PSI CORP
Form 10-Q
September 15, 2010

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

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended July 31, 2010

Or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from: _____________ to _____________

Commission File Number: **0-20317**

PSI CORPORATION

(Exact name of registrant as specified in its charter)

Nevada	**88-0270266**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

7222 Commerce Center Drive, Suite 210, Colorado Springs, CO 80919
(Address of Principal Executive Office) (Zip Code)

(914) 371-2441
(*Registrant s telephone number, including area code)*

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for 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.

oYes x 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.

Large accelerated filer	o		Accelerated filer	o
Non-accelerated filer	o	(Do not check if a smaller reporting company)	Smaller reporting company	x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

oYes x No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

As of June 28, 2010, there were 111,260,622 shares of the Registrant s Common Stock, $0.001 par value per share, outstanding.

PSI CORPORATION
For The Quarterly Period Ended July 31,
2010 TABLE OF CONTENTS

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PSI Corporation

BALANCE SHEETS

	July 31, 2010	October 31, 2009
	(unaudited)	
ASSETS		
Current assets		
Cash	$ 111,681	$ 29,607
Accounts receivable	35,359	5,626
Notes receivable	16,250	73,125
Other		163,511
Total current assets	163,290	271,869
Property and equipment, net of accumulated depreciation	291,689	55,651
Other Assets		
Financing costs, net		154,625
Total assets	$ 454,979	$ 482,145
LIABILITIES AND STOCKHOLDERS DEFICIENCY		
Current liabilities		
Short-terrm note payable	1,186,421	775,355
Accounts payable and accrued expenses	505,167	1,859,744
Accrued Interest	936,634	761,438
Total current liabilities	2,628,222	3,396,537
Long Term debt	2,627,676	2,541,763
Total liabilities	5,255,898	5,938,300
Stockholders deficiency		
Preferred stock $.001 par value; 5,000,000 shares authorized, none issued and outstanding	$	$
Common stock, $.001 par value; 300,000,000 shares authorized, 116,031,632 and 88,074,744 shares issued and outstanding at July 31, 2010 and October 31, 2009, respectively	116,032	88,074
Additional paid-in capital	11,909,934	11,060,532
Accumulated deficit	(16,825,898)	(16,603,774)
Less: Common Stock in Treasury	(987)	(987)
Total stockholders deficiency	(4,800,919)	(5,456,155)
Total liabilities and stockholders deficiency	$ 454,979	$ 482,145

The accompany notes are an integral part of the financial statements.

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PSI Corporation
STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2010	**2009**	**2010**	**2009**
Revenues	$ 30,245	$ 11,342	$ 56,398	$ 25,702
Cost of goods sold		(57,500)	(3,395)	(64,591)
Gross profit	30,245	(46,158)	53,003	(38,889)
Administrative expenses	(189,678)	238,049	(847,368)	1,577,172
Loss from operations	(159,433)	(284,207)	(794,365)	(1,616,061)
Other income (expenses)				
Other income		7,500		7,500
Gain (loss on disposal of fixed assets		(136,072)	84,028	(136,072)
Interest, net	(132,485)	(206,112)	(631,961)	(611,680)
loss on investment			(24,000)	
Total other income (expenses)	(132,485)	(334,684)	(571,933)	(740,252)
Net loss	$ (291,918)	$ (618,891)	$ (1,366,298)	$ (2,356,313)
Net loss per weighted share, basic and fully diluted	$	$ (0.01)	$ (0.01)	$ (0.03)
Basic and diluted weighted average shares outstanding	111,189,917	81,675,566	102,053,188	79,495,000

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

PSI Corporation
STATEMENT OF CASH FLOWS
(Unaudited)

	Nine Months Ended July 31,	
	2010	**2009**
Cash flows from operations		
Net income (loss)	$ (1,366,298)	$ (2,356,313)
Adjustment to reconcile net loss to net cash:		
Depreciation	23,950	42,842
Amortization of debt financing Costs	62,908	94,983
Amortization of debt discounts	179,336	150,767
Loss (gain) on disposal of fixed assets	(84,028)	136,072
Consulting Fees	298,000	808,250
Changes in operating assets and liabilities:		
Accounts receivable	6,892	(89,375)
Other Current Assets	(52,666)	4,951
Accounts payable and accrued expenses	70,627	533,982
Net cash provided by (used for) operating activities	(861,279)	(673,841)
Cash flows from investing activities		
Purchase of property and equipment	(30,000)	
Debt financing costs	(125,403)	
Proceeds from sale of assets	136,149	135,000
Net cash provided br (used for) investing activities	(19,254)	135,000
Cash flows from financing activities		
Proceeds from Issuance of debt	674,000	347,034
Proceeds from sale of common stock	315,972	260,000
Repayment of Debt	(27,365)	(28,511)
Net cash provided by financing activities	962,607	578,523
Net increase (decrease) in cash	82,074	39,682
Cash, beginning of period	29,607	297
Cash, end of period	$ 111,681	$ 39,979
Supplemental disclosure of cash flow information and noncash investing and financing activities:		
Cash paid during the year for:		
Interest	$ 51,311	$ 26,737
Taxes	$	$

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

PSI CORPORATION
NOTES TO FINANCIAL STATEMENTS

July 31, 2010

1. Organization and Going Concern

Organization

PSI Corporation (PSI or the Company) was organized under the laws of Nevada in June, 1991. PSI provides innovative interactive customer communications systems and applications that support targeted marketing programs with unique point-of-purchase (POP) services and information that serve shoppers and distributors while building loyalty and revenue for the Company s primary clients. Through its proprietary multifunction kiosks, the Company provides in-store customized couponing, in multiple languages, for immediate impact in regional, independent retailers in the grocery and convenience store industries, enabling retailers to quickly determine ideal price-points for new products and mitigate losses from hard-to-sell items. Working with Midax, Inc., a leading systems integrator for the independent grocery and convenience store industries and its software applications, marketing services and existing customer base, PSI provides a seamless transaction for issuing, redeeming and reporting coupons, as well as creating a state-of-the-art loyalty program and shopping list service.

The Company s multi-functional kiosks are being installed in supermarket chains and convenience stores throughout the East Coast and Midwest.

Going Concern

The Company s consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, which contemplates the continuation of operations, the realization of assets and the liquidation of liabilities in the ordinary course of business, and do not reflect any adjustments that might result from the Company being unable to continue as a going concern. At July 31, 2010, the Company had total assets of $454,979 and liabilities of $5,255,898. Management understands that it needs to raise additional capital not only to meet its financial obligations, but also to expand the business. These factors cumulatively indicate that there is substantial doubt about the Company s ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

2. Summary of Significant Accounting Policies

Accounting Principles.

The financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States.

Cash and Cash Equivalents.

PSI considers all highly liquid interest-earning investments with a maturity of three months or less at the date of purchase to be cash equivalents. The fair value of these investments will approximate their carrying value. In general, investments with original maturities of greater than three months and remaining maturities of less than one year will be classified as short-term investments. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations. All cash equivalents and short-term investments are classified as available for current operations. All cash equivalents and short-term investments are classified as available for sale and are recorded at market value using the specific identification method

PSI CORPORATION
NOTES TO FINANCIAL STATEMENTS
July 31, 2010

2. Summary of Significant Accounting Policies (Continued)

Fair Value.

The carrying amounts of cash and cash equivalents, trade receivables, accounts payable, notes payable and accrued liabilities approximate fair value because of the short maturity of these instruments.

Income Taxes.

The Company had deferred tax assets of approximately $5,568,651 as of July 31, 2010, primarily related to net operating loss carryforwards (NOL), which have yet to be utilized. The utilization of these losses, if available, to reduce the future income taxes, will depend upon the generation of sufficient taxable income prior to the expiration of the NOL. Therefore, the Company established a 100% valuation allowance against the deferred tax assets as the likelihood of recognizing this benefit cannot be certain. The net operating losses will expire in various years through 2029.

Inventories.

Inventories are stated at the lower of cost or market, using the average cost method. Cost includes materials, labor, and manufacturing overhead related to the purchase and production of inventories. PSI will regularly review inventory quantities on hand, future purchase commitments with its suppliers, and the estimated utility of its inventory.

Loss per Common Share.

Basic EPS includes no dilution and is computed by dividing the income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of securities that could share in the income (loss) of the Company. Total potentially dilutive shares outstanding at July 31, 2010 and 2009 totaled 61,238,086 and 29,010.230

Product Warranty.

PSI provides for the estimated costs of hardware and software warranties at the time the related revenue is recognized. For hardware warranty, PSI estimates the costs based on historical and projected project failure rates, historical and projected repair costs, and knowledge of specific product failures (if any). The specific hardware warranty terms and conditions vary depending upon the product supported and country in which PSI will do business, but generally include technical support, parts, and labor over a period generally ranging from 90 days to three years. For software, PSI estimates the costs to provide bug fixes, such as security patches, over the estimated life of the software. PSI will regularly reevaluate its estimates to assess the adequacy of the recorded warranty liabilities and adjust the amounts as necessary. Product warranty costs have not been material to date. PSI has contracted with Pendum at a flat rate of $50.00 per kiosk per month but service has not begun as we have not encountered in-field failures. Therein there are no warranties at this time.

Property and Equipment.

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated life of the asset of 5 years.

PSI CORPORATION
NOTES TO FINANCIAL STATEMENTS
July 31, 2010

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable. In the event PSI should enter into contracts where it is obligated to deliver multiple products and/or services, total revenue will be generally allocated among the products based upon the sale price of each product when sold separately.

The Company may also license or lease its products (rather than effect outright sales of the same). Revenues derived from licenses or leases will be treated as subscriptions, with billings recorded as unearned revenue and recognized as revenue ratably over the billing coverage period. PSI s potential multiple year licensing/lease transactions may include the right to receive future updated improvements to its product line. Some multi-year licensing/lease arrangements may include a perpetual license for current products combined with rights to receive future improved/updated versions of such products. Online advertising revenue derived from the kiosks and signage products are and will be recognized as advertisements are displayed. Costs related to PSI s product line are recognized when the related revenue is recognized.

Use of Estimates and Assumptions.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Standards

In June 2009, the FASB issued guidance under ASC Topic 105 Generally Accepted Accounting Principles as it relates to the FASB s accounting standards codification. This standard replaces previously established guidance, and establishes only two levels of U.S. generally accepted accounting principles (GAAP), authoritative and non-authoritative. The FASB Accounting Standards Codification (the Codification) will become the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission (SEC), which are sources of authoritative GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative. This standard is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. The Company began to use the new guidelines and numbering system prescribed by the Codification when referring to GAAP in the third quarter of 2009. As the Codification was not intended to change or alter existing GAAP, it will not have any impact on the Company s consolidated financial statements.

In October 2009, the FASB issued ASU No. 2009-13, Revenue Recognition (Topic 605) Multiple Deliverable Revenue Arrangements. ASU No. 2009-13 eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method and expands the disclosures related to multiple deliverable revenue arrangements. ASU No. 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier adoption permitted. The adoption of ASU No. 2009-13 is not expected to have a material impact on the Company s results of operations or financial position.

PSI CORPORATION
NOTES TO FINANCIAL STATEMENTS
July 31, 2010

2. Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Standards (continued)

In September 2009, the FASB also ratified authoritative accounting guidance requiring the sales of all tangible products containing both software and non-software components that function together to deliver the product s essential functionality to be excluded from the scope of the software revenue guidance. The Company adopted the guidance on a prospective basis during the three months ended September 27, 2009 effective for all periods in 2009. Prior to the adoption of this guidance, the Company assessed all software items included in the Company s product offerings to be incidental to the product itself and, therefore, excluded all sales from the scope of the related software revenue guidance. As a result, the adoption of this guidance had no impact on the Company s consolidated financial statements.

3. Furniture and Equipment

Furniture and equipment consists of the following:

		July 31, 2010		October 31, 2009
Kiosks	$	258,850	$	70,598
Other Fixed Assets	$	63,288		
Less: accumulated amortization	$	(30,449)	$	(14,947)
	$	291,689	$	55,651

Depreciation expense for the nine months ended July, 2010 and 2009 totaled $23,950 and $42,842 , respectively.

PSI CORPORATION
NOTES TO FINANCIAL STATEMENTS
July 31, 2010

4. Stockholders Equity

Warrants

Warrant transactions are as follows:

	Number of Warrants		Weighted Average Exercise Price
Outstanding, November 1, 2008	32,372,014	$	0.12
Granted	1,037,500		0.13
Exercised			
Expired			
Outstanding, Octobers 31, 2009	33,409,514		0.12
Granted	12,114,286		0.05
Exercised			
Expired			
Outstanding, January 31, 2010	45,523,800		0.12
Granted May - July 2010	7,857,143		0.05
Outstanding, July 31, 2010	53,380,943		
Exercisable warrants, October 31, 2009	33,409,514	$	0.12

5. Acquisitions

A) Failed Acquisition of Ignition Media Group, LLC. As previously reported in a Form 8-K filing dated August 25, 2006, a wholly-owned subsidiary of FC entered into an Asset Purchase Agreement (ASP), dated August 22, 2006, to acquire substantially all of the assets of Ignition Media Group, LLC (IMG), a Pennsylvania limited liability company. The Registrant was not a signatory to such ASP. The wholly-owned subsidiary of the Registrant agreed to purchase the assets of IMG for $1,000,000 in cash and an aggregate of 6,818,182 shares of the parent Registrant s Common Stock. The $1,000,000 was to have been paid in twelve equal monthly installments of $83,333.33 each. The initial installment payment was made at closing. The 6,818,182 shares of the Registrant s Common Stock were represented as having an agreed aggregate value of $1,500,000. Thus, the aggregate consideration to be paid by the subsidiary for the assets of IMG amounted to $2,500,000 plus the assumption of $180,000 in debt.

As reported in a Form 8-K filing dated November 13, 2007, the Registrant and IMG entered into a Settlement Agreement and Release (SAR) dated November 9, 2007. Such SAR resolved all issues involved in a February 1, 2007, lawsuit initiated by IMG against the subsidiary and counterclaims interposed by the Registrant on May 14, 2007. The Registrant was not named as a party defendant in the action initiated by IMG. However, then counsel for the Registrant named the Registrant as the plaintiff in the counterclaim interposed in the action initiated by IMG. The SAR obligated IMG to return to the Registrant for cancellation an aggregate of 3,318,182 shares of the initial 6,818,182 shares issued to IMG pursuant to the ASP. The SAR acknowledged that the Registrant was not then current in its required 1934 Act filings and that, therefore, Rule 144 was not applicable to the remaining 3,318,182 shares. The SAR also obligated the Registrant to pay to IMG the additional sum of $100,000, which is reflected as loss on investments.

PSI CORPORATION
NOTES TO FINANCIAL STATEMENTS
July 31, 2010

5. Acquisitions (Continued)

On June 13, 2008, Henry C. Lo, the former Chief Financial Officer of Friendlyway Corporation, completed his obligations pursuant to a settlement agreement executed in November, 2007, that terminated litigation instituted by the Registrant against him. Mr. Lo delivered to the Registrant 700,000 shares of Registrant s Common Stock and $20,000 in cash. The settlement agreement did not purport to extinguish any claims by the Registrant arising out of the FWI transaction and the resolution thereof.

B) Failed Acquisition of Big Fish Marketing. As previously disclosed, on August 7, 2006, the Company acquired substantially all of the assets of Big Fish Marketing Group, Inc, a Colorado corporation (Big Fish) pursuant to an Agreement and Plan of Reorganization (the Purchase Agreement) effective July 26, 2006. In consideration for the Purchase Agreement, the Company paid to Big Fish $150,000 (the Cash Consideration) in cash and delivered 4,952,380 shares of the Company s common stock (having an agreed-upon aggregate value of $1,350,000). The purchased assets consisted of all of the assets used by Big Fish including but not limited to quotes, customer lists, accounts receivable, contracts, office furnishings, trademarks and other registered marks, all deposits including cash on hand, all intellectual property, domain names and rights owned by Big Fish against third parties. During the year ended October 31, 2008, the Company determined that there was a material failure to satisfy the closing conditions, in addition to the Purchase Agreement having been executed by a party not having the power to do so. As a result, the transaction has been rescinded, removing all transactions and operations of Big Fish Marketing from the Company s books and records.

6. Litigation

A) On April 27, 2007, FWAG, a German corporation that had received 6,000,000 of the aggregate of 18,000,000 shares issued by the Company effective December 10, 2004, in exchange for 100% of the capital stock of friendlyway, Inc. (FWI), sued the Company in California Superior Court in response to the Company s attempted cancellation of the shares received by FWAG. The Company then instituted a separate action in California Federal District Court (No. C 07 02869 SBA) on June 1, 2007, against FWAG in which the Company alleged that it was fraudulently induced to acquire FWI and to issue 18,000,000 shares of its Common Stock in exchange therefore. The Company sought rescission of the FWI transaction and, to prevent irreparable harm, moved on June 5, 2007, for a temporary restraining order to attempt to preserve the status quo. (The named defendants in the Federal action were believed to own an aggregate of 15,576,000 of the 18,000,000 shares.)

The law is settled that a party seeking a temporary restraining order must demonstrate either (a) the combination of probable success on the merits or (b) serious issues being raised and the balance of hardships being in favor of the movant. The Court ruled that the Company failed to show a likelihood of success on the Merits, that the securities fraud and breach of contract claims were time-barred, and that its allegations of fraud were precatory and, therefore, unsupported.

Subsequently, the Company was constrained to execute settlement agreements with each of the four named defendants. Such settlements resolved the litigation instituted both by AG and by the Company. Each such settlement agreement differed in content and result and in the disposition of the shares of Common Stock in issue. In sum, the settlements resulted in the net cancellation of 4,401,906 shares of Common Stock and the release of AG claims to an additional 18 million shares thereof. The Company believes it to be significant that its then counsel did not raise the issues of (a) failure to deliver consideration by the shareholders of FWI

PSI CORPORATION
NOTES TO FINANCIAL STATEMENTS
July 31, 2010

6. Litigation (Continued)

and (b) damages sustained by the Company as the proximate cause of all AG-appointed Company directors resigning in December, 2006, resulting in only one director of the Company remaining and that such one director initiated the transaction that resulted in the dissipation of Company assets, the decline in the Company s stock price, and the necessity that present management (from January, 2007) be compelled to effect a reorganization of the Company.

B) Additional litigation matters are discussed in Note 5 Acquisitions.

7. Debt

Bridge Loans

In February and March 2007, the Company entered into notes (Bridge Notes) with several unrelated parties totaling approximately $325,000. The Bridge Notes were due on November 11, 2009 and incurred an interest rate of 12% per annum.

In August 2007, the Company entered into exchange agreements with the holders of 300,000 of the Bridge Notes whereby the notes were converted into 3,000,000 shares of the Company s common stock. The remaining $25,000 was converted into 208,333 shares of common stock in December 2008.

In May and June of 2008, the Company entered into a new series of Bridge Notes with several unrelated parties totaling $470,000. The Bridge Notes are due six months from the date of issuance and incur interest at the rate of 10% per annum. The notes are convertible by the holder at any time at a conversion price equal to the per share price of a new issuance.

In connection with the Bridge Notes, the Company also issued warrants to purchase 470,000 shares of the Company s common stock at an exercise price of $.15, and warrants to purchase 470,000 shares of the Company s common stock at an exercise price of $.25. The warrants may be exercisable at any time for a period of 5 years. In connection with the issuance of the warrants, the Company has reflected a value for the warrants totaling $47,112. The fair value of the warrant grant was estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions: expected volatility of 15%, risk free interest rate of 4.86%; and expected lives of 5 years.

In April 2009, the Company entered into additional bridge note agreements aggregating $30,000. The terms and conditions of the notes are substantially identical with the Bridge Notes issued in May and June 2008. The Company also issued warrants to purchase 30,000 shares of the Company s commons stock at an exercise price of $.15 per share and warrants to purchase 30,000 shares of the Company s common stock at an exercise price of $.25 per share. No expense was recorded for these warrants as the additional cost was not material.

In July and August 2009, the Company entered into additional bridge note agreements aggregating $140,000. The terms and conditions of the notes are substantially identical with the Bridge Notes issued in May and June 2008. The Company also issued warrants to purchase 150,000 shares of the Company s commons stock at an exercise price of $.05 per share. No expense was recorded for these warrants as the additional cost was not material.

PSI CORPORATION
NOTES TO FINANCIAL STATEMENTS
July 31, 2010

7. Debt (Continued)

Bridge Loans (continued)

In March 2009, the Company obtained interest free advances from two of its officers totaling $40,000. Through July 31, 2010, the Company issued 5,877,036 shares of common stock in payment of accrued interest.

Round D Loans

Commencing May through October 2007, the Company entered into notes (Round D Notes) with several unrelated parties totaling approximately $2,766,000. The Round D Notes incur interest at rates ranging from 12% to 14% per annum, payable semi-annually and are due 3 years from the date of issuance.

In connection with the Round D Notes, the Company also issued warrants to purchase 7,221,500 shares of the Company s common stock at an exercise price of $.15. The warrants may be exercisable at any time for a period of 5 years. In connection with the issuance of the warrants, the Company has reflected a value for the warrants totaling $549,011. The fair value of the warrant grant was estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions: expected volatility of 15%, risk free interest rate of 3.57%; and expected lives of 5 years.

The Company issued Round D notes aggregating $150,000 in November 2008. In connection with the notes, a warrant to purchase 412,500 shares of stock were granted to the holder. The terms and conditions of the note and warrant are identical to those described above. No expense was recorded for these warrants as the additional cost was not material.

In June and July 2010, Round D notes totaling $80,000 face value were converted into 3,425,306 shares of the Company s common stock. In addition, during this quarter, T he Company issued 1,345,704 common shares in payment of accrued interest on these notes.

Round F loans

In November 2009, the Company entered into a series of convertible notes aggregating $319,000. The notes are due one year from the date of issuance and incur interest at the rate of 10% per annum. In January 2010, the Company issued an additional note totaling $100,000. The terms and conditions of the note are identical to the notes issued in November 2009.

In connection with the notes, the Company issued five year warrants to purchase 12,114,286 shares of the Company s common stock at an exercise price of $.05 per share. The warrants may be exercisable at any time for a period of 5 years. In connection with the issuance of the warrants and conversion features, the Company has reflected a value totaling $233,427. The fair value of the warrant grant was estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions: expected volatility of 15%, risk free interest rate of 2.08 to 3.57%; and expected lives of 5 years.

PPM Financing

In May and June, the Company entered into a series of convertible notes aggregating $275,000. The notes are due one year from the date of issuance and incur interest at the rate of 10% per annum. The interest is payable in cash or common shares at the discretion of the Company. The notes are convertible into common shares at a conversion price of $.035 per share. In connection with the notes, the Company issued five year warrants to purchase 7,857,143 shares of the Company s common stock at an exercise price of $.05/share.

PSI CORPORATION
NOTES TO FINANCIAL STATEMENTS
July 31, 2010

8. Commitments

Operating Leases

The Company leases office space and equipment under a non-cancelable operating lease agreement expiring in November 2012.

The minimum rental commitments under noncancelable operating leases that have remaining noncancelable lease terms in excess of one year at July 31, 2010 are as follows:

		Future Minimum Lease Payments
Periods Ending July 31,		
July 31, 2011	$	24,732
July 31, 2012		8,244
	$	32,976

Total rent expense for these operating leases was approximately $32,949and $51,982 for the nine months ended July 31, 2010 and 2009, respectively.

9. Income Taxes

The Company has not filed federal or state tax returns for the years ended October 31, 2006, 2007, 2008 and 2009. The Company did not believe it owes material federal or state taxes for these fiscal years as a result of its operating losses. At July 31, 2010, the Company had an operating loss carry forward of approximately $14,234,459 for federal tax purposes state tax purposes, which expire through 2030.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and operating losses and tax credit carryforwards. The significant components of net deferred income tax assets for the Company are:

		July 31, 2009		October 31, 2009
Deferred tax assets:				
Net operating loss carryforward	$	4,680,563	$	4,258,140
Accrued expenses not currently deductible		791,968		762,220
Inventory reserve		96,120		96,120
Deferred tax assets before valuation		5,568,651		5,116,480
Valuation allowance		(5,568,651)		(5,116,480)
Net deferred income tax assets	$		$	

PSI CORPORATION
NOTES TO FINANCIAL STATEMENTS
July 31, 2010

9. Income Taxes (Continued)

Generally accepted accounting principles requires that the tax benefit of net operating losses, temporary differences and credit carryforwards be recorded as an asset to the extent that management assesses that realization is more likely than not. Realization of the future tax benefits is dependent on the Company s ability to generate sufficient taxable income within the carryforward period. Because of the Company s history of operating losses, management has provided a valuation allowance equal to its net deferred tax assets.

10. Prior Period Adjustment

During the quarter ended July 31, 2010, the Company identified approximately $1.144 million of errors relating to an overstatement primarily of accounts payable, accrued expenses and other balance sheet items from the year ended October 31, 2009. Accordingly, the balance sheet for July 31, 2010 presented in this Form 10-Q has been adjusted to reduce accounts payable , accrued expenses and other balance sheet accounts the $1.144 million; a corresponding entry was recorded to reduce previously reported accumulated deficit by the same amount.

Item 2.

Management s Discussion and Analysis of Financial Condition and Results of Operations

The discussion of the financial condition and results of operations of the Company set forth below should be read in conjunction with the consolidated financial statements and related notes thereto included elsewhere in this Form 10-Q. This Form 10-Q contains forward-looking statements that involve risks and uncertainties. The statements contained in this Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27a of the Securities Act and Section 21e of the Exchange Act. When used in this Form 10-Q, or in the documents incorporated by reference into this Form 10-Q, the words anticipate, believe, estimate, intend and expect and similar expression intended to identify such forward-looking statements. Such forward-looking statements include, without limitation, the statements regarding the Company s strategy, future sales, future expenses, future liquidity and capital resources. All forward-looking statements in this Form 10-Q are based upon information available to the Company on the date of this Form 10-Q, and the Company assumes no obligation to update any such forward-looking statements. The Company s actual results could differ materially from those discussed in this Form 10-Q. Factors that could cause or contribute to such differences (Cautionary Statements) include, but are not limited to, those discussed in Item 1. Business Risk Factors and elsewhere in the Company s Annual Report on Form 10-K, which are incorporated by reference herein and in this report. All subsequent written and oral forward-looking statements attributable to the Company, or persons acting on the Company s behalf, are expressly qualified in their entirety by the Cautionary Statements.

Overview

PSI Corporation, (PSI or the Company) is a full service kiosk and digital signage company that specializes in the placement and management of coupon kiosks throughout the country. These kiosks come standard with the ability to process Coupons and provide loyalty enrolment cards for a loyalty program designed for specific stores.

Our kiosks provide consumers with information and functionality needed to redeem coupons for obtaining immediate discounts in store. Digital signage screens attached to the kiosks provide advertising opportunities for both national and local advertisers

The kiosks are placed in supermarkets and convenience stores and display promoted products on the Digital screen as well providing the ability to redeem coupons in order to purchase at a discounted rate. The system tracks the number of dispensed coupons and as well calculates the rebates that the store is due. The upper screen can be used as a tool to advertise store promotions and it has an interface allowing the local store to display and show special promotions. It receives its information from central servers that distributes the data to specific locations as require. The loyalty enrolment program and dispensing of loyalty cards is designed to automate the manual function provided by the store employees and allow the system to gather information on specific purchase trends.

Results of Operations

The Company earned revenue of $30,245 in the three months ended July 31, 2010, compared to revenue of $46,158 in the previous year s quarter. The Company earned revenue of $53,003 in the nine months ended July 31, 2010, compared to revenue of $38,889 in the previous year s nine month period ended July 31, 2009. The Company expanded the number of kiosks placed in supermarkets and continues to derive nominal revenue from its kiosks.

The Company s net loss for three months ended July 31, 2010 was $291,918, compared to a net loss of $618,891 in the three months ended July 31, 2009. The significant decrease in net loss was due primarily to tighter financial controls being implemented by new management.

Liquidity and Capital Resources

Cash Flows

Cash used in operating activities was $861,279 for the nine months ended July 31, 2010 compared to $673,841 of cash used in operating activities for the nine months ended July 31, 2009.

Net cash provided by financing activities was $962,607 for the nine months ended July 31, 2010, compared to $578,523 of net cash provided by financing activities in the nine months ended July 31, 2009.

From November 2009 through January 2010, we entered into a series of convertible notes aggregating $419,000. The notes are due one year from the date of issuance and incur interest at the rate of 10% per annum. In connection with the notes, we issued five year warrants to purchase 9,114,286 shares of our common stock at an exercise price of $.05 per share.

In March 2009, we obtained interest free advances from two of its officers totaling $40,000

In April 2009, we entered into additional bridge note agreements aggregating $30,000. The convertible bridge note is due six months from the date of issuance and incurs interest at the rate of 10% per annum. The note is convertible by the holder at any time at a conversion price equal to the per share price of a new issuance. We also issued warrants to purchase 30,000 shares of our commons stock at an exercise price of $.15 per share and warrants to purchase 30,000 shares of our common stock at an exercise price of $.25 per share.

In May 2010, we entered into additional convertible notes aggregating $275,000 In connection with the notes, we issued five year warrants to purchase 7,857,143 shares of our common stock at an exercise price of $.05 per share.

Cash and cash equivalents

We had cash and cash equivalents of $111,681 as of July 31, 2010.

Due to the substantial doubt of our ability to meet our working capital needs, history of losses and current shareholders deficit, in their report on the annual financial statements for the fiscal year ended October 31, 2010; our independent auditors included an explanatory paragraph regarding concerns about our ability to continue as a going concern. Our financial statements contain additional note disclosures describing the circumstances that led to this disclosure by our independent auditors.

We will need to able to raise significant capital to in order to implement the installation of our kiosks. There is no guaranty that we will be able to raise significant funds or that any funds raised will be on terms favorable to us.

Critical Accounting Policies and Procedures and Recent Accounting Pronouncements

The Company s critical accounting policies and procedures and recent accounting pronouncements are set forth in the Notes to our Financial Statements set forth in Item 1 hereof.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Item 3.

Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4.

Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in the reports filed under the Securities Exchange Act, is recorded, processed, summarized and reported within the time periods specified by the SEC s rules and forms. Disclosure controls are also designed with the objective of ensuring that this information is accumulated and communicated to the Company s management, including the Company s chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Based upon their evaluation as of the end of the period covered by this report, the Company s chief executive officer and chief financial officer concluded that the Company s disclosure controls and procedures are not effective to ensure that information required to be included in the Company s periodic SEC filings is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes in the Company s internal control over financial reporting have come to management s attention during the Company s last fiscal quarter that have materially affected, or are likely to materially affect, the Company s internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1.

Legal Proceedings

From time to time the Company may become party to litigation or other legal proceedings that we consider to be a part of the ordinary course of business.

We are not currently involved in any legal proceedings that we believe could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of operations.

Item 1A.

Risk Factors

There have been no material changes to our risk factors as previously disclosed in our most recent 10-K filing.

Item 2.

Unregistered Sales Of Equity Securities And Use Of Proceeds.

In June of 2010, the Company issued 746,301 shares of restricted common stock of the Company to a holder of its 14% Convertible Subordinated D Round Note, in lieu of accrued interest on such Note, at a price per share of $0.035. These shares were issued in reliance on Section 4(2) of the Securities Act of 1933, as amended.

In June of 2010, the Company issued to a holder of its Amended and Restated 14% Convertible Subordinated D Round Note (i) 1,000,000 shares of common stock of the Company, upon conversion of $20,000 of the principal balance of such Note, at a price per share of $0.02 and (ii) 469,484 shares of common stock of the Company upon conversion of an additional $10,000.00 of the principal amount of such Note, at a price per share of $0.0213; and in July of 2010 the Company issued (iii) an additional 416,667 shares of common stock to the holder of such Note upon conversion of $10,000 of the principal balance of such Note, at a price per share of $0.0214, (iv) 750,000 shares of common stock of the Company upon conversion of an additional $15,000 of the principal balance of such Note, at a price per share of $0.02, (v) 375,000 shares of common stock of the Company upon conversion of an additional $7,500 of the principal balance of such Note, at a price per share of $0.02 and (vi) 331,858 shares of common stock of the Company upon conversion of an additional $7,500 of the principal balance of such Note, at a price per share of $0.0226. All of these shares were issued in reliance on Section 4(2) of the Securities Act of 1933, as amended.

In July of 2010, the Company issued 591,233 shares of restricted common stock of the Company to a holder of its 14% Convertible Subordinated D Round Note in lieu of accrued interest on such Note, at a price per share of $.035. These shares were issued in reliance on Section 4(2) of the Securities Act of 1933, as amended.

In July of 2010, the Company issued 82,297 shares of restricted common stock of the Company to a holder of its 14% Convertible Subordinated D Round Note upon conversion of the $10,000 outstanding principal balance of such Note, at a price per share of $0.12, and issued 8,170 shares of restricted in lieu of the accrued interest thereon, at a price per share of $0.10. These shares were issued in reliance on Section 4(2) of the Securities Act of 1933, as amended.

Item 3.

Defaults Upon Senior Securities

None. Please see Note 7 to our Financial Statements for a complete discussion of all defaults with respect to various promissory notes issued by us that have occurred prior to this fiscal quarter.

Item 4.

(Removed and Reserved)

Item 5.

Other Information

In July of 2010 the Company created an audit committee to improve the Company s disclosure controls and procedures, and appointed Herbert B. Soroca, a independent director of the Company, as the sole member of the Company s audit committee.

This quarterly report does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting. Management s report was not subjected to attestation by the Company s registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management s report in this quarterly report.

Item 6.

Exhibits

EXHIBIT NUMBER	DESCRIPTION
31.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Sarbanes-Oxley Section 302
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Sarbanes-Oxley Section 906

SIGNATURES

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

PSI Corporation

By: /s/ Eric Kash

Name: Eric Kash
Title: Chief Executive Officer, Chief Financial Officer
(Principal Executive and Financial Officer)
Date: September 15, 2010