of LabMentors' workforce, additional cost optimization, and greater market flexibility in optimizing market information and access to collegiate level sales.

PCS EDVENTURES!.COM, INC

Notes to the Consolidated Financial Statements

June 30, 2009

(unaudited)

NOTE 7 GOODWILL (continued)

We account for goodwill and other intangible assets in accordance with FAS 142, Goodwill and Other Intangible Assets. Under FAS 142, goodwill and intangible assets with indefinite lives are not amortized to expense and must be reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that impairment might have occurred. The first step used to identify potential impairment is the comparison of the fair value of the item with its carrying amount, including goodwill and intangible assets with indefinite lives. We operate as one company, and, therefore, compare our book value to market value, which management must determine upon review based on similar transactions. If our fair value exceeds our book value, our goodwill is considered not impaired. If the book value exceeds the fair value, the goodwill is considered impaired and management must measure the amount of impairment loss, if any. For the measurement step, if the carrying amount of the goodwill exceeds the estimated fair value of the goodwill, an impairment loss would be recognized in an amount equal to that excess. The fair value estimate requires that future cash flows relating to the acquisition, in this case, be forecasted. These forecasts require management to make assumptions on the future sale of current and future products and services, future market conditions, technological advances, future growth rates, and discount rates utilized. Any loss recognized cannot exceed the carrying amount of the goodwill. After an impairment loss is recognized, the adjusted carrying amount of goodwill is its new accounting basis.

We undertook an impairment review at the end of the prior fiscal year ended March 31, 2009. After reviewing the prior operating losses and future growth potential of the subsidiary, the Company determined that an impairment of \$282,550 was necessary.

NOTE 8 - ACCRUED EXPENSES

Accrued expenses for the periods are as follows:

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June 30,

March 31,

2009

2009

Credit card debt

\$ 26,296

\$ 33,722

Professional fees:
legal

-

22,203

Director fees

107,207

92,207

Sales tax payable

223

-

GST payable

(362)

(1,285)

Total Accrued
Expenses

\$ 133,364

\$ 146,847

NOTE 9 - 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 expires in May 2012.

Fiscal Year	
Yearly Obligation	
2010	
\$	116,546
2011	
	119,892
2012	
	123,238
2013	
	20,633
Total	
\$	380,309

Rent expense for the corporate offices was \$29,761 and \$27,603 for the quarters ended June 30, 2009 and 2008, respectively, under this lease arrangement.

PCS EDVENTURES!.COM, INC

Notes to the Consolidated Financial Statements

June 30, 2009

(unaudited)

a. Operating Lease Obligation (continued)

The Company leases additional warehouse space in Boise, Idaho. This warehouse space consists of approximately 2,880 square feet. Rent obligations are approximately \$1,510/month through February 28, 2010. Rent expense was \$5,136 and \$4,926 for the quarters ended June 30, 2009 and 2008, respectively.

The Company leases space for the LabMentors subsidiary located in Fredericton, New Brunswick, Canada. This space consists of approximately 1,200 square feet. Rent obligations are \$932/month through July 31, 2009. There is a one (1) year renewal option effective August 1, 2009 at \$565/month plus utilities. Rent expense was \$1,462 and \$3,150 for the quarters ended June 30, 2009 and 2008, respectively.

b. Litigation

(i) PCS Edventures!.com Inc., v. Jackie DeLuna and Infusing Technology K12, LLC (United States District Court for the district of Idaho, Case NO. CV-08-00379-BLW). The Company initiated this trademark infringement suit against defendants. Defendants have asserted counterclaims for trademark and copyright infringement, misappropriation of trade secrets, and breach of contract claims based on alleged underpayment of royalties under two license agreements with the Company. Defendants seek an accounting, but have not stated the amount of alleged underpayment of royalties. The Company believes that it has fully paid all royalties owed to defendants and that it has meritorious defenses to defendants' intellectual property counterclaims. The Company intends to file a motion to dismiss the counterclaims.

(ii) Pending non-public SEC investigation: There is a pending non-public investigation by the SEC under an order dated July 24, 2008, to determine whether there have been any violations by the Company or members of its management or staff of certain provisions of the Securities Act and the Exchange Act, respecting disclosures made by

the Company in its 8-K Current Report dated March 27, 2007, of material facts related to its March 28, 2007, Press Release that announced a License Agreement with Global Techniques dba PCS Middle East (PCS ME), including a number of rules of the SEC promulgated under the Exchange Act respecting book and record keeping procedures, transactions, internal controls and certain matters related to its relationships with its prior auditors, all apparently related to the PCS ME disclosures and agreements and the accounting treatment of these matters and sales of shares of common stock by members of management during this period of time. The amount due under the License Agreement was not paid when due as disclosed in the Company's 8-K/A Current Report dated March 27, 2007, and filed with the SEC on May 17, 2007. The Company had a prior five year relationship with PCS ME at the time of the announcement of the License Agreement. Except for a loan made by the Company of \$250,000 to PCS ME and Mohamed Yasser Refai, its principal and principal owner, jointly, on or about October 1, 2007, and disclosed in the Company's 8-K Current Report of that date, the Company had and currently has no interest in PCS ME. The loan was due on the earlier of the payment of the License Agreement or January 31, 2008, and secured by an Assignment of Equity amounting to a 25% interest in PCS ME; the loan was written off on December 31, 2007, when not paid. However, the Company has continued the licensing of its educational products in the Middle East with PCS ME, having sold additional PCS products for approximately \$160,000 since 2007. The Company and PCS ME also continue to work on completing the entire License Agreement disclosed on March 27, 2007, and the over-all project that is tied to that agreement. The disclosed License Agreement was never booked in the Company's public financial statements as it was not paid by the time its audit at March 31, 2007, was completed; nor was the Press Release approved by the Company's auditors prior to its dissemination on March 28, 2007; and because the \$250,000 loan to PCS ME was not paid when due, it was written off. Management believes that it acted reasonably in making the disclosures relative to these matters; however, no assurance can be given that the SEC will not determine that the Company and members of management have violated applicable securities laws, rules and regulations in connection with the foregoing, and that an enforcement proceeding will not be instituted against the Company or members of its management in the future that could have an adverse effect on its business and financial condition or otherwise. Depositions of certain directors and executive officers were taken by the SEC in late June, 2009, and focused on what the SEC believes to be apparent discrepancies in the factors upon which the Company relied upon in forming its reasonable basis for announcing the License Agreement, including that payment under the License Agreement was

PCS EDVENTURES!.COM, INC

Notes to the Consolidated Financial Statements

June 30, 2009

(unaudited)

b. Litigation (continued)

contingent upon PCS ME obtaining payment from the subject Middle Eastern country that would become the ultimate licensee of the product, which the Company believed was imminent, along with auditor and internal control concerns about whether the License Agreement was collectible or bookable and the sales of certain shares of the Company's common stock by four members of management during this period as outlined below. Based upon this line of examination, there is a reasonable likelihood that the SEC may recommend some form of legal action against the Company and/or certain members of its management.

Members of management sold an aggregate of 164,500 shares of the Company's common stock between April 2, 2007, and May 9, 2007, for total proceeds of \$337,000. May 15, 2007, was the date of the filing of the 8-K/A that indicated that payment under the License Agreement had been delayed.

To date, the Company continues to attempt to complete the License Agreement and believes the project surrounding this license issue remains viable and will commence at some point. There have been many delays, and each one has been determined to be reasonable such as the replacement of various personnel within the Ministry of Education of the subject Middle Eastern governmental agency, the creation of a separate holding company by the eventual licensee to manage the project in a more efficient manner and the introduction of small scale pilot programs in which PCS has participated.

NOTE 10 - STOCKHOLDERS' EQUITY

During the three-month period ended June 30, 2009, the Company issued 20,000 shares of common stock for the exercise of employee stock options, and received cash proceeds of \$2,600.

During the three-month period ended June 30, 2009, the Company issued 214,976 shares of common stock for the exercise of employee stock options issued in a cashless transaction.

During the three-month period ended June 30, 2009, the Company issued 47,306 shares of common stock for services, valued at \$28,329, based on the closing price of the Company's common stock on the date of grant. Of this, \$14,211 was for the release of the stock payable liability at March 31, 2009.

During the three-month period ended June 30, 2009, the Company issued 75,000 shares of common stock for a legal settlement, valued at \$63,750, based on the closing price of the Company's common stock on the date of grant. This was for the release of the stock payable liability at March 31, 2009.

During the three-month period ended June 30, 2009, the Company expensed amounts related to stock options granted in prior periods in accordance with FAS 123(R), valued at \$114,163.

On January 1, 2006, the Company adopted FAS 123(R), Accounting for Stock-Based Compensation, which establishes accounting for stock-based payment transactions for employee services and goods and services received from non-employees. FAS 123(R) is a revision of SFAS 123, Accounting for Stock-Based Compensation, and supersedes APB 25, Accounting for Stock Issued to Employees. 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 FAS 123(R). FAS 123(R) 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 pronouncement 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.

PCS EDVENTURES!.COM, INC

Notes to the Consolidated Financial Statements

June 30, 2009

(unaudited)

NOTE 11 - BASIC AND DILUTED NET LOSS PER COMMON SHARE

Basic and diluted net loss per common share for the three-month periods ended June 30, 2009 and 2008, are based on 37,721,262 and 32,657,473, 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 12 DEPRECIATION AND AMORTIZATION EXPENSE

During the period ended June 30, 2009, the Company had depreciation expense of \$27,410. This amount was related to depreciation of fixed assets, educational software, and intellectual property for the quarter.

NOTE 13 CHANGE IN ACCOUNTING POLICY

Effective April 1, 2009, the Company changed its revenue recognition policy to recognize product revenue when the weighted average cost of goods reached 100% shipped. The Company continues to rely on Staff Accounting Bulletin 104, Revenue Recognition in Financial Statements, in which revenue is recognized when it is realizable and when earned. We believe this change to be more conservative and will not create a material effect on our financial statements. In addition, it will allow for revenue to be uniformly applied Company wide and allow for greater transparency to users of the financial statements, in that it is less complicated and a more commonly used manner of recognition.

NOTE 14 - SUBSEQUENT EVENTS

The Company has evaluated subsequent events from the balance sheet date through August 11, 2009, and has concluded that there are none.

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, 2009.

Plan of Operation

PCS intends to continue to operate in the same manner as prior years, conducting on-going research into the needs of the education market in order to identify viable business opportunities. The Company will continue with the development of varying product lines to further complement and grow the current product lines as well as enhance marketing efforts to more effectively penetrate the world market. PCS LabMentors will continue to expand into the collegiate market in addition to undertaking new projects with existing customers for an increased revenue base. At the same time, due to conditions in the general economy, and in keeping in line with our competitors and other companies in the educational market space, we are instituting essential cost saving programs, which will stay in place until revenues return to pre-recession levels.

Results of Operations

The quarter ended June 30, 2009, resulted in a net loss of (\$449,682) as compared to the net loss during the quarter ended June 30, 2008, of (\$338,663). The Company has increased its losses from the prior fiscal year, same three-month period by \$111,019, or approximately thirty three percent (33%). The Basic Loss per Share for the quarter ended June 30, 2009, is (\$0.01), which is equivalent to the (\$0.01) loss per share for the three-month period ended June 30, 2008.

The non-GAAP financial measure of Earnings Before Interest, Taxes, and Depreciation (EBITDA) for the three-month period ended June 30, 2009, was a loss of approximately (\$427,165), as compared to the EBITDA loss for the three month period ended June 30, 2008, of approximately (\$305,789).

The non-GAAP financial measure of Earnings Before Interest, Taxes, Depreciation, FAS123(R) Option/Warrant Expense, and Stock Compensation for the three-month period ended June 30, 2009, was a loss of approximately (\$299,009) as compared to the Earnings Before Interest, Taxes, Depreciation, FAS123(R) Option/Warrant Expense, and Stock Compensation for the three-month period ended June 30, 2008, of approximately (\$208,594).

Revenues for the three-month period ended June 30, 2009, decreased to \$464,882 or by approximately \$475,898, or fifty-one percent (51%) as compared to revenues of \$940,780 for the three-month period ended June 30, 2008. This decrease is attributable to the hesitation surrounding the general economy, a change in federal and state funding

schedules, as well as a decrease in the expenditure of grant monies by some school districts. We do not believe these circumstances are recurring.

Operating expenses for the three-month period ended June 30, 2009, decreased by approximately \$7,605 or one percent (1%) to \$717,366 as compared to operating expenses of \$724,971 for the three-month period ended June 30, 2008 . This decrease was partially due to a decrease in payroll of 10% for employees and 20% for management in an effort to respond to the changing economic climate, as well as the implementation of a more direct and structured marketing strategy.

Liquidity

As of June 30, 2009, we had \$592,301 in cash, with total current assets of \$1,087,019 and total current liabilities of \$742,716. We have an accumulated deficit of (\$30,965,577) and stockholders equity of \$912,228.

The Company has a current ratio of 1.46. The ratio indicates that we have effectively managed debt and have available resources to help continue company growth through internal and external means. We have utilized the current ratio over a quick ratio due to the fact that most items in inventory are easily saleable should the need to liquidate arise.

The Company has working capital of \$344,303 at June 30, 2009. The working capital indicates that our ability to pay current debt obligations through our current assets is favorable.

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 4T. Controls and Procedures

Changes in Internal Control Over Financial Reporting.

Our management, with the participation of our chief executive officer and our acting CFO, evaluated the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals

Based on that evaluation, Anthony A. Maher, the chief executive officer and our acting CFO, concluded that, as of June 30, 2009 our disclosure controls and procedures were, subject to the limitations noted above, effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules, regulations and forms, and that such information is accumulated and communicated to our management, including our chief executive officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting .

Our management, with the participation of the chief executive officer and our acting CFO, has concluded there were no significant changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

(i) PCS Edventures!.com Inc., v. Jackie DeLuna and Infusing Technology K12, LLC (United States District Court for the district of Idaho, Case NO. CV-08-00379-BLW). The Company initiated this trademark infringement suit against defendants. Defendants have asserted counterclaims for trademark and copyright infringement, misappropriation of trade secrets, and breach of contract claims based on alleged underpayment of royalties under two license agreements with the Company. Defendants seek an accounting, but have not stated the amount of alleged underpayment of royalties. The Company believes that it has fully paid all royalties owed to defendants and that it has meritorious defenses to defendants' intellectual property counterclaims. The Company intends to file a motion to dismiss the counterclaims.

(ii) Pending non-public SEC investigation: There is a pending non-public investigation by the SEC under an order dated July 24, 2008, to determine whether there have been any violations by the Company or members of its management or staff of certain provisions of the Securities Act and the Exchange Act, respecting disclosures made by the Company in its 8-K Current Report dated March 27, 2007, of material facts related to its March 28, 2007, Press Release that announced a License Agreement with Global Techniques dba PCS Middle East (PCS ME), including a number of rules of the SEC promulgated under the Exchange Act respecting book and record keeping procedures, transactions, internal controls and certain matters related to its relationships with its prior auditors, all apparently related to the PCS ME disclosures and agreements and the accounting treatment of these matters and sales of shares of common stock by members of management during this period of time. The amount due under the License Agreement was not paid when due as disclosed in the Company's 8-K/A Current Report dated March 27, 2007, and filed with the SEC on May 17, 2007. The Company had a prior five-year relationship with PCS ME at the time of the announcement of the License Agreement. Except for a loan made by the Company of \$250,000 to PCS ME and Mohamed Yasser Refai, its principal and principal owner, jointly, on or about October 1, 2007, and disclosed in the Company's 8-K Current Report of that date, the Company had and currently has no interest in PCS ME. The loan was due on the earlier of the payment of the License Agreement or January 31, 2008, and secured by an Assignment of Equity amounting to a 25% interest in PCS ME; the loan was written off on December 31, 2007, when not paid. However, the Company has continued the licensing of its educational products in the Middle East with PCS ME, having sold additional PCS products for approximately \$160,000 since 2007. The Company and PCS ME also continue to work on completing the entire License Agreement disclosed on March 27, 2007, and the over-all project that is tied to that agreement. The disclosed License Agreement was never booked in the Company's public financial statements as it was not paid by the time its audit at March 31, 2007, was completed; nor was the Press Release approved by the Company's auditors prior to its dissemination on March 28, 2007; and because the \$250,000 loan to PCS ME was not paid when due, it was written off. Management believes that it acted reasonably in making the

disclosures relative to these matters; however, no assurance can be given that the SEC will not determine that the Company and members of management have violated applicable securities laws, rules and regulations in connection with the foregoing, and that an enforcement proceeding will not be instituted against the Company or members of its management in the future that could have an adverse effect on its business and financial condition or otherwise. Depositions of certain directors and executive officers were taken by the SEC in late June, 2009, and focused on what the SEC believes to be apparent discrepancies in the factors upon which the Company relied upon in forming its reasonable basis for announcing the License Agreement, including that payment under the License Agreement was contingent upon PCS ME obtaining payment from the subject Middle Eastern country that would become the ultimate licensee of the product, which the Company believed was imminent, along with auditor and internal control concerns about whether the License Agreement was collectible or bookable and the sales of certain shares of the Company's common stock by three members of management during this period as outlined below. Based upon this line of examination, there is a reasonable likelihood that the SEC may recommend some form of legal action against the Company and/or certain members of its management.

Members of management sold an aggregate of 161,500 shares of the Company's common stock between April 2, 2007, and May 9, 2007, for total proceeds of \$330,460. May 15, 2007, was the date of the filing of the 8-K/A that indicated that payment under the License Agreement had been delayed.

To date, the Company continues to attempt to complete the License Agreement and believes the project surrounding this license issue remains viable and will commence at some point. There have been many delays, and each one has been determined to be reasonable such as the replacement of various personnel within the Ministry of Education of the subject Middle Eastern governmental agency, the creation of a separate holding company by the eventual licensee to manage the project in a more efficient manner and the introduction of small scale pilot programs in which PCS has participated.

Item 2. Recent Sale of Unregistered Securities.

Sales of Unregistered Securities During the Last Quarter.

Common

Preferred

Description

Shares

Amount

Shares

Amount

Consultants
(1)

38,264

\$

9,305

-

-

Employee (2)

9,042

\$

6,536

-

-

Employee (3)

234,976

\$

2,600

-

-

Settlement (4)

102,726

\$

90,409

-

-

(1) These shares were issued in exchange for services.

(2) These shares were issued in exchange for services.

(3) These shares were issued due to the exercise of stock options, of which 214,976 shares of common stock were issued in a cashless transaction.

(4) These shares were issued to release the stock payable liability at March 31, 2009.

We issued all of these securities to persons who were accredited investors as those terms are defined in Rule 501 of Regulation D of the Securities and Exchange Commission; and each such person had prior access to all material information about us. We believe that the offer and sale of these securities were 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 Securities and Exchange Commission. Registration of sales to accredited investors are preempted from state regulation, though states may require the filing of notices, a fee and other administrative documentation like consents to service of process and the like.

Item 3. Defaults Upon Senior Securities.

None; not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

On August 19, 2008, the Company held its Annual Meeting of Shareholders at its principal location in Boise, Idaho. A quorum was represented at the meeting in person and via proxy. Of the 37,062,568 shares outstanding at the record date, 19,525,617 proxies had been received by the Company.

At the Annual Meeting, one proposal was brought forth for vote by the shareholders. This item of business was to re-elect the Board of Directors until the next annual meeting. Of the total number of proxies received, each member of the Board of Directors standing for election had received in excess of 19,300,000 votes in favor. The Board of Directors was re-elected as follows:

Board of
Directors

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For

Against

Abstain

Anthony
A. Maher

19,396,500

129,117

-

Donald J.
Farley

19,337,976

137,541

100

Cecil D.
Andrus

19,457,140

68,377

100

Dehryl A.
Dennis

19,498,140

27,377

100

Michael K.
McMurray

19,449,253

68,617

100

Item 5. Other Information.

None; not applicable.

Item 6. Exhibits.

Identification of Exhibit

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Preferability Letter regarding change in accounting principal from independent auditor.
Filed herewith.

Rule 13a-14(a) or 15d-14(a) Certification of the Registrant's principal executive officer.
Filed herewith.

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.

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:

August 12, 2009

By:

/s/ Anthony A. Maher

Anthony A. Maher

CEO, President, Chairman of the Board of

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Directors, and acting CFO

(principal executive 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:

August 12, 2009

By:

/s/ Donald J. Farley

Donald J. Farley

Secretary and Director

Dated:

August 12, 2009

By:

/s/ Cecil D Andrus

Cecil D. Andrus

Director

Dated:

August 12, 2009

By:

/s/ Dehryl A Dennis

Dehryl A. Dennis

Director

Dated:

August 12, 2009

By:

/s/ Michael K. McMurray

Michael K. McMurray

Director

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