

PCS EDVENTURES COM INC  
Form 10-Q  
November 14, 2011

**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, 2011**

**[ ] 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.)

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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 [X]

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**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, 2011: 43,882,246 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.



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## PCS EDVENTURES!.COM, INC.

## Consolidated Balance Sheets

	<b>ASSETS</b>	
	September 30, 2011 (Unaudited)	March 31, 2011 (Audited)
<b>CURRENT ASSETS</b>		
Cash	\$ 65,441	\$ 215,780
Accounts receivable, net of allowance for doubtful accounts of \$3,279	420,286	277,983
Prepaid expenses	71,141	42,921
Finished goods inventory	161,111	108,459
Other receivable	1,752	78,345
<b>Total Current Assets</b>	<b>719,731</b>	<b>723,488</b>
<b>FIXED ASSETS, net of accumulated depreciation of \$212,815 and</b>		
<b>\$208,577, respectively</b>	<b>94,332</b>	<b>108,490</b>
<b>EDUCATIONAL SOFTWARE, net of accumulated amortization of</b>		
<b>\$296,822 and \$267,508, respectively</b>	<b>136,617</b>	<b>199,450</b>
<b>GOODWILL</b>	<b>202,688</b>	<b>202,688</b>
<b>OTHER ASSETS</b>		
Mold cost	21,812	22,854
Deposits	7,802	7,835
<b>Total Other Assets</b>	<b>29,614</b>	<b>30,689</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,182,982</b>	<b>\$ 1,264,805</b>

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



## PCS EDVENTURES!.COM, INC.

## Consolidated Balance Sheets

**LIABILITIES & STOCKHOLDERS' EQUITY**

	September 30, 2011 (Unaudited)	March 31, 2011 (Audited)
<b>CURRENT LIABILITIES</b>		
Accounts payable and other current liabilities	\$ 485,699	\$ 323,893
Payroll liabilities payable	49,867	20,975
Accrued expenses	173,395	149,066
Deferred revenue	128,752	66,156
Convertible notes payable, net of discount	315,000	96,680
Note payable, net of discount	-	92,713
Line of credit payable	39,050	-
Total Current Liabilities	1,191,763	749,483
Total Liabilities	1,191,763	749,483
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, no par value, 20,000,000 authorized shares, no shares issued and outstanding	-	-
Common stock, no par value, 60,000,000 authorized shares, 43,422,246 and 42,699,529 shares issued and outstanding, respectively	35,414,524	35,007,464
Stock payable	67,082	74,418
Accumulated comprehensive income	(9,825)	13,420
Accumulated deficit	(35,480,562)	(34,579,980)
Total Stockholders' Equity	(8,781)	515,322
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,182,982</b>	<b>\$ 1,264,805</b>

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



## PCS EDVENTURES!.COM, INC.

## Consolidated Statements of Operations

(Unaudited)

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2011	2010	2011	2010
REVENUES				
			\$	
Lab revenue	\$ 744,790	\$ 446,589	1,296,574	\$ 901,743
License revenue	9,593	28,855	21,599	58,942
Total Revenues	754,383	475,444	1,318,173	960,685
COST OF SALES	311,913	203,512	587,344	384,141
GROSS PROFIT	442,470	271,932	730,829	576,544
OPERATING EXPENSES				
Salaries and wages	295,969	446,160	600,206	738,210
Depreciation and amortization	11,782	16,548	67,122	39,664
General and administrative expenses	357,837	570,684	746,489	955,863
Total Operating Expenses	665,588	1,033,392	1,413,817	1,733,737
OPERATING LOSS	(223,118)	(761,460)	(682,988)	(1,157,193)
OTHER INCOME AND EXPENSES				
Interest income	46	932	123	1,901
Interest expense	(83,719)	-	(228,796)	-
Other income	78,421	-	79,672	-
Other expense	(67,432)	(595)	(68,593)	(1,205)
Total Other Income and Expenses	(72,684)	337	(217,594)	696
NET LOSS	(295,802)	(761,123)	(900,582)	(1,156,497)
Foreign currency translation	(20,905)	5,533	(23,245)	(10,403)
NET COMPREHENSIVE LOSS	\$ (316,707)	\$ (755,590)	(923,827)	\$ (1,166,900)
Loss per Share Basic and Diluted	(\$0.01)	(\$0.02)	(\$0.02)	(\$0.03)
Weighted Average Number of Shares Outstanding				
Basic and Diluted	43,009,239	40,838,176	42,919,612	40,520,096

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



## PCS EDVENTURES!.COM, INC.

## Consolidated Statements of Stockholders' Equity (Deficit)

(Unaudited)

	# of Common Shares O/S	Capital Stock	Stock Payable	Accumulated Deficit	Other Comprehensive Income	Total Stockholders' Equity (Deficit)
Balance at 03/31/11	42,699,529	\$ 35,007,464	\$ 74,418	\$ (34,579,980)	\$ 13,420	\$ 515,322
Stock for Services	466,245	103,198	9,664	-	-	112,862
Stock for RSU's	176,472	38,824	(45,000)	-	-	(6,176)
Warrants Expense	-	90,211	-	-	-	90,211
Exercise of Warrants	-	-	36,000	-	-	36,000
Option Expense	-	90,689	-	-	-	90,689
Stock for Cash	80,000	8,000	(8,000)	-	-	-
Debt Discount	-	76,138	-	-	-	76,138
Foreign Currency Translation	-	-	-	-	(23,245)	(23,245)
Net Loss through 09/30/2011	-	-	-	(900,582)	-	(900,582)
Balance at 09/30/2011 (unaudited)	43,422,246	\$ 35,414,524	\$ 67,082	\$ (35,480,562)	\$	\$ (8,781)

\$  
(9,825)

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,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Loss	\$ (900,582)	\$ (1,156,497)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Debt discount amortization	201,745	-
Depreciation and amortization	67,122	39,664
Common stock issued for services	80,721	266,369
Gain on stock issued for services and compensation	(42,616)	-
Stock payable for service	68,582	-
Amortization of fair value of stock options	90,689	198,053
Warrants issued for extension of debt	90,211	-
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(142,303)	24,283
(Increase) decrease in prepaid expenses	(28,220)	(34,776)
(Increase) decrease in other receivables	-	(9,080)
(Increase) decrease in inventories	(52,652)	21,163
(Increase) decrease in other assets	76,593	(8,303)
(Decrease) increase in accounts payable and accrued liabilities	229,170	96,603
Increase (decrease) in unearned revenue	62,596	(12,154)
Net Cash Used by Operating Activities	(198,944)	(574,675)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash paid for purchase of fixed assets	(3,200)	-
Net Cash Used by Investing Activities	(3,200)	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from exercise of options	-	27,000
Proceeds from exercise of warrants	36,000	-
Proceeds from the purchase of stock	-	450,000
Proceeds from bank line of credit	39,050	-
Proceeds from note payable	100,000	-
Principal payments on debt	(100,000)	-
	75,050	
Net Cash Provided by Financing Activities		477,000

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Foreign currency translation	(23,245)	(10,403)
Net Decrease in Cash	(150,339)	(108,078)
Cash at Beginning of Period	215,780	290,141
Cash at End of Period	\$ 65,441	\$ 182,063

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,	
	2011	2010
Common stock issued for services (stock payable)	\$ 13,918	\$ 35,427
Common stock issued for conversion of RSUs (stock payable)	52,500	-
Debt discount	76,138	-
Common stock issued for cash (stock payable)	8,000	-

CASH PAID FOR:	For the Six Months Ended September 30,	
	2011	2010
Interest	\$ 1,458	\$ -
Income Taxes	\$ 800	\$ -

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

PCS EDVENTURES!.COM, INC

Notes to the Consolidated Financial Statements

September 30, 2011

(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, 2011, 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, 2011. The March 31, 2011, consolidated balance sheet is derived from the audited balance sheet included therein.

The operating results for the three-month and six-month periods ended September 30, 2011, are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2012.

### **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, 2011, the Company continued to strengthen and develop its core line of Science, Technology, Engineering and Mathematics (STEM) products and services. The Academy of Robotics was updated and enriched through the development of new curriculum and major technical upgrades. Additional volumes of curriculum in Pre-Algebra and Algebra I were completed. This series was developed by experts in the field of mathematics and in cooperation with the Boise School District. The development of robotics competition resources, including manuals, judging rubrics, and an overall competition framework, was completed

PCS EDVENTURES!.COM, INC

Notes to the Consolidated Financial Statements

September 30, 2011

(Unaudited)

and successfully launched with an international competition conducted in July 2010. In addition, extensive curriculum development around the Company's early childhood materials and the BrickLab professional development programs were completed and enhanced, and additional research from the Meridian District Boise State University research project was added to our research base for products. The Company was also successful in deploying additional education programs into Middle East partner sites including an expansion of the Al Riyadh Schools program in Saudi Arabia and the establishment of PCS programs in five experimental schools in Egypt. Both of these programs help to establish a foundation for possible additional expansion into Egypt and the Kingdom of Saudi Arabia. The Company expanded its University partnerships with Idaho State University, the University of Idaho and Florida Gulf Coast University this past fiscal year ending March 31, 2011.

In addition to these product changes and enhancements, the Company hired Valerie L. Grindle as Sr. Vice President of Finance and Administration and Chief Financial Officer effective March 2011. Ms. Grindle has extensive experience in financial reporting and strategic planning, a strong background and working experience in the development and implementation of budgeting and forecasting systems, as well as international accounting and business experience. Effective July 31, 2011, Ms. Grindle was appointed to serve as Chief Executive Officer and as a member of the Board of Directors to fill the vacancies created by the resignation of Anthony A. Maher from those positions on that date.

Ms. Grindle joined PCS having most recently served as CFO of Great American Appetizers, a privately-owned manufacturing company in Nampa, Idaho for two years. Previously, she founded and, from 1995 until 2009, operated a consulting practice that provided interim C-level executive services to companies. As a part of her consulting practice, Ms. Grindle orchestrated a turnaround as Chief Executive Officer and Member of the Board of Directors of a pharmaceutical reverse distribution company. During this engagement, she developed a solid management team, renegotiated credit lines and attracted additional equity investment.

The Company plans to capitalize on these changes and to use its understanding of the complexities of STEM subjects and its progressive methodologies to deliver solutions for educators to meet the growing demands of teaching STEM and integrating technology into classrooms. During the second quarter of FY 2012, ending September 30, 2011, the Company launched sales of its newest version of the controller for its robotics products, The Brain 4.0. In addition, the Company continues to review and analyze its marketing and sales strategies to strengthen and enhance market share and its unique positioning in the educational afterschool and professional development markets. The Company is also beginning a review of its business processes and procedures in order to establish and track clearly identified goals and objectives.

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 - FIXED ASSETS**

Assets and depreciation for the periods are as follows:

	September 30, 2011	March 31, 2011
Computer/office equipment	\$ 10,112	\$ 6,912
Server equipment	169,680	182,800
Software	127,355	127,355
Accumulated depreciation	(212,815)	(208,577)
Total Fixed Assets	\$ 94,332	\$ 108,490



PCS EDVENTURES!.COM, INC

Notes to the Consolidated Financial Statements

September 30, 2011

(Unaudited)

**NOTE 5 - EDUCATIONAL SOFTWARE**

Educational software was purchased by the Company as a part of its acquisition of 511092 N.B. LTD. In addition, the Company has internally developed education computer programs and student exercises to be accessed on the Internet. In accordance with financial accounting standards pertaining to internally developed software, the costs associated with research and initial feasibility of the programs and student exercises are expensed as incurred. Once economic feasibility has been determined, the costs to develop the programs and student exercises are capitalized until the software is ready for sale. At that point, the development costs are reported at the lower of unamortized cost or net realizable value. Capitalized programs and student exercise inventory items are amortized on a straight-line basis over the estimated useful life of the program or exercise, generally 24 to 48 months.

**NOTE 6 - GOODWILL**

The entire goodwill balance of \$202,688 at September 30, 2011 and March 31, 2011, which is not deductible for tax purposes due to the purchase being completed through the exchange of stock, is related to the Company's acquisition of PCS LabMentors in November 2005. Included within this amount of goodwill are capital costs associated with the acquisition. The capitalized costs were incurred for accounting, consulting and legal fees associated with the transaction. With the acquisition of PCS LabMentors, the Company gained LabMentors' significant interest in the technical college market and increased the Company's products available for sale to educational outlets. The Company also obtained the information technology and programming expertise of LabMentors' workforce, gained additional cost optimization and gained greater market flexibility in optimizing market information and access to collegiate level sales.

Generally accepted accounting standards require that a two-step impairment test be performed annually or whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The first step of the test for impairment compares the book value of the Company to its estimated fair value. The second step of the goodwill impairment test, which is only required when the net book value of the item exceeds the fair value, compares the implied fair value of goodwill to its book value to determine if an impairment is required.

The Company undertook a Goodwill impairment review during fiscal year 2011. After reviewing current operating losses and future growth potential of the subsidiary, the Company determined that impairment was not necessary.

**NOTE 7 - ACCRUED EXPENSES**

Accrued expenses for the periods are as follows:

	September 30, 2011	March 31, 2011
Credit card debt	\$ 54,817	\$ 39,768
Class action settlement	78,000	-
Sales tax payable	25,729	105,377
Interest payable	13,735	1,000
Professional fees: legal & accounting	1,114	482
BOE printer payout	-	2,439
Total Accrued Expenses	\$ 173,395	\$ 149,066

## PCS EDVENTURES!.COM, INC

## Notes to the Consolidated Financial Statements

September 30, 2011

(Unaudited)

**NOTE 8 NOTES PAYABLE**

Notes payable consisted of the following:

	September 30, 2011	March 31, 2011
Note Payable to Martha's Separate Property Trust	\$ -	\$ 100,000
Line of Credit	39,050	-
Notes Payable to individual investors	315,000	215,000
Debt discount	-	(125,607)
Total Notes Payable	\$ 354,050	\$ 189,393

On April 11, 2011, the Company repaid that certain note dated March 7, 2011, in the amount of \$101,458. The payment consisted of \$100,000 in principal and \$1,458 in interest. The interest paid included \$1,000 that was accrued as of March 31, 2011, in Accrued Expenses and was expensed in the previous period.

On June 20, 2011 the Company entered into a convertible promissory note in the amount of \$100,000. The note bears interest at ten percent (10.0%) per annum and includes 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 a total of 200,000 restricted Rule 144 common shares. The Note was due on August 20, 2011. At the Lender's sole option, Lender may elect to receive payment of this Note and all accrued interest on the due date in restricted Rule 144 common stock of the Borrower at the price per share of said restricted Rule 144 common stock at same rate as the warrants. The warrants expire 36 months from date of agreement. The note was evaluated for embedded derivatives in accordance with ASC 815 and was found to not include any embedded derivatives. 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 \$40,000. The warrants attached to the notes were valued using the Black Scholes Valuation Model, resulting in a fair value of \$36,138. On September 30, 2011 the due date of this note was extended to November 1, 2011 at the same ten percent (10.0%) per annum rate. As part of the extension specific accounts receivable were pledged as collateral on the note and as consideration for the extension, additional warrants to purchase two shares of restricted Rule 144 common stock for every dollar loaned, at a rate of \$0.15 per share, for a total of 200,000 restricted Rule 144 common shares were granted to the Lender. The attached warrants were valued using the Black Scholes Valuation Model,

resulting in a fair value of \$28,216 that was expensed at date of issue. The note was repaid in full on November 7, 2011, the same day as the receivable that had been pledged as collateral was collected.

The total amount of the debt discount calculated upon issuance of the promissory note during the period was \$76,138. This debt discount was fully charged to interest expense during the period with \$13,730 amortized during the three months ended June 30, 2011 and the remaining \$62,408 amortized during the three months ended September 30, 2011. During the three months ended June 30, 2011, the total debt discount amortization on all other promissory notes previously issued was \$125,607. Amortization of the debt discount is calculated using the effective interest method.

On October 27, 2011, the Company extended the due date on certain convertible Notes Payable in existence at March 31, 2011 in the aggregate amount of \$215,000. The notes are convertible into common stock at a rate of \$0.15 per share. These notes were originally due on June 29, 2011, subsequently extended to October 27, and will now mature on November 27, 2011. In consideration for the first note extension the Company issued an

PCS EDVENTURES!.COM, INC

Notes to the Consolidated Financial Statements

September 30, 2011

(Unaudited)

additional 430,000 in 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. No additional warrants were issued in connection with the most recent extension.

**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. Rent expense for the corporate offices was \$32,291 and \$30,303 for the quarter ended September 30, 2011 and 2010, and \$63,170 and \$60,270 for the six months ended September 30, 2011 and 2010, respectively.

The Company leases additional warehouse space in Boise, Idaho. This warehouse space consists of approximately 2,880 square feet. The lease expires in June 2012. Rent expense for the warehouse was \$4,200 and \$5,136 for the quarters ended September 30, 2011 and 2010, and \$8,400 and \$9,336 for the six-months ended September 30, 2011 and 2010, 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 for the six-month period ending September 30, 2010. Effective October, 2010, LabMentors entered into a five year office lease. The rent is to be paid in Canadian dollars. Rent expense, converted to USD, for LabMentors was \$4,601 for the quarter ending September 30, 2011 and \$9,274 for the six months then ended.

Minimum lease obligation  
over the next 5 years

Fiscal Year	Amount (USD)
2012	\$ 171,514
2013	50,522
2014	25,980
2015	28,146
2016	14,616

b. Litigation

(i) The Company previously announced that on August 27, 2010, it obtained a copy of a complaint filed by the U.S. Securities and Exchange Commission (SEC) commencing a civil lawsuit against PCS, its Chief Executive Officer Anthony A. Maher, and its former Chief Financial Officer Shannon Stith ( Parties ). The complaint (Case 1:10-cv-00433-CWD) was filed in the United States District Court For The District Of Idaho. The lawsuit involves disclosures made by the Company concerning its March 26, 2007 License Agreement with Global Techniques dba PCS Middle East ( PCS ME ). The complaint alleges: 1) the Parties violated Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5], and, in doing so, the Parties are alleged to have committed fraud in connection with the purchase and sale of securities; 2) the Parties violated Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-1, and 13a-11 thereunder [17 C.F.R. 240.12b-20, 240.13a-1, and 240.13a-11] by making alleged false filings with the SEC and aiding and abetting false filings with the SEC; and 3) Mr. Maher and Ms. Stith violated Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rule

PCS EDVENTURES!.COM, INC

Notes to the Consolidated Financial Statements

September 30, 2011

(Unaudited)

13a-14 thereunder [17 C.F.R. § 240.13a-14] in making false certifications of an annual report. The complaint seeks a permanent injunction, civil money penalties pursuant to Section 21(d)(3) of the Exchange Act, and a bar against Mr. Maher and Ms. Stith from serving as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act, as amended, or that is required to file reports pursuant to Section 15(d) of the Exchange Act. On April 28, 2011 and May 24, 2011, the Company participated in Court-ordered settlement conferences with representatives of the SEC and has reached a tentative agreement under which there will be no material financial impact to the Company. On May 25, 2011, the Court entered a consent judgment against Ms. Stith: (1) permanently enjoining her from aiding and abetting any violation of Section 13(a) of the Exchange Act, and Rules 12b-20, 13a-1 and 13a-11 promulgated thereunder, (2) permanently enjoining her from violating Section 13(a) of the Exchange Act and Rule 13a-14 promulgated thereunder, and (3) ordering her to pay a civil penalty pursuant to Section 21(d)(3) of the Exchange Act in an amount that will be determined by the Court.

Under its bylaws, PCS is obligated, subject to certain exceptions and conditions, to indemnify and advance expenses to current and former officers and directors in connection with the SEC suit. The costs incurred by PCS in addressing the SEC suit may have a material adverse effect on PCS' business, financial position, results of operations and cash flows (including its liquidity and its plan of operation as outlined in management's discussion and analysis in PCS most recent 10-K and 10-Q reports).

(ii) Class Action Lawsuit: The Company, along with its former CEO and former CFO, 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. On February 24, 2011, the Court granted the motion of Moustafa Salem to serve as the lead plaintiff. On June 8, 2011, the lead plaintiff filed a motion to voluntarily dismiss the former CFO without prejudice from the lawsuit, which the Court has granted. In September, the Company announced that it had entered into an agreement to settle the class action lawsuit, subject to further proceedings and approval by the Court. While the Company denies the allegations made in the class action lawsuit, the settlement was entered to eliminate the burden and expense of further litigation. If the settlement receives final approval the Company and its insurance carrier are obligated to pay the sum of \$665,000 in full settlement of the class action. On October 5, 2011, the Court granted preliminary approval to the settlement, approved the notices that would be sent to potential class members and scheduled the Settlement Fairness Hearing for February 22, 2012, at which time the Court will decide whether to grant final approval.

Under its bylaws, PCS is obligated, subject to certain exceptions and conditions, to indemnify and advance expenses to current and former officers and directors in connection with this suit. The costs incurred by PCS in addressing this suit may have a material adverse effect on PCS' business, financial position, results of operations and cash flows (including its liquidity and its plan of operation as outlined in management's discussion and analysis in PCS' most recent 10-K and 10-Q reports).

The Company established a reserve in other expense during the quarter ended September 30, 2011 of (\$78,000) to cover the anticipated cost of settling both the SEC lawsuit and the Class Action suit against the Company.

c. Contingencies

The Company is currently working 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 ongoing review has determined that approximately \$60,000 in prior period sales and use tax, including interest and late fees, is 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 \$41,472.83 was mailed to the BOE on August 31, 2011 and applied against the liability leaving a balance of \$7,146.44 in sales and use tax and \$13,315.87 in interest as of September 30, 2011. The Company was able to work



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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 is working with the BOE to implement a payment plan to satisfy the outstanding liability in order to remain in good standing with the State of California.

**NOTE 10 - 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.

During the six-month period ended September 30, 2011, the Company issued 466,245 shares of common stock for services, valued at \$103,198, based on the closing price of the Company's common stock on the date of grant. The Company recognized a loss of \$8,560 upon the issuance of these shares as the fair market value of the shares granted exceeded the value of services on the date of grant. Of these 466,245 shares of common stock, 133,543 were issued for services prior to March 31, 2011 and were recognized as an expense and included in Stock Payable for the year ended March 31, 2011. These shares were valued at \$13,918, based on the fair market value on the date of grant. The Company also accrued an amount of \$23,582 during the period related to shares subscribed for services performed. These shares were valued based on the fair market value on the date of grant and recognized in Stock Payable.

During the six-month period ended September 30, 2011, the Company received \$36,000 for the exercise of 240,000 outstanding warrants. These warrants were not issued during the period and were recorded in Stock Payable as of September 30, 2011.

During the six-month period ended September 30, 2011, the Company issued 50,000 shares of restricted Rule 144 common stock to an officer, at \$0.10 per share. The officer purchased the restricted Rule 144 common stock for cash in fiscal year 2011 and the purchase was included in Stock Payable during the year ended March 31, 2011 in the amount of \$5,000.

During the six-month period ended September 30, 2011, the Company issued 30,000 shares of restricted Rule 144 common stock to a consultant at \$0.10 per share. The consultant had purchased the restricted Rule 144 common stock for cash in fiscal year 2011 and the purchase was included in Stock Payable during the year ended March 31, 2011 in the amount of \$3,000.

During the six-month period ending September 30, 2011, the Company recognized \$76,138 in debt discount. The debt discount was calculated upon issuance of a promissory note in the amount of \$100,000 on June 20, 2011. See Note 8.

During the six-month period ended September 30, 2011, the Company expensed amounts related to stock options granted in the current period as well as prior periods valued at \$90,689

During the six-month period ended September 30, 2011, the Company expensed amounts related to warrants granted to holders of promissory notes as consideration in exchange for an extension of the maturity date of the notes valued at \$90,211.

During the six-month period ended September 30, 2011, the Company recognized \$45,000 of restricted

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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 \$0.85, based on the closing price of the Company's common stock at the date of grant. These restricted stock units were awarded to non-management directors in RSU agreements on September 23, 2010. 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. During the six-month period ended September 30, 2011, 176,472 shares were issued in satisfaction of RSUs for which the 12 month service and reelection requirements were met. These shares were valued at the market value on the date these requirements were met, resulting in a value of \$38,824. Stock Payable was reduced by a total of \$90,000, a portion of which (\$52,500) was expensed in the period ended March 31, 2011. A gain of \$51,176 was recognized upon the settlement of the amount owed. Similar agreements are expected to be awarded for fiscal year 2012.

**NOTE 11 - BASIC AND DILUTED NET LOSS PER COMMON SHARE**

Basic and diluted net loss per common share for the three-month periods ended September 30, 2011 and 2010, are based on 43,009,239 and 40,838,176 respectively, of weighted average common shares outstanding. No adjustment has been made for any common stock equivalents outstanding because their effects would be antidilutive.

Basic and diluted net loss per common share for the six-month periods ended September 30, 2011 and 2010, are based on 42,919,612 and 40,520,096, 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 three-month period ended September 30, 2011 and 2010, the Company had depreciation and amortization expense of \$11,782 and \$16,548, respectively. For the six-month period ended September 30, 2011 and 2010, depreciation and amortization expense was \$67,122 and \$39,664, respectively. These amounts were related to depreciation and amortization of fixed assets, educational software, and intellectual property for the quarter.

**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.

	Issued	Cancelled	Executed	Total Issued and Outstanding	Exercisable	Not Vested
Balance as of March 31, 2011	23,451,655	9,411,085	9,432,210	4,608,360	3,429,430	1,178,930
Warrants	1,280,000		240,000	1,040,000		
Common Stock	275,000	335,000		(60,000)		
Balance as of September 30, 2011	25,006,655	9,746,085	9,672,210	5,588,360	4,207,407	1,380,953

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 PCS EDVENTURES!.COM, INC

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On April 27, 2011, the Company granted to two consultants warrants to purchase an aggregate of 200,000 shares of restricted Rule 144 common stock at \$0.35 per share. Exercisability of each of the purchase warrants is contingent upon the delivery of a signed international distribution agreement and receipt of revenue by the Company in an amount of no less than \$250,000 (USD). The warrant expires 36 months from the effective date.

On May 31, 2011, the Company granted 275,000 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 147.21% calculated using the Company stock price for a two-year period beginning May 31, 2010. A risk free

interest rate of 0.79% was used to value the options. The options were valued using the Black-Scholes valuation model. The total value of this option was \$36,473. The options vest over a six-month period and are exercisable at \$.17 per share which represents the fair market value at the date of grant in accordance with the 2009 Equity Incentive Plan. During the six months ended September 30, 2011, \$12,158 in value of the options was expensed.

On June 20, 2011, the Company issued a short term note payable in the principal amount of \$100,000 with interest accruing at 10% per annum and purchase warrants of 200,000 shares of common stock. The stock purchase warrants expire in 36 months and allow the warrant holders to purchase shares of the Company's restricted Rule 144 common stock at a price of \$0.15 per share. The exercise price per share represents a 28% discount from the closing price of the Company's common stock on the OTC Bulletin Board on the commencement date of the note. The warrants' computed volatility is 159.3%. A risk free interest rate of .68% was used to value the warrants. The fair market value of the warrants was \$36,138.

On June 29, 2011, the Company granted a stock purchase agreement to a consultant for 250,000 stock purchase warrants. Each purchase warrant is convertible into one share of restricted Rule 144 common stock at \$0.17 per share. The purchase warrant is contingent upon the delivery of a signed distribution agreement and receipt of revenue by the Company in an amount of no less than \$250,000 (USD). The warrant expires 36 months from the effective date.

On June 29, 2011, the Company extended the due date on certain convertible Notes Payable in existence at March 31, 2011 in the aggregate amount of \$215,000. The notes are convertible into common stock at a rate of \$0.15 per share. These notes were originally due on June 29, 2011, and will now mature on October 27, 2011. In consideration for the note extension the Company issued an additional 430,000 in 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 September 30, 2011, the Company extended the short term note payable issued on June 20, 2011 in the principal amount of \$100,000 with interest accruing at 10% per annum and issued additional purchase warrants of 200,000 shares of common stock. The stock purchase warrants expire in 36 months and allow the warrant holders to purchase shares of the Company's restricted Rule 144 common stock at a price of \$0.15 per share. The exercise price per share represents a 12% discount from the closing price of the Company's common stock on the OTC Bulletin Board on the date of the note extension. The warrants' computed volatility is 165%. A risk free interest rate of .42% was used to value the warrants. The fair market value of the warrants was \$28,216.

#### **NOTE 14 INTEREST EXPENSE**

On April 11, 2011, the Company repaid that certain note dated March 7, 2011, in the amount of \$101,458. The payment consisted of \$100,000 in principal and \$1,458 in interest. The interest paid included \$1,000 that was accrued as of March 31, 2011, in Accrued Expenses and was expensed in the previous period.

**NOTE 15 - SUBSEQUENT EVENTS**

On October 27, 2011, the Company extended the due date on certain convertible Notes Payable in

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existence at March 31, 2011 in the aggregate amount of \$215,000. The notes are convertible into common stock at a rate of \$0.15 per share. These notes were originally due on June 29, 2011, subsequently extended to October 27, and will now mature on November 27, 2011. In consideration for the first note extension the Company issued an additional 430,000 in restricted Rule 144 common stock warrants. No additional warrants were issued in connection with the most recent extension.

On October 5, 2011, 260,000 shares were issued in satisfaction of warrants exercised on September 28, 2011. 260,000 warrants were exercised with an exercise price of \$0.15 per share resulting in proceeds of \$39,000 to the Company during the quarter ended September 30, 2011.

On October 28, 2011, Anthony A. Maher, announced that he is taking medical leave from the Company. Mr. Maher, an employee of the Company, resigned as an Officer and a Director of the Company last summer and was given an Employment Contract that was filed with the Securities and Exchange Commission on October 12, 2011 on a Form 8-K Current Report dated October 10, 2011. Mr. Maher had been assisting the Company in the business development and finance areas.

On October 31, 2011, the Company granted 200,000 shares of restricted stock to an officer. Shares are immediately forfeited if the officer is not an employee of the Company at the date that Rule 144 of the current rules of the Securities and Exchange Commission provides that the restrictions are removed and the restricted stock may be registered or otherwise qualified for sale.

On November 7, 2011, the same day as the receivable that was pledged as collateral as part of the note extension was received, payment in full was made on the \$100,000 convertible promissory note dated June 20, 2011,

**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, 2011.

**Plan of Operation**

In fiscal year 2012 PCS will continue 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. In order to deploy the technical education and K-6 programs that had been in development and pilot testing for several years, PCS implemented a new Strategic Business Unit (SBU) and subsidiary structure in fiscal year 2011 that targeted sales efforts to the following markets:



- 1) K-6 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 2011 was the first year of implementation of the K-6 and Tech Ed SBUs and represented a milestone for taking PCS programs into the core classroom market, beyond the afterschool market. Progress was made in establishing district and university relationships, expanding the pilot programs, compiling research, developing grant partnerships, and refining the products and services for the classroom through continued application and testing.

During fiscal year 2012 we will continue to build upon the SBU foundations established in FY2011 and drive toward the establishment of synergies between these SBUs and our subsidiary, LabMentors. This effort will include a more focused approach to our web-based marketing efforts and tightened sales processes. In addition, during FY2011, PCS applied for and was awarded Trade Adjustment Assistance funds in the amount of \$75,000 to apply to the development and promotion of PCS programs to improve our competitiveness against foreign imports. These matching funds will be used in fiscal year 2012 to improve and expand the PCS Robotics line of controllers, proprietary software, and curriculum solutions to take advantage of the rapidly growing robotics education market.

The Company has undergone a reorganization with the resignation of Mr. Anthony A. Maher as CEO and Chairman of the Board during the second quarter of fiscal year 2012. Ms. Valerie L. Grindle, former CFO, assumed the role of Chief Executive Officer and Ms. Leann Gilberg was hired as CFO. Ms. Grindle has begun utilizing her turn-around experience to focus the Company on specific goals and objectives. Mr. Robert Grover has assumed a new role of President of the International SBU in addition to his prior role as CTO. This allows Mr. Grover to concentrate on developing products for the global markets. Ms. Gilberg is working towards improved internal controls and financial reporting. The Company anticipates hiring other key executives in the future to further strengthen the team.

On September 14, 2011, we announced that we had entered into a five year content license and royalty agreement (the Kindle License ) with Kindle Experiential Learning Private Ltd., an India domiciled and registered corporation ( KEL ) that was to be effective on the receipt of the first payment. The contract requires payments of \$150,000 based on certain milestones, plus ongoing royalties. Of the \$150,000, \$25,000 is to be applied to future royalties. The first payment for a milestone was received by wire transfer on October 3, 2011. KEL is a start-up business whose founders have over 30 years of combined experience in the education field, with a business plan that anticipates opening learning centers at a conservative pace. Future payments due under the License will be subject to the success of KEL in its planned endeavors and further subject to the risks inherent in enforcing international contracts, among other risks.

**Results of Operations**

Three-month period ended September 30, 2011, compared to three-month period ended September 30, 2010

The quarter ended September 30, 2011, resulted in revenue of \$754,383 as compared to revenue during the quarter ended September 30, 2010 of \$475,444. This increase in revenue equals \$278,939 or 59% percent. This increase is due to the more targeted marketing and sales approach that the Company implemented this fiscal year.

Gross profit was up \$170,538 or 63% for the quarter over the same quarter last year due to both the increase in sales and focus on cost control. In addition, operating expenses decreased by \$367,804 due to lowered legal expenses related to the civil lawsuit against the Company by the U.S. Securities and Exchange Commission (SEC), the absence of a large marketing initiative and decreased non-cash compensation costs. This resulted in a 71% decrease in operating loss from (\$761,460) for the second quarter of fiscal year 2010 to (\$223,118) for the second quarter of fiscal year 2011.

Interest expense for the quarter increased by \$83,719 associated with the short term notes payable. The Company established a reserve in other expense during the quarter of (\$78,000) to cover the anticipated cost of settling both the SEC lawsuit and the Class Action suit against the Company. This was offset by other income primarily related to a reversal of a prior over-accrual for California sales/use tax payable and a gain on stock for services. The resulting net loss of (\$295,802) for the quarter ended September 30, 2011 compares favorably to a net

loss during the quarter ended September 30, 2010, of (\$761,123). The Basic Loss per Share for the quarter ended September 30, 2011, is (\$0.01) which is an improvement from the (\$0.02) loss per share for the three-month period ended September 30, 2010.

Six-month period ended September 30, 2011, compared to six-month period ended September 30, 2010

Revenues for the six-month period ended September 30, 2011 increased \$357,488 to \$1,318,173 as compared to revenue during the six-month period ended September 30, 2010 of \$960,685. With this 37% increase in sales, gross profit rose to \$730,829 for the six-month period compared to \$576,544 for the same period last year. The large increase in gross profit for the second quarter of fiscal year 2012 overcame the slight decrease that occurred during the first quarter of fiscal year 2012 resulting in this 27% increase in gross profit for the six-month period year over year.

In addition, operating expenses for this six-month period decreased from \$1,733,737 to \$1,413,817 which was also attributable to the second quarter decrease relative to last fiscal year. The resulting net operating loss of (\$682,988) is a decrease of 41% or \$474,205 for the first six months of fiscal year 2012 relative to the first six months of fiscal year 2011.

Interest expense for the six-month period increased by \$228,796 year over year due to the discounting of debt and the issuance of warrants attached to financing associated with the short term notes payable issued. The offsetting of other income and other expense from the second quarter carried through to the six-month period. The resulting net loss of (\$900,582) for the six months ended September 30, 2011 represents a 22% decrease compared to a net loss during the six months ended September 30, 2010, of (\$1,156,497). The Basic Loss per Share for the six months ended September 30, 2011, is (\$0.02) which is an improvement from the (\$0.03) loss per share for the six-month period ended September 30, 2010.

**Liquidity**

The Company ended the second quarter of fiscal year 2012 with \$65,441 in cash, total current assets of \$719,731 and total current liabilities of \$1,191,763 resulting in a working capital deficit of \$472,032 compared to positive working capital of \$176,274 at September 30, 2010. The Company had a current ratio at September 30, 2011 and 2010 of 0.6 and 1.3, respectively. This decrease in liquidity was due primarily to continuing net losses which were partially financed through short term debt.

**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.**

On March 24, 2011, Ms. Valerie L. Grindle was appointed Senior Vice President of Finance and Administration and Chief Financial Officer.

On July 31, 2011, Anthony A. Maher resigned as Chief Executive Officer and Chairman of the Board, as reported on Form 8K filed with the SEC on July 28, 2011. Ms. Grindle was appointed to serve as Chief Executive Officer effective the same date and as a member of the Board of Directors.

Effective September 12, 2011, Ms. Leann Gilberg assumed the position of Chief Financial Officer.

##### **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, 2011. 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, 2011, based on the criteria established in Internal Control-Integrated Framework issued by the COSO.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

(i) The Company previously announced that on August 27, 2010, it obtained a copy of a complaint filed by the U.S. Securities and Exchange Commission (SEC) commencing a civil lawsuit against PCS, its former Chief Executive Officer Anthony A. Maher, and its former Chief Financial Officer Shannon Stith ( Parties ). The complaint (Case 1:10-cv-00433-CWD) was filed in the United States District Court For The District Of Idaho. The lawsuit involves disclosures made by the Company concerning its March 26, 2007 License Agreement with Global Techniques dba PCS Middle East ( PCS ME ). The complaint alleges: 1) the Parties violated Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5], and, in doing so, the Parties are alleged to have committed fraud in connection with the purchase and sale of securities; 2) the Parties violated Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-1, and 13a-11 thereunder [17 C.F.R. 240.12b-20, 240.13a-1, and 240.13a-11] by making alleged false filings with the SEC and aiding and abetting false filings with the SEC; and 3) Mr. Maher and Ms. Stith violated Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rule 13a-14 thereunder [17 C.F.R. § 240.13a-14] in making false certifications of an annual report. The complaint seeks a permanent injunction, civil money penalties pursuant to Section 21(d)(3) of the Exchange Act, and a bar against Mr. Maher and Ms. Stith from serving as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act, as amended, or that is required to file reports pursuant to Section 15(d) of the Exchange Act. On April 28, 2011 and May 24, 2011, the Company participated in Court-ordered settlement conferences with representatives of the SEC and has reached a tentative agreement under which there will be no material financial impact to the Company. On May 25, 2011, the Court entered a consent judgment against Ms. Stith: (1) permanently enjoining her from aiding and abetting any violation of Section 13(a) of the Exchange Act, and Rules 12b-20, 13a-1 and 13a-11 promulgated thereunder, (2) permanently enjoining her from violating Section 13(a) of the Exchange Act and Rule 13a-14 promulgated thereunder, and (3) ordering her to pay a civil penalty pursuant to Section 21(d)(3) of the Exchange Act in an amount that will be determined by the Court.

Under its bylaws, PCS is obligated, subject to certain exceptions and conditions, to indemnify and advance expenses to current and former officers and directors in connection with the SEC suit. The costs incurred by PCS in addressing the SEC suit may have a material adverse effect on PCS business, financial position, results of operations and cash flows (including its liquidity and its plan of operation as outlined in management s discussion and analysis in PCS most recent 10-K and 10-Q reports).

(ii) Class Action Lawsuit: The Company, along with its former CEO and former CFO, 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. On February 24, 2011, the Court granted the motion of Moustafa Salem to serve as the lead plaintiff. On June 8, 2011, the lead plaintiff filed a motion to voluntarily dismiss the former CFO without prejudice from the lawsuit, which the Court has granted. In September, the Company announced that it had entered into an agreement to settle the class action lawsuit, subject to further proceedings and approval by the Court. While the Company denies the allegations made in the class action lawsuit, the settlement was entered to eliminate the burden and expense of further litigation. If the settlement receives final approval the Company and its insurance carrier are obligated to pay the sum of \$665,000 in full settlement of the class action. On October 5, 2011, the Court granted preliminary approval to the settlement, approved the notices that would be sent to potential class members and scheduled the Settlement Fairness Hearing for February 22, 2012, at which time the Court will decide whether to grant final approval.

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addressing this suit may have a material adverse effect on PCS's business, financial position, results of operations and cash flows (including its liquidity and its plan of operation as outlined in management's discussion and analysis in PCS most recent 10-K and 10-Q reports).

The Company established a reserve in other expense during the quarter of (\$78,000) to cover the anticipated cost of

settling both the SEC lawsuit and the Class Action suit against the Company.

**Item 2. Recent Sale of Unregistered Securities.**

Name of Person or Group	Shares	Consideration
* Consultants	88,633	\$19,405
* Legal Consultants	63,988	14,302
**Employee Benefits	184,111	39,765
	336,732	\$73,472
	Warrants	Consideration
*Note Holders	200,000	Note Extension

\* 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.

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

**Item 3. Defaults Upon Senior Securities.**

**None; not applicable.**

**Item 4. (Removed and Reserved)**

**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.
- Rule 13a-14(a) or 15d-14(a) Certification of the Registrant's chief accounting officer. Filed herewith.
- 31.2
- 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, 2011

By: /s/Valerie L. Grindle  
Valerie L. Grindle  
Chief Executive Officer and Director

Dated: November 14, 2011

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, 2011

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

Dated: November 14, 2011

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

Dated: November 14, 2011

By: /s/ Michael K. McMurray  
Michael K. McMurray

Director

Dated: November 14, 2011

By: /s/Robert O. Grover  
Robert O. Grover  
Chief Technology Officer, President of PCS  
International, and Director

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**Item 3. Defaults Upon Senior Securities.**

**None; not applicable.**

**Item 4. (Removed and Reserved)**

**Item 5. Other Information.**

**None**

**Item 6. Exhibits.**

Identification of Exhibit

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Michael K. McMurray

Director

Dated: November 14, 2011

By: /s/Robert O. Grover  
Robert O. Grover  
Chief Technology Officer, President of PCS  
International, and Director

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