PCS EDVENTURES COM INC
Form 10-K
June 22, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2016

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

For the transition period from ___________ to ____________

Commission file number: 000-49990

PCS Edventures!.com, Inc.

(Exact name of Registrant as specified in its charter)

Idaho	**82-0475383**
(State or other jurisdiction of	(I.R.S. Employer
Incorporation or organization	Identification No.)

345 Bobwhite Court, Suite 200 Boise, ID 83706
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (208) 343-3110

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: No par value common stock

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes [ ] No [X].

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of 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 [X] 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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [X]

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 [ ] Accelerated filer [ ]

Non-accelerated filer [ ]   Smaller reporting company [X]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

Market Value of Non-Affiliate Holdings

The aggregate market value of $7,659,489 computed as the voting and non-voting common stock held by non-affiliates of 51,063,258 shares, computed by reference to the price of $0.15 as of the last business day of the Registrant's most recently completed second quarter closing bid price of our common stock on the OTC Markets Group, Inc. QB as of September 30, 2015.

Outstanding Shares

As of June 20, 2016, the Registrant had 82,280,682 outstanding shares of common stock.

Documents Incorporated by Reference

Certain material agreements and other documents or announcements referenced herein, including our charter documents and Code of Ethics, are described under our Current Reports on Form 8-K (or other reports and registration statements) referenced in Part IV, Item 15, below, and each of which can be accessed in the Edgar Archives of the Securities and Exchange Commission (the "SEC") at www.sec.gov for further information about such agreements, documents or announcements. You are encouraged to consider these referenced agreements, documents or announcements in reviewing our Annual Report on Form 10-K (the "Annual Report"). Capitalized terms not defined herein shall have the meanings ascribed to them in the referenced agreements or documents.

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PART I

Item 1. Business.

PCS Edventures!.com, Inc. (the “Company”, “PCS”, “we”, “our”, “us” or similar words) was incorporated in 1994, in the State of Idaho. We acquired PCS LabMentors, Ltd. (“PCS LabMentors”), which was based in Fredericton, New Brunswick, Canada, which became a wholly-owned subsidiary that we sold in September, 2013. In January, 2013, we formed Premiere Science, Inc. (“Premiere Science”) in the State of Idaho as a wholly-owned subsidiary. In February of 2016 we executed an asset purchase of Thrust UAV LLC, an Idaho based limited liability corporation specializing in aerial robotics (drone) technology, the purpose of which is to strengthen our internal technology capabilities, expand our STEM product offerings, and open up market opportunities outside of the K12 education space.

PCS specializes in experiential, hands-on, K12 education and drone technology. PCS has extensive experience and intellectual property (IP) that includes robotics software, hardware, product designs, and K12 content, as well as sophisticated turn-key lab packages that teach topics of science, technology, engineering, and math (STEM).

PCS educational solutions are implemented through the development, marketing, and distribution of educational products and services that target the PreK-12 market and are marketed through reseller channels, direct sales efforts, and through STEM Learning Centers called Edventures! Labs. Our Thrust UAV drone division is building a distribution and reseller network for the sale of our retail drone products.

The education market is complex and is comprised of a number of different types of customers to whom we sell:

Afterschool: The afterschool market consists of Boys and Girls Clubs, YMCAs, and other organizations, including a large number of afterschool programs supported by the $1.1B 21st Community Learning Center (21stCCLC) Federal grant program. We sell robotics, EdventuresLab implementations, and other hands-on STEM solutions to afterschool providers.

K6: Elementary classrooms in the United States are a rich market for PCS STEM professional development programs, PCS robotics packages, and PCS STEM curriculum solutions. There are over 60,000 elementary schools in the United States.

<u>Technical Education:</u> Tech Ed teachers in grades 6-12 use PCS robotics and engineering programs to prepare students for engineering or other technical fields. There are over 20,000 schools offering tech ed and career programs.

<u>Parents and Home Educators:</u> Our EdventuresLab STEM lab concept positions PCS in key communities to build awareness and support of PCS institutional products while generating revenue from the home and retail market. Conservative estimates of the homeschool population in the United States are over one million students. The EdventuresLab program can be deployed as a private learning facility, or licensed in partnership with schools and afterschool programs.

The drone market is rapidly expanding and includes a number of niche markets ranging from aerial photography and videography to security and drone racing. Thrust UAV specializes in drone racing technology and associated technology spinoffs that are applied in other sectors.

Recent Developments.

The following are business developments during our fiscal year ended March 31, 2016:

<u>Management and Board of Director Changes</u>

Todd R. Hackett, the sole member of our Board of Directors, our major stockholder, and who has been a primary source of funding for our business operations, was appointed by the Board of Directors to the role of CEO on December 14, 2015.

Robert O. Grover was appointed Executive Vice President and relieved of his Board of Director responsibilities by the Board of Directors in November of 2015. Russelee Horsburgh, our Controller, was appointed to PCS Vice President and Treasurer by our Board of Directors in February of 2015 and is acting as Principal Financial Officer.

Britt Ide, joined our Board of Directors in January, 2014, and was appointed to Chair of our Board of Directors in Q4 of FY2015. Ms. Ide resigned from the Board of Directors on November 1, 2015. There were no disagreements between the Company and Ms. Ide regarding her resignation.

Murali Ranganathan, Paula Lupiore, and K. Sue Redman resigned from the Board of Directors in December, 2015. There were no disagreements between the Company and Mr. Ranganathan, Ms. Lupriore, or Ms. Redman regarding their resignation.

Other Activities

In January, 2016, we extended our current Director & Officer insurance with no change in terms or conditions for a four month period. D&O Insurance was not renewed after the four month period and a 12 month run-off option was subsequently elected on May 26, 2016. Run-off coverage is synonymous with tail coverage briefly defined as a provision found within a claims-made policy that permits an insured to report claims that are made against the insured after a policy has expired or been canceled, if the wrongful act that gave rise to the claim was during the expired/cancelled policy. Tail coverage requires that the insured pay additional premium.

We continued to explore potential partnerships during FY2016, seeking opportunities and values that would strengthen PCS Edventures! and advance shareholder value through improved sales and marketing, development, and/or operational efficiency. PCS signed a distribution agreement with School Specialty, Inc., a large school supply company with penetration in major school districts around the country to this end in July of 2015. Catalog distribution by School Specialty commenced in January of 2016 and initial sales from their sales network began to arrive in Q4. STEMfinity, another reseller, continues to grow in sales and delivered over $500,000 in sales for FY2016, the Company continues to work with both these channels and is seeking others to develop additional revenue streams.

We continued to grow our long-term relationship with Catapult Learning, formerly Edison Schools' Newton Learning Summer Adventures, providing additional customized learning labs for their summer programs, as well as supplying them with materials authored and developed in current and previous years. The Catapult Learning program has been the source of well over $2.5 M in revenue since the inception of our relationship with them; Catapult Learning generated over $560,000 in sales in Q4 FY2016. These specialty programs, developed by PCS, range from primary stage camps in life science and biology to high school age activities in engineering, electronics, and robotics. Development, packaging, fulfillment, and support were further streamlined this year to improve efficiency and the overall customer experience.

We have continued our work with T4EDU, a Saudi entity charged with managing education reform activities defined by the Saudi Ministry of Education, to bid on contracts for additional STEM consulting and development services related to the design, production and implementation of a nationwide network of science centers in Saudi Arabia, as part of the King Abdullah Education Initiative. We announced a contract with T4EDU in September of 2013 for the development and delivery of up to $660K in STEM Outreach programs. We announced a contract with T4EDU in January of 2014 for a $133K training contract related to Science Center programs and fulfilled the training in February of 2014. We completed a $1MM contract with T4EDU in March 2016 for the design and production of a STEM learning framework and associated curriculum. In November of 2015 and January of 2016 our subsidiary, Premiere Science, received approximately $150K in supply orders for outfitting science center labs in Saudi Arabia.

Our relationship with Creya Learning of India continues to evolve as they expand their network of installed sites in India. Creya Learning licenses PCS STEM programs and installs them into private schools, charging schools a per-seat fee for each student that attends the STEM lab on a weekly basis. PCS also utilized Creya educational development resources in the fulfillment of part of the recent Saudi Arabian curriculum project.

In the summer of 2012, PCS launched and managed a pilot program for a new Learning Center model in partnership with Sage International Charter School in Boise. The program successfully accomplished a number of things, including: the creation of a learning framework model for the future; established an effective lab and system design; implemented an annual learning and event calendar; tested and established a successful holiday and retail product test market; and recruited and trained a strong core staff. The center was successfully used as a sales tool for generating institutional sales for PCS; a number of parent testimonials were accumulated on the benefits of the program; and a number of sales and marketing strategies and tactics were identified. In May, 2013, PCS migrated the pilot program to a lab adjacent to its corporate offices at 345 Bobwhite Ct. Ste. 200 Boise, Idaho and began to ramp the operation for scaling. In March, 2014 PCS secured funding for opening its second facility in Eagle, Idaho, which opened and was operational as of June, 2014. Both facilities are actively operating as revenue generating programs and serving as R&D test beds for new curriculum programs.

On July 23, 2015, the Board of Directors resolved that the name of the Company be changed to PCS Edventures!, Inc. No amendment to the Company's Articles of Incorporation has yet been filed, though it is anticipated that following the assignment of a new Cusip Number and the required filing with the Financial Industry Regulatory Authority, that this name change will become effective.

In November 2015, PCS launched its first digital learning title, Droneology. The digital learning platform upon which it is built is intended to serve as the platform for distributing a variety of PCS Edventures content ranging from sales training material to content for licensing to schools and afterschool programs.

In Q4, FY2016, PCS executed an Asset Purchase Agreement with Thrust UAV.

Strategy.

PCS holds a unique position in the STEM education market with (1) an existing STEM library and deep expertise in creating STEM solutions comprised of curriculum and materials; (2) a unique PCS learning methodology —an adaptive (customizes to individual learners), experiential (hands-on in nature), learning framework that can be monetized in a number of ways, with what we believe is an approach to educational assessment and incentivizing students for the future, and PCS is an innovative leader in this area; (3) PCS has developed an innovative K12 robotics and engineering system comprised of hardware and software specifically designed to engage students in STEM topics such as hands-on physics and engineering and coding; (4) PCS has established itself as a prime STEM provider in the Kingdom of Saudi Arabia and is increasing our revenues from the Kingdom; and (5) PCS entered the B2C space with a retail product line now comprised of four products, and also has an operational working model for experiential learning labs. With a plan to expand higher margin digital delivery products, PCS is now in the development stage of a unique, subscription-based online learning system that can be licensed to schools or non-profit organizations, as well as be used in the home environment.

As we enter FY2017, our strategy is profitability-driven seeking to optimize and streamline operations while moving our digital learning and robotics product strategy forward. A continued underlying principle will be the building of services and products with recurring revenue traits such as online licensing. Tactically we will focus on improving product quality, improving our delivery and support infrastructure to accommodate a larger scale, improving our sales infrastructure, and building our new, higher margin digital products to add to our lineup of STEM products and services. We will continue to focus on the improvement of our web-based marketing efforts, expand our sales force and channel partners, and tighten the sales processes for our domestic STEM sales. We will continue to fulfill existing and capture new STEM contracts with the Kingdom of Saudi Arabia. Additionally, we will also continue to use our EdventuresLab program for (1) an R&D test bed for product improvement and refinement with a major emphasis on digital delivery of content in FY2016; (2) revenue generation through our afterschool and summer course fees; (3) revenue through licensing EdventuresLab curriculum and methods; and (4) revenues from our STEM retail products. We believe e-commerce sales of kits associated with STEM learning targeting the families of students attending the centers as well as the larger home retail market will provide a consistent, dependable boost in annual Q3 revenues, to offset low education sales traditionally anticipated during this time frame. We will actively seek retail distribution methods and channels for our robotics retail products and expand their usability for other market segments.

Our Thrust UAV business unit will provide technology and products for both the STEM education side of the business as well as the retail drone side of the business. The asset purchase of Thrust UAV LLC in February has established the foundation for developing advanced robotics technology, improving internal capabilities for support and R&D, expanded the opportunities for STEM programs using drone technology, and opened up the potential for additional markets.

Foreign Currency Exchange Rate Risk.

We promote many of our products in the international market, and as a result, our statement of cash flows and operating results could be affected by changes in foreign currency exchange rates or weak economies of foreign countries.

Backlog.

Our unearned revenue was $49,778 at March 31, 2016. At the end of fiscal year 2016, the entire amount of unearned revenue is expected to be earned during FY2017. Of the total listed in unearned revenue at March 31, 2016, $41,028 is for orders prepaid by customers, and $8,750 are advanced license fees resulting from our agreement with Creya Learning of India. PCS, as part of our agreement with Creya Learning, will receive ongoing royalties on the tuition charged by Creya Learning to students attending PCS based programs and royalties will be amortized as earned. Each quarter, the license fees are amortized according to the length of the subscription/license.

Seasonality.

Our quarterly operating results fluctuate as a result of a number of factors, including, but not limited to, the funding of customers, timing of product development, and release, availability and timeliness of items required for assembly of the products, budget cycles, buying patterns of our customers, period ending dates, and the general health of the economy. Our International projects, learning centers, and retail product strategy are designed to offset these factors and smooth cash flow and revenue predictability over time.

Principal Products or Services and Their Markets.

PCS Edventures! operations divide into different business groups and address different markets as such. PCS STEM products address the K12 STEM education market; PCS EdventuresLab products and services address the K12 home learning market; and Thrust UAV addresses a retail/consumer market focused on drone racing.

The primary goal of the PCS STEM products and services we develop is to bring engaging, effective learning experiences to K12 students, experiences that can help them be successful in the 21st century workplace. We do this through the delivery of innovative products that make teaching STEM easier for educators and program facilitators. To this end, we have developed and are currently marketing a number of innovative technology-based educational programs for the pre-kindergarten through university (“PreK-12”) classroom market, the K-12 afterschool market, the private learning center market, and the home school market. Separately, and in combination, these lab products present a platform for delivering educational services and support, and create a virtual community of learners and parents on the web. It is our intent that as this community grows, it becomes an education portal through which additional PCS programs and services can be deployed.

We believe that education programs of our type are not currently available from any other source and present a unique opportunity for sales and marketing to specific segments of the education industry. We believe that the education programs of PCS deliver a unique, proven learning experience that:

Provides students with exciting and relevant activities that brings curriculum to life;

Develops essential critical thinking and problem-solving skills;

Prepares students for real-world career demands; and

Builds a strong foundation in technical literacy.

Customers currently use our products to:

- Uniquely motivate students by engaging them in their own learning;
- Provide opportunities for students to pursue their own interests and questions and make decisions about how they will find answers and solve problems;
- Make learning relevant and useful to students by establishing connections to life outside the classroom, addressing real world concerns, and developing real world skills that are desired by today's employers, including the ability to work well with others, make thoughtful decisions, take initiative, and solve complex problems;
- Provide opportunities for teachers to build relationships with each other and with those in the larger community through sharing with other teachers, parents, mentors, and the business community who all have a stake in the student's education;
- Provide exciting, hands-on, inquiry-based instruction that is driven by the major standards movements in the United States including Common Core and Next Generation Science Standards.
- Help increase test scores and understanding in STEM standards;
- Infuse engaging, technology-based methods and practices into the traditional classroom;
- Teach concepts from mechanical, electrical, structural, and software engineering as well as mechatronics and robotics; and
- Challenge students through promoting critical thinking, creativity, and problem solving techniques;

The products and programs we are currently marketing are applicable and useful to a variety of educational market segments. These product lines have been designed to stand-alone as well as integrate with one another to create contiguous, systemic solutions:

PCS Edventures! Labs

PCS originally operated experiential learning centers throughout the Western United States. Founded by a rural school teacher with a remarkable vision for providing students with hands-on, meaningful learning experiences, these centers were the origin of the learning philosophy and methodology embedded in all PCS products, curriculum, and services. PCS left the brick and mortar learning center business in the late 1990s to pursue the development of experiential curriculum and institutional products.

Today, the experience of PCS in hands-on STEM learning and learning centers, combined with its collective expertise and intellectual property in STEM, adaptive learning frameworks and robotics provide the infrastructure to create a high energy, effective STEM learning environment that serves as the basis for an expanded PCS business model. This new business model aligns with major drivers and megatrends in the industry and positions PCS to become a global leader in a unique learning category —adaptive, blended, STEM education.

PCS plans to seize the current business opportunity in the education industry through the STEM focused learning environments called EdventuresLabs augmented by a virtual community focused on experiential learning. The labs will generate revenue streams through: (1) a virtual community for participants that will become a global network of experiential learners; (2) experiential learning classes designed to develop STEM and 21st century skills where students, grades 4-12, identify their talents and find their passion; (3) retail sales to consumers based on hands-on experience with the products in the learning centers; (4) a model lab “showroom” that will leverage the lessons learned from our direct sales efforts and from which improved and refined direct sales efforts can be conducted in strategic, educational markets; (5) licenses with private and public entities to implement these labs on their premises; and (6) international opportunities for licensing and expansion.

PCS BrickLab™

The PCS BrickLab™ is a remarkably effective system of building blocks combined with PCS curriculum resources that addresses technology, math, construction engineering, communication, and science principles at the early primary grades. Simple to use, manage, and teach, it is an engaging and effective tool for hands-on STEM education. PCS currently has over twenty curriculum titles that support the PCS BrickLab manipulative package addressing needs for students in the elementary and afterschool setting. PCS updated the product design and improved production methods in FY2016, and also reconfigured the packaging and product design for BrickLAB at the end of Q4. The Company believes this new configuration will contribute to increased BrickLAB sales going forward.

PCS Digital Media Labs

Designed for today's "digital native" youth, PCS Digital Media Labs transform educational settings into technology-driven environments that use digital photography, video, and podcasting to make daily lesson plans more engaging. The curriculum is aligned with technology standards from the International Society for Technology Education ("ISTE") and the International Technology Education Association ("ITEA"). Each Digital Media Lab contains hands-on lesson plans, a hard cover mobile case, digital cameras, camcorders or voice recorders, accessories, and a teacher guide. It is currently available in Elementary and Secondary versions for classrooms and afterschool programs. This program was upgraded in FY2016 and migrated its media tools towards tablet platforms.

PCS Academy of Engineering™

The PCS Academy of Engineering™ Lab is a STEM program designed for use within tech-ed programs and is scalable for various environments using 10 student modules that include hardware, software, lab furniture, and curriculum. Using the PCS Academy of Engineering™ students develop, design, and produce exciting hands-on projects ranging from catapults to robots in response to engaging challenges in a variety of topics. The current PCS Academy of Engineering™ product includes three primary volumes of mechanical engineering activities. The PCS Academy of Engineering is currently marketed to middle and junior high schools. As an introduction to PCS engineering programs, PCS offers a Discover Engineering package that bundles fischertechnik constructs with our new 3D interactive curriculum (3DIC) as a starter bundle for educators.

PCS Robotics™

The PCS Edventures Robotics system is comprised of The Brain, a highly versatile micro-controller and the Cortex, an engaging and easy-to-use programming environment that makes programming fun. This system provides a naturally enabling platform for engaging students in a variety of areas including computer programming, physics, math, and other topics. PCS Robotics products range from full-scale robotics lab implementations to its RiQ™ robot kit designed for home users. PCS has specifically developed two curriculum models to accommodate instruction in both informal (afterschool) and formal (classroom) learning environments. Industry research from the International Federation of Robotics reports 1.2MM entertainment and hobby robotics units sold in 2013, with over 7.5MM projected from 2014 to 2017. The PCS Robotics system targets this market opportunity. The PCS Robotics line is progressing well, now a featured product by Frey Scientific, a division of School Specialty, and is being presented to districts around the country as an exciting way to bring STEM subjects to life. The product roadmap for the line includes expanding it to utilize cloud based user management, licensing, and to migrate it to support additional platforms. It currently supports Apple, Windows, Android, and IOS products and the development team is now evaluating ChromeOS to provide a solution to the thousands of schools adopting Chromebooks.

PCS Discover STEM Lab

The PCS Discover STEM Lab is a modular, easy to present program that provides activities for afterschool facilitators in the areas of STEM. Modules include hands-on activities that utilize PCS robotics, engineering, digital media, applied math activities and more. This cost-effective lab is the perfect fit into any afterschool program, and has been a great addition to our afterschool product line. This product, a steady performer for the Company STEM lineup, was expanded in FY2016 to include a grade 3-4 option in addition to the highly popular 5-6 package.

PCS Summer Camps

PCS offers a variety of summer camp packages that provide a complete, turnkey summer camp solution for schools and afterschool programs. Titles range from Farm to Table to Renewable Energy to the Physics of the Ninja and are popular for many organizations seeking a comprehensive curriculum and materials solutions for summer activities. PCS sold over $1MM in summer camp products in FY2016 and invested considerable time and energy into improving and expanding the product line with additional titles, more streamlined packaging and fulfillment options, and improved presentation and graphics for educators.

Thrust-UAV and the Drone Marketspace

PCS Edventures entered the drone tech space in late 2014 as we developed curriculum for advanced robotics for a Saudi Arabia curriculum development project. During this project, 4 units of curriculum for the high school capstone experience were developed focusing on APM controller technology, autonomous waypoint planning, RF technology, battery technology, alternative energy, and other topics. Drones are a rich source of STEM content such as the programming and electronics of the control systems, flight dynamics, and even materials science as applied to the frame of the drone (carbon fiber for example).

PCS Edventures developed a relationship with Thrust UAV, a local business focused on drone technology that designed and sold components and frames to the drone FPV (first person view) hobby segment in which enthusiasts don goggles and “see” the drone’s eye view as a pilot while flying at 30-100mph. PCS became familiar with the technology and market dynamics by spending time with EJ Duarte, the owner and innovator of Thrust products. During this time the Company research indicated that the FPV racing is a rapid growth market with major sports league level sponsorships evolving rapidly. Miami Dolphins owner Stephen Ross invested $1MM in August of 2015 to found a drone racing league for example which launched with great media fanfare in January of 2016. March 2016 marked the Dubai Grand Prix in which FPV drone racers competed for a $1MM prize purse and PCS was there with an FPV team. The growth and excitement in the FPV racing industry is a strong indicator to PCS Edventures that we are in the right place at the right time with our entry into this market. The strong connections to STEM education make this a natural fit for the education market also.

Strategically and operationally there are a number of strong synergies between Thrust UAV and PCS Edventures. STEM education is a natural fit as the Company discovered when developing advanced robotics curriculum in 2015. In addition to the rich educational environment it provides, it is also a natural complement to the Company marketing strategy. Robotics competitions in schools are one of the single largest drivers of educational robotic product sales in the country. The thrill of FPV racing coupled with STEM education is a natural way to drive interest in STEM fields and build a STEM pipeline of technically literate students in the United States. Imagine a nationwide league of drone racing teams in our schools, and our students as excited to study electronics, engineering, and flight dynamics as they are to play football.

Thrust UAV Products

Thrust UAV is presently focusing on the launch of the Riot, its flagship racing drone product, and a slightly modified version that will be targeting STEM applications. Longer term, the Company anticipates additional product R&D and product releases for both racing applications and STEM applications.

In addition to core products from the Thrust UAV group, the technology developed for FPV racing and drone control systems has wide application to other fields and products. In Q4 FY2016, shortly after the announcement of the Thrust UAV asset purchase, the Company announced two separate contract development projects from the Thrust UAV group: 1) a wireless video solution for a large corporate client; and 2) a contract for the design and production of a retail electronics device for Drones, Etc., a Salt Lake City based company with extensive sales in the drone space. Both of these projects are progressing and the Company anticipates successful deployments of both solutions bringing revenue and shareholder value to the Company.

PCS Designated Markets

The educational market represents significant business opportunities in the US. There are multiple segments within the educational market that can benefit from our products and services. PCS has developed sales and marketing strategies to position the Company and its products to meet the needs of specific segments in the education market as follows:

- Edventures! Lab programs and products targeting home use (families and homeschoolers).
- K6 Programs for the elementary classroom.
- Tech Ed Programs for grades 6-12.
- Afterschool Programs seeing informal and non-formal science programs.
- K-12 STEM solutions for the international market.

Marketing and Other Agreements.

(i) In June, 2011, we entered into a licensing agreement with Kindle Education, now Creya Learning, for the country of India, and have provided support, curriculum, and training for their experiential learning programs.

(ii) In April, 2012, we entered into a distribution agreement with STEMfinity, an online source for a variety of STEM products. STEMfinity has proven to be a reliable source of orders with sales over $35,000 FY2013, sales of $209,000 during FY2014, sales of $434,410 during FY2015, and sales of $502,641 during FY2016. We have a close relationship with STEMfinity and anticipate these sales numbers to continue to grow.

(iii) In January, 2014 we entered into a reseller agreement with Priority Education Solutions of Vero Beach, Florida, directed by Jim Hagadorn, focusing on the Florida region.

(iv) In July of 2015, we entered into a reseller agreement with School Specialty, Inc. of Wisconsin, a publicly traded educational supply company with a well established network of sales representatives throughout the country, multiple catalog channels that range from early childhood to high school science, and two major distribution centers located in NH and NV to support the West and East regions of the US. The Company feels confident this relationship will be a positive one and provide us access to major school districts around the country. Initial sales from this relationship began in Q4 FY2016 and we anticipate continued growth as PCS product awareness increases across the sales staff and their client base.

(v) In February of 2016 we announced a contract project with Drones, Etc. for the design and production of a retail electronics device. Drones, Etc. is a Salt Lake City based company with extensive sales in the drone space and now working on larger retail channels for their product lines that are moving outside of the drone space. The initial contract was for the design and production of 25,000 units of the planned device representing $825,000 in revenue to the Company in FY2017.

(vi) In March of 2016, the Company announced a $48,000 pilot project with a large corporate client for a wireless video solution to be applied in a heavy industrial environment. The project is underway with the first round of pilot testing concluded by end of Q4 FY2016. Client information and more details on the product are being withheld due to confidentiality. More information will be released upon conclusion of the pilot phase of the project anticipated to be in Q1 or Q2 of FY2017.

(vii) In April of 2016 the Company announced a non-exclusive distribution agreement with Unmanned Aerial Systems from the UK focusing on markets in the UK, Europe, and the Middle East.

Distribution Methods of the Products or Services.

The majority of our products are consolidated or built in our warehouse facility then shipped to customers. There are several vendors we work with that drop ship product for us.

Status of any Publicly Announced New Product or Service.

PCS continues to strengthen and develop the core line of STEM products and services. During the course of FY2016, PCS:

- Developed six new summer camp programs for Catapult (formerly Newton Learning).
- In partnership with Curious Media, collaboratively continued the development and advancement of both the 3DIC engineering title and the PCS Robotics system.
- Developed and delivered a full 20 title STEM curriculum and learning framework to the Kingdom of Saudi Arabia supporting a nationwide STEM initiative there and concluded the project in November of 2015 with a hands-on training in Jeddah focusing on the hands-on application of the system in their Science Center Network.

Developed and deployed Droneology, our first digital learning title supporting drone education and establishing a digital learning framework for all of our STEM content and training systems.

Developed and deployed our new curriculum format, LABCards, that makes teaching complex STEM education topics much more approachable for educators. This curriculum format also prepares our curriculum and topics for migration into a digital platform for widespread licensing.

Acquired Thrust UAV and developed the underlying technology required for launching a manufactured, mass market FPV racing drone.

Competitive Business Conditions, Competitive Position in the Industry and Methods of Competition.

The education industry is highly competitive, fragmented, and is rapidly evolving around the STEM disciplines. We expect the industry to continue to undergo significant and rapid technology change. Nationwide economic difficulties continue to cause budget deficits, teacher layoffs, and program reductions, all of which may impede industry growth.

Competitors in the STEM marketplace include a variety of publishers, technical education companies and non-profit solutions; providers including VEX, Pitsco, LabVolt, Pasco, LEGO® Education, McGraw Hill and Project Lead the Way. These companies, along with new entrants into the market may develop products and services and technologies superior to our products that may result in our products and services becoming less competitive. Many of the companies that are established or are entering the market have substantially greater financial, manufacturing, marketing, technical resources, and established historical channels than we have and represent significant long-term competition. To the extent that these companies may offer comparable products and services at lower prices or higher quality and more cost effective, our business could be adversely affected.

Competition in the FPV drone racing market is rapidly expanding with a number of Chinese companies delivering FPV racing solutions at low costs. The Company perceives this as advantageous as these low cost racing solutions are affordable for getting new customers into the marketplace. Once customers become familiar with the sport, the Company feels they will be engaged to upgrade to a professional racing drone with US manufactured quality such as the Riot. This is a key aspect to our competitive strategy in the FPV racing market.

Potential Competitive Advantages.

We believe that we have and continue to develop certain additional competitive advantages that we will attempt to maximize in developing and implementing our business strategy.

Experiential learning centers - We believe the establishment of a network of experiential learning centers, based on our curriculum, products and expertise in afterschool programs, will yield us a significant competitive advantage through improved presence in key markets for both sales and support. The establishment of these centers, in addition to providing revenues from operations, creates a dynamic showroom that can be used for sales demonstrations, product training and support activities, and promotional events within the targeted community.

Professional development - Our BrickLab professional development institute conducted from 2008-2010 resulted in the successful deployment of this product into hundreds of Idaho elementary classrooms and the production of University authored research now available for educators and administrators through the American Association of Engineering Education (ASEE). This research documents the effectiveness of the Bricklab Institute in improving teacher attitudes and their comfort level in conducting STEM activities in the elementary classroom. This network of active teachers also provides PCS with a strong community of program advocates from which we can leverage and expand the program. Since elementary teachers are typically more comfortable with language arts than STEM topics, the BrickLab Institute provides a proven solution to a prevalent problem for elementary principals across the country.

Robotics programs - Our PCS Robotics programs are specifically designed to accommodate needs in the education marketplace that were identified through years of experience with K-12 robotics. The result is less expensive, more flexible robotics solution that has the ability to integrate into every robotic educator’s classroom. Specific examples of this flexibility include a multi-level programming environment that naturally evolves in complexity to match the needs of the student, an open physical architecture that provides hooks for all major manipulative manufacturers including fischertechnik®, LEGO®, K’NEX®, MINDS-i, VEX, erector, and even industry standard Radio Control (R/C) components. The open physical architecture of our microcontroller and its basis on the highly popular Arduino platform provides educators and robotic enthusiasts a highly flexible solution. With the release of our new Cortex v. 5.0, PCS is the only K12 education company offering a tablet based programming environment for robotics. We hope to maintain this competitive advantage through constant innovation of new and better enhancements to our programs.

Learning frameworks - Our unique learning framework is designed for managing and facilitating non-formal education and provides us with in-house capabilities unavailable through other channels. Initially designed over a decade ago, the PCS Merit System is a non-formal learning framework that provides flexibility, adaptability, and a variety of unique characteristics that create a highly effective pedagogical model unavailable elsewhere.

Forward looking processes - Our forward looking educational development processes include mapping our curriculum and products against future trends such as the upcoming Next Generation Science Standards, the Common Core, and the NAEP's mandated technology and engineering literacy assessment implemented nationwide in the US in 2014.

Our use of the Internet as a delivery and support mechanism for the programs - By leveraging our expertise in experiential learning and our potential software partnership with Curious Media, we believes we can achieve the following significant advantages: (1) a high level of program control and protection; (2) the building of a significant data model regarding program usage; (3) a direct channel to our users who are migrating towards digital e-reading devices; and (4) a long term strategy that includes a high-margin subscription model for access to our digital educational services. Each of these advantages provides tangible long-term benefits to the Company.

Organic expansion of program offerings - After implementing and proving a successful program model, PCS believes it can leverage its high level of customer satisfaction to expand current and additional programs designed to integrate seamlessly into our already deployed sites. This creates a long-term growth strategy that includes new and residual sales to an ever-growing list of customers.

The flexibility of products and staff to align STEM solutions to multiple types of users - Our in-house intellectual capital has experience in a variety of educational environments and has demonstrated an ability to create highly effective solutions for specific niche markets. This extensive experience of almost 25 years in STEM education provides PCS with an advantage over competitors with less experience in STEM education.

PCS believes the contiguous nature of its products creates a system that provides a competitive advantage over other companies who may have single product offerings or products with no systemic approach or plan. This system begins at the Pre-K level and extends through college. School districts seeking a systemic approach to STEM education will find our PCS approach comprehensive.

Deep expertise in FPV Drone Racing —With the acquisition of Thrust UAV, PCS hired several key employees who have been actively participating in the FPV drone racing industry for two years. The combination of racing experience and hands on engineering expertise has created what the Company perceives to be a very strong competitive advantage over other competitors without the industry expertise.

Sources and Availability of Raw Materials and the Names of Principal Suppliers.

We currently do not manufacture the products that accompany our curriculum and are dependent on vendors for our supply of these products. We believe that efficient purchasing is a key factor in maintaining our competitiveness. The following is a list of vendors for our key products: I.B.A., fischertechnik, K'NEX, Q-Smart Robot Technologies, and Gratnell. We believe there are adequate sources for all raw materials required for manufacture of our products.

Thrust UAV is developing a supply chain for electronic components and PCB production. The Company is aggressively pursuing strong supply chain partners in a very competitive space.

Dependence on One or a Few Major Customers.

In general, our STEM customer base is growing rapidly and will reduce dependence on what are emerging to be our major customers; however the following three are important to recognize: (1) Catapult Learning, formerly Edison Schools' Newton Learning, is a significant customer, receiving orders of approximately $833,000 in FY2016; (2) STEMfinity, a PCS reseller, has been growing steadily with orders of approximately $502,000 in FY2016; and (3) Tatweer Holding Company (THC) is a Riyadh based, government-owned company dedicated to education development in the Kingdom of Saudi Arabia. PCS generated approximately $833,000 in revenue with THC in FY2016.

The Thrust UAV business model is pursuing a distribution model that will secure a small number of distributors who will manage the distribution of product to many resellers. At this time, the Company has one distribution agreement in place, with Unmanned Aerial Systems (UAS) of the UK.

Patents, Trademarks, Licenses, Franchises, Concessions, Royalty Agreements or Labor Contracts, including Duration.

We seek to protect our technology, documentation, and other written materials under trade secret and copyright laws, which afford only limited protection. Generally, we enter into confidentiality and non-disclosure agreements with our key vendors and suppliers. At the present time, we have not applied for any patents, nor do we have any patents pending. We anticipate that our products will not be the type for which patent protection will be sought. However, we may file for patent protection on certain aspects of our proprietary technology in the future.

PCS holds common law rights on numerous trademarks used in its business.

Although we believe that our products have been independently developed and that we do not infringe on any third party rights, third parties may, in the future, assert infringement claims against us. We may be required to modify our products, trademarks, and/or technology or to obtain licenses to permit our continued use of those rights. We may not be able to do so in a timely manner or upon reasonable terms and conditions and as such failure to do so could irreparably harm us and/or our operating results.

We currently have a development agreement compensated through a revenue share with Curious Media. The agreement with Curious Media is for equity and cash revenue share/royalty payments based on sales of our 3DIC and Cortex integrated products.

Need for any Government Approval of Principal Products or Services.

None, not applicable.

Effect of Existing or Probable Governmental Regulations on the Business.

Exchange Act.

We are subject to the following regulations of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and applicable securities laws, rules and regulations promulgated under the Exchange Act by the SEC. Compliance with these requirements of the Exchange Act also substantially increases our legal and accounting costs.

Smaller Reporting Company.

We are subject to the reporting requirements of Section 13 of the Exchange Act, and subject to the disclosure requirements of Regulation S-K of the SEC, as a "smaller reporting company," including, but not limited to, a scaled down description of our business in SEC filings; no requirement to include risk factors in Exchange Act filings; no requirement to include certain selected financial data and supplementary financial information in SEC filings; not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act; reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements that we file under the Exchange Act; and exemptions from the requirements of holding an annual nonbinding advisory vote on executive compensation and seeking nonbinding shareholder approval of any golden parachute payments not previously approved. This designation relieves us of some of the informational requirements of SEC Regulation S-K, and may reduce our regulatory operating costs and expenses.

Sarbanes-Oxley Act

We are also subject to the Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act created a strong and independent accounting oversight board to oversee the conduct of auditors of public companies and strengthens auditor independence. It also requires steps to enhance the direct responsibility of senior members of management for financial reporting and for the quality of financial disclosures made by public companies; establishes clear statutory rules to limit, and to expose to public view, possible conflicts of interest affecting securities analysts; creates guidelines for audit committee members' appointment, compensation and oversight of the work of public companies' auditors; management assessment of our internal controls; prohibits certain insider trading during pension fund blackout periods; requires companies and auditors to evaluate internal controls and procedures; and establishes a federal crime of securities fraud, among other provisions. Compliance with the requirements of the Sarbanes-Oxley Act substantially increases our legal and accounting costs.

Exchange Act Reporting Obligations.

Section 14(a) of the Exchange Act requires all companies with securities registered pursuant to Section 12(g) of the Exchange Act to comply with the rules and regulations of the SEC regarding proxy solicitations, as outlined in Regulation 14A. Matters submitted to shareholders at a special or annual meeting or pursuant to a written consent of shareholders will require us to provide our shareholders with the information outlined in Schedule 14A (where proxies are solicited) or Schedule 14C (where shareholder consents in writing to the action have already been received or are anticipated to be received) of Regulation 14, as applicable; and preliminary copies of this information must be submitted to the SEC at least 10 days prior to the date that definitive copies of this information are forwarded to our shareholders. Actions taken under 14C requirements are customarily not effective until 21 days after the mailing to shareholders.

We will also be required to file annual reports on Form 10-K and quarterly reports on Form 10-Q with the SEC on a regular basis, and will be required to timely disclose certain material events (e.g., changes in corporate control; acquisitions or dispositions of a significant amount of assets other than in the ordinary course of business; and bankruptcy) in a Current Report on Form 8-K.

Research and Development Costs.

PCS Edventures has research and development costs of $311,497 in FY 2015 and $258,400 in FY 2016.

Cost and Effects of Compliance with Environmental Laws.

None, not applicable.

Number of Total Employees and Number of Full Time Employees.

We employ approximately 16 full-time employees. Premiere Science, Inc. does not currently have any dedicated employees at this time and fulfills orders using our existing operational infrastructure. We hire part-time and additional full-time employees on an “as-needed” basis. We have not experienced a shortage of qualified employees. None of our employees are a party to a collective bargaining unit, and we believe that our relationship with our employees is good.

Item 1A - Risk Factors.

Smaller reporting companies are not required to provide this information; however, you should be aware that an investment in the Company is highly speculative and subject to numerous risks. You should consider the following most notable risk factors together with all the other information contained in this Annual Report and other reports or registration statements filed by us with the SEC before making an investment decision with respect to our common stock. This list is not to be considered all-inclusive.

Risks Related to our Business.

Ability to Raise Capital

We have a history of significant operating losses and may not be able to achieve sustained profitability if we are unable to increase revenue from our new products and marketing efforts. To achieve sustained profitability, we will need to implement changes to existing business processes and improve our cost cutting efforts in addition to driving revenue growth. This history of operating losses could impede our future ability to raise capital.

Potential Loss of Intellectual Property

The Company has pledged its Intellectual Property as collateral for promissory notes payable as discussed in Note 9 of our Financial Statements in Part II, Item 8 of this Annual Report. Risk of loss of the underlying IP exists should the Company default on these promissory notes.

Education Funding

The education market is heavily dependent on support from federal, state and local governments. These governmental agencies have realized budget cuts and the government appropriations process is often slow and unpredictable. Funding difficulties can negatively impact our ability to increase revenue.

Thrust UAV Supply Chain

The electronics supply chain related to FPV racing drone production is highly competitive and there are no guarantees that we will be able to acquire product in sufficient quantities to produce product in the volume required to scale the business unit as quickly as the Company hopes.

International Expertise

Our attempt to enter international markets introduces political and cultural risk. As a small company, we do not have extensive experience in international business arrangements and will need to rely on certain outside expertise that can be costly.

Item 2. Properties.

Location.

The Company leases its principal executive offices in Boise, Idaho. On February 1, 2015, we signed a lease for our principal offices comprised of approximately 3,609 square feet for $4,511 per month for the 12 months ending January 31, 2016. On May 11, 2016, the Company signed the first amendment to the February 1, 2015, Lease Agreement: amending the base monthly rent to $15.45 per rentable square foot, or $4,647 per month with lease expiration on May 31, 2017.

We also leased warehouse space in Boise, Idaho. This warehouse space consists of approximately 4,320 square feet. Rent obligations are approximately $2,115 per month under a non-cancelable operating lease that expired on October 31, 2015. A seventh lease amendment was signed on October 28, 2015, to extend the lease to April 30, 2016. The Company warehouse was subsequently moved to an approximately 10,000 square foot facility to accommodate Thrust UAV operations with a rent obligation of $6,300 per month under a non-cancelable operating lease that will expire on March 15, 2017.

Item 3. Legal Proceedings.

Anthony Maher brought suit against PCS in January of 2014, claiming breach of an employment contract, interference with economic expectancy, and fraud. Settlement was agreed in principle during mediation on July 9, 2014, as follows: in exchange for dismissal of the suit, and release of PCS from any liability to Mr. Maher for any and all claims related to Mr. Maher's employment contract with PCS, PCS issued Mr. Maher 400,000 shares of the common stock of PCS, and paid him $50,000. PCS does not admit the allegations or any other wrongdoing, but would rather settle the matter for a modest amount to avoid the expense of defending it in court. The settlement agreement was executed on July 9, 2014. There are no other lawsuits pending involving PCS.

On or about May 18, 2015, the Company was named as a co-defendant in a legal action related to one of its employees, alleged to have been driving an automobile negligently while on work related services for the Company, and causing damages to the plaintiffs in the action. The action was brought in the District Court of the Fourth Judicial District of the State of Idaho, in and for the County of Ada, Civil Action number CV PI 1507419. The insurance carrier has indicated the claim would not be supported if the employee was not on company business. The Company has engaged legal counsel to represent it in this matter, and it is not presently in a position to determine what, if any, liability exists.

On October 13, 2015, PCS filed a Summons and Complaint against Ty Jacobsen, dba Jacobsen Enterprises. The complaint primarily involved defamation and breach of contract. The Complaint is un-resolved at this time and the Company is in negotiations with Mr. Jacobsen.

Item 4. Mine Safety Disclosures

None; not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information.

Our common stock is presently quoted on the OTC Markets Group, Inc. OTCQB under the symbol “PCSV” as discussed below. No assurance can be given that the current market for our common stock will continue in the future or will be maintained. The possible sale of “restricted securities” (common stock) pursuant to Rule 144 of the SEC held by members of management or others could have a substantial adverse impact on this market. The range of high and low bid quotations for our common stock during each quarter of our past two fiscal years is shown below. Prices are inter-dealer quotations as reported by OTC Markets Group, Inc. OTCQB, and do not necessarily reflect transactions, retail markups, markdowns, or commissions.

Stock Quotations.

Quarter Ended	High	Low
June 30, 2014	$0.06	$0.06
September 30, 2014	$0.06	$0.06
December 31, 2014	$0.04	$0.04
March 31, 2015	$0.03	$0.03
June 30, 2015	$0.14	$0.12
September 30, 2015	$0.15	$0.13
December 31, 2015	$0.05	$0.05
March 31, 2016	$0.08	$0. 08

Holders.

As of March 31, 2016, we had approximately 250 stockholders of record through our transfer agent. This figure does not include an indeterminate number of stockholders who may hold their shares in a street name.

Dividends.

We have not paid any cash dividends since our inception and do not anticipate or contemplate paying dividends in the foreseeable future. It is the present intent of management to utilize all available funds for the development of our business.

Securities Authorized for Issuance Under Equity Compensation Plans.

On August 27, 2009, our Board of Directors adopted and our shareholders subsequently approved the PCS Edventures!.com, Inc. 2009 Equity Incentive Plan (the "2009 Plan"). The 2009 Plan was designed to replace the existing 2004 Nonqualified Stock Option Plan (the "2004 Plan"). The 2009 Plan provides for the grant of various types of equity instruments, including grants of restricted and unrestricted PCS common stock as well as options and other types of awards. The 2009 Plan was implemented to align the interests of the Company's employees with those of the shareholders and to motivate, attract, and retain our employees and provide an incentive for outstanding performance.

	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a) (c)
Equity compensation plans approved by security holders	4,556,988	$ 0.11	11,556
Equity compensation plans not approved by security holders	-	$ -	-
Total	4,556,988	$ 0.11	11,556

On April 4, 2012, our Board of Directors adopted and our shareholders approved an Amendment to increase the number of shares of our common stock available for grants, incentive or other purposes under the Company's 2009 Equity Incentive Plan from 4,000,000 shares to 8,000,000 shares.

Recent Sales of Unregistered Securities

During the last three years, we have sold the following shares of our common stock, which are comprised of unregistered and “restricted securities” as defined in SEC Rule 144:

Name of Person or Group	Number of Shares	Consideration	Note
* Consultants	2,098,000	$ 145,940	1
Legal Consultants	-	-	2
Legal Settlement	400,000	22,000	3
Private Investors: Warrants	120,000	8,400	4
Private Investor: Note Conversions	22,660,302	958,550	5
*Employees: Benefits	19,000	-	6
*Employees: Bonus	623,000	31,148	7
*Board of Directors: RSU’s	1,624,443	164,756	8
	27,544,745	$ 1,330,794	

* Issued as Restricted Securities under the 2009 Plan.

Shares issued to consultants for services:

	Shares			Value		
	Fiscal Year			Fiscal Year		
	2014	2015	2016	2014	2015	2016
Q1	-	400,000	-	$-	$20,000	$-
Q2	-	300,000	200,000	-	17,500	22,000
Q3	-	1,000,000	198,000	-	60,000	26,440
Q4	-	-	-	-	-	-

1. Shares issued for legal services:

	Shares			Value		
	Fiscal Year			Fiscal Year		
	2014	2015	2016	2014	2015	2016
Q1	-	-	-	$-	$ -	$ -
Q2	-	-	-	-	-	-
Q3	-	-	-	-	-	-
Q4	-	-	-	-	-	-

2. Shares issued for legal settlement:

	Shares			Value		
	Fiscal Year			Fiscal Year		
	2014	2015	2016	2014	2015	2016
Q1	-	-	-	$-	$-	$ -
Q2	-	400,000	-	-	22,000	-
Q3	-	-	-	-	-	-
Q4	-	-	-	-	-	-

4. Shares issued to private investors for the purchase of warrants:

	Shares			Value		
	Fiscal Year			Fiscal Year		
	2014	2015	2016	2014	2015	2016
Q1	-	-	-	$-	$ -	$-
Q2	-	-	120,000	-	-	8,400
Q3	-	-	-	-	-	-
Q4	-	-	-	-	-	-

5. Shares issued to private investors for the conversion of promissory note:

	Shares			Value		
	Fiscal Year			Fiscal Year		
	2014	2015	2016	2014	2015	2016
Q1	-	-	-	$-	$-	$-
Q2	-	18,455,666		-	696,374	
Q3	-	-	1,066,006	-	-	159,901
Q4	3,138,630	-	-	102,275	-	-

6. Shares issued to employees for benefits:

	Shares			Value		
	Fiscal Year			Fiscal Year		
	2014	2015	2016	2014	2015	2016
Q1	-	-	-	$-	$ -	$ -
Q2	-	-	19,000	-	-	-
Q3	-	-	-	-	-	-
Q4	-	-	-	-	-	-

7. Shares issued to employees for bonuses:

	Shares			Value		
	Fiscal Year			Fiscal Year		
	2014	2015	2016	2014	2015	2016
Q1	-	-	-	-	-	-
Q2	30,000	-	-	1,500	-	-
Q3	-	170,000	358,000	-	8,160	17,908
Q4	65,000	-	-	3,580	-	-

8. Shares issued to our Board of Directors for Restricted Stock Units:

	Shares			Value		
	Fiscal Year			Fiscal Year		
	2014	2015	2016	2014	2015	2016
Q1	-	-	-	$-	$-	$-
Q2	442,857	-	-	40,000	-	-
Q3	-	489,286	692,300	-	26,911	97,845
Q4	-	-	-	-	-	-

Securities Act of 1933, as amended (the “Securities Act”), Registration Exemption Relied Upon

Unless otherwise exempt from registration under the Securities Act, 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 Regulation D 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 Section 4(a)(2), 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. Shares issued under the 2009 Plan have been registered on Form S-8 with the SEC; however, in many instances, shares issued or granted under the 2009 Plan were issued as "restricted securities" under Board of Director resolutions as indicated above.

Use of Proceeds of Registered Securities

There were $8,400 in proceeds received by us during the fiscal year ended March 31, 2016, from the sale of registered securities.

Purchase of Equity Securities by Us and Affiliated Purchasers

During the year ended March 31, 2016, the Company made no purchases of its outstanding equity securities. Todd R. Hackett, the Company's CEO, shareholder, predominant promissory note holder, and sole member of the Board of Directors, has purchased 125,000 shares at $0.06 per share of PCS Edventures! common stock from a private investor and converted $230,520 of Company convertible promissory notes and interest into 5,763,014 shares at $0.04, between fiscal year end March 31, 2016, and the filing of this Annual Report. Information about these purchases can be accessed in Mr. Hackett's Schedule 13D filings with the SEC at www.sec.gov, under the filings of the Company.

Item 6. Selected Financial Data.

Not required for smaller reporting companies.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

<u>Cautionary Statements for Purposes of "Safe Harbor Provisions" of the Private Securities Litigation Reform Act of 1995:</u>

Except for historical facts, all matters discussed in this Annual Report, which are forward-looking, involve a high degree of risk and uncertainty. Certain statements in this Annual 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 SEC 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 Item 1A, "Risk Factors" of this report beginning on page 18 and our audited financial statements and notes thereto contained in Item 8, "Financial Statements and Supplementary Data of this report.

Plan of Operation.

PCS holds a unique position in the STEM education market with (1) an existing STEM library and deep expertise in creating STEM solutions comprised of curriculum and materials; (2) a unique PCS learning methodology —an adaptive (customizes to individual learners), experiential (hands-on in nature), learning framework that can be monetized in a number of ways, with what we believe is an approach to educational assessment and incentivizing students for the future, and PCS is an innovative leader in this area; (3) PCS has developed an innovative K12 robotics and engineering system comprised of hardware and software specifically designed to engage students in STEM topics such as hands-on physics and engineering and coding; (4) PCS has established itself as a prime STEM provider in the

Kingdom of Saudi Arabia and is growing its revenues from the Kingdom; and (5) PCS entered the B2C space with a retail product launch this year and also has an operational working model for experiential learning labs. With a plan to expand higher margin digital delivery products, PCS is now in the development stage of a unique, subscription-based online learning system that can be licensed to schools or non-profit organizations, as well as be used in the home environment.

As we enter FY2017, our strategy is profitability driven seeking to optimize and streamline operations while moving our digital learning and robotics product strategy forward. A continued underlying principle will be the building of services and products with recurring revenue traits such as online licensing. Tactically we will focus on improving product quality, improving our delivery and support infrastructure to accommodate larger scale delivery, improving our sales infrastructure, and building our new, higher margin digital products to add to our lineup of STEM products and services. We will continue to focus on the improvement of our web-based marketing efforts, expand our sales force and channel partners, and tighten sales processes for our domestic STEM sales. We will continue to fulfill existing and capture new STEM contracts with the Kingdom of Saudi Arabia. We will continue to use our EdventuresLab program for (1) an R&D test bed for product improvement and refinement with a major emphasis on digital delivery of content in FY2016; (2) revenue generation through afterschool and summer course fees; (3) revenue through licensing EdventuresLab curriculum and methods; and (4) revenues from STEM retail products. We believe e-commerce sales of kits associated with STEM learning targeting the families of students attending the centers as well as the larger home retail market will provide a consistent, dependable boost in Q3 annual revenues to offset low education sales traditionally anticipated during this time frame. We will actively seek retail distribution methods and channels for our robotics retail products and expand their usability for other market segments.

Our Thrust UAV business unit is actively seeking distribution partners for its Riot FPV racing drone. The marketing strategy is to build awareness and excitement for the platform through sponsored races and extensive social media and video promotion. For fulfillment, our initial focus is on the development of a small network of distributors who will take the product to the mass market. In addition, Thrust UAV products will be distributed through our PCS Edventures STEM sales channels coupled with STEM curriculum.

Management's Discussion and Analysis of Financial Condition and Results of Operation.

Operating Results - Overview.

Fiscal year ended March 31, 2016 resulted in a net loss of ($434,053) as compared to the net loss from during the fiscal year ended March 31, 2015 of ($1,447,820). This is a decrease in loss of $1,013,767 or approximately 71%, from the net loss for the fiscal year ended March 31, 2015. The Basic and Diluted Loss per Share for FY2016 and FY2015 was ($0.01) and ($0.02), respectively. Details of changes in revenues and expenses can be found below.

Operating Results - Revenues.

Revenues for the twelve-month period ended March 31, 2016, were $3,335,612, an increase of $434,499 or 15%, as compared to $2,901,113 for the twelve-month period ended March 31, 2015. The revenue growth was in domestic sales exceeding FY2015 by $597,013. The increase in sales was predominately due to the timing of shipments to major customers of last year's order earned in April 2015 and this year's order in March of 2016.

Operating Results - Cost of Goods Sold/Cost of Sales.

Cost of Sales for the 12 month period ended March 31, 2016, decreased $327,603 or 21% to $1,262,946 as compared to $1,590,549 for the 12 month period ended March 31, 2015. FY2016, as a percent of revenue to cost of goods sold, was 38%. Included in the Cost of Sales of PCS are variable costs such as sales commissions, shipping expenses, and product royalty payments.

Operating Results - Operating Expenses.

Total Operating expenses for the 12 month period ended March 31, 2016, increased by $29,433, or 1% to $2,239,124 as compared to $2,209,691 for the 12 month period ended March 31, 2015. The table below identifies the year over year changes:

	Fiscal Year ended March 31, 2015	
Product Development	$(53,097)	(1)
Employee Expenses	(72,057)	(2)
International Consulting	95,644	(3)
Board Of Directors Expense	60,441	(4)
Other, net	(1,498)	
	$29,433	

1) Product Development Expense decreased as the international product line development was predominately completed by June of 2015.

2) Employee Expense decreased with unfilled positions in Sales and Marketing.

3) International Consulting Expense increased with the fulfilment of our Tatweer Saudi Arabian contracts with the partnering of a Kingdom of Saudi Arabia contract facilitator positioned abroad.

4) Board of Director Expense increased with the stock price revaluation of Restricted Stock Units for the Board contracted term October 1, 2014 to September 31, 2015 at date of vesting our peak. Expense increased with additional efforts in website optimization, and lead generation campaigns.

Operating Results - Other Income/Expenses.

Total other income (expense) for the fiscal years ended March 31, 2016 and 2015 was ($267,595) and ($548,693) respectively; a change of 51% or ($281,098) which was predominantly due to debt discount amortization charged to interest expense on notes payable converted in FY2015.

Liquidity.

As of the fiscal year ended March 31, 2016, we had $54,357 in cash, with total current assets of $1,186,876 and total current liabilities of $2,848,390. We have an accumulated deficit of ($40,052,059), and stockholder's deficit of ($1,777,571).

The Company has a working capital deficit of $1,661,514 at March 31, 2016. The working capital deficit for the fiscal year ended March 31, 2015 was $1,402,547. The Company has a current ratio of 0.42 and 0.38 as of March 31, 2016 and 2015, respectively. This increase in liquidity was due primarily to the increase in accounts receivable of our major customers.

Critical Accounting Policies.

Estimates.

Our discussion herein and analysis thereof is based upon our financial statements in Part II Item 7, below, which have been prepared in accordance with Generally Accepted Accounting Principles of the United States (GAAP). The preparation of these statements requires management to make estimates and best judgments that affect the reported amounts. See Note 4 of our Financial Statements contained in Part II, Item 8 for additional discussions of these and other accounting policies and disclosures required by GAAP.

Concentration of Credit Risks and Significant Customers.

The Company maintains cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Financial instruments, which potentially subject the Company to concentration of credit risk, consist primarily of trade receivables. In the normal course of business, the Company provides credit terms to its customers. Accordingly, the Company performs ongoing credit evaluations of its customers and maintains allowances for possible losses which when realized have been within the range of management's expectations. The Company does not require collateral from its customers.

During the fiscal year ended March 31, 2016, the Company had sales to three major customers that accounted for 59%, and 56%, respectively, of total revenue as of the fiscal year ended March 31, 2016, and 2015.

Three customers accounted for 92% and 82% of total accounts receivable as of the fiscal years ended March 31, 2016 and 2015 respectively. See Note 4 to the Financial Statements for additional information.

Fair Value of Financial Instruments.

The Company includes fair value information in the notes to financial statements when the fair value of its financial instruments is different from the book value. When the book value approximates fair value, no additional disclosure is made.

Foreign Currency Translation.

The functional currency of the Company is the U.S. dollar. The Company's financial statements include translations for the LabMentors subsidiary, where applicable, which are maintained in Canadian dollars. All assets and liabilities are translated at the exchange rate on the balance sheet date and all revenues and expenditures are translated at the average rate for the period. Translation adjustments are reflected as a separate component of stockholders' equity, accumulated other comprehensive income (loss), and the net change for the year reflected separately in the statements of operations and other comprehensive income (loss).

In accordance with the financial accounting standard pertaining to the “Statement of Cash Flows,” the cash flows of the Company are translated using the weighted average exchange rates during the respective period. As a result, amounts in the statement of cash flows related to changes in assets and liabilities will not necessarily agree with the changes in the corresponding balances on the balance sheet that were translated at the exchange rate at the end of the period.

Educational Software.

The Company’s inventory consists partially of internally developed education computer programs and exercises to be accessed on the Internet. In accordance with the financial accounting standard pertaining to internally developed software, the costs associated with research and initial feasibility of the programs and exercises are expensed as incurred. Once economic feasibility has been determined, the costs to develop the programs and exercises are capitalized until they are ready for sale and access and are reported at the lower of unamortized cost or net realizable value. Capitalized program and exercise inventory are amortized on a straight-line basis over the estimated useful life of the program or exercise, generally 24 to 48 months.

Property and Equipment.

Property and equipment are recorded at cost and are being depreciated for financial accounting purposes on the straight-line method over their respective estimated useful lives ranging from three to seven years. Upon retirement or other disposition of these assets, the cost and related accumulated depreciation are removed from the accounts and the resulting gains or losses are reflected in the results of operations. Expenditures for maintenance and repairs are charged to operations. Renewals and betterments are capitalized.

Goodwill and Intangible Assets.

We recorded our acquisition of LabMentors in accordance with the financial accounting standards issued by the FASB. We allocate the cost of acquired companies to the tangible and identified intangible assets and liabilities acquired with the remaining amount being recorded as goodwill. Certain intangible assets, such as acquired technology, are amortized (see Intellectual Property above).

The most recent acquisition of Thrust UAV in February of 2016, did not have significant tangible assets, and, as a result, some of the purchase price was allocated to goodwill, which increases the potential for impairment charges that we may incur in the future.

For the fiscal year ended March 31, 2016, the Company evaluated its purchased goodwill and related intangibles for possible impairment. The assessment of purchased intangibles impairment is conducted by first estimating the undiscounted future cash flows to be generated from the use and eventual disposition of the purchased intangibles and comparing this amount with the carrying value of these assets. The undiscounted future cash flows are more than the carrying amounts indicating no impairments exist, further, the future cash flows discounted at an appropriate rate do not substantiate any measureable impairment. As a result of the evaluation, no impairment was recorded for the fiscal year ended March 31, 2016.

We account for goodwill and other intangible assets in accordance with the financial accounting standards issued by the FASB pertaining to “Goodwill and Other Intangible Assets.” Under this standard, goodwill and intangible assets with indefinite lives are not amortized to expense and must be reviewed for impairment annually or more frequently if events or changes in circumstances indicate that impairment might have occurred. These events could include a significant change in the business climate, legal factors, a decline in operating performance, competition, sale or disposition of a significant portion of the business, or other factors. Specifically, goodwill impairment is determined using a two-step process. The first step used to identify potential impairment is the comparison of the fair value of the item with its carrying amount, including goodwill and intangible assets with indefinite lives. We operate as one company, and, therefore, compare our book value to market value, which management must determine upon review based on similar transactions. If our fair value exceeds our book value, our goodwill is considered not impaired and the second step of the impairment test is unnecessary. If the book value exceeds the fair value, the goodwill is considered to be impaired and management must measure the amount of impairment loss, if any. For the measurement step, if the carrying amount of the goodwill exceeds the estimated fair value of the goodwill, an impairment loss would be recognized in an amount equal to that excess. The fair value estimate requires that future cash flows relating to the acquisition, in this case, be forecasted. These forecasts require management to make assumptions on the future sale of current and future products and services, future market conditions, technological advances, future growth rates, and discount rates utilized. Any loss recognized cannot exceed the carrying amount of the goodwill. After an impairment loss is recognized, the adjusted carrying amount of goodwill is its new accounting basis.

Options/Warrants and Shares Issued for Services.

On January 1, 2006, the Company adopted the accounting standard pertaining to “Accounting for Stock Based Compensation,” which establishes accounting for stock-based payment transactions for employee services and goods and services received from non-employees. The Company is required to recognize expense of options or similar equity instruments issued to employees using the fair-value-based method of accounting for stock-based payments. 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 pronouncement requires significant judgment regarding the assumptions used in the selected option pricing model, including stock price volatility and employee exercise behavior. Most of these inputs are either highly dependent on the current economic environment at the date of grant or forward-looking over the expected term of the award.

The Company accounts for shares issued to employees and others based upon the prior day closing price of our common stock as of grant date.

Acquisitions.

Our strategy is to investigate companies and/or assets for acquisition that continue to increase our product depth, market penetration, and synergies within the Company. The Company acquired Thrust UAV in February of 2016.

Off-Balance Sheet Arrangements.

We do not have any off-balance sheet arrangements as of the fiscal year ended March 31, 2016.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not required for smaller reporting companies.

Item 8. Financial Statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors

PCS Edventures!.com, Inc.

Boise, Idaho

We have audited the accompanying balance sheets of PCS Edventures!.com, Inc. (the "Company") as of March 31, 2016 and 2015 and the related statements of operations, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PCS Edventures!.com, Inc. as of March 31, 2016 and 2015 and the results of its operations and cash flows for the periods described above in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered reoccurring losses and negative cash flow from operations, both of which raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ M&K CPAS, PLLC

www.mkacpas.com

Houston, Texas

June 21, 2016

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PCS EDVENTURES!.COM, INC.

Balance Sheets

	As of March 31,	
	2016	2015
CURRENT ASSETS		
Cash	$54,357	$130,162
Accounts receivable, net of allowance for doubtful accounts of $2,096 and $3,184, respectively	752,922	358,033
Prepaid expenses	66,228	112,704
Finished goods inventory	192,527	251,164
Other receivable	33,319	3,236
Intangible Assets, Net	87,523	-
Total Current Assets	1,186,876	855,299
FIXED ASSETS, net of accumulated depreciation of $155,307 and $144,821, respectively	18,680	25,854
GOODWILL	1,270	-
OTHER ASSETS		
Note Receivable net of allowance ($47,998)	-	1,515
Mold Cost	-	10,229
Deposits	14,396	9,450
Total Other Assets	14,396	21,194
TOTAL ASSETS	$1,221,222	$902,347
CURRENT LIABILITIES		
Accounts payable and other current liabilities	$417,923	$312,951
Payroll liabilities payable	42,054	28,907
Accrued expenses	299,986	102,936
Deferred revenue	49,778	158,420
Note payable, convertible, related party, net discount of $0 and $24,063 as of March 31, 2016 and 2015 respectively	200,000	175,937
Note Payable	149,878	18,117
Note payable, related party, net discount of $0 and $38,184 as of March 31, 2016 and 2015 respectively	1,667,679	1,438,870
Line of credit	21,092	21,708
Total Current Liabilities	2,848,390	2,257,846
Notes payable, related party, long term	59,707	81,165
Notes payable, long term, convertible, net discount of $0 and $0 as of March 31, 2016 and 2015, respectively	90,696	202,729
Notes payable, convertible, related party, long term, net of discount of $0 and $0, as of March 31, 2016 and 2015, respectively	-	34,011
Total Liabilities	2,998,793	2,575,751

STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock, no par value, 20,000,000 authorized shares, no shares issued and outstanding	-	-
Common stock, no par value, 90,000,000 authorized shares, 76,442,668 and 73,789,362 shares issued and outstanding, Respectively	38,271,248	37,923,485
Stock payable	3,240	21,117
Accumulated deficit	(40,052,059)	(39,618,006)
Total Stockholders' Equity (Deficit)	(1,777,571)	(1,673,404)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$1,221,222	$902,347

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

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PCS EDVENTURES!.COM, INC.

Statements of Operations

	For the years ended March 31,	
	2016	2015
REVENUES		
Domestic sales revenue	$2,275,340	$1,678,328
Learning Center revenue	211,042	217,732
License & Royalty revenue	45,083	34,042
International revenue	804,147	971,011
Total Revenues	3,335,612	2,901,113
COST OF SALES	1,262,946	1,590,549
GROSS PROFIT	2,072,666	1,310,564
OPERATING EXPENSES		
Salaries and wages	712,576	786,178
Depreciation and amortization expense	33,673	26,816
General and administrative expenses	1,492,875	1,396,697
Total Operating Expenses	2,239,124	2,209,691
OPERATING LOSS	(166,458)	(899,127)
OTHER INCOME AND (EXPENSES)		
Interest expense	(267,595)	(561,028)
Other income	-	12,335
Total Other Income and Expenses	(267,595)	(548,693)
NET LOSS	(434,053)	(1,447,820)
Basic and diluted loss per share	$(0.01)	$(0.02)
Weighted Average Number of Shares Outstanding, Basic and Diluted	75,150,169	61,071,903

The accompanying notes are an integral part of these financial statements

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PCS EDVENTURES!.COM, INC.

Statement of Stockholder's Equity (Deficit)

	# of Common Shares O/S	Capital Stock	Stock Payable	Accumulated Deficit	Total Stockholders' Equity
Balance at 03/31/2014	52,524,410	$36,919,152	$31,080	$(38,170,186)	$(1,219,954)
Common stock for services	1,750,000	97,500	(2,080)	-	94,420
Common stock for bonuses	170,000	8,160	-	-	8,160
Common Stock for RSU's	489,286	26,911	(1,825)	-	25,086
Common Stock for Legal Settlement	400,000	22,000	-	-	22,000
RSU's forfeitures	-	-	(6,058)	-	(6,058)
Conversion of notes payable	18,455,666	696,374	-	-	696,374
Option Expense	-	17,161	-	-	17,161
Related Party Debt Forgiveness	-	19,510	-	-	19,510
Debt discount	-	116,717	-	-	116,717
Net Loss	-	-	-	(1,447,820)	(1,447,820)
Balance at 03/31/2015	73,789,362	$37,923,485	$21,117	$(39,618,006)	$(1,673,404)
Common stock for services	398,000	48,440	-	-	48,440
Common stock for bonuses	358,000	17,908	(9,000)	-	8,908
Common stock for RSU's	692,300	97,845	(8,877)	-	88,968
Common stock for exercise of options	19,000	-	-	-	-
Common stock for warrants	120,000	8,400	-	-	8,400
Conversion of notes payable for common stock	1,066,006	159,901	-	-	159,901
Option Expense	-	15,269	-	-	15,269
Net Loss	-	-	-	(434,053)	(434,053)
Balance at 03/31/2016	76,442,668	$38,271,248	$3,240	$(40,052,059)	$(1,777,571)

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

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PCS EDVENTURES!.COM, INC.

Statements of Cash Flows

	For the years ended March 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
NET LOSS	$(434,053)	$(1,447,820)
Adjustments to reconcile net loss to net cash provided (used) by operating activities		
Stock on Settlement	-	22,000
Debt discount amortization	62,247	374,738
Depreciation and amortization expense	23,011	31,254
Common stock issued for services	146,316	122,608
Amortization of fair value of stock options	15,269	17,161
Bad debt expense (Gain on Collection of Bad Debt)	-	(3,621)
(Increase) decrease in inventories reserve	-	926
(Increase) decrease in accounts receivable	(428,208)	135,339
(Increase) decrease in prepaid expenses	46,476	(43,798)
(Increase) decrease in inventories	58,639	(64,705)
(Increase) decrease in other current assets	3,206	(3,408)
(Decrease) increase in accounts payable and accrued liabilities	233,163	(135,094)
Increase (decrease) in unearned revenue	(108,642)	89,953
Net Cash Used by Operating Activities	(382,576)	(904,467)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for purchase of fixed assets	(3,311)	(33,328)
Net Cash Used by Investing Activities	(3,311)	(33,328)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of stock	8,400	-
Principal payments on bank line of credit	(8,074)	(9,869)
Proceeds from notes payable	-	80,000
Proceeds from notes payable —related party	593,547	1,299,387
Principal payments on debt —related party	(273,791)	(529,421)
Proceeds from notes payable —related party, convertible	(10,000)	200,000
Net Cash Provided by Financing Activities	310,082	1,040,097
Net Increase (Decrease) in Cash	(75,805)	102,302
Cash at Beginning of Year	130,162	27,860
Cash at End of Year	$54,357	$130,162
NON-CASH INVESTING & FINANCING ACTIVITIES		
Common stock issued for services (stock payable)	$9,000	$2,080
Common stock issued for conversion of RSUs (stock payable)	$12,117	$20,000
Conversion of Debt	$159,901	$696,373
Debt discount	$-	$116,717
Debt Forgiveness	$-	$19,510

CASH PAID FOR:		
Interest	$48,910	$47,729
Income taxes	$-	$-

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

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PCS EDVENTURES!.COM, INC.

Notes to the Financial Statements

March 31, 2016 and 2015

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS

The financial statements presented are those of PCS Edventures!.com, Inc., an Idaho corporation ("PCS" or "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 on the creation of turn-key lab modules coupled with web-based technology for use in the classroom and afterschool programs.

On March 27, 2000, PCS changed its name from PCS Education Systems, Inc. to PCS Edventures!.com, Inc. On September 26, 2014, the shareholders voted for the proposal to grant the Board of Directors the authority to change the name of the Company in a fashion that will remove the ".com", but retain the current brand.

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., which exchange was completed in December, 2005, with LabMentors becoming a wholly-owned subsidiary. In December 2005, the name of this subsidiary was formally changed to PCS LabMentors, Ltd. The Company divested Labmentors, the wholly owned subsidiary, in August of 2013.

In January, 2012, the Company committed to a business plan enhancement, which included the opening, operating, and licensing of EdventuresLab private learning centers and launched a pilot program in the spring of 2012. As of June 30, 2014, two EdventuresLab programs had been opened and were operating in the Idaho Treasure Valley.

On January 31, 2013, PCS formed a subsidiary called Premiere Science, Inc., incorporated and registered in the State of Idaho. The subsidiary is 100% wholly-owned by the Company and was formed to use as an additional sales and marketing tool to gain other business opportunities. There were no operations for this subsidiary.

On February 18, 2016, the Company announced an asset purchase acquisition of a Boise-based drone company, Thrust UAV, that focuses on First Person View (FPV) drone racing, a rapidly growing sport around the world.

NOTE 2 - GOING CONCERN

The Company’s 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:

Our strategy is profitability driven seeking to optimize and streamline operations while moving our digital learning and robotics product strategy forward. A continued underlying principle will be the building of services and products with recurring revenue traits such as online licenses. Tactically we will focus on improving product quality, improving our delivery and support infrastructure to accommodate larger scale, improving our sales infrastructure, and building our new, higher margin digital products to add to our lineup of STEM products and services. We will continue to focus on the improvement of our web-based marketing efforts, expand our sales force and channel partners, and tighten sales processes for our domestic STEM sales. We will continue to use our EdventuresLab program for (1) an R&D test bed for product improvement and refinement with a major emphasis on digital delivery of content; (2) revenue generation through afterschool and summer course fees; (3) revenue through licensing EdventuresLab curriculum and methods; and (4) revenues from STEM retail products. We believe e-commerce sales of kits associated with STEM learning targeting the families of students attending the centers as well as the larger home retail market will provide a consistent, dependable boost in Q3 revenues to offset low education sales traditionally anticipated during this time frame. We will actively seek retail distribution methods and channels for our robotics retail products and expand their usability for other market segments. Thrust UAV, our FPV drone racing business unit, is currently in R&D for its first major product release and is developing distributor relationships to take the product to market in Q2 of FY2107.

Revenue for the twelve months ended March 31, 2016, was $3,335,612 an increase of 15% compared to the same period in the prior year. Net loss from continuing operations for the 12 month period ended March 31, 2016, was ($434,053). Net loss for the same period of the prior year, was ($1,447,820). Cash flow from operations for the 12 months ended March 31, 2016 was ($382,576), compared to ($904,467) for the prior twelve months ended March 31, 2015.

While the efforts put in by management and the entire employee team are beginning to be realized, as illustrated by the improved revenues during the fiscal year ending March 31, 2016, the ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish the plans described to raise capital as needed, to continue to monitor and reduce overhead costs, and to attain profitable operations. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

NOTE 3 - OTHER RECEIVABLES

	March 31,	
	2016	2015
Other Receivable	$33,319	$3,236
Total Other Receivable	$33,319	$3,236

In FY2015, the Company paid $3,236 for a contractor's international travel to present PCS in conjunction with Robert Grover for qualification with Tatweer Holding Company of Saudi Arabia in a Kingdom of Saudi Arabia tender competition. PCS did not attain that specific contract. Collection of the receivable was unsuccessful and the $3,236 was taken to bad debt expense.

In FY2016, the Company entered into a license and royalty agreement with Creya Learning. As part of that agreement, Creya Learning prepaid $25,000 in royalty fees. That prepayment has been exhausted, leaving Creya Learning with a $33,319 royalty balance outstanding with PCS recorded as Other Receivable as of March 31, 2016.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Accounting Method

The Company's financial statements are prepared using the accrual method of accounting. The Company has elected a March 31 year-end.

b. Estimates

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

c. Concentration of Credit Risks and Significant Customers

The Company maintains cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of trade receivables. In the normal course of business, the Company provides credit terms to its customers. Accordingly, the Company performs ongoing credit evaluations of its customers and maintains allowances for possible losses which when realized have been within the range of management's expectations. The Company does not require collateral from its customers. The Company has established an allowance for doubtful accounts of $2,096 and $3,184 for the fiscal years ended March 31, 2016 and 2015, respectively.

During the last two fiscal years ended March 31, 2016 and March 31, 2015, the following major customers exceeded 10% of revenue:

	For the Years Ended March 31,			
	2016		2015	
Tatweer	$648,408	19%	$971,391	33%
Stemfinity	$502,641	15%	$434,410	15%
Catapult Learning	$833,322	25%	$218,960	8 %

Major customer accounts receivable near or greater than 10% of total accounts receivable at March 31, 2016 and March 31, 2015, were as follows:

	For the Years Ended March 31,			
	2016		2015	
Tatweer	$170,771	50%	$170,771	47%
Catapult Learning	$103,394	36%	$103,394	29%

d. Fair Value of Financial Instruments

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

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

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

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

The following schedule summarizes the valuation of financial instruments at fair value on a non-recurring basis in the balance sheet as of March 31, 2016.

	Fair Value Measurements at March 31, 2016			
Assets and Liabilities	Level 1	Level 2	Level 3	Gain/(loss)
	$ -	$ -	$ -	$ -
	$ -	$ -	$ -	$ -

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The following table presents assets and liabilities that are measured and recognized at fair value as of March 31, 2015, on a non-recurring basis:

	Fair Value Measurements at March 31, 2015			
Assets and Liabilities	Level 1	Level 2	Level 3	Gain/(loss)
	$ -	$ -	$ -	$ -
	$ -	$ -	$ -	$ -

The standard issued by the FASB concerning the fair value option for financial assets and liabilities became effective for the Company on January 1, 2008. The standard establishes a fair value option that permits entities to choose to measure eligible financial instruments and certain other items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value options have been elected in earnings at each subsequent reporting date. For the periods ended March 31, 2016 and 2015, there were no applicable items on which the fair value option was elected.

e. Revenue Recognition

PCS recognizes revenue for its two revenue streams: Product (Learning Labs) and Licensing in accordance with generally accepted accounting standards pertaining to revenue recognition of single unit and/or multiple deliverables.

The Company recognizes product revenue in accordance with generally accepted accounting standards, which is codified under FASB ASC Topic 605 “Revenue Recognition,” under which revenue is recognized when it is realizable and when earned.

Licensing Revenue is in relation to the sales of the learning labs. This revenue is based on a contractual term of one year, which begins when the physical lab is shipped to the customer. Should the customer terminate the licensing prior to the expiration of the contract, PCS does not have an obligation to refund any portion of the fees. As such, revenue is amortized and recorded over the life of the contractual license, in accordance with generally accepted accounting standards.

f. Provision for Income Taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company recorded net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, and results of recent operations. In the event we were to determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance.

We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (2) those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related taxing authority. The Company has no uncertain tax positions to disclose.

Net deferred tax assets and liabilities consist of the following components as of March 31, 2016 and 2015:

	March 31, 2016	2015
Deferred Tax Assets		
NOL carryover	$5,827,592	$4,967,771
Accumulated depreciation	5,629	3,239
Deferred revenue	3,413	9,263
Unearned revenue	16,001	52,521
Idaho ITC	7,287	7,307
Allowance for Bad Debt	817	1,242
Gross deferred tax assets	5,860,739	5,041,343
Valuation allowance	(5,860,739)	(5,041,343)
Net deferred tax asset	$0	$0
Deferred Tax Liabilities		
Accumulated depreciation	$-	$-
Other	-	-
Gross deferred tax liabilities	$—	$—
Net deferred tax assets (liabilities)	$—	$—

The reconciliation between the Company’s effective tax rate on income from continuing operations and the statutory tax rate is as follows:

	March 31, 2016	2015
Book income	$(143,320)	$(492,259)
State taxes	(21,077)	(72,393)
Options expense	5,955	6,693
Other	6,282	1,150
Valuation allowance	152,160	556,809
	$—	$—

At March 31, 2016 the Company had a net operating loss carry-forward of approximately $14,942,543 that may be offset against future taxable income. No tax benefit has been reported in the March 31, 2016, financial statements since the potential tax benefit is offset by a valuation allowance of the same amount.

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carry forward for Federal income tax reporting purposes are subject to annual limitations. Should a change in ownership occur, the net operating loss carry-forward may be limited as to use in future years.

The Company files income tax returns in the United States, the State of Idaho and the State of California. The statute of limitations on a Federal tax return is the due date of the tax return plus three years. In the case of NOLs, the year in which the NOL was generated remains open up to the amount of the NOL until the statute of limitations expires on the year it was used. PCS Edventures first filed a tax return in 1994. Therefore no statutes have closed. The Company does not have any unrecognized tax benefits to report in the current period.

The Company’s policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

g. Basic Loss Per Share

The computation of basic loss per share of common stock is based on the weighted average number of shares outstanding during the period of the financial statements in accordance with generally accepted accounting standards. Diluted loss per share is equal to basic loss per share as the result of the anti-dilutive nature of the stock equivalents.

	For the Years Ended March 31, 2016	2015
Basic and diluted loss per share from operations:		
Net loss	$(434,053)	$(1,447,820)
Weighted average number of shares outstanding	75,150,169	61,071,903
Basic and diluted loss per share	$(0.01)	$(0.02)

h. Recently Issued Accounting Pronouncements

In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-16, *Financial Instruments -Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities.* The provisions of the update require equity investments to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment. The update also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. It also eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities, and eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet. ASU No. 2016-16 requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. It also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The update requires separate presentation of financial assets and financial liabilities by category and form on the balance sheet or the accompanying notes to the financial statements. In addition, the update clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. For public business entities, the amendments in the update are effective for fiscal years beginning after December 15, 2017, including interim periods. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

In November 2015, the FASB issued an ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"). Under current GAAP, deferred income tax assets and liabilities are separated into current and noncurrent amounts in the balance sheet. ASU 2015-17 requires all deferred assets and liabilities be classified as noncurrent in the balance sheet. The standard will be effective for periods beginning after December 15,2016, including interim periods within that reporting period. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805), Simplifying the Accounting for Measurement-Period Adjustments* (“ASU 2015-16”), which require an acquiring Company to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. GAAP requires that during the measurement period, the acquirer retrospectively adjust the provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill. Those adjustments are required when new information is obtained about facts and circumstances that existed as of the acquisition date that if known, would have affected the measurement of the amounts initially recorded. To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the amendments in the update eliminate the requirement to retrospectively account for those adjustments. This ASU is effective for public entities for fiscal years beginning after December 15, 2015, including interim periods within those years. Disclosure of the nature and reason for the change should be made in the first period, including interim periods, there is a measurement period adjustment.

In April 2015, the FASB issued ASU No. 2015-03, *Interest–Imputation of Interest (Subtopic 835-30)* (“ASU 2015-03”), which changes the presentation of debt issuance costs in financial statements. ASU 2015-03 requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. For public business entities, ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. The new guidance should be applied on a retrospective basis. The adoption of this ASU is not expected to have a material impact on the Company’s financial statements.

In June 2014, the FASB issued an accounting standard which provides new guidance that requires share-based compensation to meet a specific performance target to be achieved in order for employees to become eligible to vest in the awards and that could be achieved after an employee completes the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation costs should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015. Early adoption is permitted. Entities may apply the amendments in this Update either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The adoption of ASU 2014-12 is not expected to have a material impact on our financial position or results of operations.

In June 2014, the FASB issued guidance to improve financial reporting by reducing the cost and complexity associated with the incremental reporting requirements of development stage entities. The amendments in this update remove all incremental financial reporting requirements from U.S. GAAP for development stage entities, thereby improving financial reporting by eliminating the cost and complexity associated with providing that information. The amendments in this Update also eliminate an exception provided to development stage entities in Topic 810, Consolidation, for determining whether an entity is a variable interest entity on the basis of the amount of investment equity that is at risk. The amendments to eliminate that exception simplify U.S. GAAP by reducing avoidable complexity in existing accounting literature and improve the relevance of information provided to financial statement users by requiring the application of the same consolidation guidance by all reporting entities. The elimination of the exception may change the consolidation analysis, consolidation decision, and disclosure requirements for a reporting entity that has an interest in an entity in the development stage. The amendments related to the elimination of inception-to-date information and the other remaining disclosure requirements of Topic 915 should be applied retrospectively except for the clarification to Topic 275, which shall be applied prospectively. For public companies, those amendments are effective for annual reporting periods beginning after December 15, 2014, and interim periods therein. Early adoption is permitted. The adoption of ASU 2014-10 is not expected to have a material impact on our financial position or results of operations.

In August 2014, the FASB issued an accounting standard that requires management to assess an entity’s ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the standard (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management’s plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management’s plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The standard in this Update is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of ASU 2014-15 is not expected to have a material impact on our financial position or results of operations.

In November 2014, the FASB issued new guidance for determining when separation of certain embedded derivative features in a hybrid financial instrument is required. That is, an entity will continue to evaluate whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to those of the host contract, among other relevant criteria. The amendments clarify how current GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. The effects of initially adopting the amendments in this Update should be applied on a modified retrospective basis to existing hybrid financial instruments issued in the form of a share as of the beginning of the fiscal year for which the amendments are effective. Retrospective application is permitted to all relevant prior periods. The adoption of ASU 2014-16 is not expected to have a material impact on our financial position or results of operations.

In November 2014, the FASB issued guidance to provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be a change in accounting principle. The amendments in this Update are effective on November 18, 2014. The adoption of ASU 2014-17 is not expected to have a material impact on our financial position or results of operations.

i. Educational Software

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.

The Company evaluates its purchased intangibles for possible impairment on an ongoing basis. When impairment indicators exist, the Company will perform an assessment to determine if the intangible asset has been impaired and to what extent. The assessment of purchased intangibles impairment is conducted by first estimating the undiscounted future cash flows to be generated from the use and eventual disposition of the purchased intangibles and comparing this amount with the carrying value of these assets. If the undiscounted cash flows are less than the carrying amounts, impairment exists and future cash flows are discounted at an appropriate rate and compared to the carrying amounts of the purchased intangibles to determine the amount of the impairment.

j. Intellectual Property

The Company’s intellectual property consists of capitalized costs associated with the development of the Internet software and delivery platform developed by the Company to enable access to the various educational programs and exercises developed by the Company. In accordance with generally accepted accounting standards as discussed previously regarding inventory, the initial costs associated with researching the delivery platform and methods were expensed until economic feasibility and acceptance were determined. Thereafter, costs incurred to develop the Internet online delivery platform and related environments were capitalized until ready for sale. Costs incurred thereafter to maintain the delivery and access platform are expensed as incurred. These capitalized costs are being amortized on a straight-line basis over the estimated useful life of the Company’s delivery and access platform, which has been determined to be 60 months.

k. Goodwill and Intangible Assets

Goodwill is tested for impairment at a minimum on an annual basis. Goodwill is tested for impairment at the reporting unit level by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. If the reporting unit does not pass the qualitative assessment, then the reporting unit's carrying value is compared to its fair value. The fair values of the reporting units are estimated using market and discounted cash flow approaches. Goodwill is considered impaired if the carrying value of the reporting unit exceeds its fair value. The discounted cash flow approach uses expected future operating results. Failure to achieve these expected results may cause a future impairment of goodwill at the reporting unit.

Intangible assets consist of patents and trademarks, purchased customer contracts, purchased customer and merchant relationships, purchased trade names, purchased technology, and non-compete agreements. Intangible assets are amortized over the period of estimated benefit using the straight-line method and estimated useful lives ranging from ten to twenty years. No significant residual value is estimated for intangible assets. We evaluate long-lived assets (including intangible assets) for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. An asset is considered impaired if its carrying amount exceeds the undiscounted future net cash flow the asset is expected to generate.

For the fiscal year ended March 31, 2016, the Company evaluated its purchased goodwill and related intangibles for possible impairment. The assessment of purchased intangibles impairment is conducted by first estimating the undiscounted future cash flows to be generated from the use and eventual disposition of the purchased intangibles and comparing this amount with the carrying value of these assets. The undiscounted future cash flows are more than the carrying amounts indicating no impairments exist, further, the future cash flows discounted at an appropriate rate do not substantiate any measureable impairment. As a result of the evaluation, no impairment was recorded for the fiscal year ended March 31, 2016.

l. Property and Equipment

Property and equipment are recorded at cost and are being depreciated for financial accounting purposes on the straight-line method over their respective estimated useful lives ranging from three to seven years. Upon retirement or other disposition of these assets, the cost and related accumulated depreciation are removed from the accounts and the resulting gains or losses are reflected in the results of operations.

Expenditures for maintenance and repairs are charged to operating expense. Renewals and betterments are capitalized.

m. Finished Goods Inventory

Finished goods inventory is composed of items produced in-house, as well as items from outside suppliers. These items include, but are not limited to, K'NEX manipulatives, fischertechnik® manipulatives, ALCE manipulatives, LEGO® manipulatives, digital media equipment, furniture units, curriculum, blocks, poster packs, and other miscellaneous items used in our various labs. Our inventory is carried at the lower of cost or market and valued using the average cost method for each item. In addition, we have established a reserve of $3,391 for obsolete and slow moving items.

n. Stock Options and Stock Grants

Effective January 1, 2006, the Company accounts for stock issued for employee benefits and goods and services received from non-employees in accordance with generally accepted accounting standards. The Company is required to recognize expense of options or similar equity instruments including 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.

The Company accounts for shares issued to employees and others based upon the closing price of our common stock at the grant date.

The Company has granted options and warrants to purchase PCS Edventures!.com common stock. These instruments have been valued using the Black-Scholes model and are fully detailed in Note 12.

NOTE 5 - PREPAID EXPENSES

Prepaid expenses for the periods are as follows:

	March 31, 2016	March 31, 2015
Prepaid insurance	$4,766	$41,372
Prepaid inventory	38,940	50,057
Prepaid software	10,931	10,406
Prepaid expenses, other	11,591	10,869
Total Prepaid Expenses	$66,228	$112,704

NOTE 6 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets for the period are as follows:

	March 31, 2016	2015
Goodwill	$1,270	$ -
Intangible Assets	100,048	-
Accum Amort Intangible Assets	(12,525)	-
Total Goodwill and Intangible Assets	$88,793	$ -

Intangible asset amortization expense for the years ended March 31, 2016 and 2015 was $12,525 and $0, respectively.

NOTE 7 - FIXED ASSETS

Assets and depreciation for the period are as follows:

	March 31, 2016	2015
Computer/office equipment	$46,632	$43,320
Software	127,355	127,355
Accumulated depreciation	(155,307)	(144,821)
Total Fixed Assets	$18,680	$25,854

Fixed Asset depreciation expense for the years ended March 31, 2016 and 2015 was $10,486 and $26,816, respectively.

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NOTE 8 - COMMON AND PREFERRED STOCK TRANSACTIONS

a. Common Stock

During the fiscal year ended March 31, 2015, the Company issued 1,750,000 shares of common stock for services. The per share value ranged from $0.05 to $0.06 for a net value of $97,500 based on the closing price of the Company's common stock on the date of grant.

During the fiscal year ended March 31, 2015, the Company granted 170,000 shares of common stock as bonus to employees. The per share value ranged from $0.04 to $0.052 for a net value of $8,160 based on the closing price of the Company's common stock on the date of grant.

During the fiscal year ended March 31, 2015, the Company recognized $26,911 of restricted stock units payable to non-management directors for services rendered at a rate of one share of common stock for each restricted stock unit. Each restricted stock unit is valued at $0.055, based on the closing price of the Company's common stock at the date of grant. These agreements call for payment of current year director fees via issuance of restricted stock units over a vesting period of not less than twelve months, and require continued service for twelve months and reelection at the next annual shareholder meeting. One non-management director resigned in June 2014, forfeiting his restricted stock units payable. The remaining directors were reelected at the Annual Meeting in September 2014 and the shares are fully vested and have been issued to those directors who chose not to defer their compensation. $26,911 was recorded to common stock for the issuances in March 2015. The total number of shares of common stock issued for RSU's is 489,286. Restricted stock units payable were accrued of $12,117 as of March 31, 2015, representing shares that will be issued in future periods.

During the fiscal year ending March 31, 2015, the Company issued 18,455,666 shares of common stock for the conversion of promissory notes issued to private investors. The price per share value range of $0.03 to $0.06 resulted in a net value of $696,374. Due to conversion within the terms of the note, no gain or loss was recorded as a result of the conversion

During the fiscal year ended March 31, 2015, the Company expensed amounts related to stock options and warrants granted in the current period as well as prior periods valued at $17,161.

During the fiscal year ended March 31, 2015, the Company settled in an employment contract mediation for issuance of 400,000 shares of common stock. The per share value of $0.055, a net value of $22,000 based on the closing price of the Company’s common stock on the date of grant.

During the fiscal year ending March 31, 2015, the Company granted 80,000 shares of common stock to employees. The per share value of range of $0.04 to $0.05, a net value of $3,600 based on the closing price of the Company’s common stock on the date of grant.

During the fiscal year ending March 31, 2015, the Company recognized $50,000 in debt discount as an increase to stockholders’ equity pursuant to the terms of convertible promissory notes. The debt discount consists of a beneficial conversion feature on a $200,000, related party, long-term convertible note payable.

During the fiscal year ending March 31, 2015, the Company recognized $66,717 in debt discount as an increase to stockholders’ equity pursuant to the terms of convertible promissory notes. The debt discount consists of warrants attached with a $400,000, related party, short-term note payable.

During the fiscal year ending March 31, 2015, the Company recognized $19,510 in debt forgiveness related to the December 30, 2011 note payable in the amount of $30,000. This note was satisfied as of March 31, 2015, with a principal payment of $20,000. The remaining principal of $10,000 and accrued interest of $9,510 were taken to Additional Paid In Capital. Due to related party relationship, the Company recorded such balance as an increase to stockholders’ equity.

During the fiscal year ended March 31, 2016 the Board of Directors resolved on July 15, 2015, to increase the Company authorized common stock from 90,000,000 shares with no par value to 100,000,000 shares of common stock with no par value. Management submitted the resolution for ratification by the shareholders at the Annual Meeting. Shareholders ratified the increase in common stock to 10,000,000 on September 25, 2015.

During the fiscal year ended March 31, 2016, the Company issued 398,000 shares of common stock for services. The per share value ranged from $0.11 to $0.15 for a net value of $48,440 based on the closing price of the Company's common stock on the date of grant.

During the fiscal year ended March 31, 2016, the Company recognized 692,300 of restricted stock units payable to non-management directors for services rendered at a rate of one share of common stock for each restricted stock unit. Each restricted stock unit is valued at $0.11 to $0.15, based on the closing price of the Company's common stock at the date of vesting. These agreements call for payment of current year director fees via issuance of restricted stock units over a vesting period ending September 30, 2015. Vesting requires continued service through September 30, 2015 and reelection at the annual shareholder meeting. $97,845 was recorded to common stock for the issuance on November 16, 2016. The total number of shares of common stock issued for RSU's is 692,300. Four Board of Director members resigned in 3Q FY2016. Restricted Stock Units accrued for the resigning members were forfeited. Restricted stock units payable were accrued of $3,240 as of March 31, 2016 for the one remaining board member, representing shares that will be issued in future periods.

During the fiscal year ending March 31, 2016, the CEO exercised 25,000 options earned from an employee incentive stock option agreement dated July 15, 2012, using the cashless option into 19,000 shares of restricted common stock. The price per share was $0.06 discounted from market value of $0.25 at the time of exercise resulted in a reduction of 6,000 shares of common stock.

During the fiscal year ending March 31, 2016, a related party exercised 120,000 warrants issued on January 11, 2013 at a price of $0.07 for a total of $8,400 resulting in 120,000 shares of restricted common stock.

During the fiscal year ending March 31, 2016, the Company issued 1,066,006 shares of common stock for the conversion of promissory notes issued to private investors. The price per share value of $0.15 resulted in a net value of $159,901. Due to conversion within the terms of the note, no gain or loss was recorded as a result of the conversion

During the fiscal year ended March 31, 2016, the Company expensed $15,269 related to stock options and warrants granted in the current period as well as prior periods; to seven employees in incentive stock option plans valued using the Black-Scholes valuation model. (See Note 13 for terms)

During the fiscal year ending March 31, 2016, the Company granted 358,000 shares of common stock to employees. The per share value of range of $0.04 to $0.10, a net value of $8,908 based on the closing price of the Company's common stock on the date of grant.

b. Preferred Stock

The Company has 20,000,000 authorized shares of preferred stock. As of March 31, 2016 and 2015, there are no preferred shares issued or outstanding.

NOTE 9 - NOTES PAYABLE

Notes payable consisted of the following at March 31, 2016 and March 31, 2015

	March 31, 2016	2015
Note Payable	149,878	18,117
Note Payable, Convertible, Related Party net discount of $0 and $24,063 as of March 31, 2016 and 2015.	200,000	175,937
Note Payable, Related Party, net discount of $0 and $38,184 as of March 31, 2016 and 2015 respectively	1, 667,679	1,438,870
Long Term Convertible Note, net discount of $0 and $0 as of March 31, 2016 and 2015, respectively	90,696	202,729
Note Payable, Related Party, long term	59,707	81,165
Line of Credit	21,092	21,708
Total Notes Payable	$2,189,052	$1,938,526

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	Original Principal Balance	Origination Date	Original Due Date	Amended Due Date	Interest Rate	Principal 03/31/16	Interest accrued 03/31/16	Principal Balance 03/31/16	Principal Balance 03/31/15
Note Payable									
	$84,000	2/12/2016	12/1/2016	12/1/2016	n/a	$84,000	n/a		
	$24,547	2/16/2012	12/1/2016	12/1/2016	n/a	$24,547	n/a		
	$20,000	5/1/2014	4/11/2017	4/11/2017	12.00%	$9,982	$2,288		
	$60,000	4/11/2014	3/11/2017	3/11/2017	12.00%	$31,349	$1,636	$149,878	18,117
Note Payable Related Party Convertible									
	$200,000	2/1/2014	10/22/2015	4/30/2015	10.00%	$200,000	$28,932	$200,000	175,937
Note Payable Related Party									
	$870,457	10/21/2014	5/31/2015	4/30/2016	10.00%	$892,679	$111,768		
	$400,000	1/16/2015	6/30/2015	4/30/2016	10.00%	$400,000	$30,247		
	$135,000	2/17/15,3/5/15	6/30/2015	4/30/2016	10.00%	$135,000	$14,947		
	$135,000	4/20/2015	6/30/2015	4/30/2016	10.00%	$40,000	$8,045		
	$100,000	2/6/2016	2/29/2016	4/30/2016	10.00%	$100,000	$1,452		
	$100,000	3/16/2016	4/30/2016	4/30/2016	10.00%	$100,000	$384	$1,667,679	1,438,870
Note Payable Convertible									
	$30,000	3/31/2011	6/29/2011	4/30/2017	10.00%	$34,011	$8,517		
	$50,000	3/31/2011	6/29/2011	4/30/2017	10.00%	$56,685	$14,195	$90,696	202,729
Note Payable Related Party Long-Term									
	$70,000	1/10/2012	1/10/2013	4/1/2020	9.00 %	$42,204	n/a		
	$39,050	9/13/2011	n/a	n/a	8.75 %	$17,503	n/a	$59,707	81,165
	$25,000	4/18/2012	4/18/2017	4/18/2017	7.50 %	$21,092	n/a	$21,092	21,708
							$222,409	$2,189,052	1,938,526

<u>Note Payable</u>

On February 12, 2016, the Company entered into a note payable of $84,000. The note does not bear an interest rate, as it is has a set 9 payment arrangement of $9,333 per month for 9 months; starting on April 1, 2016, with the final payment due on December 1, 2016. The March 31, 2016 and 2015, principal balance is $84,000. There is no calculated accrued interest payable as of March 31, 2016.

On February 12, 2016, the Company entered into a note payable of $24,547. The note does not bear an interest rate, as it is has a set 9 payment arrangement of $9,333 per month for 9 months; starting on April 1, 2016, with the final payment due on December 1, 2016. The March 31, 2016, principal balance is $24,547. There is no calculated accrued interest payable as of March 31, 2016.

On May 1, 2014, the Company entered into a 36 month note payable of $20,000. The note bears interest at twelve percent (12%) per annum. The principal balance as of March 31, 2016 and 2015, was $9,982 and $18,117, respectively. Accrued interest payable as of March 31, 2016 and 2015 was $1,611 and $2,288, respectively.

On April 11, 2014, the Company entered into a 36 month note payable of $60,000. The note bears interest at twelve percent (12%) per annum. There is no conversion feature associated with this promissory note. $28,651 was paid toward principal, leaving an ending principal balance of $31,349 and $59,710 as of March 31, 2016 and 2015, respectively. Accrued interest payable as of March 31, 2016, was $1,636.

Convertible Note Payable – Related Party

In 2011, the Company entered into several convertible Promissory Notes in the aggregate amount of $215,000, including a note in the amount of $34,011 from a related party. The notes are convertible into common stock at a rate of $0.15 per share. The notes bear interest at 10% per annum and include attached warrants to purchase two shares of restricted Rule 144 common stock for every dollar loaned. On July 13, 2015, the related party holder of the convertible notes of the Company elected to convert their note and accrued interest of $5,963 into 266,492 shares of our common stock. Due to conversion within the terms of the note, no gain of loss was recognized.

On October 21, 2014 the Company entered into at 10% Convertible Promissory Note with a current board member and shareholder, in the amount of $200,000, convertible into shares of common stock of the Company, at the market price of $0.04. The original note due date of October 22, 2015 was extended until April 30, 2016. The debt discount was calculated as $50,000. During the year ended March 31, 2016 and 2015, $24,063 and $25,937 discount was amortized. Accrued interest payable as of March 31, 2016 and 2015, was $28,932 and $8,822, respectively. This note was subsequently converted along with accrued interest on April 29, 2016, into 5,763,014 shares of common stock.

Note Payable – Related Party

On December 30, 2011, the Company entered into a note payable in the amount of $30,000. The note bears interest at ten percent (10%) per annum and was due on February 28, 2012. This note was extended under the same terms and conditions, with a new maturity of March 31, 2015. This note was satisfied as of March 31, 2015, with a principal payment of $20,000 and Gain on Debt Forgiveness of $10,000. Accrued interest of $9,510 was taken to Additional Paid In Capital.

On February 26, 2013, we executed a promissory note with one of our shareholders, for $65,000 at 15% interest per annum, secured by seven of our sales orders to finance inventory purchases. The promissory note was due on or before April 20, 2013. There is no conversion feature associated with this promissory note. A payment of $20,000 was made against the principal on the note on April 1, 2013. The remaining $45,000 was extended and made part of the $95,000 convertible promissory note issued on May 24, 2013 which included an additional $50,000 promissory note as describe in the 8-K filed on May 24, 2013, with a maturity date of August 24, 2016 (See Convertible Note Payable – Related Party). The debt discount was calculated as $21,923. This note was converted on July 21, 2014, with total accrued interest of $6,041 into 3,108,944 shares. During the period ended September 30, 2014, $1,639 discount was amortized and the remaining debt discount of $15,176 was fully expensed upon conversion. Due to conversion within the terms of the note, no gain or loss was recognized.

On March 22, 2013, we entered into a loan transaction that bears interest at a rate of 8% per annum, secured with one of our board members in the amount of $25,000. The note is secured by three of our accounts receivables to finance inventory purchases. This note was extended on September 30, 2013, and reclassed to a long term convertible promissory note with a board member and shareholder of an 8% Convertible Promissory Note in the amount of $25,000, convertible into shares of common stock of the Company, at a price of $0.04 per share (See Convertible Note Payable – Related Party), which represents a 50% discount from the market price as of the date of the note. The note is due 36 months from the date of the note on or before September 30, 2016. The debt discount was calculated as $25,000. This note was converted on July 21, 2014, with total accrued interest as of July 21, 2014, of $1,611 into 665,274 shares. During the period ended September 30, 2014, $455 discount was amortized and the remaining $21,448 was fully expensed. Due to conversion within the term of the note, no gain or loss was recognized.

On January 22, 2014, the Company entered into a loan transaction with one of our board members in the amount of $200,000, which was non-convertible. The note bears interest at a rate of 15% per annum, secured by Catapult PO NA1314-001 to finance inventory purchases and payoff the promissory notes dated January 7 and January 15, 2014. The promissory note and accrued interest of $6,247 were due and payable on April 30, 2014. This note was paid in full including all accrued interest on April 8, 2014.

On February 13, 2014 the Company entered into a loan transaction with one of our board members in the amount of $250,000, which was non-convertible. The note bears interest at a rate of 15% per annum, secured by Tatweer Company for Educational Services Mobile Outreach Saudi Work Order 001 to finance inventory purchases. The promissory note and all accrued interest were due and payable on May 13, 2014. This note was extended to September 30, 2014, to account for the delay in invoice acceptance and payment by Tatweer Company for Educational Services. On September 9, 2014, the Company accrued and paid interest in the amount of $20,445. On October 21, 2014, this note was paid off when the Company entered into a 10% Convertible Promissory Note with a current board member and shareholder, in the amount of $200,000, convertible into shares of common stock of the Company, at the market price of $0.04. The note is due on or before October 22, 2015. The remaining $50,000 was paid in full by the issuance of that certain Promissory Note in the principal amount of $870,457.

On February 21, 2014 the Company entered into a loan transaction with one of our board members in the amount of $70,000, which was non-convertible. The note bears interest at a rate of 15% per annum, secured by Catapult Learning PO NA1314-090 to finance inventory purchases. The promissory note and all accrued interest were due and payable on April 30, 2014. This note was paid in full including accrued interest of $1,870 on April 22, 2014.

On March 4, 2014, the Company entered into a loan transaction with one of our board members in the amount of $50,000. The note is non-convertible and bears interest at a rate of 15% per annum, secured by T4EDU Training Academy Contract to finance inventory purchases. The promissory note and all accrued interest were due and payable on April 30, 2014. $37,500 of this note was paid during the period and the remaining $12,500 was extended and rolled into a new promissory note dated July 21, 2014, for $105,000 (includes $75,000 and $17,500 promissory notes) with interest at 15% per annum due on or before August 30, 2014. On October 21, 2014, this $105,000 note was paid off by an issuance of a promissory note with one of our board members in the amount of $870,457. The note is non-convertible and bears and interest rate of 10% per annum, and due October 22, 2015.

On April 3, 2014, the Company executed a promissory note with one of our board members, for $60,000 at 15% interest per annum, secured by sales orders finance operations and inventory purchases. The promissory note was due April 30, 2014. There is no conversion feature associated with this promissory note. The note was extended on April 30, 2014, to September 30, 2014. The note was replaced with note dated July 28, 2014, for $210,000. This note was paid in full by the issuance of that certain Promissory Note of even date herewith in the principal amount of $870,457. The note is non-convertible and bears and interest rate of 10% per annum, and due October 22, 2015. All accrued interest as of the date of replacement was paid in full.

On April 15, 2014, the Company executed a promissory note with one of our board members, for $160,000 at 15% interest per annum, secured by sales orders to finance operations and inventory purchases. The promissory note was due June 30, 2014. There is no conversion feature associated with this promissory note. On October 21, 2014, these notes were paid off by an issuance of a promissory note with one of our board members in the amount of $870,457. The note is non-convertible and bears and interest rate of 10% per annum, and due October 22, 2015. All accrued interest as of the date of replacement was paid in full.

On May 1, 2014 the Company executed a promissory note with one of our shareholders and board members, for $60,000 at 15% interest per annum, secured by sales orders to finance operations and inventory purchases. The promissory note was due July 15, 2014. There is no conversion feature associated with this promissory note. The note was extended to September 30, 2014. During the period ended September 30, 2014, the note was separated into two notes, $17,500 and $42,500 and included in two separate notes dated July 21, 2014, for $105,000 and July 28, 2014, for $210,000, respectively. On October 21, 2014 the notes for $105,000 and $210,000 were paid off by an issuance of a promissory note with one of our board members in the amount of $870,457. The note is non-convertible and bears and interest rate of 10% per annum, and due October 22, 2015. Accrued interest of $ 7,568 as of the date of replacement was paid in full.

On May 5, 2014 the Company executed a promissory note with one of our shareholders and board members, for $145,000 at 15% interest per annum, secured by sales orders to finance operations and inventory purchases. The promissory note was due July 15, 2014. There is no conversion feature associated with this promissory note. The note was extended to September 30, 2014. On October 21, 2014, this note was paid off by an issuance of a promissory note with one of our board members in the amount of $870,457. The note is non-convertible and bears and interest rate of 10% per annum, and due October 22, 2015. Total interest accrued and paid as of March 31, 2015, was $2,384.

(37,411,238) ***(30,139,758)***

Increase (Decrease) in Net Assets

3,674,068 ***(25,989,525)*** **Net Assets:**

Beginning of year

416,426,284 442,415,809

End of year*

$420,100,352 **$416,426,284**

*Includesundistributed net investment income of:

$13,119,387 $9,852,072

See Notes to Financial Statements.

Statement of cash flows

For the Year Ended October 31, 2014

Increase (Decrease) in Cash:	
Cash Provided (Used) by Operating Activities:	
Net increase in net assets resulting from operations	$ 41,085,306
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided (used) by operating activities:	
Purchases of portfolio securities	(329,174,242)
Sales of portfolio securities	353,332,513
Net purchases, sales and maturities of short-term investments	(3,254,484)
Net amortization of premium (accretion of discount)	(833,150)
Decrease in receivable for securities sold	16,617,461
Decrease in interest receivable	2,076,167
Decrease in receivable from broker variation margin on open centrally cleared swaps	796,232
Decrease in prepaid expenses	4,674
Decrease in deposits with brokers for open futures contracts	39,771
Decrease in payable for securities purchased	(1,950,139)
Decrease in investment management fee payable	(14,534)
Increase in Directors fees payable	4,253
Decrease in interest payable	(6,804)
Decrease in accrued expenses	(12,885)
Decrease in payable to broker variation margin on open futures contracts	(69,760)
Net realized gain on investments	(14,845,329)
Change in unrealized depreciation of investments and forward foreign currency transactions	3,699,309
Net Cash Provided by Operating Activities*	***67,494,359***
Cash Flows from Financing Activities:	
Distributions paid on common stock	(37,411,238)
Decrease in loan payable	(23,700,000)
Net Cash Used in Financing Activities	***(61,111,238)***
Net Increase in Cash	**6,383,121**
Cash at Beginning of Year	1,110,510
Cash at End of Year	$ 7,493,631

* Included in operating expenses is cash of $1,195,976 paid for interest on borrowings.

See Notes to Financial Statements.

Financial highlights

For a share of capital stock outstanding throughout each year ended October 31, unless otherwise noted:	2014[1]	2013[1]	2012[1,2]
Net asset value, beginning of year	$19.76	$20.99	$19.06[3]
Income (loss) from operations:			
Net investment income	1.43	1.43	0.82
Net realized and unrealized gain (loss)	0.52	(1.23)	1.82
Total income from operations	***1.95***	***0.20***	***2.64***
Less distributions from:			
Net investment income	(1.04)	(0.97)	(0.52)
Net realized gains	(0.74)	(0.46)	(0.19)
Total distributions	***(1.78)***	***(1.43)***	***(0.71)***
Net asset value, end of year	$19.93	$19.76	$20.99
Market price, end of year	$17.32	$17.40	$19.43
Total return, based on NAV[4,5]	***10.39%***	***0.82%***	***14.07%***
Total return, based on Market Price[6]	***10.24%***	***(3.41)%***	***0.80%***
Net assets, end of year (000s)	$420,100	$416,426	$442,416
Ratios to average net assets:			
Gross expenses	1.74%	1.71%	1.50%[7]
Net expenses[8]	1.74	1.71	1.48[7,9]
Net investment income	7.15	6.81	7.00[7]
Portfolio turnover rate	**62%**	**108%**	**49%**
Supplemental data:			
Loans Outstanding, End of Year (000s)	$132,300	$156,000	$135,000
Asset Coverage for Loan Outstanding	418%	367%	428%
Weighted Average Loan (000s)	$145,365	$148,547	$107,842
Weighted Average Interest Rate on Loans	0.81%	0.85%	0.88%

[1] Per share amounts have been calculated using the average shares method.

[2] For the period March 28, 2012 (commencement of operations) to October 31, 2012.

[3] Initial public offering price of $20.00 per share less offering costs and sales load totaling $0.94 per share.

[4] Performance figures may reflect compensating balance arrangements, fee waivers and/or expense reimbursements. In the absence of compensating balance arrangements, fee waivers and/or expense reimbursements, the total return would have been lower. Past performance is no guarantee of future results. Total returns for periods of less than one year are not annualized.

[5] The total return calculation assumes that distributions are reinvested at NAV. Past performance is no guarantee of future results. Total returns for periods of less than one year are not annualized.

[6] The total return calculation assumes that distributions are reinvested in accordance with the Fund s dividend reinvestment plan. Past performance is no guarantee of future results. Total returns for periods of less than one year are not annualized.

[7] Annualized.

[8] The impact of compensating balance arrangements, if any, was less than 0.01%.

[9] The investment manager has agreed to reimburse all organizational expenses (Note 2).

See Notes to Financial Statements.

Notes to financial statements

1. Organization and significant accounting policies

Legg Mason BW Global Income Opportunities Fund Inc. (the Fund) was incorporated in Maryland on October 27, 2010 and is registered as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund s primary investment objective is to provide current income. As a secondary investment objective, the Fund will seek capital appreciation. There can be no assurance the Fund will achieve its investment objectives.

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP). Estimates and assumptions are required to be made regarding assets, liabilities and changes in net assets resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ. Subsequent events have been evaluated through the date the financial statements were issued.

(a) Investment valuation. The valuations for fixed income securities (which may include, but are not limited to, corporate, government, municipal, mortgage-backed, collateralized mortgage obligations and asset-backed securities) and certain derivative instruments are typically the prices supplied by independent third party pricing services, which may use market prices or broker/dealer quotations or a variety of valuation techniques and methodologies. The independent third party pricing services use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar securities. Short-term fixed income securities that will mature in 60 days or less are valued at amortized cost, unless it is determined that using this method would not reflect an investment s fair value. Investment in open-end funds are valued at the closing net asset value per share of each fund on the day of valuation. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. Equity securities for which market quotations are available are valued at the last reported sales price or official closing price on the primary market or exchange on which they trade. When the Fund holds securities or other assets that are denominated in a foreign currency, the Fund will normally use the currency exchange rates as of 4:00 p.m. (Eastern Time). If independent third party pricing services are unable to supply prices for a portfolio investment, or if the prices supplied are deemed by the manager to be unreliable, the market price may be determined by the manager using quotations from one or more broker/dealers or at the transaction price if the security has recently been purchased and no value has yet been obtained from a pricing service or pricing broker. When reliable prices are not readily available, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund values these securities as determined in accordance with procedures approved by the Fund s Board of Directors.

The Board of Directors is responsible for the valuation process and has delegated the supervision of the daily valuation process to the Legg Mason North American Fund Valuation Committee (the Valuation Committee). The Valuation Committee, pursuant to the policies adopted by the Board of Directors, is responsible for making fair value determinations, evaluating the effectiveness of the Fund s pricing policies, and reporting to the Board of Directors. When determining the reliability of third party pricing information for investments owned by the Fund, the Valuation Committee, among other things, conducts due diligence reviews of pricing vendors, monitors the daily change in prices and reviews transactions among market participants.

The Valuation Committee will consider pricing methodologies it deems relevant and appropriate when making fair value determinations. Examples of possible methodologies include, but are not limited to, multiple of earnings; discount from market of a similar freely traded security; discounted cash-flow analysis; book value or a multiple thereof; risk premium/yield analysis; yield to maturity; and/or fundamental investment analysis. The Valuation Committee will also consider factors it deems relevant and appropriate in light of the facts and circumstances. Examples of possible factors include, but are not limited to, the type of security; the issuer s financial statements; the purchase price of the security; the discount from market value of unrestricted securities of the same class at the time of purchase; analysts research and observations from financial institutions; information regarding any transactions or offers with respect to the security; the existence of merger proposals or tender offers affecting the security; the price and extent of public trading in similar securities of the issuer or comparable companies; and the existence of a shelf registration for restricted securities.

For each portfolio security that has been fair valued pursuant to the policies adopted by the Board of Directors, the fair value price is compared against the last available and next available market quotations. The Valuation Committee reviews the results of such back testing monthly and fair valuation occurrences are reported to the Board of Directors quarterly.

The Fund uses valuation techniques to measure fair value that are consistent with the market approach and/or income approach, depending on the type of security and the particular circumstance. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable securities. The income approach uses valuation techniques to discount estimated future cash flows to present value.

GAAP establishes a disclosure hierarchy that categorizes the inputs to valuation techniques used to value assets and liabilities at measurement date. These inputs are summarized in the three broad levels listed below:

Level 1 quoted prices in active markets for identical investments

Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

Notes to financial statements (cont d)

Level 3 significant unobservable inputs (including the Fund s own assumptions in determining the fair value of investments)
The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used in valuing the Fund s assets and liabilities carried at fair value:

ASSETS

Description	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Long-term investments :				
Sovereign bonds		$ 302,886,244		$ 302,886,244
Collateralized mortgage obligations		62,910,672		62,910,672
Corporate bonds & notes		134,502,273		134,502,273
Municipal bonds		2,717,972		2,717,972
Senior loans		7,976,858		7,976,858
Master limited partnerships	$ 5,229,280			5,229,280
Total long-term investments	$ 5,229,280	$ 510,994,019		$ 516,223,299
Short-term investments	14,954,775			14,954,775
Total investments	**$ 20,184,055**	**$ 510,994,019**		**$ 531,178,074**
Other financial instruments:				
Forward foreign currency contracts		$ 4,747,069		$ 4,747,069
Total	**$ 20,184,055**	**$ 515,741,088**		**$ 535,925,143**

LIABILITIES

Description	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Other financial instruments:				
Futures contracts	$ 16,428			$ 16,428
Forward foreign currency contracts		$ 401,322		401,322
Total	**$ 16,428**	**$ 401,322**		**$ 417,750**

See Schedule of Investments for additional detailed categorizations.

(b) Repurchase agreements. The Fund may enter into repurchase agreements with institutions that its investment adviser has determined are creditworthy. Each repurchase agreement is recorded at cost. Under the terms of a typical repurchase agreement, the Fund acquires a debt security subject to an obligation of the seller to repurchase, and of the Fund to resell, the security at an agreed-upon price and time, thereby determining the yield during the Fund s holding period. When entering into repurchase agreements, it is the Fund s policy that its custodian or a third party custodian, acting on the Fund s behalf, take possession of the underlying collateral securities, the market value of which, at all times, at least equals the principal amount of the repurchase transaction, including accrued interest.

To the extent that any repurchase transaction maturity exceeds one business day, the value of the collateral is marked-to-market and measured against the value of the agreement in an effort to ensure the adequacy of the collateral. If the counterparty defaults, the Fund generally has the right to use the collateral to satisfy the terms of the repurchase transaction. However, if the market value of the collateral declines during the period in which the Fund seeks to assert its rights or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited.

(c) Futures contracts. The Fund uses futures contracts generally to gain exposure to, or hedge against, changes in interest rates or gain exposure to, or hedge against, changes in certain asset classes. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

Upon entering into a futures contract, the Fund is required to deposit cash or cash equivalents with a broker in an amount equal to a certain percentage of the contract amount. This is known as the initial margin and subsequent payments (variation margin) are made or received by the Fund each day, depending on the daily fluctuation in the value of the contract. For certain futures, including foreign denominated futures, variation margin is not settled daily, but is recorded as a net variation margin payable or receivable. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. The daily changes in contract value are recorded as unrealized gains or losses in the Statement of Operations and the Fund recognizes a realized gain or loss when the contract is closed.

Futures contracts involve, to varying degrees, risk of loss in excess of the amounts reflected in the financial statements. In addition, there is the risk that the Fund may not be able to enter into a closing transaction because of an illiquid secondary market.

(d) Forward foreign currency contracts. The Fund enters into a forward foreign currency contract to hedge against foreign currency exchange rate risk on its non-U.S. dollar denominated securities or to facilitate settlement of a foreign currency denominated portfolio transaction. A forward foreign currency contract is an agreement between two parties to buy and sell a currency at a set price with delivery and settlement at a future date. The contract is marked-to-market daily and the change in value is recorded by the Fund as an unrealized gain or loss. When a forward foreign currency contract is closed, through either delivery or offset by entering into another forward foreign currency contract, the Fund recognizes a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value of the contract at the time it is closed.

Forward foreign currency contracts involve elements of market risk in excess of the amounts reflected on the Statement of Assets and Liabilities. The Fund bears the risk of an unfavorable change in the foreign exchange rate underlying the forward foreign currency contract. Risks may also arise upon entering into these contracts from the potential inability of the counterparties to meet the terms of their contracts.

Notes to financial statements (cont d)

(e) Swap agreements. The Fund invests in swaps for the purpose of managing its exposure to interest rate, credit or market risk, or for other purposes. The use of swaps involves risks that are different from those associated with other portfolio transactions. Swap agreements are privately negotiated in the over-the-counter market (OTC Swaps) or may be executed on a registered exchange (Centrally Cleared Swaps). Unlike Centrally Cleared Swaps, the Fund has credit exposure to the counterparties of OTC Swaps.

Swap contracts are marked-to-market daily and changes in value are recorded as unrealized appreciation (depreciation). The daily change in valuation of Centrally Cleared Swaps, if any, is recorded as a receivable or payable for variation margin on the Statement of Assets and Liabilities. Gains or losses are realized upon termination of the swap agreement. Collateral, in the form of restricted cash or securities, may be required to be held in segregated accounts with the Fund s custodian in compliance with the terms of the swap contracts. Securities posted as collateral for swap contracts are identified in the Schedule of Investments and restricted cash, if any, is identified on the Statement of Assets and Liabilities. Risks may exceed amounts recorded in the Statement of Assets and Liabilities. These risks include changes in the returns of the underlying instruments, failure of the counterparties to perform under the contracts terms, and the possible lack of liquidity with respect to the swap agreements.

OTC swap payments received or made at the beginning of the measurement period are reflected as a premium or deposit, respectively, on the Statement of Assets and Liabilities. These upfront payments are amortized over the life of the swap and are recognized as realized gain or loss in the Statement of Operations. Net periodic payments received or paid by the Fund are recognized as a realized gain or loss in the Statement of Operations.

The Fund s maximum exposure in the event of a defined credit event on a credit default swap to sell protection is the notional amount. As of October 31, 2014, the Fund did not hold any credit default swaps to sell protection.

For average notional amounts of swaps held during the year ended October 31, 2014, see Note 4.

Credit default swaps

The Fund enters into credit default swap (CDS) contracts for investment purposes, to manage its credit risk or to add leverage. CDS agreements involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a default by a third party, typically corporate or sovereign issuers, on a specified obligation, or in the event of a write-down, principal shortfall, interest shortfall or default of all or part of the referenced entities comprising a credit index. The Fund may use a CDS to provide protection against defaults of the issuers (i.e., to reduce risk where the Fund has exposure to an issuer) or to take an active long or short position with respect to the likelihood of a particular issuer s default. As a seller of protection, the Fund generally receives an upfront payment or a stream of payments throughout the term of the swap provided that there is no credit event. If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the maximum potential amount of future payments (undiscounted) that the Fund could be required to make under a credit default swap agreement would be an amount equal to the notional amount of the agreement. These amounts of potential payments will be partially offset by any recovery of values from the respective referenced obligations. As a seller of protection, the Fund effectively adds leverage to its portfolio because, in addition to its total net assets, the Fund is subject to investment exposure on the notional amount of the swap. As a buyer of protection, the Fund generally receives an amount up to the notional value of the swap if a credit event occurs.

Implied spreads are the theoretical prices a lender receives for credit default protection. When spreads rise, market perceived credit risk rises and when spreads fall, market perceived credit risk falls. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to enter into the agreement. Wider credit spreads and decreasing market values, when compared to the notional amount of the swap, represent a deterioration of the referenced entity s credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement. Credit spreads utilized in determining the period end market value of credit default swap agreements on corporate or sovereign issues are disclosed in the Notes to Financial Statements and serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for credit derivatives. For credit default swap agreements on asset-backed securities and credit indices, the quoted market prices and resulting values, particularly in relation to the notional amount of the contract as well as the annual payment rate, serve as an indication of the current status of the payment/performance risk.

The Fund s maximum risk of loss from counterparty risk, as the protection buyer, is the fair value of the contract (this risk is mitigated by the posting of collateral by the counterparty to the Fund to cover the Fund s exposure to the counterparty). As the protection seller, the Fund s maximum risk is the notional amount of the contract. Credit default swaps are considered to have credit risk-related contingent features since they require payment by the protection seller to the protection buyer upon the occurrence of a defined credit event.

Entering into a CDS agreement involves, to varying degrees, elements of credit, market and documentation risk in excess of the related amounts recognized on the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreement may default on its obligation to perform or disagree as to the meaning of the contractual terms in the agreement, and that there will be unfavorable changes in net interest rates.

(f) Foreign currency translation. Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the respective dates of such transactions.

Notes to financial statements (cont d)

The Fund does not isolate that portion of the results of operations resulting from fluctuations in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss on investments.

Net realized foreign exchange gains or losses arise from sales of foreign currencies, including gains and losses on forward foreign currency contracts, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund s books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the values of assets and liabilities, other than investments in securities, on the date of valuation, resulting from changes in exchange rates.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of U.S. dollar denominated transactions as a result of, among other factors, the possibility of lower levels of governmental supervision and regulation of foreign securities markets and the possibility of political or economic instability.

(g) Loan participations. The Fund may invest in loans arranged through private negotiation between one or more financial institutions. The Fund s investment in any such loan may be in the form of a participation in or an assignment of the loan. In connection with purchasing participations, the Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement related to the loan, or any rights of off-set against the borrower and the Fund may not benefit directly from any collateral supporting the loan in which it has purchased the participation.

The Fund assumes the credit risk of the borrower, the lender that is selling the participation and any other persons interpositioned between the Fund and the borrower. In the event of the insolvency of the lender selling the participation, the Fund may be treated as a general creditor of the lender and may not benefit from any off-set between the lender and the borrower.

(h) Cash flow information. The Fund invests in securities and distributes dividends from net investment income and net realized gains, which are paid in cash and may be reinvested at the discretion of shareholders. These activities are reported in the Statement of Changes in Net Assets and additional information on cash receipts and cash payments are presented in the Statement of Cash Flows.

(i) Credit and market risk. The Fund invests in high-yield and emerging market instruments that are subject to certain credit and market risks. The yields of high-yield and emerging market debt obligations reflect, among other things, perceived credit and market risks. The Fund s investments in securities rated below investment grade typically involve risks not associated with higher rated securities including, among others, greater risk related to timely and ultimate payment of interest and principal, greater market price volatility and less liquid secondary market trading. The consequences of political, social, economic or diplomatic changes may have disruptive effects on the market prices of investments held by the Fund. The Fund s investments in non-U.S. dollar denominated securities may also result in foreign currency losses caused by devaluations and exchange rate fluctuations.

Investments in securities that are collateralized by residential real estate mortgages are subject to certain credit and liquidity risks. When market conditions result in an increase in default rates of the underlying mortgages and the foreclosure values of underlying real estate properties are materially below the outstanding amount of these underlying mortgages, collection of the full amount of accrued interest and principal on these investments may be doubtful. Such market conditions may significantly impair the value and liquidity of these investments and may result in a lack of correlation between their credit ratings and values.

(j) Foreign investment risks. The Fund s investments in foreign securities may involve risks not present in domestic investments. Since securities may be denominated in foreign currencies, may require settlement in foreign currencies or pay interest or dividends in foreign currencies, changes in the relationship of these foreign currencies to the U.S. dollar can significantly affect the value of the investments and earnings of the Fund. Foreign investments may also subject the Fund to foreign government exchange restrictions, expropriation, taxation or other political, social or economic developments, all of which affect the market and/or credit risk of the investments.

(k) Counterparty risk and credit-risk-related contingent features of derivative instruments. The Fund may invest in certain securities or engage in other transactions, where the Fund is exposed to counterparty credit risk in addition to broader market risks. The Fund may invest in securities of issuers, which may also be considered counterparties as trading partners in other transactions. This may increase the risk of loss in the event of default or bankruptcy by the counterparty or if the counterparty otherwise fails to meet its contractual obligations. The Fund s investment manager attempts to mitigate counterparty risk by (i) periodically assessing the creditworthiness of its trading partners, (ii) monitoring and/or limiting the amount of its net exposure to each individual counterparty based on its assessment and (iii) requiring collateral from the counterparty for certain transactions. Market events and changes in overall economic conditions may impact the assessment of such counterparty risk by the investment manager. In addition, declines in the values of underlying collateral received may expose the Fund to increased risk of loss.

The Fund has entered into master agreements with certain of its derivative counterparties that provide for general obligations, representations, agreements, collateral, events of default or termination and credit related contingent features. The credit related contingent features include, but are not limited to, a percentage decrease in the Fund s net assets or NAV over a specified period of time. If these credit related contingent features were triggered, the derivatives counterparty could terminate the positions and demand payment or require additional collateral.

Notes to financial statements (cont d)

Collateral requirements differ by type of derivative. Collateral or margin requirements are set by the broker or exchange clearinghouse for exchange traded derivatives while collateral terms are contract specific for over-the-counter traded derivatives. Cash collateral that has been pledged to cover obligations of the Fund under derivative contracts, if any, will be reported separately in the Statement of Assets and Liabilities. Securities pledged as collateral, if any, for the same purpose are noted in the Schedule of Investments.

Absent an event of default by the counterparty or a termination of the agreement, the terms of the master agreements do not result in an offset of reported amounts of financial assets and financial liabilities in the Statement of Assets and Liabilities across transactions between the Fund and the applicable counterparty. The enforceability of the right to offset may vary by jurisdiction.

As of October 31, 2014, the Fund held forward foreign currency contracts with credit related contingent features which had a liability position of $401,322. If a contingent feature in the master agreements would have been triggered, the Fund would have been required to pay this amount to its derivatives counterparties.

(l) Security transactions and investment income. Security transactions are accounted for on a trade date basis. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. Foreign dividend income is recorded on the ex-dividend date or as soon as practicable after the Fund determines the existence of a dividend declaration after exercising reasonable due diligence. The cost of investments sold is determined by use of the specific identification method. To the extent any issuer defaults or a credit event occurs that impacts the issuer, the Fund may halt any additional interest income accruals and consider the realizability of interest accrued up to the date of default or credit event.

(m) Distributions to shareholders. Distributions from net investment income of the Fund, if any, are declared quarterly and paid on a monthly basis. Distributions of net realized gains, if any, are declared at least annually. Pursuant to its Managed Distribution Policy, adopted by the Fund in August 2012, the Fund intends to make regular monthly distributions to shareholders at a fixed rate per common share, which rate may be adjusted from time to time by the Fund s Board of Directors. Under the Fund s Managed Distribution Policy, if, for any monthly distribution, the value of the Fund s net investment income and net realized capital gain is less than the amount of the distribution, the difference will be distributed from the Fund s net assets (and may constitute a return of capital). The Board of Directors may modify, terminate or suspend the Managed Distribution Policy at any time, including when certain events would make part of the return of capital taxable to shareholders. Any such modification, termination or suspension could have an adverse effect on the market price of the Fund s shares. Distributions to shareholders of the Fund are recorded on the ex-dividend date and are determined in accordance with income tax regulations, which may differ from GAAP.

(n) Compensating balance arrangements. The Fund has an arrangement with its custodian bank whereby a portion of the custodian s fees is paid indirectly by credits earned on the Fund s cash on deposit with the bank.

(o) Master limited partnerships. Entities commonly referred to as MLPs are generally organized under state law as limited partnerships or limited liability companies. To be treated as a partnership for U.S. federal income tax purposes, an MLP whose units are traded on a securities exchange must receive at least 90% of its income from qualifying sources such as interest, dividends, real estate rents, gain from the sale or disposition of real property, income and gain from mineral or natural resources activities, income and gain from the transportation or storage of certain fuels, and, in certain circumstances, income and gain from commodities or futures, forwards and options with respect to commodities. Mineral or natural resources activities include exploration, development, production, processing, mining, refining, marketing and transportation (including pipelines) of oil and gas, minerals, geothermal energy, fertilizer, timber or industrial source carbon dioxide. An MLP consists of a general partner and limited partners (or in the case of MLPs organized as limited liability companies, a managing member and members). The general partner or managing member typically controls the operations and management of the MLP and has an ownership stake in the partnership. The limited partners or members, through their ownership of limited partner or member interests, provide capital to the entity, are intended to have no role in the operation and management of the entity and receive cash distributions. The MLPs themselves generally do not pay U.S. federal income taxes. Thus, unlike investors in corporate securities, direct MLP investors are generally not subject to double taxation (i.e., corporate level tax and tax on corporate dividends). Currently, most MLPs operate in the energy and/or natural resources sector.

(p) Federal and other taxes. It is the Fund s policy to comply with the federal income and excise tax requirements of the Internal Revenue Code of 1986 (the Code), as amended, applicable to regulated investment companies. Accordingly, the Fund intends to distribute its taxable income and net realized gains, if any, to shareholders in accordance with timing requirements imposed by the Code. Therefore, no federal or state income tax provision is required in the Fund s financial statements. However, due to the timing of when distributions are made by the Fund, the Fund may be subject to an excise tax 4% of amount by which 98% of the Fund s annual taxable income and 98.2% of net realized gains exceed the distributions from such taxable income and realized gains for the calender year. The Fund paid $625,000 of federal excise tax attributable to calender year 2013 in March 2014.

Management has analyzed the Fund s tax positions taken on income tax returns for all open tax years and has concluded that as of October 31, 2014, no provision for income tax is required in the Fund s financial statements. The Fund s federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

Notes to financial statements (cont d)

Under the applicable foreign tax laws, a withholding tax may be imposed on interest, dividends and capital gains at various rates. Realized gains upon disposition of securities issued in or by certain foreign countries are subject to capital gains tax imposed by those countries. As October 31, 2014, there was $22,355 of capital gains tax liabilities accrued on unrealized gains.

(q) Reclassification. GAAP requires that certain components of net assets be reclassified to reflect permanent differences between financial and tax reporting. These reclassifications have no effect on net assets or net asset values per share. During the current year, the following reclassifications have been made:

	Undistributed Net Investment Income	Accumulated Net Realized Gain	Paid-in Capital
(a)	$ 625,000		$ (625,000)
(b)	(5,605,248)	$ 5,605,248	

[a] Reclassifications are due to a non-deductible excise tax paid by the Fund.

[b] Reclassifications are due to foreign currency transactions treated as ordinary income for tax purposes, losses from mortgage-backed securities treated as capital for tax purposes and book/tax differences in the treatment of swap contracts.

2. Investment management agreement and other transactions with affiliates

Legg Mason Partners Fund Advisor, LLC (LMPFA) is the Fund s investment manager. Brandywine Global Investment Management, LLC (Brandywine) is the Fund s subadviser. LMPFA and Brandywine are wholly-owned subsidiaries of Legg Mason, Inc. (Legg Mason).

LMPFA provides administrative and certain oversight services to the Fund. The Fund pays an investment management fee, calculated daily and paid monthly, at an annual rate of 0.85% of the Fund s average daily managed assets. LMPFA delegates to Brandywine the day-to-day portfolio management of the Fund. For its services, LMPFA pays Brandywine 70% of the net management fee it receives from the Fund.

During periods in which the Fund utilizes financial leverage, the fees which are payable to the investment manager as a percentage of the Fund s net assets will be higher than if the Fund did not utilize leverage because the fees are calculated as a percentage of the Fund s assets, including those investments purchased with leverage.

All officers and one Director of the Fund are employees of Legg Mason or its affiliates and do not receive compensation from the Fund.

3. Investments

During the year ended October 31, 2014, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) were as follows:

Purchases	$ 329,174,242
Sales	353,332,513

At October 31, 2014, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

Gross unrealized appreciation	$ 22,178,326
Gross unrealized depreciation	(39,459,228)
Net unrealized depreciation	**$ (17,280,902)**

At October 31, 2014, the Fund had the following open futures contracts:

	Number of Contracts	Expiration Date	Basis Value	Market Value	Unrealized Depreciation
Contracts to Sell:					
U.S. Treasury 10-Year Notes	32	12/14	$ 4,027,072	$ 4,043,500	$ (16,428)

At October 31, 2014, the Fund had the following open forward foreign currency contracts:

Currency Purchased		Currency Sold		Counterparty	Settlement Date	Unrealized Appreciation (Depreciation)
BRL	8,805,000	USD	3,593,144	HSBC Bank USA, N.A.	11/5/14	$ (40,829)
USD	1,233,290	BRL	2,860,000	HSBC Bank USA, N.A.	11/5/14	79,443
USD	2,434,480	BRL	5,945,000	HSBC Bank USA, N.A.	11/5/14	36,011
EUR	1,525,000	USD	1,974,517	Barclays Bank PLC	11/7/14	(63,426)
EUR	860,000	USD	1,154,602	Barclays Bank PLC	11/7/14	(76,872)
EUR	625,000	USD	828,346	HSBC Bank USA, N.A.	11/7/14	(45,112)
EUR	465,000	USD	613,986	HSBC Bank USA, N.A.	11/7/14	(31,259)
USD	25,721	EUR	20,000	JPMorgan Chase & Co.	11/7/14	658
USD	298,264	EUR	230,000	JPMorgan Chase & Co.	11/7/14	10,034
USD	381,148	EUR	285,000	JPMorgan Chase & Co.	11/7/14	23,993
USD	501,591	EUR	375,000	Barclays Bank PLC	11/7/14	31,651
USD	639,676	EUR	495,000	JPMorgan Chase & Co.	11/7/14	19,354
USD	1,039,033	EUR	790,000	UBS AG	11/7/14	49,026
USD	1,194,732	EUR	890,000	Citibank, N.A.	11/7/14	79,407
USD	1,576,860	EUR	1,195,000	JPMorgan Chase & Co.	11/7/14	79,317
USD	1,796,366	EUR	1,405,000	Morgan Stanley	11/7/14	35,657
USD	2,080,714	EUR	1,550,000	Citibank, N.A.	11/7/14	138,294
USD	1,977,318	EUR	1,565,000	HSBC Bank USA, N.A.	11/7/14	16,100
USD	2,136,203	EUR	1,600,000	Barclays Bank PLC	11/7/14	131,125
USD	2,124,923	EUR	1,610,000	JPMorgan Chase & Co.	11/7/14	107,313
USD	2,137,602	EUR	1,675,000	HSBC Bank USA, N.A.	11/7/14	38,535
USD	2,271,846	EUR	1,785,000	JPMorgan Chase & Co.	11/7/14	34,930
USD	2,741,539	EUR	2,050,000	JPMorgan Chase & Co.	11/7/14	172,532
USD	8,692,014	EUR	6,475,000	Citibank, N.A.	11/7/14	577,712
USD	18,686,152	EUR	13,920,000	Citibank, N.A.	11/7/14	1,241,969
USD	23,250,299	EUR	17,320,000	Citibank, N.A.	11/7/14	1,545,323
USD	1,308,335	GBP	820,000	Barclays Bank PLC	12/16/14	(2,980)
USD	1,427,705	GBP	880,000	JPMorgan Chase & Co.	12/16/14	20,440
USD	3,050,386	GBP	1,885,000	HSBC Bank USA, N.A.	12/16/14	35,962

Notes to financial statements (cont d)

Currency Purchased		Currency Sold		Counterparty	Settlement Date	Unrealized Appreciation (Depreciation)
USD	3,877,225	GBP	2,390,000	HSBC Bank USA, N.A.	12/16/14	$ 55,223
INR	1,916,000,000	USD	30,992,705	Barclays Bank PLC	12/17/14	(67,559)
INR	60,000,000	USD	970,544	Barclays Bank PLC	12/17/14	(2,116)
HUF	1,004,000,000	USD	4,150,132	HSBC Bank USA, N.A.	12/18/14	(71,169)
ZAR	93,500,000	USD	8,358,140	HSBC Bank USA, N.A.	1/14/15	16,612
MXN	19,550,000	USD	1,432,444	JPMorgan Chase & Co.	1/14/15	13,279
USD	13,570,395	PLN	45,490,000	Citibank, N.A.	1/27/15	115,995
USD	3,500,855	BRL	8,805,000	HSBC Bank USA, N.A.	2/5/15	41,174
Total						**$ 4,345,747**

Abbreviations used in this table:

BRL	Brazilian Real
EUR	Euro
GBP	British Pound
HUF	Hungarian Forint
INR	Indian Rupee
MXN	Mexican Peso
PLN	Polish Zloty
USD	United States Dollars
ZAR	South African Rand

4. Derivative instruments and hedging activities

GAAP requires enhanced disclosure about an entity s derivative and hedging activities.

Below is a table, grouped by derivative type, that provides information about the fair value and the location of derivatives within the Statement of Assets and Liabilities at October 31, 2014.

ASSET DERIVATIVES[1]

	Foreign Exchange Risk
Forward foreign currency contracts	$ 4,747,069

LIABILITY DERIVATIVES[1]

	Interest Rate Risk	Foreign Exchange Risk	Total
Futures contracts[2]	$ 16,428		$ 16,428
Forward foreign currency contracts		$ 401,322	401,322
Total	**$ 16,428**	**$ 401,322**	**$ 417,750**

[1] Generally, the balance sheet location for asset derivatives is receivables/net unrealized appreciation (depreciation) and for liability derivatives is payables/net unrealized appreciation (depreciation).

[2] Includes cumulative appreciation (depreciation) of futures contracts as reported in the footnotes. Only variation margin is reported within the receivables and/or payables on the Statement of Assets and Liabilities.

The following tables provide information about the effect of derivatives and hedging activities on the Fund s Statement of Operations for the year ended October 31, 2014. The first table provides additional detail about the amounts and sources of gains (losses) realized on derivatives during the period. The second table provides additional information about the

change in unrealized appreciation (depreciation) resulting from the Fund s derivatives and hedging activities during the period.

AMOUNT OF REALIZED GAIN (LOSS) ON DERIVATIVES RECOGNIZED

	Interest Rate Risk	Foreign Exchange Risk	Credit Risk	Equity Risk	Total
Futures contracts	$ (225,318)			$ 216,333	$ (8,985)
Swap contracts			$ 364,367		364,367
Forward foreign currency contracts[1]		$ 452,702			452,702
Total	**$ (225,318)**	**$ 452,702**	**$ 364,367**	**$ 216,333**	**$ 808,084**

[1] Net realized gain (loss) from forward foreign currency contracts is reported in net realized gain (loss) from foreign currency transactions in the Statement of Operations.

CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION) ON DERIVATIVES RECOGNIZED

	Interest Rate Risk	Foreign Exchange Risk	Total
Futures contracts	$ 68,177		$ 68,177
Forward foreign currency contracts[1]		$ 5,470,817	5,470,817
Total	**$ 68,177**	**$ 5,470,817**	**$ 5,538,994**

[1] The change in unrealized appreciation (depreciation) from forward foreign currency contracts is reported in the change in net unrealized appreciation (depreciation)

During the year ended October 31, 2014, the volume of derivative activity for the Fund was as follows:

	Average Market Value
Futures contracts (to buy)[1]	$ 733,385
Futures contracts (to sell)	2,996,864
Forward foreign currency contracts (to buy)	79,417,860
Forward foreign currency contracts (to sell)	122,487,028
	Average Notional Balance
Credit default swap contracts (to sell protection)[1]	$ 2,584,231

[1] At October 31, 2014, there were no open positions held in this derivative.

The following table presents by financial instrument, the Fund s derivative assets net of the related collateral received by the Fund at October 31, 2014:

	Gross Amount of Derivative Assets in the Statement of Assets and Liabilities[1]	Collateral Received	Net Amount
Forward foreign currency contracts	$ 4,747,069		$ 4,747,069

Notes to financial statements (cont d)

The following table presents by financial instrument, the Fund s derivative liabilities net of the related collateral pledged by the Fund at October 31, 2014:

	Gross Amount of Derivative Liabilities in the Statement of Assets and Liabilities[1]	Collateral Pledged[2,3]	Net Amount
Futures contracts[4]	$ 16,365	$ (16,365)	
Forward foreign currency contracts	401,322		$ 401,322
Total	**$ 417,687**	**$ (16,365)**	**$ 401,322**

[1] Absent an event of default or early termination, derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities.

[2] Gross amounts are not offset in the Statement of Assets and Liabilities.

[3] In some instances, the actual collateral received and/or pledged may be more than the amount shown here due to overcollateralization.

[4] Amount represents the current day s variation margin as reported in the Statement of Assets and Liabilities. It differs from the cumulative appreciation (depreciation) presented in the previous table.

5. Loan

The Fund has a revolving credit agreement with Pershing LLC, which allows the Fund to borrow up to an aggregate amount of $200,000,000 ($250,000,000 prior to June 25, 2014) and renews daily for a 180-day term unless notice to the contrary is given to the Fund. Prior to March 30, 2014, the Fund had a 364-day revolving credit agreement with Pershing LLC, which allowed the Fund to borrow up to an aggregate amount of $250,000,000. The interest on the loan is calculated at a variable rate based on the one-month LIBOR plus any applicable margin. To the extent of the borrowing outstanding, the Fund is required to maintain collateral in a special custody account at the Fund s custodian on behalf of the lender. The Fund s credit agreement contains customary covenants that, among other things, may limit the Fund s ability to pay distributions in certain circumstances, incur additional debt, change its fundamental investment policies and engage in certain transactions, including mergers and consolidations, and require asset coverage ratios in addition to those required by the 1940 Act. In addition, the credit agreement may be subject to early termination under certain conditions and may contain other provisions that could limit the Fund s ability to utilize borrowing under the agreement. Interest expense related to this loan for the year ended October 31, 2014 was $1,189,172. For the year ended October 31, 2014, based on the number of days during the reporting period that the Fund had a loan outstanding, the average daily loan balance was $145,365,205 and the weighted average interest rate was 0.81%. At October 31, 2014, the Fund had $132,300,000 of borrowings outstanding subject to the terms of this credit agreement.

6. Distributions subsequent to October 31, 2014

The following distribution has been declared by the Fund s Board of Directors and is payable subsequent to the period end of this report:

Record Date	Payable Date	Amount
11/21/2014	11/28/2014	$ 0.1300
12/19/2014	12/26/2014	$ 0.1300
1/23/2015	1/30/2015	$ 0.1300
2/20/2015	2/27/2015	$ 0.1300

7. Income tax information and distributions to shareholders

The tax character of distributions paid during the fiscal years ended October 31, was as follows:

	2014	2013
Distributions Paid From:		
Ordinary income	$ 32,563,585	$ 27,545,860
Net long-term capital gains	4,847,653	2,593,898
Total distributions paid	**$ 37,411,238**	**$ 30,139,758**

As of October 31, 2014, the components of accumulated earnings on a tax basis were as follows:

Undistributed ordinary income net	$ 26,938,480
Undistributed long-term capital gains net	12,373,208
Total undistributed earnings	$ 39,311,688
Other book/tax temporary differences[(a)]	(6,483,643)
Unrealized appreciation (depreciation)[(b)]	(13,324,324)
Total accumulated earnings (losses) net	**$ 19,503,721**

[(a)] Other book/tax temporary differences are attributable to the tax deferral of losses on straddles, the realization for tax purposes of unrealized gains (losses) on certain futures and foreign currency contracts and book/tax differences in the timing of the deductibility of various expenses.

[(b)] The difference between book-basis and tax-basis unrealized appreciation (depreciation) is attributable to the tax deferral of losses on wash sales and book/tax differences in the basis of partnership interests.

Report of independent registered public accounting firm

The Board of Directors and Shareholders

Legg Mason BW Global Income Opportunities Fund Inc.:

We have audited the accompanying statement of assets and liabilities of Legg Mason BW Global Income Opportunities Fund Inc. (the Fund), including the schedule of investments, as of October 31, 2014, and the related statement of operations and cash flows for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the two-year period then ended and for the period from March 28, 2012 (inception date) to October 31, 2012. These financial statements and financial highlights are the responsibility of the Fund s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 2014, by correspondence with the custodian and brokers or by other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Legg Mason BW Global Income Opportunities Fund Inc. as of October 31, 2014, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the two-year period then ended and for the period from March 28, 2012 (inception date) to October 31, 2012, in conformity with U.S. generally accepted accounting principles.

New York, New York

December 18, 2014

Additional information (unaudited)

Information about Directors and Officers

The business and affairs of Legg Mason BW Global Income Opportunities Fund Inc. (the Fund) are conducted by management under the supervision and subject to the direction of its Board of Directors. The business address of each Director is c/o Kenneth D. Fuller, Legg Mason, 100 International Drive, 11th Floor, Baltimore, Maryland 21202. Information pertaining to the Directors and officers of the Fund is set forth below.

Independent Directors:	
Carol L. Colman	
Year of birth	1946
Position(s) held with Fund[1]	Director and Member of the Nominating and Audit Committees, Class I
Term of office[1] and length of time served	Since 2011
Principal occupation(s) during past five years	President, Colman Consulting Company (consulting)
Number of portfolios in fund complex overseen by Director (including the Fund)	31
Other board memberships held by Director during past five years	None
Daniel P. Cronin	
Year of birth	1946
Position(s) held with Fund[1]	Director and Member of the Nominating and Audit Committees, Class I
Term of office[1] and length of time served	Since 2011
Principal occupation(s) during past five years	Retired; formerly, Associate General Counsel, Pfizer Inc. (prior to and including 2004)
Number of portfolios in fund complex overseen by Director (including the Fund)	31
Other board memberships held by Director during past five years	None
Paolo M. Cucchi	
Year of birth	1941
Position(s) held with Fund[1]	Director and Member of the Nominating and Audit Committees, Class I
Term of office[1] and length of time served	Since 2011
Principal occupation(s) during past five years	Emeritus Professor of French and Italian (since 2014) and formerly, Professor of French and Italian (2009 to 2014) at Drew University; formerly, Vice President and Dean of College of Liberal Arts at Drew University (1984 to 2009)
Number of portfolios in fund complex overseen by Director (including the Fund)	31
Other board memberships held by Director during past five years	None

Additional information (unaudited) (cont d)

Information about Directors and Officers

Independent Directors cont d	
Leslie H. Gelb	
Year of birth	1937
Position(s) held with Fund[1]	Director and Member of the Nominating and Audit Committees, Class II
Term of office[1] and length of time served	Since 2011
Principal occupation(s) during past five years	President Emeritus and Senior Board Fellow (since 2003), The Council on Foreign Relations; formerly, President, (prior to 2003), the Council on Foreign Relations; formerly, Columnist, Deputy Editorial Page Editor and Editor, Op-Ed Page, The New York Times
Number of portfolios in fund complex overseen by Director (including the Fund)	31
Other board memberships held by Director during past five years	Director of two registered investment companies advised by Aberdeen Asset Management Asia Limited (since 1994)
William R. Hutchinson	
Year of birth	1942
Position(s) held with Fund[1]	Director and Member of the Nominating and Audit Committees, Class II
Term of office[1] and length of time served	Since 2011
Principal occupation(s) during past five years	President, W.R. Hutchinson & Associates Inc. (Consulting) (since 2001)
Number of portfolios in fund complex overseen by Director (including the Fund)	31
Other board memberships held by Director during past five years	Director (Non-Executive Chairman of the Board (since December 1, 2009)), Associated Banc Corp. (banking) (since 1994)
Eileen A. Kamerick	
Year of birth	1958
Position(s) held with Fund[1]	Director and Member of Nominating and Audit Committees, Class III
Term of office[1] and length of time served	Since 2013
Principal occupation(s) during past five years	Adjunct Professor, Washington University in St. Louis and University of Iowa law schools and Consultant, corporate governance matters (since 2014); formerly CFO, Press Ganey Associates (health care informatics company) (2012-2014); Managing Director and CFO, Houlihan Lokey (international investment bank and advisory firm) (2010 to 2012); Senior Vice President, CFO & CLO, Tecta America Corp (commercial roofing company) (2008 to 2010); Executive Vice President and CFO, Bearing Point Inc. (management and technology consulting firm) (2008); Executive Vice President, CFO and CAO Heidrick & Struggles (international executive search and leadership consulting firm) (2004 to 2008)
Number of portfolios in fund complex everseen by Director (including the Fund)	31
Other board memberships held by Director during past five years	Director of Associated Banc-Corp (financial services company) (since 2007); Westell Technologies, Inc. (technology company) (since 2003)

Independent Directors cont d

Riordan Roett	
Year of birth	1938
Position(s) held with Fund[1]	Director and Member of the Nominating and Audit Committees, Class III
Term of office[1] and length of time served	Since 2011
Principal occupation(s) during past five years	The Sarita and Don Johnston Professor of Political Science and Director of Western Hemisphere Studies, Paul H. Nitze School of Advanced International Studies, The John Hopkins University (since 1973)
Number of portfolios in fund complex overseen by Director (including the Fund)	31
Other board memberships held by Director during past five years	None

Interested Director and Officer:

Kenneth D. Fuller[2]	
Year of birth	1958
Position(s) held with Fund[1]	Director, Chairman, President and Chief Executive Officer, Class II
Term of office[1] and length of time served	Since 2013
Principal occupation(s) during past five years	Managing Director of Legg Mason & Co., LLC (Legg Mason & Co.) (since 2013); Officer and/or Trustee/Director of 173 funds associated with Legg Mason Partners Fund Advisor, LLC (LMPFA) or its affiliates (since 2013); President and Chief Executive Officer of LM Asset Services, LLC (LMAS) and Legg Mason Fund Asset Management, Inc. (LMFAM) (formerly registered investment advisers) (since 2013); formerly, Senior Vice President of LMPFA (2012 to 2013); formerly, Director of Legg Mason & Co. (2012 to 2013); formerly, Vice President of Legg Mason & Co. (2009 to 2012); formerly, Vice President Equity Division of T. Rowe Price Associates (1993 to 2009), as well as Investment Analyst and Portfolio Manager for certain asset allocation accounts (2004 to 2009)
Number of portfolios in fund complex overseen by Director (including the Fund)	161
Other board memberships held by Director during past five years	None

Additional Officers:

Ted P. Becker Legg Mason 620 Eighth Avenue, 49th Floor, New York, NY 10018	
Year of birth	1951
Position(s) held with Fund[1]	Chief Compliance Officer
Term of office[1] and length of time served	Since 2011
Principal occupation(s) during past five years	Director of Global Compliance at Legg Mason (since 2006); Chief Compliance Officer of LMPFA (since 2006); Managing Director of Compliance of Legg Mason & Co. (since 2005); Chief Compliance Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006)

Additional information (unaudited) (cont d)

Information about Directors and Officers

Additional Officers cont d

Vanessa A. Williams
Legg Mason

100 First Stamford Place, 6th Floor, Stamford, CT 06902

Year of birth	1979
Position(s) with Fund[1]	Identity Theft Prevention Officer
Term of office[1] and length of time served	Since 2011
Principal occupation(s) during past five years	Vice President of Legg Mason & Co. (since 2012); Identity Theft Prevention Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011); formerly, Chief Anti-Money Laundering Compliance Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (2011 to 2013); formerly, Senior Compliance Officer of Legg Mason & Co. (2008 to 2011); formerly, Compliance Analyst of Legg Mason & Co. (2006 to 2008) and Legg Mason & Co. predecessors (prior to 2006)

Robert I. Frenkel
Legg Mason

100 First Stamford Place, 6th Floor, Stamford, CT 06902

Year of birth	1954
Position(s) held with Fund[1]	Secretary and Chief Legal Officer
Term of office[1] and length of time served	Since 2011
Principal occupation(s) during past five years	Vice President and Deputy General Counsel of Legg Mason (since 2006); Managing Director and General Counsel of Global Mutual Funds for Legg Mason & Co. (since 2006) and Legg Mason & Co. predecessors (since 1994); Secretary and Chief Legal Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006)

Thomas C. Mandia
Legg Mason

100 First Stamford Place, 6th Floor, Stamford, CT 06902

Year of birth	1962
Position(s) held with Fund[1]	Assistant Secretary
Term of office[1] and length of time served	Since 2011
Principal occupation(s) during past five years	Managing Director and Deputy General Counsel of Legg Mason & Co. (since 2005) and Legg Mason & Co. predecessors (prior to 2005); Secretary of LMPFA (since 2006); Assistant Secretary of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006); Secretary of SBFM (since 2002) and LMFAM (since 2013)

Additional Officers cont d

Richard F. Sennett
Legg Mason

100 International Drive, 7th Floor, Baltimore, MD 21202

Year of birth	1970
Position(s) held with Fund[1]	Principal Financial Officer
Term of office[1] and length of time served	Since 2011
Principal occupation(s) during past five years	Principal Financial Officer and Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011 and 2013); Managing Director of Legg Mason & Co. and Senior Manager of the Treasury Policy group for Legg Mason & Co. s Global Fiduciary Platform (since 2011); formerly, Chief Accountant within the SEC s Division of Investment Management (2007 to 2011); formerly, Assistant Chief Accountant within the SEC s Division of Investment Management (2002 to 2007)

Steven Frank
Legg Mason

620 Eighth Avenue, 49th Floor, New York, NY 10018

Year of birth	1967
Position(s) held with Fund[1]	Treasurer
Term of office[1] and length of time served	Since 2011
Principal occupation(s) during past five years	Vice President of Legg Mason & Co. and Legg Mason & Co. predecessors (since 2002); Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2010); formerly, Controller of certain mutual funds associated with Legg Mason & Co. or its affiliates (prior to 2010)

Jeanne M. Kelly
Legg Mason

620 Eighth Avenue, 49th Floor, New York, NY 10018

Year of birth	1951
Position(s) with Fund[1]	Senior Vice President
Term of office[1] and length of time served	Since 2011
Principal occupation(s) during past five years	Senior Vice President of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2007); Senior Vice President of LMPFA (since 2006) and LMFAM (since 2013); Managing Director of Legg Mason & Co. (since 2005) and Legg Mason & Co. predecessors (prior to 2005)

Directors who are not interested persons of the Fund within the meaning of Section 2(a)(19) of the 1940 Act.

[1] The Fund s Board of Directors is divided into three classes: Class I, Class II and Class III. The terms of office of the Class I, II and III Directors expire at the Annual Meetings of Stockholders in the year 2016, year 2017 and year 2015, respectively, or thereafter in each case when their respective successors are duly elected and qualified. The Fund s executive officers are chosen each year at the first meeting of the Fund s Board of Directors following the Annual Meeting of Stockholders, to hold office until the meeting of the Board following the next Annual Meeting of Stockholders and until their successors are duly elected and qualified.

[2] Mr. Fuller is an interested person of the Fund as defined in the 1940 Act because Mr. Fuller is an officer of LMPFA and certain of its affiliates.

Annual chief executive officer and principal financial officer certifications (unaudited)

The Fund s Chief Executive Officer (CEO) has submitted to the NYSE the required annual certification and the Fund also has included the certifications of the Fund s CEO and Principal Financial Officer required by Section 302 of the Sarbanes-Oxley Act in the Fund s Form N-CSR filed with the SEC for the period of this report.

Other shareholder communications regarding accounting matters (unaudited)

The Fund s Audit Committee has established guidelines and procedures regarding the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters (collectively, Accounting Matters). Persons with complaints or concerns regarding Accounting Matters may submit their complaints to the Chief Compliance Officer (CCO). Persons who are uncomfortable submitting complaints to the CCO, including complaints involving the CCO, may submit complaints directly to the Fund s Audit Committee Chair. Complaints may be submitted on an anonymous basis.

The CCO may be contacted at:

Legg Mason & Co., LLC

Compliance Department

620 Eighth Avenue, 49th Floor

New York, New York 10018

Complaints may also be submitted by telephone at 1-800-742-5274. Complaints submitted through this number will be received by the CCO.

Dividend reinvestment plan (unaudited)

Unless you elect to receive distributions in cash (i.e., opt-out), all dividends, including any capital gain dividends, on your Common Stock will be automatically reinvested by American Stock Transfer & Trust Company LLC, as agent for the stockholders (the Plan Agent), in additional shares of Common Stock under the Fund s Dividend Reinvestment Plan (the Plan). You may elect not to participate in the Plan by contacting the Plan Agent. If you do not participate, you will receive all cash distributions paid by check mailed directly to you by American Stock Transfer & Trust Company LLC, as dividend paying agent.

If you participate in the Plan, the number of shares of Common Stock you will receive will be determined as follows:

(1) If the market price of the Common Stock on the record date (or, if the record date is not a NYSE trading day, the immediately preceding trading day) for determining stockholders eligible to receive the relevant dividend or distribution (the determination date) is equal to or exceeds 98% of the net asset value per share of the Common Stock, the Fund will issue new Common Stock at a price equal to the greater of (a) 98% of the net asset value per share at the close of trading on the NYSE on the determination date or (b) 95% of the market price per share of the Common Stock on the determination date.

(2) If 98% of the net asset value per share of the Common Stock exceeds the market price of the Common Stock on the determination date, the Plan Agent will receive the dividend or distribution in cash and will buy Common Stock in the open market, on the NYSE or elsewhere, for your account as soon as practicable commencing on the trading day following the determination date and terminating no later than the earlier of (a) 30 days after the dividend or distribution payment date, or (b) the record date for the next succeeding dividend or distribution to be made to the stockholders; except when necessary to comply with applicable provisions of the federal securities laws. If during this period: (i) the market price rises so that it equals or exceeds 98% of the net asset value per share of the Common Stock at the close of trading on the NYSE on the determination date before the Plan Agent has completed the open market purchases or (ii) if the Plan Agent is unable to invest the full amount eligible to be reinvested in open market purchases, the Plan Agent will cease purchasing Common Stock in the open market and the Fund shall issue the remaining Common Stock at a price per share equal to the greater of (a) 98% of the net asset value per share at the close of trading on the NYSE on the determination date or (b) 95% of the then current market price per share.

Common Stock in your account will be held by the Plan Agent in non-certificated form. Any proxy you receive will include all shares of Common Stock you have received under the Plan. You may withdraw from the Plan (i.e., opt-out) by notifying the Plan Agent in writing at P.O. Box 922, Wall Street Station, New York, NY 10269-0560 or by calling the Plan Agent at 1-888-888-0151. Such withdrawal will be effective immediately if notice is received by the Plan Agent not less than ten business days prior to any dividend or distribution record date; otherwise such withdrawal will be effective as soon as practicable after the Plan Agent s investment of the most recently declared dividend or distribution on the Common Stock. The Plan may be terminated, amended or supplemented by the Fund upon notice in writing mailed to stockholders at least 30 days prior to the record date for the payment of any dividend or distribution by the Fund for which the termination or amendment is to be effective.

Upon any termination, you will be sent a certificate or certificates for the full number of shares of Common Stock held for you under the Plan and cash for any fractional share of Common Stock in your account. You may elect to notify the Plan Agent in advance of such termination to have the Plan Agent sell part or all of your Common Stock on your behalf. You will be charged a service charge and the Plan Agent is authorized to deduct brokerage charges actually incurred for this transaction from the proceeds.

There is no service charge for reinvestment of your dividends or distributions in Common Stock. However, all participants will pay a pro rata share of brokerage commissions incurred by the Plan Agent when it makes open market purchases. Because all dividends and distributions will be automatically reinvested in additional shares of Common Stock, this allows you to add to your investment through dollar cost averaging, which may lower the average cost of your Common Stock over time. Dollar cost averaging is a technique for lowering the average cost per share over time if the Fund s net asset value declines. While dollar cost averaging has definite advantages, it cannot assure profit or protect against loss in declining markets.

Automatically reinvesting dividends and distributions does not mean that you do not have to pay income taxes due upon receiving dividends and distributions. Investors will be subject to income tax on amounts reinvested under the Plan.

The Fund reserves the right to amend or terminate the Plan if, in the judgment of the Board of Directors, the change is warranted. There is no direct service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants. Additional information about the Plan and your account may be obtained from the Plan Agent at 6201 15th Avenue, Brooklyn, New York 11219 or by calling the Plan Agent at 1-888-888-0151.

Important tax information (unaudited)

The following information is provided with respect to the distributions paid during the taxable year ended October 31, 2014:

Record date:	5/23/2014	6/20/2014	7/18/2014
Payable date:	5/30/2014	6/27/2014	7/25/2014
Long-term capital gain dividend	$ 0.030000	$ 0.039400	$ 0.039400

Record date:	8/22/2014	9/19/2014	10/24/2014
Payable date:	8/29/2014	9/26/2014	10/31/2014
Long-term capital gain dividend	$ 0.039400	$ 0.040900	$ 0.040900

Legg Mason

BW Global Income Opportunities Fund Inc.

Directors

Carol L. Colman

Daniel P. Cronin

Paolo M. Cucchi

Kenneth D. Fuller

Chairman

Leslie H. Gelb

William R. Hutchinson

Eileen A. Kamerick

Riordan Roett

Jeswald W. Salacuse*

Officers

Kenneth D. Fuller

President and Chief Executive Officer

Richard F. Sennett

Principal Financial Officer

Ted P. Becker

Chief Compliance Officer

Vanessa A. Williams

Identity Theft Prevention Officer

Robert I. Frenkel

Secretary and Chief Legal Officer

Thomas Mandia

Assistant Secretary

Steven Frank

Treasurer

Jeanne M. Kelly

Senior Vice President

Legg Mason BW Global Income Opportunities Fund Inc.

620 Eighth Avenue

49th Floor

New York, NY 10018

Investment manager

Legg Mason Partners Fund Advisor, LLC

Subadviser

Brandywine Global Investment

Management, LLC

Custodian

State Street Bank and Trust Company

1 Lincoln Street

Boston, MA 02111

Transfer agent

American Stock Transfer & Trust Company

6201 15th Avenue

Brooklyn, NY 11219

Independent registered public accounting firm

KPMG LLP

345 Park Avenue

New York, NY 10154

Legal counsel

Simpson Thacher & Bartlett LLP

425 Lexington Avenue

New York, NY 10017

New York Stock Exchange Symbol

BWG

* Mr. Salacuse retired from the Board of Directors, effective June 30, 2014.

Legg Mason Funds Privacy and Security Notice

Your Privacy and the Security of Your Personal Information is Very Important to the Legg Mason Funds

This Privacy and Security Notice (the Privacy Notice) addresses the Legg Mason Funds privacy and data protection practices with respect to nonpublic personal information the Funds receive. The Legg Mason Funds include any funds sold by the Funds distributor, Legg Mason Investor Services, LLC, as well as Legg Mason-sponsored closed-end funds and certain closed-end funds managed or sub-advised by Legg Mason or its affiliates. The provisions of this Privacy Notice apply to your information both while you are a shareholder and after you are no longer invested with the Funds.

The Type of Nonpublic Personal Information the Funds Collect About You

The Funds collect and maintain nonpublic personal information about you in connection with your shareholder account. Such information may include, but is not limited to:

- Personal information included on applications or other forms;
- Account balances, transactions, and mutual fund holdings and positions;
- Online account access user IDs, passwords, security challenge question responses; and
- Information received from consumer reporting agencies regarding credit history and creditworthiness (such as the amount of an individual s total debt, payment history, etc.).

How the Funds Use Nonpublic Personal Information About You

The Funds do not sell or share your nonpublic personal information with third parties or with affiliates for their marketing purposes, or with other financial institutions or affiliates for joint marketing purposes, unless you have authorized the Funds to do so. The Funds do not disclose any nonpublic personal information about you except as may be required to perform transactions or services you have authorized or as permitted or required by law. The Funds may disclose information about you to:

- Employees, agents, and affiliates on a need to know basis to enable the Funds to conduct ordinary business or comply with obligations to government regulators;
- Service providers, including the Funds affiliates, who assist the Funds as part of the ordinary course of business (such as printing, mailing services, or processing or servicing your account with us) or otherwise perform services on the Funds behalf, including companies that may perform marketing services solely for the Funds;
- The Funds representatives such as legal counsel, accountants and auditors; and
- Fiduciaries or representatives acting on your behalf, such as an IRA custodian or trustee of a grantor trust.

NOT PART OF THE ANNUAL REPORT

Legg Mason Funds Privacy and Security Notice (cont d)

Except as otherwise permitted by applicable law, companies acting on the Funds behalf are contractually obligated to keep nonpublic personal information the Funds provide to them confidential and to use the information the Funds share only to provide the services the Funds ask them to perform.

The Funds may disclose nonpublic personal information about you when necessary to enforce their rights or protect against fraud, or as permitted or required by applicable law, such as in connection with a law enforcement or regulatory request, subpoena, or similar legal process. In the event of a corporate action or in the event a Fund service provider changes, the Funds may be required to disclose your nonpublic personal information to third parties. While it is the Funds practice to obtain protections for disclosed information in these types of transactions, the Funds cannot guarantee their privacy policy will remain unchanged.

Keeping You Informed of the Funds Privacy and Security Practices

The Funds will notify you annually of their privacy policy as required by federal law. While the Funds reserve the right to modify this policy at any time they will notify you promptly if this privacy policy changes.

The Funds Security Practices

The Funds maintain appropriate physical, electronic and procedural safeguards designed to guard your nonpublic personal information. The Funds internal data security policies restrict access to your nonpublic personal information to authorized employees, who may use your nonpublic personal information for Fund business purposes only.

Although the Funds strive to protect your nonpublic personal information, they cannot ensure or warrant the security of any information you provide or transmit to them, and you do so at your own risk. In the event of a breach of the confidentiality or security of your nonpublic personal information, the Funds will attempt to notify you as necessary so you can take appropriate protective steps. If you have consented to the Funds using electronic communications or electronic delivery of statements, they may notify you under such circumstances using the most current email address you have on record with them.

In order for the Funds to provide effective service to you, keeping your account information accurate is very important. If you believe that your account information is incomplete, not accurate or not current, or if you have questions about the Funds privacy practices, write the Funds using the contact information on your account statements, email the Funds by clicking on the Contact Us section of the Funds website at www.leggmason.com, or contact the Fund at 1-888-777-0102.

Revised April 2011

NOT PART OF THE ANNUAL REPORT

Legg Mason BW Global Income Opportunities Fund Inc.

Legg Mason BW Global Income Opportunities Fund Inc.

620 Eighth Avenue

49th Floor

New York, NY 10018

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Fund may purchase at market price shares of its common stock in the open market.

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of each fiscal year on Form N-Q. The Fund s Forms N-Q are available on the SEC website at www.sec.gov. The Fund s Forms N-Q may be reviewed and copied at the SEC Public Reference Room in Washington, D.C., and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. To obtain information on Form N-Q from the Fund, shareholders can call 1-888-777-0102.

Information on how the Fund voted proxies relating to portfolio securities during the prior 12-month period ended June 30th of each year and a description of the policies and procedures that the Fund uses to determine how to vote proxies related to portfolio transactions are available (1) without charge, upon request, by calling 1-888-777-0102, (2) on the Fund s website at www.lmcef.com and (3) on the SEC s website at www.sec.gov.

This report is transmitted to the shareholders of Legg Mason BW Global Income Opportunities Fund Inc. for their information. This is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in this report.

American Stock Transfer & Trust Company

6201 15th Avenue

Brooklyn, NY 11219

BWXX015179 12/14 SR14-2376

ITEM 2. CODE OF ETHICS.
The registrant has adopted a code of ethics that applies to the registrant s principal executive officer, principal financial officer, principal accounting officer or controller.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.
The Board of Directors of the registrant has determine that Eileen A. Kamerick, a member of the Board s Audit Committee, possesses the technical attributes identified in Instruction 2(b) of Item 3 to Form N-CSR to qualify as an audit committee financial expert and that she is independent for purposes of this item.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.
a) Audit Fees. The aggregate fees billed in the last two fiscal years ending October 31, 2013 and October 31, 2014 (the Reporting Periods) for professional services rendered by the Registrant s principal accountant (the Auditor) for the audit of the Registrant s annual financial statements, or services that are normally provided by the Auditor in connection with the statutory and regulatory filings or engagements for the Reporting Periods, were $58,000 in 2013 and $58,600 in 2014.

b) Audit-Related Fees. The aggregate fees billed in the Reporting Period for assurance and related services by the Auditor that are reasonably related to the performance of the Registrant s financial statements were $0 in 2013 and $0 in 2014.

(c) Tax Fees. The aggregate fees billed in the Reporting Periods for professional services rendered by the Auditor for tax compliance, tax advice and tax planning (Tax Services) were $3,800 in 2013 and $3,840 in 2014. These services consisted of (i) review or preparation of U.S. federal, state, local and excise tax returns; (ii) U.S. federal, state and local tax planning, advice and assistance regarding statutory, regulatory or administrative developments, and (iii) tax advice regarding tax qualification matters and/or treatment of various financial instruments held or proposed to be acquired or held.

There were no fees billed for tax services by the Auditors to service affiliates during the Reporting Periods that required pre-approval by the Audit Committee.

d) All Other Fees. There were no other fees billed in the Reporting Periods for products and services provided by the Auditor, other than the services reported in paragraphs (a) through (c) of this Item 4 for the Legg Mason BW Global Income Opportunities Fund Inc.

All Other Fees. There were no other non-audit services rendered by the Auditor to Legg Mason Partners Fund Advisors, LLC (LMPFA), and any entity controlling, controlled by or under common control with LMPFA that provided ongoing services to Legg Mason BW Global Income Opportunities Fund Inc. requiring pre-approval by the Audit Committee in the Reporting Period.

(e) Audit Committee s pre-approval policies and procedures described in paragraph (c) (7) of Rule 2-01 of Regulation S-X.

(1) The Charter for the Audit Committee (the Committee) of the Board of each registered investment company (the Fund) advised by LMPFA or one of their affiliates (each, an Adviser) requires that the Committee shall approve (a) all audit and permissible non-audit services to be provided to the Fund and (b) all permissible non-audit services to be provided by the Fund s independent auditors to the Adviser and any Covered Service Providers if the engagement relates directly to the operations and financial reporting of the Fund. The Committee may implement policies and procedures by which such services are approved other than by the full Committee.

The Committee shall not approve non-audit services that the Committee believes may impair the independence of the auditors. As of the date of the approval of this Audit Committee Charter, permissible non-audit services include any professional services (including tax services), that are not prohibited services as described below, provided to the Fund by the independent auditors, other than those provided to the Fund in connection with an audit or a review of the financial statements of the Fund. Permissible non-audit services may not include: (i) bookkeeping or other services related to the accounting records or financial statements of the Fund; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, fairness opinions or contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human resources; (vii) broker or dealer, investment adviser or investment banking services; (viii) legal services and expert services unrelated to the audit; and (ix) any other service the Public Company Accounting Oversight Board determines, by regulation, is impermissible.

Pre-approval by the Committee of any permissible non-audit services is not required so long as: (i) the aggregate amount of all such permissible non-audit services provided to the Fund, the Adviser and any service providers controlling, controlled by or under common control with the Adviser that provide ongoing services to the Fund (Covered Service Providers) constitutes not more than 5% of the total amount of revenues paid to the independent auditors during the fiscal year in which the permissible non-audit services are provided to (a) the Fund, (b) the Adviser and (c) any entity controlling, controlled by or under common control with the Adviser that provides ongoing services to the Fund during the fiscal year in which the services are provided that would have to be approved by the Committee; (ii) the permissible non-audit services were not recognized by the Fund at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Committee and approved by the Committee (or its delegate(s)) prior to the completion of the audit.

(2) For the Legg Mason BW Global Income Opportunities Fund Inc., the percentage of fees that were approved by the audit committee, with respect to: Audit-Related Fees were 100% and 100% for 2013 and 2014; Tax Fees were 100% and 100% for 2013 and 2014; and Other Fees were 100% and 100% for 2013 and 2014.

(f) N/A

(g) Non-audit fees billed by the Auditor for services rendered to Legg Mason BW Global Income Opportunities Fund Inc., LMPFA and any entity controlling, controlled by, or under common control with LMPFA that provides ongoing services to Legg Mason BW Global Income Opportunities Fund Inc. during the reporting period were $0 in 2014.

(h) Yes. Legg Mason BW Global Income Opportunities Fund Inc. s Audit Committee has considered whether the provision of non-audit services that were rendered to Service Affiliates, which were not pre-approved (not requiring pre-approval), is compatible with maintaining the Accountant s independence. All services provided by the Auditor to the Legg Mason BW Global Income Opportunities Fund Inc. or to Service Affiliates, which were required to be pre-approved, were pre-approved as required.

ITEM 5. **AUDIT COMMITTEE OF LISTED REGISTRANTS.**
a) Registrant has a separately-designated standing Audit Committee established in accordance with *Section 3(a)58(A) of the Exchange Act*. The Audit Committee consists of the following Board members:

William R. Hutchinson

Paolo M. Cucchi

Daniel P. Cronin

Carol L. Colman

Leslie H. Gelb

Eileen A. Kamerick

Dr. Riordan Roett

Jeswald W. Salacuse (Effective June 30, 2014, Mr. Salacuse retired from the Audit Committee and the Board of Directors.)

b) Not applicable

ITEM 6. SCHEDULE OF INVESTMENTS.
Included herein under Item 1.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES
Not Applicable.

PROXY VOTING LMPFA & Brandywine Global Investment Management, LLC

Proxy Voting Guidelines and Procedures

Legg Mason Partners Fund Advisor, LLC (LMPFA) delegates the responsibility for voting proxies for the fund to the subadviser through its contracts with the subadviser. The subadviser will use its own proxy voting policies and procedures to vote proxies. Accordingly, LMPFA does not expect to have proxy-voting responsibility for the fund. Should LMPFA become responsible for voting proxies for any reason, such as the inability of the subadviser to provide investment advisory services, LMPFA shall utilize the proxy voting guidelines established by the most recent subadviser to vote proxies until a new subadviser is retained.

The subadviser s Proxy Voting Policies and Procedures govern in determining how proxies relating to the fund s portfolio securities are voted and are provided below. Information regarding how each fund voted proxies (if any) relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge (1) by calling 888-777-0102, (2) on the fund s website at http://www.lmcef.com and (3) on the SEC s website at http://www.sec.gov.

Background

Brandywine Global Investment Management, LLC (Brandywine Global) has adopted and implemented policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with our fiduciary duties and SEC Rule 206(4)-6 under the Investment

Advisers Act of 1940 (Advisers Act). Our authority to vote the proxies of our clients is established through investment management agreements or comparable documents, and our proxy voting guidelines have been tailored to reflect these specific contractual obligations. In addition to SEC requirements governing advisers, our proxy voting policies reflect the long-standing fiduciary standards and responsibilities for ERISA accounts. Unless a manager of ERISA assets has been expressly precluded from voting proxies, the Department of Labor has determined that the responsibility for these votes lies with the Investment Manager.

In exercising its voting authority, Brandywine Global will not consult or enter into agreements with officers, directors or employees of Legg Mason Inc. or any of its affiliates (except that Brandywine Global may so consult and agree with each other) regarding the voting of any securities owned by its clients.

BRANDYWINE GLOBAL INVESTMENT MANAGEMENT, LLC

Proxy Voting

I. Client Accounts for which Brandywine Global Votes Proxies

Brandywine Global shall vote proxies for each client account for which the client:

(i) has specifically authorized Brandywine Global to vote proxies in the applicable investment management agreement or other written instrument; or

(ii) without specifically authorizing Brandywine Global to vote proxies, has granted general investment discretion to Brandywine Global in the applicable investment management agreement.

Also, Brandywine Global shall vote proxies for any employee benefit plan client subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA), unless the investment management agreement specifically reserves the responsibility for voting proxies to the plan trustees or other named fiduciary. At or prior to inception of each client account, Brandywine Global shall determine whether it has proxy voting authority over such account.

II. General Principles

In exercising discretion to vote proxies for securities held in client accounts, Brandywine Global is guided by general fiduciary principles. Brandywine Global s goal in voting proxies is to act prudently and solely in the best economic interest of its clients for which it is voting proxies. In furtherance of such goal, Brandywine Global will vote proxies in a manner that Brandywine Global believes will be consistent with efforts to maximize shareholder values. Brandywine Global does not exercise its proxy voting discretion to further policy, political or other issues that have no connection to enhancing the economic value of the client s investment.

III. How Brandywine Global Votes Proxies

Appendix A sets forth general guidelines considered by Brandywine Global and its portfolio management teams in voting common proxy items.

In the case of a proxy issue for which there is a stated position set forth in Appendix A, Brandywine Global generally votes in accordance with the stated position. In the case of a proxy issue for which there is a list of factors set forth in Appendix A that Brandywine Global considers in voting on such issue, Brandywine Global considers those factors and votes on a case-by-case basis in accordance with the general principles described in Section II. In the case of a proxy issue for which there is no stated position or list of factors set forth in Appendix A that Brandywine Global considers in voting on such issue, Brandywine Global votes on a case-by-case basis in accordance with the general principles described in Section II.

The general guidelines set forth in Appendix A are not binding on Brandywine Global and its portfolio management teams, but rather are intended to provide an analytical framework for the review and assessment of common proxy issues. Such guidelines can always be superseded by a portfolio management team based on the team s assessment of the proxy issue and determination that a vote that is contrary to such general guidelines is in the best economic interests of the client accounts for which the team is responsible. Different portfolio management teams may vote differently on the same issue based on their respective assessments of the proxy issue and determinations as to what is in the best economic interests of client accounts for which they are responsible. In addition, a team may adopt proxy voting policies that supplement these policies and procedures.

In the case of Taft-Hartley clients, Brandywine Global will comply with a client direction to vote proxies in accordance with Glass Lewis & Co. PVS Proxy Voting Guidelines, which Glass Lewis & Co. represents to be fully consistent with AFL-CIO guidelines.

IV. Use of an Independent Proxy Service Firm

Brandywine Global may contract with an independent proxy service firm to provide Brandywine Global with information and/or recommendations with regard to proxy votes. Any such information and/or recommendations will be made available to Brandywine Global s portfolio management teams, but Brandywine Global and its portfolio management teams are not required to follow any recommendation furnished by such service provider. The use of an independent proxy service firm to provide proxy voting information and/or recommendations does not relieve Brandywine Global of its responsibility for any proxy votes.

With respect to any independent proxy service firm engaged by Brandywine Global to provide Brandywine Global with information and/or recommendations with regard to proxy votes, Brandywine Global s Proxy Administrator shall periodically review and assess such firm s policies, procedures and practices with respect to the disclosure and handling of conflicts of interest as well as obtain an annual certificate from the firm that its conflict procedures have been implemented.

V. Conflict of Interest Procedures

In furtherance of Brandywine Global s goal to vote proxies in the best interests of clients, Brandywine Global follows procedures designed to identify and address material conflicts that may arise between the interests of Brandywine Global and its employees and those of its clients before voting proxies on behalf of such clients. Conflicts of interest may arise both at the firm level and as a result of an employee s personal relationships or circumstances.

(1) Procedures for Identifying Conflicts of Interest

Brandywine Global relies on the procedures set forth below to seek to identify conflicts of interest with respect to proxy voting.

A. Brandywine Global s Compliance Department annually requires each Brandywine Global employee, including those involved in proxy voting decisions (Voting Persons), to complete a questionnaire designed to elicit information that may reveal potential conflicts between the employee s interests and those of Brandywine Global clients.

B. Brandywine Global treats significant client relationships as creating a conflict of interest for Brandywine Global in voting proxies with respect to securities issued by such client or its known affiliates.

C. As a general matter, Brandywine Global takes the position that relationships between a non-Brandywine Global Legg Mason business unit and an issuer (*e.g.*, investment management relationship between an issuer and a non-Brandywine Global Legg Mason investment adviser affiliate) do not present a conflict of interest for Brandywine Global in voting proxies with respect to such issuer because Brandywine Global operates as an independent business unit from other Legg Mason business units and because of the existence of informational barriers between Brandywine Global and certain other Legg Mason business units.

(2) Procedures for Assessing Materiality of Conflicts of Interest

A. All potential conflicts of interest identified pursuant to the procedures outlined in Section V.(1)A.must be brought to the attention of the Investment Committee for resolution.

B. The Investment Committee shall determine whether a conflict of interest is material. A conflict of interest shall be considered material to the extent that it is determined that such conflict is likely to influence, or appear to influence, Brandywine Global s decision-making in voting the proxy. All materiality determinations will be based on an assessment of the particular facts and circumstances. A written record of all materiality determinations made by the Investment Committee shall be maintained.

C. If it is determined by the Investment Committee that a conflict of interest is not material, Brandywine Global may vote proxies following normal processes notwithstanding the existence of the conflict.

(3) Procedures for Addressing Material Conflicts of Interest

A. If it is determined by the Investment Committee that a conflict of interest is material, the Investment Committee shall determine an appropriate method or combination methods to resolve such conflict of interest before the proxy affected by the conflict of interest is voted by Brandywine Global. Such determination shall be based on the particular facts and circumstances, including the importance of the proxy issue, the nature of the conflict of interest, etc. Such methods may include:

(i) confirming that the proxy will be voted in accordance with a stated position or positions set forth in Appendix A;

(ii) confirming that the proxy will be voted in accordance with the recommendations of an independent proxy service firm retained by Brandywine Global;

(iii) in the case of a conflict of interest resulting from a particular employee s personal relationships or circumstances, removing such employee from the decision-making process with respect to such proxy vote;

(iv) disclosing the conflict to clients and obtaining their consent before voting;

(v) suggesting to clients that they engage another party to vote the proxy on their behalf; or

(vi) such other method as is deemed appropriate given the particular facts and circumstances, including the importance of the proxy issue, the nature of the conflict of interest, etc.

B. A written record of the method used to resolve a material conflict of interest shall be maintained.

VI. Other Considerations

In certain situations, Brandywine Global may decide not to vote proxies on behalf of a client account for which it has discretionary voting authority because Brandywine Global believes that the expected benefit to the client account of voting shares is outweighed by countervailing considerations (excluding the existence of a potential conflict of interest). Examples of situations in which Brandywine Global may determine not to vote proxies are set forth below.

(1) Share Blocking

Proxy voting in certain countries requires share blocking. This means that shareholders wishing to vote their proxies must deposit their shares shortly before the date of the meeting (e.g. one week) with a designated depositary. During the blocking period, shares that will be voted at the meeting cannot be sold until the meeting has taken place and the shares have been returned to client accounts by the designated depositary. In deciding whether to vote shares subject to share blocking, Brandywine Global will consider and weigh, based on the particular facts and circumstances, the expected benefit to client accounts of voting in relation to the potential detriment to clients of not being able to sell such shares during the applicable period.

(2) Securities on Loan

Certain clients of Brandywine Global, such as an institutional client or a registered investment company for which Brandywine Global acts as a sub-adviser, may engage in securities lending with respect to the securities in their accounts. Brandywine Global typically does not direct or oversee such securities lending activities. To the extent feasible and practical under the circumstances, Brandywine Global may request that the client recall shares that are on loan so that such shares can be voted if Brandywine Global believes that the expected benefit to the client of voting such shares outweighs the detriment to the client of recalling such shares (*e.g.*, foregone income). The ability to timely recall shares for proxy voting purposes typically is not entirely within the control of Brandywine Global and requires the cooperation of the client and its other service providers. Under certain circumstances, the recall of shares in time for such shares to be voted may not be possible due to applicable proxy voting record dates and administrative considerations.

VII. Proxy Voting-Related Disclosures

(1) Proxy Voting Independence and Intent

Brandywine Global exercises its proxy voting authority independently of other Legg Mason affiliated investment advisers. Brandywine Global and its employees shall not consult with or enter into any formal or informal agreements with Brandywine Global s parent, Legg Mason, Inc., any other Legg Mason business unit, or any of their respective officers, directors or employees, regarding the voting of any securities by Brandywine Global on behalf of its clients.

Brandywine Global and its employees must not disclose to any person outside of Brandywine Global, including without limitation another investment management firm (affiliated or unaffiliated) or the issuer of securities that are the subject of the proxy vote, how Brandywine Global intends to vote a proxy without prior approval from Brandywine Global s Chief Compliance Officer.

If a Brandywine Global employee receives a request to disclose Brandywine Global s proxy voting intentions to, or is otherwise contacted by, another person outside of Brandywine Global (including an employee of another Legg Mason business unit) in connection with an upcoming proxy voting matter, the employee should immediately notify Brandywine Global s Chief Compliance Officer.

If a Brandywine Global portfolio manager wants to take a public stance with regards to a proxy, the portfolio manager must consult with and obtain the approval of Brandywine Global s Chief Compliance Officer before making or issuing a public statement.

(2) Disclosure of Proxy Votes and Policy and Procedures

Upon Brandywine Global s receipt of any oral or written client request for information on how Brandywine Global voted proxies for that client s account, Brandywine Global must promptly provide the client with such requested information in writing.

Brandywine Global must deliver to each client, for which it has proxy voting authority, no later than the time it accepts such authority, a written summary of this Proxy Voting policy and procedures. This summary must include information on how clients may obtain information about how Brandywine Global has voted proxies for their accounts and must also state that a copy of Brandywine Global s Proxy Voting policy and procedures is available upon request.

Brandywine Global must create and maintain a record of each written client request for proxy voting information. Such record must be created promptly after receipt of the request and must include the date the request was received, the content of the request, and the date of Brandywine Global s response. Brandywine Global must also maintain copies of written client requests and copies of all responses to such requests.

VIII. Shareholder Activism and Certain Non-Proxy Voting Matters

In no event shall Brandywine Global s possession of proxy voting authority obligate it to undertake any shareholder activism on behalf of a client. Brandywine Global may undertake such activism in connection with a proxy or otherwise if and to the extent that Brandywine Global determines that doing so is consistent with applicable general fiduciary principles, provided Brandywine Global has first obtained its Chief Compliance Officer s approval of the proposed activism.

Absent a specific contrary written agreement with a client, Brandywine Global does not (1) render any advice to, or take any action on behalf of, clients with respect to any legal proceedings, including bankruptcies and shareholder litigation, to which any securities or other investments held in client account, or the issuers thereof, become subject, or (2) initiate or pursue legal proceedings, including without limitation shareholder litigation, on behalf of clients with respect to transactions or securities or other investments held in client accounts, or the issuers thereof. Except as otherwise agreed to in writing with a particular client, the right to take any action with respect to any legal proceeding, including without limitation bankruptcies and shareholder litigation, and the right to initiate or pursue any legal proceedings, including without limitation shareholder litigation, with respect to transactions or securities or other investments held in a client account is expressly reserved to the client.

IX. Recordkeeping

In addition to all other records required by this Policy and Procedures, Brandywine Global shall maintain the following records relating to proxy voting:

- a copy of this Policy and Procedures, including any and all amendments that may be adopted;
- a copy of each proxy statement that Brandywine Global receives regarding client securities;
- a record of each vote cast by Brandywine Global on behalf of a client;
- documentation relating to the identification and resolution of conflicts of interest;
- any documents created by Brandywine Global that were material to a proxy voting decision or that memorialized the basis for that decision;
- a copy of each written client request for information on how Brandywine Global voted proxies on behalf of the client, and a copy of any written response by Brandywine Global to any (written or oral) client request for information on how Brandywine Global voted proxies on behalf of the requesting client; and - records showing whether or not Brandywine Global has proxy voting authority for each client account.

All required records shall be maintained and preserved in an easily accessible place for a period of not less than six years from the end of the fiscal year during which the last entry was made on such record, the first two years in an appropriate office of Brandywine Global. Brandywine Global also shall maintain a copy of any proxy voting policies and procedures that were in effect at any time within the last five years.

To the extent that Brandywine Global is authorized to vote proxies for a United States registered investment company, Brandywine Global shall maintain such records as are necessary to allow such fund to comply with its recordkeeping, reporting and disclosure obligations under applicable laws, rules and regulations.

In lieu of keeping copies of proxy statements, Brandywine Global may rely on proxy statements filed on the EDGAR system as well as on third party records of proxy statements if the third party provides an undertaking to provide copies of such proxy statements promptly upon request. Brandywine Global may rely on a third party to make and retain, on Brandywine Global s behalf, records of votes cast by Brandywine Global on behalf of clients if the third party provides an undertaking to provide a copy of such records promptly upon request.

Appendix A

Proxy Voting Guidelines

Brandywine Global Fixed Income Portfolio Management Team

Proxy Voting Guidelines

Below are proxy voting guidelines that Brandywine Global Fixed Income Portfolio Management Team generally follows when voting proxies for securities held in client accounts. The Team may decide to deviate from these guidelines with respect to any one or more particular proxy votes, subject in all cases to the Team s duty to act solely in the best interest of their client accounts holding the applicable security.

I. Compensation

A. We vote for non-employee director stock options, unless we consider the number of shares available for issue excessive.

B. We vote for employee stock purchase programs. Normally, these programs allow all employees to purchase company stock at a price equal to 85% of current market price. Usually, we will still vote for these employee programs even if we vote against a ***non-employee*** or ***executive-only*** stock purchase program because of excessive dilution.

C. We vote for measures that give shareholders a vote on executive compensation.

D. We vote for compensation plans that are tied to the company achieving set profitability hurdles. This is to comply with IRS laws to allow for deductibility of management compensation exceeding $1 million.

E. We vote against any attempt to re-price options. Also, we vote against the re-election of incumbent Directors in the event of such a re-pricing proposal.

F. We vote against attempts to increase incentive stock options when we determine they are excessive, either in total or for one individual.

G. We vote against stock option plans allowing for stock options with exercise prices less than 100% of the stock s price at the time of the option grant.

II. Governance

A. We vote for cumulative shareholder voting.

B. We vote against catch-all authorizations permitting proxy holders to conduct unspecified business that arises during shareholder meetings.

III. Anti-Takeover

We vote against anti-takeover measures, including without limitation:

A. Staggered Boards of Directors (for example, where 1/3 of a company s Board is elected each year rather than the entire Board each year).

B. Super-Majority Voting Measures (for example, requiring a greater than 50% vote to approve takeovers or make certain changes).

C. Poison Pills, which are special stock rights that go into effect upon a takeover offer or an outsider acquiring more than a specified percentage of a company s outstanding shares.

IV. Capital Structure

We vote against attempts to increase authorized shares by more than twice the number of outstanding shares unless there is a specific purpose for such increase given, such as a pending stock split or a corporate purchase using shares, and we determine that increasing authorized shares for such purpose is appropriate. Generally, we believe it is better to use shares to pay for acquisitions when they are trading at higher values than when they are trading at or near historical lows. The dilution effect is less.

V. Business Management

We generally vote against shareholder resolutions focused on strategy or policy issues (for example, a proposal that a company adopt the internationally recognized standards on emissions from). We generally prefer not to dictate to companies on matters of business strategy. As long as the company is operating responsibly, we believe management s role is to make these decisions.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES. (a)(1):

NAME AND ADDRESS*	LENGTH OF TIME SERVED	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS
David F. Hoffman	2012	Co-lead portfolio manager for Brandywine s global fixed-income and related strategies. He joined Brandywine in 1995. Previously, Mr. Hoffman was president of Hoffman Capital, a global financial futures investment firm (1991-1995); head of fixed income investments at Columbus Circle Investors (1983-1990); senior vice president and portfolio manager at INA Capital Management (1979-1982), and fixed income portfolio manager at Provident National Bank (1975-1979). Mr. Hoffman is a CFA charterholder and earned a B.A. in Art History from Williams College. He is a member of the firm s Executive Board, currently serving as the Board s chair.
Stephen S. Smith	2012	Co-lead portfolio manager for Brandywine s global fixed-income and related strategies. He joined Brandywine in 1991 to diversify the firm s investment strategies and start the global fixed income product. Previously, Mr. Smith was with Mitchell Hutchins Asset Management, Inc. as managing director of taxable fixed income (1988-1991); Provident Capital Management, Inc. as senior vice president overseeing taxable fixed income

		(1984-1988); Munsch & Smith Management as a founding partner (1980-1984), and First Pennsylvania Bank as vice president and portfolio manager in the fixed income division (1976-1980). Steve earned a B.S. in Economics and Business Administration from Xavier University, where he is currently chair of the university s foundation and is a member of the board of trustees. He is a member of the firm s Executive Board. Steve is also a member of the Board of Trustees at both St. Mary s Villa for Children and Families, a provider of services for abused and neglected children, and the Winterthur Museum & Country Estate, a nonprofit, educational institution.
Jack P. McIntyre	2012	As portfolio manager and senior research analyst for the Firm s Global Fixed Income and related strategies, Jack provides valuable analytical and strategic insight. He joined the Firm in 1998. Previously, he held positions as market strategist with McCarthy, Crisanti & Maffei, Inc. (1995-1998); senior fixed income analyst with Technical Data, a division of Thomson Financial Services (1992-1995); quantitative associate with Brown Brothers Harriman & Co. (1990), and investment analyst with the Public Employee Retirement Administration of Massachusetts (1987-1989). Jack is a CFA charterholder and earned an M.B.A. in Finance from the Leonard N. Stern Graduate School of Business at New York University and a B.B.A. in Finance from the University of Massachusetts, Amherst.
Gerhardt (Gary) P. Herbert	2012	Portfolio manager for Brandywine s fixed income group, with a concentration in high-yield securities. He joined Brandywine in March 2010, bringing with him over 10 years of high yield experience. Previously, Mr. Herbert was Managing Director, Portfolio Manager with Guggenheim Partners, LLC (2009-2010); Managing Director, Portfolio Manager with Dreman Value Management, LLC (2007-2009); Executive Director, Portfolio Manager (1999-2007) and Associate (1994-1998) with Morgan Stanley Investment Management; Analyst with Aronson + Fogler Investments (1994), and Senior Analyst with SEI Investments (1992-1994). Mr. Herbert earned his M.B.A. with Honors from Columbia University, and a Bachelor Degree from Villanova University. He also holds his Chartered Financial Analyst certification.
Brian L. Kloss	2012	Portfolio manager for Brandywine s fixed income group, with a concentration in high yield securities. He joined Brandywine in December 2009, bringing with him over 10 years of high yield and distressed debt experience. Previously, Mr. Kloss was co-portfolio manager at Dreman Value Management, LLC (2007-2009); high yield analyst/trader at Gartmore Global Investments (2002-2007); high yield and equity portfolio manager and general analyst at Penn Capital Management, Ltd. (2000-2002); an analyst with The Concord Advisory Group, Ltd. (1998-2000); and an international tax consultant with Deloitte & Touche LLP (1995-1998). He earned his J.D. from Villanova School of Law and graduated summa cum laude with B.S. in Accounting from University of Scranton. He is also a member of the New Jersey and Pennsylvania Bar and is a Pennsylvania Certified Public Accountant.
Regina Borromeo	2012	Ms. Borromeo is a portfolio manager for Fixed Income, with a concentration in High Yield securities. She joined Brandywine Global

Investment Management (Europe) Limited in December 2010, bringing with her ten years of investing experience. Previously, she was a Vice President Portfolio Manager and Senior Credit Analyst, Global Fixed Income with Morgan Stanley Investment Management PLC in London

(2007-2010) and held various Fixed Income Analyst positions with Morgan Stanley Investment Management in Philadelphia (2001-2007). She earned her Bachelor of Arts in Communications from the University of Pennsylvania and accomplished numerous athletic achievements in squash and tennis, including winning a bronze medal as a member of the Philippine National Squash team in the 1999 and 2005 South East Asian Games. Regina is based in London.

* The address for each portfolio manager is Brandywine, 2929 Arch Street, Philadelphia, Pennsylvania 19104, unless otherwise indicated.

(a)(2): DATA TO BE PROVIDED BY FINANCIAL CONTROL

The following tables set forth certain additional information with respect to the fund s investment professionals for the fund. Unless noted otherwise, all information is provided as of October 31, 2014.

Other Accounts Managed by Portfolio Managers

The table below identifies the number of accounts (other than the fund) for which the fund s portfolio managers have day-to-day management responsibilities and the total assets in such accounts, within each of the following categories: registered investment companies, other pooled investment vehicles, and other accounts. For each category, the number of accounts and total assets in the accounts where fees are based on performance is also indicated.

Name of PM	**Other Accounts Managed**	**# of Other Accounts**	**Total Assets ($mm)**	**# with Performance Fee**	**Total Assets with Performance Fee ($mm)**
Stephen S. Smith	Other Registered Investment Companies	7	$ 5,544.2	None	None
	Other Pooled Vehicles	42	$ 16,104.6	3	$ 643.2
	Other Accounts	93	$ 24,075.3	14	$ 7,551.1
David F. Hoffman	Other Registered Investment Companies	6	$ 5,440.5	None	None
	Other Pooled Vehicles	42	$ 16,104.6	3	$ 643.2
	Other Accounts	92	$ 24,063.9	14	$ 7,551.1
John P. McIntyre	Other Registered Investment Companies	6	$ 5,440.5	None	None
	Other Pooled Vehicles	42	$ 16,104.6	3	$ 643.2
	Other Accounts	92	$ 24,063.9	14	$ 7,551.1
Gary Herbert	Other Registered Investment Companies	2	$ 529.5	None	None
	Other Pooled Vehicles	8	$ 375.2	None	None
	Other Accounts	4	$ 499.2	1	$ 28.7

Brian Kloss	Other Registered Investment Companies	2	$ 529.5	None	None
	Other Pooled Vehicles	8	$ 375.2	None	None
	Other Accounts	4	$ 499.2	1	$ 28.7
Regina Borromeo	Other Registered Investment Companies	2	$ 529.5	None	None
	Other Pooled Vehicles	8	$ 375.2	None	None
	Other Accounts	4	$ 499.2	1	$ 28.7

(a)(3): ***Portfolio Manager Compensation***

The Fund s portfolio managers compensation includes a fixed base salary coupled with a bonus which is based on 1) the manager s portfolio pre-tax performance versus the global fixed-income peer universe constructed by the Frank Russell Company, 2) the overall profitability of all portfolios managed by the portfolio managers, and 3) Brandywine s overall profitability. The global fixed-income peer universe includes discretionary separate accounts, commingled funds, and mutual funds (gross of fees) managed for U.S. dollar oriented investors. Portfolios are measured against a global unhedged performance benchmark (measured in U.S. dollars) and have no significant currency or bond market restrictions. The comparison to the global fixed-income peer universe includes one quarter, one year, three year and five year time periods. The bonus calculation treats every account under the portfolio manager s direction in the same manner, including the Fund.

Potential Conflicts of Interest

LMPFA, Brandywine and portfolio managers have interests which may conflict with the interests of the Fund. There is no guarantee that the policies and procedures adopted by LMPFA, Brandywine and the Fund will be able to identify or mitigate these conflicts of interest.

Some examples of material conflicts of interest include:

Allocation of Limited Time and Attention. A portfolio manager who is responsible for managing multiple funds and/or accounts may devote unequal time and attention to the management of those funds and/or accounts. A portfolio manager may not be able to formulate as complete a strategy or identify equally attractive investment opportunities for each of those funds and accounts as might be the case if he or she were to devote substantially more attention to the management of a single fund. Such a portfolio manager may make general determinations across multiple funds, rather than tailoring a unique approach for each fund. The effects of this conflict may be more pronounced where funds and/or accounts overseen by a particular portfolio manager have different investment strategies.

Allocation of Limited Investment Opportunities; Aggregation of Orders. If a portfolio manager identifies a limited investment opportunity that may be suitable for multiple funds and/or accounts, the opportunity may be allocated among these several funds or accounts, which may limit the Fund s ability to take full advantage of the investment opportunity. Additionally, Brandywine may aggregate transaction orders for multiple accounts for purpose of execution. Such aggregation may cause the price or brokerage costs to be less favorable to a particular client than if similar transactions were not being executed concurrently for other accounts. In addition, Brandywine s trade allocation policies may result in the Fund s orders not being fully executed or being delayed in execution.

Pursuit of Differing Strategies. At times, a portfolio manager may determine that an investment opportunity may be appropriate for only some of the funds and/or accounts for which he or she exercises investment responsibility, or may decide that certain of the funds and/or accounts should take differing positions with respect to a particular security. In these cases, the portfolio manager may place separate transactions for one or more funds or accounts which may affect the market price of the security or the execution of the transaction, or both, to the detriment or benefit of one or more other funds and/or accounts. For example, a portfolio manager may determine that it would be in the interest of another account to sell a security that the fund holds long, potentially resulting in a decrease in the market value of the security held by the fund.

Cross Trades. Portfolio managers may manage funds that engage in cross trades, where one of the manager s funds or accounts sells a particular security to another fund or account managed by the same manager. Cross trades may pose conflicts of interest because of, for example, the possibility that one account sells a security to another account at a higher price than an independent third party would pay or otherwise enters into a transaction that it would not enter into with an independent party, such as the sale of a difficult-to-obtain security.

Selection of Broker/Dealers. Portfolio managers may select or influence the selection of the brokers and dealers that are used to execute securities transactions for the funds and/or accounts that they supervise. In addition to executing trades, some brokers and dealers provide Brandywine with brokerage and research services. These services may be taken into account in the selection of brokers and dealers whether a broker is being selected to effect a trade on an agency basis for a commission or (as is normally the case for the funds) whether a dealer is being selected to effect a trade on a principal basis. This may result in the payment of higher brokerage fees and/or execution at a less favorable price than might have otherwise been available. The services obtained may ultimately be more beneficial to certain of the manager s funds or accounts than to others (but not necessarily to the funds that pay the increased commission or incur the less favorable execution). A decision as to the selection of brokers and dealers could therefore yield disproportionate costs and benefits among the funds and/or accounts managed.

Variation in Financial and Other Benefits. A conflict of interest arises where the financial or other benefits available to a portfolio manager differ among the funds and/or accounts that he or she manages. If the amount or structure of the investment manager s management fee and/or a portfolio manager s compensation differs among funds and/or accounts (such as where certain funds or accounts pay higher management fees or performance-based management fees), the portfolio manager might be motivated to help certain funds and/or accounts over others. Similarly, the desire to maintain assets under management or to enhance the portfolio manager s performance record or to derive other rewards, financial or otherwise, could influence the portfolio manager in affording preferential treatment to those funds and/or accounts that could most significantly benefit the portfolio manager. A portfolio manager may, for example, have an incentive to allocate favorable or limited opportunity investments or structure the timing of investments to favor such funds and/or accounts. Also, a portfolio manager s or the LMPFA s or Brandywine s desire to increase assets under management could influence the portfolio manager to keep a fund open for new investors without regard to potential benefits of closing the fund to new investors. Additionally, the portfolio manager might be motivated to favor funds and/or accounts in which he or she has an ownership interest or in which the investment manager and/or its affiliates have ownership interests. Conversely, if a portfolio manager does not personally hold an investment in the fund, the portfolio manager s conflicts of interest with respect to the Fund may be more acute.

Related Business Opportunities. LMPFA or its affiliates may provide more services (such as distribution or recordkeeping) for some types of funds or accounts than for others. In such cases, a portfolio manager may benefit, either directly or indirectly, by devoting disproportionate attention to the management of funds and/or accounts that provide greater overall returns to the investment manager and its affiliates.

A portfolio manager may also face other potential conflicts of interest in managing the Fund, and the description above is not a complete description of every conflict of interest that could be deemed to exist in managing both a Fund and the other accounts listed above.

Portfolio Manager Securities Ownership

The table below identifies the dollar range of securities beneficially owned by each portfolio manager as of October 31, 2014.

Portfolio Manager(s)	Dollar Range of Portfolio Securities Beneficially Owned
David F. Hoffman	D
Stephen S. Smith	F
Jack P. McIntyre	A
Gerhardt P. Herbert	A
Brian L. Kloss	A
Regina Borromeo	A

Dollar Range ownership is as follows:

A: none

B: $1 - $10,000

C: 10,001 - $50,000

D: $50,001 - $100,000

E: $100,001 - $500,000

F: $500,001 - $1 million

G: over $1 million

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

Not Applicable.

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not Applicable.

ITEM 11. CONTROLS AND PROCEDURES.

(a) The registrant s principal executive officer and principal financial officer have concluded that the registrant s disclosure controls and procedures (as defined in Rule 30a- 3(c) under the Investment Company Act of 1940, as amended (the 1940 Act)) are effective as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the 1940 Act and 15d-15(b) under the Securities Exchange Act of 1934.

(b) There were no changes in the registrant s internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the second fiscal quarter of the period covered by this report that have materially affected, or are likely to materially affect the registrant s internal control over financial reporting.

ITEM 12. EXHIBITS.
(a) (1) Code of Ethics attached hereto.

Exhibit 99.CODE ETH

(a) (2) Certifications pursuant to section 302 of the Sarbanes-Oxley Act of 2002 attached hereto.

Exhibit 99.CERT

(b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 attached hereto.

Exhibit 99.906CERT

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this Report to be signed on its behalf by the undersigned, there unto duly authorized.

Legg Mason BW Global Income Opportunities Fund Inc.

By: /s/ Kenneth D. Fuller
Kenneth D. Fuller
Chief Executive Officer

Date: December 23, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Kenneth D. Fuller
Kenneth D. Fuller
Chief Executive Officer

Date: December 23, 2014

By: /s/ Richard F. Sennett
Richard F. Sennett
Principal Financial Officer

Date: December 23, 2014