

Edgar Filing: PCS EDVENTURES COM INC - Form 10QSB

PCS EDVENTURES COM INC  
Form 10QSB  
November 09, 2004

United States Securities and Exchange Commission  
Washington, D. C. 20549

FORM 10-QSB

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

For the quarterly period ended September 30, 2004

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 000-49990

PCS EDVENTURES!.COM, INC.  
-----

(Exact Name of Small Business Issuer as Specified in its Charter)

IDAHO  
-----

82-0475383  
-----

(State or Other Jurisdiction of  
incorporation or organization)

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

345 Bobwhite Court, Suite #200  
Boise, Idaho 83706  
-----

(Address of Principal Executive Offices)

Issuer's Telephone Number: (208) 343-3110

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Not applicable.

Check whether the Registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.

Yes            No  
---            ---

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:

26,965,059

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September 30, 2004

Transitional Small Business Disclosure Format (Check One):    Yes        No  
-----    -----

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements.

The Financial Statements of the Registrant required to be filed with this 10-QSB Quarterly Report were prepared by management, and commence on the following page, together with Related Notes. In the opinion of management, the Financial Statements fairly present the financial condition of the Registrant.

PCS EDVENTURES!.COM, INC.

AND SUBSIDIARY

### CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2004 and March 31, 2004

PCS EDVENTURES!.COM, INC.

AND SUBSIDIARY

Consolidated Balance Sheets

#### ASSETS

	September 30, 2004	March 31, 2004
	-----	-----
	(Unaudited)	
<b>CURRENT ASSETS</b>		
Cash	\$ 139,977	\$ 113,820
Accounts receivable	204,912	449,518
Inventory	33,968	-
Note receivable	-	50,000
Prepaid expenses	899	6,084
	-----	-----
Total Current Assets	379,756	619,422
	-----	-----
<b>FIXED ASSETS (NET)</b>	5,408	-
	-----	-----
<b>OTHER ASSETS</b>		
Deposit on distribution rights	45,000	45,000
Deposits	6,175	6,175
	-----	-----
Total Other Assets	51,175	51,175
	-----	-----
<b>TOTAL ASSETS</b>	<b>\$ 436,339</b>	<b>\$ 670,597</b>
	=====	=====

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

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PCS EDVENTURES!.COM, INC.  
AND SUBSIDIARY  
Consolidated Balance Sheets (Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	September 30, 2004	March 31, 2004
	-----	-----
	(Unaudited)	
CURRENT LIABILITIES		
Accounts payable	\$ 52,239	\$ 55,665
Wages payable	33,091	38,436
Payroll taxes payable	107,216	182,949
Accrued interest	76,299	60,563
Accrued expenses	133,732	256,818
Unearned revenue	252,602	204,404
Notes payable - related parties	137,727	165,882
Notes payable	194,754	349,810
	-----	-----
Total Current Liabilities	987,660	1,314,527
	-----	-----
Total Liabilities	987,660	1,314,527
	-----	-----
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock, no par value, authorized 10,000,000 shares, 15,246 and 82,850 shares issued and outstanding, respectively	56,372	120,473
Common stock, no par value, authorized 50,000,000 shares; 26,215,059 and 24,230,874 shares issued and outstanding, respectively	23,751,129	23,023,323
Expenses prepaid with common stock	-	(67,292)
Variable deferred consulting fees	(9,333)	-
Accumulated deficit	(24,349,489)	(23,720,434)
	-----	-----
Total Stockholders' Equity (Deficit)	(551,321)	(643,930)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 436,339	\$ 670,597
	=====	=====

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

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PCS EDVENTURES!.COM, INC.  
AND SUBSIDIARY  
Consolidated Statements of Operations  
(Unaudited)

For the Three Months Ended September 30,		For the Six Months Ended September 30,	
-----	-----	-----	-----
2004	2003	2004	2003
-----	-----	-----	-----

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REVENUE				
Lab Revenue	\$ 227,983	\$ 659,091	\$ 623,712	\$ 1,108,217
License Revenue	41,114	35,613	87,075	74,091
Subscription Revenue	4,042	4,199	7,050	7,949
	-----	-----	-----	-----
Total Revenues	273,139	698,903	717,837	1,190,257
	-----	-----	-----	-----
COST OF GOODS SOLD/ COST OF SALES				
	115,154	174,237	262,626	359,503
	-----	-----	-----	-----
GROSS PROFIT	157,985	524,666	455,211	830,754
	-----	-----	-----	-----
OPERATING EXPENSES				
Salaries and wages	123,307	104,897	240,166	232,538
Depreciation expense	92	11,039	92	25,447
Common stock and stock options issued for consulting expense	138,042	-	481,733	-
General and administrative	152,385	206,322	373,858	355,301
	-----	-----	-----	-----
Total Operating Expenses	413,826	322,258	1,095,849	613,286
	-----	-----	-----	-----
OPERATING INCOME (LOSS)	(255,841)	202,408	(640,638)	217,468
	-----	-----	-----	-----
OTHER INCOME AND EXPENSES				
Gain on settlement of debt	-	-	43,990	-
Interest income	24	-	973	-
Interest expense	(10,012)	(46,591)	(40,450)	(71,871)
Other income	5,276	-	12,569	-
Other expense	(528)	-	(1,995)	-
	-----	-----	-----	-----
Total Other Income and (Expenses)	(5,240)	(46,591)	15,087	(71,871)
	-----	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES				
	(261,081)	155,817	(625,551)	145,597
INCOME TAX EXPENSE				
	-	-	-	-
	-----	-----	-----	-----
NET INCOME (LOSS)	\$ (261,081)	\$ 155,817	\$ (625,551)	\$ 145,597
	-----	-----	-----	-----

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

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PCS EDVENTURES!.COM, INC.  
AND SUBSIDIARY  
Consolidated Statements of Operations  
(Unaudited)

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
NET INCOME (LOSS)	\$ (261,081)	\$ 155,817	\$ (625,551)	\$ 145,597

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Accretion of preferred stock discount	-	(2,500)	-	(2,500)
Pro-rata preferred stock non-cash dividend	-	(184)	-	(184)
-----				
NET INCOME AVAILABLE (LOSS ATTRIBUTABLE) TO COMMON SHAREHOLDERS	\$ (261,081)	\$ 153,133	\$ (625,551)	\$ 142,913
=====				
BASIC INCOME (LOSS) PER SHARE	\$ (0.01)	\$ 0.01	\$ (0.02)	\$ 0.01
=====				
DILUTED INCOME (LOSS) PER SHARE		\$ 0.01		\$ 0.01
=====				
WEIGHTED AVERAGE NUMBER OF BASIC SHARES OUTSTANDING	25,688,359	22,311,724	25,386,545	18,072,861
=====				
WEIGHTED AVERAGE NUMBER OF DILUTED SHARES OUTSTANDING		27,028,082		22,368,079
=====				

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

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PCS EDVENTURES!.COM, INC.  
AND SUBSIDIARY  
Consolidated Statements of Stockholders' Equity (Deficit) (Continued)

	Common Shares		Preferred Shares	
	Shares	Amount	Shares	Amount
-----				
Balance, March 31, 2004	24,230,874	\$ 23,023,323	82,850	\$120,473
Common stock issued for services at \$0.17 per share (unaudited)	30,000	5,100	-	-
Stock offering costs (unaudited)	-	(5,100)	-	-
Common stock issued for services at \$0.17 per share (unaudited)	240,000	40,800	-	-
Stock offering costs (unaudited)	-	(40,800)	-	-
Options issued to employees below market value (unaudited)	-	3,000	-	-
Options issued to consultants				

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below market value (unaudited)	-	507,877	-	-
Common stock issued for conversion of debt and interest at \$0.20 per share (unaudited)	376,165	75,232	-	-
Common stock issued for cash at \$0.10 per share for option exercise (unaudited)	750,000	75,000	-	-
Intrinsic value of employee options issued below market value (unaudited)	-	5,000	-	-
Common stock issued for related party note payable reduction at \$0.07 per share (unaudited)	250,000	17,500	-	-
Fair value of options issued to consultant (unaudited)	-	696	-	-
Common stock issued for conversion of preferred stock at \$0.20 per share (unaudited)	338,020	67,603	(67,604)	(67,603)
Options issued to directors for accrued director fees (unaudited)	-	9,241	-	-
Contributed capital for accrued director fees (unaudited)	-	50,759	-	-
Pro-rata cumulative non-cash preferred stock dividend (unaudited)	-	-	-	3,502
Amortization of prepaid expense (unaudited)	-	-	-	-
Amortization and revaluation of consulting expense (unaudited)	-	(84,102)	-	-
Net loss, September 30, 2004 (unaudited)	-	-	-	-
Balance, September 30, 2004 (unaudited)	26,215,059	\$23,751,129	15,246	\$ 56,372
	=====	=====	=====	=====

[CONTINUED]

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### Consolidated Statements of Stockholders' Equity (Deficit) (Continued)

	Expenses Prepaid with Common Stock	Variable Deferred Consulting	Accumulated Deficit
Balance, March 31, 2004 (unaudited)	\$(67,292)	-	\$(23,720,436)
Common stock issued for services at \$0.17 per share (unaudited)	-	-	-
Stock offering costs (unaudited)	-	-	-
Common stock issued for services at \$0.17 per share (unaudited)	-	-	-
Stock offering costs (unaudited)	-	-	-
Options issued to employees below market value (unaudited)	-	-	-
Options issued to consultants below market value (unaudited)	-	(507,877)	-
Common stock issued for conversion of debt and interest at \$0.20 per share (unaudited)	-	-	-
Common stock issued for cash at \$0.10 per share for option exercise (unaudited)	-	-	-
Intrinsic value of employee options issued below market value (unaudited)	-	-	-
Common stock issued for related party note payable reduction at \$0.07 per share (unaudited)	-	-	-
Fair value of options issued to consultant (unaudited)	-	-	-
Common stock issued for conversion of preferred stock at \$0.20 per share (unaudited)	-	-	-
Options issued to directors for accrued director fees (unaudited)	-	-	-
Contributed capital for			

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accrued director fees (unaudited)	-	-	-
Pro-rata cumulative non-cash preferred stock dividend (unaudited)	-	-	(3,502)
Amortization of prepaid expense (unaudited)	67,292	-	-
Amortization and revaluation of consulting expense (unaudited)	-	498,544	-
Net loss, September 30, 2004 (unaudited)	-	-	(625,551)
	-----	-----	-----
Balance, September 30, 2004 (unaudited)	-	\$ (9,333)	\$ (24,349,489)
	=====	=====	=====

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

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PCS EDVENTURES!.COM, INC.  
AND SUBSIDIARY  
Consolidated Statements of Cash Flows  
(Unaudited)

For the  
Six Months Ended  
September 30,

	2004	2003
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (625,551)	\$ 145,597
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation	92	25,447
Gain on extinguishment	(43,990)	-
Stock options issued for consulting services	415,138	-
Stock options issued for board compensation	3,000	-
Stock options issued for compensation	5,000	31,607
Common stock issued for debt extensions	-	5,760
Amortization of expenses prepaid with common stock	67,292	-
Amortization of debt offering and extension costs	-	5,460
Changes in operating assets and liabilities:		
(Increase) Decrease in accounts receivable	244,606	(139,098)
Decrease in prepaid expenses	-	45,944
(Increase) in inventory	(33,967)	2,073
Increase (decrease) in accounts payable and accrued liabilities	(88,357)	70,037
Increase (decrease) in interest payable	-	(2,114)
(Decrease) in unearned revenue	48,198	(196,951)
Decrease in other assets	5,185	-
	-----	-----



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Net Cash Used by Operating Activities	(3,354)	(6,238)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash receipt on notes receivable	50,000	-
Purchase of fixed assets	(5,500)	-
	-----	-----
Net Cash Provided by Investing Activities	44,500	-
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) in cash overdraft	-	(8,053)
Payments to related parties	(10,654)	-
Principal payments on notes payable	(79,335)	(306,837)
Proceeds from long-term debt	-	300,966
Proceeds from common stock	75,000	70,251
Proceeds from preferred stock	-	5,000
	-----	-----
Net Cash Provided (Used) by Financing Activities	(14,989)	61,327
	-----	-----
NET INCREASE IN CASH	26,157	55,089
CASH AT BEGINNING OF PERIOD	113,820	11,449
	-----	-----
CASH AT END OF PERIOD	\$139,977	\$ 66,538
	=====	=====

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

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PCS EDVENTURES!.COM, INC.  
AND SUBSIDIARY  
Consolidated Statements of Cash Flows (Continued)  
(Unaudited)

For the  
Six Months Ended  
September 30,

	-----	-----
	2004	2003
	-----	-----
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of stock for payment on notes payable and interest	\$ 75,232	\$ 38,373
Common stock issued for related party debt	\$ 17,500	\$ -
Stock options issued for accrued director fees	\$ 60,000	\$ -
Common stock issued for stock offering costs	\$ 45,900	\$ -
Common stock issued for payment on accounts payable	\$ -	\$ 28,143
Common stock issued for debt extensions	\$ -	\$ 5,760
Preferred stock issued for conversion of notes payable	\$ -	\$ 5,000
Stock options issued for consulting services	\$ 415,138	\$ -
Stock options issued for employee and board compensation	\$ 8,000	\$ -
Cash Paid For:		
Interest	\$ 24,949	\$ 40,676

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Income taxes \$ - \$ -

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

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PCS EDVENTURES!.COM, INC.  
AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
September 30 and March 31, 2004

### NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted in accordance with such rules and regulations. The information furnished in the interim condensed consolidated financial statements include normal recurring adjustments and reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of such financial statements. Although management believes the disclosures and information presented are adequate to make the information not misleading, it is suggested that these interim condensed consolidated financial statements be read in conjunction with the Company's most recent audited financial statements and notes thereto included in its March 31, 2004 Annual Report on Form 10-KSB. Operating results for the six months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending March 31, 2005.

Certain prior period balances have been reclassified to conform to current period presentation.

### NOTE 2 - 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 which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, the Company does not have significant cash or other material assets, nor does it have an established source of revenues sufficient to cover its operating costs. Additionally, the Company has accumulated significant losses, has negative working capital, and a deficit in stockholders' equity. All of these items raise substantial doubt about its ability to continue as a going concern. During the fiscal year ending March 2004, the Company added depth to one of its most popular product lines, the PCS Brick Lab, introducing the Brick Lab Grade Series for Grades 1 and 2 with plans to introduce Grades 3 and 4 during fiscal year 2005 and Grades 5 and 6 during fiscal year 2006. The Company has also entered into an exclusive distribution agreement with a company whose science-oriented products will complement its engineering curriculum and labs. In addition to widening and deepening its product mix, the Company has also entered into agreements with independent sales agency groups which the Company believes will provide better market penetration and coverage. In addition, the Company intends to continue offering its common stock to raise and additional capital necessary to cover operating expenses and its cost containment strategy, not investing significant amounts of capital to research and development.

The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish this plan and to

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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 3 - DILUTIVE INSTRUMENTS

#### a. Stock Options

The Company applied Accounting Principles Board ("APB") Opinion 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for all stock option plans. Under APB Opinion 25, compensation cost is recognized for stock options granted to employees when the option price is less than the market price of the underlying common stock on the date of grant.

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PCS EDVENTURES!.COM, INC.  
AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
September 30, 2004 and March 31, 2004

### NOTE 3 - DILUTIVE INSTRUMENTS (Continued)

#### a. Stock Options (Continued)

During July 2004, the Company issued 250,000 shares of common stock to its Chief Executive Officer for the non-cash exercise of options, reducing related party debt by \$17,500.

During July 2004, the Company issued options to purchase 5,000 shares of its common stock for consulting services rendered. The options are exercisable immediately at a price of \$0.15 per share for five years.

During July 2004, the Company issued options to purchase 153,533 shares of its common stock to an employee. The options are exercisable at \$0.15 per share as follows: 50,000 on or after July 29, 2005; 50,000 on or after July 29, 2006; and, 53,533 on or after July 29, 2007. The options expire on July 29, 2009.

During July 2004, the Company issued options to purchase 50,000 shares of its common stock to an employee. The options are exercisable at \$0.13 per share as follows: 10,000 on or after July 10, 2005; 20,000 on or after July 10, 2006; and, 20,000 on or after July 10, 2007. The options expire on July 10, 2009.

During August 2004, the Company issued options to purchase 50,000 shares of its common stock to an employee. The options are exercisable at \$0.13 per share as follows: 10,000 on or after July 10, 2005; 20,000 on or after July 10, 2006; and, 20,000 on or after July 10, 2007. The options expire on July 10, 2009.

During the period ended September 30, 2004, the Company issued options to purchase 6,000,000 shares of its common stock for prepaid consulting fees. The options are exercisable immediately with 2,000,000 options exercisable at a price of \$0.10 per share for 60 days while 4,000,000 are exercisable at a price of \$0.25 per share for 120 days. During the period, 750,000 options were exercised at \$0.10 and 5,250,000 were allowed to expire unexercised. The issuance of these options resulted in the recording of \$372,988 in variable deferred consulting fees.

In accordance with EITF 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling,

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Goods or Services", and due to the options being issued for ongoing services, the options are being valued as the services are completed. In order to capture the changes in the fair value of the options over the term of service, changes in the fair values at interim reporting dates are attributed in accordance with FIN 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans". FIN 28 states that consulting expense should be measured at the end of each period as the amount by which the fair value of the options covered by a grant exceeds the option price or value specified under the plan and should be accrued as a charge to expense over the periods the grantee performs the related services. Changes in the quoted market value are being reflected as adjustments of deferred consulting and consulting expense in the period and will continue until the date the services are complete. Consulting deferred during the service period is being adjusted in subsequent periods up to the measurement date for changes, either increases or decreases, in the fair value of the options covered by the grant but shall not be adjusted below zero. The offsetting adjustment is being made to consulting expense of the period in which changes in the fair value occur. During the quarter ended September 30, 2004, these options expired unexercised. PCS recognized the remaining \$120,000 in non-cash consulting expense.

During the quarter ended June 30, 2004, the Company issued options to purchase 800,000 shares of its common stock for prepaid consulting fees. The options are exercisable immediately in groups of 200,000 at prices of \$0.10, \$0.20, \$0.30 and \$0.35 per share for one year. The issuance of these options resulted in the recording of \$134,889 in variable deferred consulting fees. In accordance with EITF 96-18 and FIN 48, during the quarter ended September 30, 2004, the revaluation of these options resulted in the recording of a decrease in deferred valuation of \$192,000 and a decrease of \$28,000 in non-cash consulting expense.

SFAS No. 148, requires the Company to provide pro forma information regarding net loss and net loss per share as if compensation costs for the Company's stock option plans and other stock awards had been determined in accordance with the fair value based method prescribed in SFAS No. 148. The current period pro forma net loss includes \$6,861 of prior period option expense amortization. The Company estimates the fair value of each stock award at the grant date by using the Black-Scholes option pricing model.

	For the Six Months Ended September 30,	
	2004	2003
Net income (loss):		
As reported	\$ (625,551)	\$ 145,597
Pro Forma	(747,918)	31,301
Net income (loss) per share:		
As reported	\$ (0.02)	\$ 0.01
Pro Forma	(0.03)	0.00

The Company has the following outstanding options as of September 30, 2004:

	Date of Grant	Issue Number	Issue Price	Amount Exercised	Amount Expired/Cancelled	Amount
Description Outstanding						
1) Employee	10-24-01	50,000	\$ 0.30	0	0	50,000
2) Employee	12-01-01	24,230	\$ 0.15	0	(2,297)	21,933

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3) Board Members	12-10-01	1,000,000	\$ 0.30	0	(250,000)	750,000
4) Board Members	06-03-02	1,000,000	\$ 0.16	0	(250,000)	750,000
5) Employees	07-01-02	335,000	\$ 0.16	0	(10,000)	325,000
6) Employee	08-15-02	5,000	\$ 0.16	0	0	5,000
7) Board Members	10-21-02	499,998	\$ 0.09	0	(166,666)	333,332
8) Board Members	05-15-03	892,855	\$ 0.07	(250,000)	(214,285)	428,570
9) Employee	05-20-03	100,000	\$ 0.07	0	0	100,000
10) Employee	07-25-03	25,000	\$ 0.10	0	0	25,000
11) Employee	09-05-03	150,000	\$ 0.07	0	0	150,000
12) Employee	09-25-03	25,000	\$ 0.15	0	0	25,000
13) Board Member	04-28-04	150,000	\$ 0.15	0	0	150,000
14) Consultant	04-28-04	2,000,000	\$ 0.10	(750,000)	(1,250,000)	0
15) Consultant	04-28-04	4,000,000	\$ 0.25	0	(4,000,000)	0
16) Consultant	04-28-04	200,000	\$ 0.10	0	0	200,000
17) Consultant	04-28-04	200,000	\$ 0.20	0	0	200,000
18) Consultant	04-28-04	200,000	\$ 0.30	0	0	200,000
19) Consultant	04-28-04	200,000	\$ 0.35	0	0	200,000
20) Board Members	09-14-04	80,358	\$ 0.14	0	0	80,358
21) Board Members	09-14-04	93,750	\$ 0.12	0	0	93,750
22) Board Members	09-14-04	112,500	\$ 0.10	0	0	112,500
23) Board Members	09-14-04	48,912	\$ 0.23	0	0	48,912
24) Board Members	09-14-04	57,692	\$ 0.26	0	0	57,692
25) Employee	07-29-04	153,533	\$ 0.15	0	0	153,533
26) Employee	08-10-04	50,000	\$ 0.13	0	0	50,000
27) Employee	07-10-04	50,000	\$ 0.13	0	0	50,000
28) Employee	07-0104	25,000	\$ 0.31	0	0	25,000
29) Consultant	07-29-04	5,000	\$ 0.15	0	0	5,000

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11,733,828	(1,000,000)	6,143,248	4,590,580
=====	=====	=====	=====

Amount Exercisable

4,292,047

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PCS EDVENTURES!.COM, INC.  
AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
September 30 and March 31, 2004

NOTE 3 - DILUTIVE INSTRUMENTS (Continued)

a. Stock Options (Continued)

Description	Fair Value	Risk-Free Interest Rate	Expected Life	Expected Volatility
1) Employees	\$ 0.19	3.76%	3.00	100.52%
2) Employee	\$ 0.14	3.76%	3.00	99.80%
3) Board Members	\$ 0.20	5.69%	10.00	99.80%
4) Board Members	\$ 0.15	5.48%	10.00	128.91%
5) Employee	\$ 0.14	2.84%	3.50	157.77%
6) Employee	\$ 0.14	2.84%	3.30	163.77%
7) Board Members	\$ 0.09	3.94%	10.00	158.83%
8) Board Members	\$ 0.09	3.94%	10.00	151.61%
9) Employee	\$ 0.06	2.54%	4.00	151.61%
10) Employee	\$ 0.12	2.81%	4.00	156.24%
11) Employee	\$ 0.11	2.81%	4.00	152.03%

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12) Employee	\$	0.12	3.07%	5.85	152.03%
13) Board Member	\$	0.17	4.43%	10.00	344.55%
14) Consultant	\$	0.17	0.98%	0.17	187.13%
15) Consultant	\$	0.17	0.98%	0.33	187.13%
16) Consultant	\$	0.17	1.55%	1.00	537.80%
17) Consultant	\$	0.17	1.55%	1.00	537.80%
18) Consultant	\$	0.17	1.55%	1.00	537.80%
19) Consultant	\$	0.17	1.55%	1.00	537.80%
20) Board Members	\$	0.15	4.14%	10.00	247.04%
21) Board Members	\$	0.15	4.14%	10.00	247.04%
22) Board Members	\$	0.15	4.14%	10.00	247.04%
23) Board Members	\$	0.15	4.14%	10.00	247.04%
24) Board Members	\$	0.15	4.14%	10.00	247.04%
25) Employee	\$	0.14	3.78%	5.00	250.60%
26) Employee	\$	0.13	3.47%	5.00	247.04%
27) Employee	\$	0.23	3.64%	5.00	250.60%
28) Employee	\$	0.27	3.81%	5.00	240.27%
29) Consultant	\$	0.14	3.78%	5.00	250.60%

### NOTE 4 - MATERIAL EVENTS

During July 2004, the Company agreed to a Release of All Claims and Settlement Agreement (the Settlement) with Xerox Capital Services, LLC in regard to a past due notes payable and copier lease payments. The Settlement calls for the payment of \$44,252 in installments as follows: \$7,500 upon execution; \$10,000 on or before August 5, 2004; \$10,000 on or before August 19, 2004; \$12,500 on or before September 15, 2004; and \$4,252 on or before October 15, 2004. In addition, the Company agreed to return the copier. The Company has recognized a gain on extinguishment of debt of \$43,990 as a result of this Settlement. As of September 30, 2004, all scheduled payments have been made and a balance of \$4,252 remains unpaid.

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PCS EDVENTURES!.COM, INC.  
AND SUBSIDIARY  
Notes to the Consolidated Financial Statements  
September 30, 2004 and March 31, 2004

### NOTE 5 - SUBSEQUENT EVENTS

On October 1, 2004, PCS entered into a six-month agreement with Equitilink. The scope of said agreement includes public relations and investor communications services. The six-month agreement will be extended for an additional three months, unless cancelled by PCS. Compensation for Equitilink's services is 250,000 shares of restricted stock.

On October 1, 2004, PCS entered into a twelve-month agreement with Michael Corrigan, attorney. The scope of said agreement is for legal representation for such matters that PCS deem necessary. Compensation for Corrigan's services for the first six months is 500,000 of free trading, non-restricted shares of common stock. Unless PCS cancels the agreement at the end of six months, compensation for the remainder of the twelve-month agreement will be an additional 500,000 free trading, non-restricted shares of common stock.

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Item 2. Management's Discussion and Analysis or Plan of Operation.

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### Results of Operations.

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Six months ended September 30, 2004, compared to six months ended September 30, 2003.

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Revenues for the six-month period ended September 30, 2004, decreased by \$472,420 (39.7%) to \$717,837 as compared to \$1,190,257 for the six-month period ended September 30, 2003. Revenues decreased due to a policy change in the fourth quarter of fiscal year 2004. We changed our policy to give our customers more choice in their lab materials. Under the new policy, our customers can choose where to purchase their lab materials (e.g. LEGO [Registered] manipulatives) and they simply purchase the PCS curriculum, customized furniture unit and site license materials from us. There is no effect on our gross profit as our revenues are reduced by same amount as our cost of goods sold. We sold 191 labs during the six-month period ended September 30, 2004, which is a decrease of 54.8%, or 232 labs, as compared to 423 labs for the six-month period ended September 30, 2003.

General and administrative costs have increased slightly by \$18,557, or 5.2% to \$373,858 for the six-month period ended September 30, 2004, as compared to \$355,301 for the six-month period ended September 30, 2003. This increase is primarily due to an increase in outside consulting services and an increase in marketing expenses, including travel, trade shows and marketing brochures.

Operating expenses for the six-month period ended September 30, 2004, included a non-cash expenditure for \$481,733 associated with stock and options which were granted to consultants. Of this amount, \$414,442 relates to a consulting agreement. The scope of said consulting agreement includes advisement and consultation regarding distribution strategies, evaluation of potential acquisition targets and the structuring of any such transactions, and business development strategies, including geographic and service expansion plans.

Interest expense for the six-month period ended September 30, 2004, decreased to \$40,450 as compared to \$71,871 for the six-month period ended September 30, 2003. This decrease is due to less interest expense associated with the conversion of indentured trust debt to common stock as well as a reduction in finance charges associated with the financing of our cost of goods sold. Said reduction corresponds to our change in our revenue policy (see revenue section).

We had a net loss of (\$625,551), or (\$0.02) per share, for the six months ended September 30, 2004, as compared to net income of \$145,597, or \$0.01 per share, for the six-month period ended September 30, 2003. The net loss for the six months ended September 30, 2004, after removing the costs of stock and options issued for services of \$481,733, is (\$143,818), or (\$0.00) per share.

### Liquidity and Capital Resources.

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We had a cash balance of \$139,977 at September 30, 2004. Management believes that the cash received from delivered sales orders, as well as continued limited offerings of our common stock, will be sufficient to meet our operating expenses.

### Item 3. Controls and Procedures.

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As of the end of the period covered by this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our President and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our President and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic Securities and Exchange Commission reports. It should be noted that the design of any system of controls 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 under all potential future conditions, regardless of how remote. In addition, we reviewed our internal controls over financial reporting, and there have been no changes in our internal controls or in other factors in the last fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

### PART II - OTHER INFORMATION

#### Item 1. Legal Proceedings.

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None; not applicable.

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

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##### Sales of Unregistered Securities During the Last Quarter.

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Description	Common Shares	Amount	Preferred Shares	Amount
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Anthony A. Maher	250,000	(1)		
Diana Gayle Smith	60,000	(2)		
Robert & Ann Fyfe	25,345	(2)		
Donald Lorenzen	50,000	(2)		
Kapital Koncepts	50,945	(2)		
Leonard & Sonia Coote	75,905	(2)		
Verl & Margene Jensen	75,825	(2)		

(1) These shares were issued for the exercise of an option agreement. The corresponding note payable to related party was reduced by \$17,500 in lieu of cash.

(2) Issued for conversion of preferred stock at \$0.20 per share.

#### Item 3. Defaults Upon Senior Securities.

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None; not applicable.

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

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None; not applicable.

#### Item 5. Other Information.

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None; not applicable.



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Item 6. Exhibits and Reports on Form 8-K.  
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(a) Exhibits.

31.1 302 Certification of Anthony A. Maher

31.2 302 Certification of Christina M. Vaughn

32 906 Certifications

SB-2 Registration Statement Filed with an Effective Date  
of May 11, 2001\*

\* Incorporated by Reference.

(b) Reports on Form 8-K.

8-K Current Report Dated July 1, 2004, and filed with the  
Securities and Exchange Commission on July 2, 2004.

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.

Date: 11/8/04  
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/s/Anthony A. Maher  
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Anthony A. Maher  
Chief Executive Officer, President and  
Chairman of the Board of Directors

Date: 11/9/04  
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/s/Christina M. Vaughn  
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Christina M. Vaughn  
Chief Financial Officer