PACIFIC SANDS INC
Form 10QSB/A
November 16, 2006

WASHINGTON, D.C. 20549

FORM 10-QSB/A
(Amendment No.3)

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2005

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______________ to _______________

Pacific Sands, Inc.
(Exact name of small business issuer as specified in its charter)

Nevada	88-0322882
State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1509 Rapids Drive, Racine, WI 53404
(Address of principal executive offices)

(262)619-3261
(Issuer's telephone number)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the past 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 ¨

As of December 31, 2005, the Company had 37,743,751 shares issued and 30,184,564 shares outstanding of its $.001 par value common stock.

Transitional Small Business Disclosure Format (check one):
Yes ¨ No x

Frank L. Sassetti & Co.

Certified Public Accountants

The Board of Directors
Pacific Sands, Inc.

Report of Independent Registered Public Accounting Firm

We have reviewed the balance sheet of PACIFIC SANDS, INC. as of December 31, 2005 and the related statements of operations for the three and six months ended December 31, 2005 and 2004, and the statements of stockholders' equity and cash flows for the six months ended December 31, 2005 and 2004. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquires of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 12 to the financial statements, the Company has a significant accumulated deficit which raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainly.

We have previously audited, in accordance with auditing standards of the Public Company Accounting Oversight Board (United States), the balance sheet of PACIFIC SANDS, INC. as of June 30, 2005 and the related statements of operations, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated September 17, 2005, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying balance sheet as of June 30, 2005 is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

/s/ Frank L. Sassetti &
Co.

February 4, 2006
Oak Park, Illinois

6611 W. North Avenue * Oak Park, Illinois 60302 * Phone (708) 386-1433 * Fax (708)
386-0139

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PACIFIC SANDS, INC.

BALANCE SHEETS
DECEMBER 31, 2005 AND JUNE 30, 2005

ASSETS

	December 31, 2005 (A Review)	June 30, 2005
CURRENT ASSETS		
Cash and cash equivalents	$ 2,492	$ 541
Trade receivables	48,576	60,699
Inventories	55,251	31,295
Prepaid expenses	14,584	15,210
Total Current Assets	120,903	107,745
PROPERTY AND EQUIPMENT		
Furniture and fixtures and office equipment	9,897	8,618
Manufacturing equipment	12,204	12,653
Leasehold improvements	3,035	3,035
Deposit on software costs	13,777	12,560
	38,913	36,866
Less accumulated depreciation	5,089	2,712
Property and Equipment, net	33,824	34,154
OTHER ASSETS		
Accounts receivable - other (net of allowance for doubtful accounts of $212,147 and $176,223)	23,572	59,496
Security deposits	816	816
Total Other Assets	24,388	60,312
Total Assets	$ 179,115	$ 202,211

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	$ 86,516	$ 45,544
Current maturities of long-term obligations	5,930	4,751
Accrued expenses	99,976	72,568
Deferred compensation	158,873	121,385
Notes payable - other	48,631	32,500
Total Current Liabilities	399,926	276,748

LONG TERM OBLIGATIONS		
Captial leases, less current portion	18,044	19,121
STOCKHOLDERS' EQUITY		
Common stock	37,744	36,844
Additional paid in capital	2,970,269	2,879,170
Treasury stock, at cost	(151,030)	(151,030)
Accumulated deficit	(3,095,838)	(2,858,642)
Total Stockholders' Equity	(238,855)	(93,658)
Total Liabilities and Stockholders' Equity	$ 179,115	$ 202,211

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PACIFIC SANDS, INC.

STATEMENTS OF OPERATIONS

THREE AND SIX MONTHS ENDED DECEMBER 31, 2005 AND 2004
(A Review)

	Three Months Ended December 31, 2005	Three Months Ended December 31, 2004	Six Months Ended December 31, 2005	Six Months Ended December 31, 2004
NET SALES	$ 59,348	$ 20,019	$ 130,582	$ 36,817
COST OF SALES	37,421	4,903	60,000	15,271
GROSS PROFIT	21,927	15,116	70,582	21,546
SELLING AND ADMINISTRATIVE EXPENSES	147,554	81,276	302,409	203,127
LOSS FROM OPERATIONS	(125,627)	(66,160)	(231,827)	(181,581)
OTHER INCOME (EXPENSES)				
Interest expense	(1,561)		(2,704)	(3,000)
Loss on disposal of assets			(2,680)	
Miscellaneous income	4		15	2,890
Total Other Income(Expenses)	(1,557)		(5,369)	(110)
LOSS BEFORE INCOME TAXES	(127,184)	(66,160)	(237,196)	(181,691)
INCOME TAXES				
NET LOSS	$ (127,184)	$ (66,160)	$ (237,196)	$(181,691)
BASIC AND DILUTED NET LOSS PER SHARE	$ (0.004)	$ (0.002)	$ (0.008)	$ (0.006)
BASIC AND DILUTED WEIGHTED				

AVERAGE SHARES	29,986,666	32,618,523	29,741,677	31,554,220

PACIFIC SANDS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

SIX MONTHS ENDED DECEMBER 31, 2005 AND 2004
(A Review)

	Common Stock Par value - $.001 50,000,000 shares authorized			Treasury Stock				
	Shares	Amount	Additional Paid In Capital	Number of Shares	Amount	Accumulated Deficit	Shareholder Receivable	Total
Balance at June 30, 2004	30,298,873	$ 30,299	$ 2,560,602	(9,000)	$ (5,514)	$(2,558,212)	$ (121,480)	$ (94,305)
Issuance of Common Stock:								
For Cash	2,904,969	905	49,541					50,446
For Options Exercised	2,633,333	2,633	9,667					12,300
For Cancellation of Debt	347,481	348	20,805					21,153
Below market rate stock options granted			66,700					66,700
Net loss						(181,691)		(181,691)
Balance at December 31, 2004	36,184,656	$ 34,185	$ 2,707,315	(9,000)	$ (5,514)	$(2,739,903)	$ (121,480)	$(125,397)
Balance at June 30, 2005	36,844,298	$ 36,844	$ 2,879,170	(7,559,187)	$(151,030)	$(2,858,642)	$ -	$ (93,658)
Issuance of Common								

Stock:								
For Cash	518,816	519	55,453					55,972
For Professional Services	320,637	321	20,395					20,716
For Salaries	60,000	60	15,251					15,311
Net loss						(237,196)		(237,196)
Balance at December 31, 2005	37,743,751	$ 37,744	$ 2,970,269	(7,559,187)	$(151,030)	$(3,095,838)	$ -	$(238,855)

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PACIFIC SANDS, INC.

STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED DECEMBER 31, 2005 AND 2004
(A Review)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
	$	$
Net loss	(237,196)	(181,691)
Adjustments to reconcile net loss to net cash used in operating activities -		
Depreciation	2,850	1,019
Loss on disposal of equipment	2,680	
Deferred compensation	37,488	7,485
Compensation of below market stock options granted		66,700
Common shares and rights issued for services and compensation	36,027	
Changes in assets and liabilities -		
Trade accounts receivable	12,123	(5,881)
Inventories	(23,956)	(5,348)
Prepaid expenses	626	(1,432)
Other assets	35,924	
Accounts payable and other current liabilities	68,381	42,912
Net Cash Used in Operating Activities	(65,053)	(76,236)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of equipment	(2,704)	(7,803)
Net Cash Used in Investing Activities	(2,704)	(7,803)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common stock	55,972	50,446
Issuance of common stock - exercise of options		10,300
Issuance of notes payable	35,000	15,000
Repayment of notes payable and long term obligations	(21,264)	(500)
Net Cash Used in Financing Activities	69,708	75,246
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,951	(8,793)
CASH AND CASH EQUIVALENTS		
Beginning of period	541	44,098

End of period	$ 2,492	$ 35,305
SUPPLEMENTAL DISCLOSURES OF		
CASH FLOW INFORMATION		
Cash paid during the six months for		
Interest	$ 2,704	$
Income taxes	$	$
SUPPLEMENTAL INFORMATION FROM		
NONCASH FINANCING ACTIVITIES		
Conversion of debt to equity	$	$ 21,153
Conversion of debt to equity - options exercised	$	$ 2,000
Capital Lease Obligations	$ 2,496	$

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PACIFIC SANDS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004 AND JUNE 30, 2005
(A Review)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business - Pacific Sands, Inc. with the right to do business as Natural Water Technologies (the "Company") was incorporated in Nevada on July 7, 1994 with an original authorized capital stock of 25,000 shares of $0.001 par value which was increased to 20,000,000 shares in 1997 with the same par value. On May 6, 2002, the authorized capital stock was increased to 50,000,000 shares.

The Company manufactures and distributes nontoxic cleaning and water treatment products with applications ranging from home spas and swimming pools to cleaning and pet care.

Interim Financial Statements - The balance sheet as of December 31, 2005 and the statements of operations for the six months ended December 31, 2005 and 2004, and the statements of stockholders' equity and cash flows for the six months ended December 31, 2005 and 2004, are unaudited. In the opinion of management, such financial statements reflect all adjustments, which were of a normal and recurring nature, necessary for a fair presentation of financial position as of December 31, 2005 and the results of operations and cash flows for the six months ended December 31, 2005 and 2004.

Inventories - Inventories are stated at the lower of cost or market on the first-in, first-out (FIFO) basis.

Depreciation - For financial reporting purposes, depreciation of property and equipment has been computed over estimated useful lives of two to seven years primarily using the straight-line method. Depreciation charges totaled $2,850 and $1,019 during the six months ended December 31, 2005 and 2004, respectively.

Revenue Recognition - Revenue from sales to distributors and resellers is recognized when the related products are shipped.

Advertising and Promotional Costs - Advertising and promotion costs are expensed as incurred. During the six months ended December 31, 2005 and 2004, advertising and promotion costs totaled $34,367 and $3,569, respectively.

Income Taxes - The Company accounts for income taxes under Statement of Financial Accounting Standards (SFAS) 109. Under the asset and liability method of SFAS 109, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to the difference between the financial statement carrying amounts and the tax basis of existing assets and liabilities.

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PACIFIC SANDS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004 AND JUNE 30, 2005
(A Review)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts Receivable - The Company makes judgments as to the collectibility of trade and other accounts receivable based on historic trends and future expectations. Management estimates an allowance for doubtful receivables, which reflects its current assessment of the collectibility of the receivables. Management believes that the current specific and general receivable reserves aggregating $212,147 is adequate as of December 31, 2005.

Basic and Diluted Net Loss Per Share - Net loss per share is calculated in accordance with Statement of Financial Accounting Standards 128, Earnings Per Share ("SFAS 128"). Basic net loss per share is based upon the weighted average number of common shares outstanding. Diluted net loss per share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

Use of Accounting 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Statement of Cash Flows - For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents.

2. INVENTORIES

Inventories as of December 31, 2005 and June 30, 2005 consisted of the following:

	December 31, 2005	June 30, 2005
Raw materials	$ 34,445	$ 25,118

Finished goods	20,806	6,177
	$ 55,251	$ 31,295

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PACIFIC SANDS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004 AND JUNE 30,2005
(A Review)

3. LONG TERM OBLIGATIONS

Long term obligations consist of a four year lease agreement for software dated June 20, 2005 with an imputed interest rate of 14.45% and a two year lease agreement for computer hardware with an imputed interest rate of 22.94% placed in service in December, 2005. Monthly installment payments are $691 and $67, respectively, with a bargain purchase option at the end of each lease of $1. The transactions have been accounted for as capital leases in accordance with generally accepted accounting principles.

The scheduled maturities are as follows for the years ending December 31,

2006	$5,930
2007	6,903
2008	7,148
2009	3,993

4. NOTES PAYABLE - OTHER

Notes payable - other consist of various small unsecured notes to stockholders/officers at rates fluctuating up to 10%. Management intends to restructure its debt. To date, $3,000 in interest has been converted to equity.

5. STOCK-BASED COMPENSATION

The Company accounts for its stock-based compensation plans under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, stock-based employee compensation cost of $66,700 is reflected in the net loss for the six months ended June 30, 2004 for options granted under those plans where the exercise price is below market value and no cost is reflected in net losses for options granted under those plans where they had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. The following table summarizes the effect on net losses and losses per share if the Company had applied the fair value recognition provision of Statement of Financial Accounting Standard ("SFAS") No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation for the respective years:

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PACIFIC SANDS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004 AND JUNE 30,2005
(A Review)

5. STOCK-BASED COMPENSATION - CONTINUED

	Six Months Ended December, 31	
	2005	2004
Net losses, as reported	$ (237,196)	$ (181,691)
Add: stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects.		66,700
Deduct: total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effects.		(70,000)
Pro forma net losses	$ (237,196)	$ (184,991)
Basic and diluted loss per share:		
As reported	$ (0.008)	$ (0.006)
Pro forma	(0.008)	(0.006)

Employee stock options are as follows:

		Price per share	
	Shares	Range	Weighted Average
Balance, June 30, 2005	3,166,667	$ .03 - .10	$ 0.052
Granted			
Exercised			
Expired	166,667	0.030	0.030

Balance, December 31, 2005	3,000,000	$ .03 - .10	$ 0.053

6,100,000 options were issued and 2,633,333 options were exercised during the six months ended December 31, 2004.

6. LEASE COMMITMENT

The Company entered into a one year lease expiring December 31, 2006 for 11,000 square feet of office and warehouse space for $1,974 per month. The Company is responsible for insuring the premises. Rent expense was approximately $11,046 and $2,280 for the six months ended December 31, 2005 and 2004, respectively.

PACIFIC SANDS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004 AND JUNE 30,2005
(A Review)

7. BASIC AND DILUTED LOSS PER SHARE

The following table illustrates the reconciliation of the numerators and denominators of the basic loss per share computations. The Company has 3,000,000 shares of exercisable potentially dilutive options outstanding as of December 31, 2005. There were 3,466,667 options outstanding at December 31, 2004.

	Six Months Ended December 31,	
	2005	2004
Basic and diluted loss per share:		
Numerator:		
Net loss	$ (237,196)	$ (181,691)
Denominator:		
Basic and diluted weighted average number of common shares outstanding during the period	29,986,666	31,554,220
Basic and diluted loss per share	$ (0.008)	$ (0.006)

Since the Company has incurred losses from all periods presented, the dilutive per share calculation is the same as the basic calculation.

8. INCOME TAXES

The Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting and tax bases of its assets and liabilities. Deferred assets are reduced by a valuation allowance when deemed appropriate.

The tax effects of existing temporary differences that give rise to significant portions of deferred tax assets at December 31, 2005 are as follows:

Deferred tax asset	
Net operating loss carryforwards	$ 941,109
Valuation allowance	(941,109)
Net deferred tax asset	$ -

At December 31, 2005, the Company has net operating loss carryforwards for Federal tax purposes of approximately $2,250,000 which, if unused to offset future taxable income, will expire in years beginning in 2018.

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PACIFIC SANDS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004 AND JUNE 30,2005
(A Review)

9. RELATED PARTY TRANSACTIONS AND FORGIVENESS OF DEBT

On June 15, 2004, Stan and Rita Paulus resigned as officers and board members of the Company and were replaced by a new management team. As part of the transition in management, several transactions occurred which are all recorded below.

Stan and Rita agreed to waive all unpaid compensation from the Company except for $100,000, which shall be paid in full within two years of the transition date.

The Paulus' purchased from the Company the inventory known as "technical books" for the sum of $150,000 in exchange for 4,859,187 shares of Pacific Sands, Inc. common stock. Based on the average market value of the Company's stock, which valued these shares at $121,480, there was an additional write down of the inventory of $28,500. This amount was recorded as a reduction to additional paid in capital based on the related party nature of the transaction. Since the shares were still being held in escrow by legal counsel at June 30, 2004, the transaction was recorded as due from shareholder. As of June 30, 2005, the shares had been returned to treasury.

In addition, management has negotiated the restructuring of debt due to the Paulus'. This restructuring reduced the debt balance due the Paulus' by $15,791 and extended the due date to June, 2006. This reduction has been recorded as a gain from restructuring of debt in the statement of operations.

10. CONTINGENCIES

Accounts receivable from a major former customer, Mariani Raisin Company in the amount of $235,718 invoiced on October 25, 2001 and January 17, 2002 are being contested for compliance requirements. The customer maintained that the equipment did not work properly, but management felt that this equipment was built to customer specifications. Accordingly, management intends to vigorously pursue the outstanding receivable. Since counsel suggests that this amount cannot be collected without incurring some legal costs and that there is the potential that a settlement could ultimately be reached, an allowance for bad debts of $212,147 exists. Bad debt expense in the amount of $35,980 was recorded in the statement of operations for the three and six months ended December 31, 2005.

PACIFIC SANDS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004 AND JUNE 30,2005
(A Review)

11. CONCENTRATIONS

The Company distributes water treatment and nontoxic cleaning products to the entire U.S. market. For the six months ended December 31, 2005, one customer accounted for approximately 12.2% of the Company's sales. For the six months ended December 31, 2004, there was no single customer that accounted for greater than ten percent (10%) of the Company's sales.

12. GOING CONCERN

The accompanying financial statements have been presented assuming that the Company will continue as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of its liabilities in the normal course of business. Through December 31, 2005, the Company had incurred cumulative losses of $3,095,838. The Company's successful transition to attaining profitable operations is dependent upon obtaining financing adequate to fulfill its development, marketing, and sales activities, and achieving a level of revenues adequate to support the Company's cost structure. Management's plan of operations anticipates that the cash requirements of the Company for the next twelve months will be met by obtaining capital contributions through the sale of common stock and from current operations. However, there is no assurance that the Company will be able to fully implement its plan in order to generate the funds needed on a going concern basis.

ITEM 2: MANAGEMENT'S DISCUSSION

THIS REPORT CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. ALL FORWARD-LOOKING STATEMENTS ARE INHERENTLY UNCERTAIN AS THEY ARE BASED ON CURRENT EXPECTATIONS AND ASSUMPTIONS CONCERNING FUTURE EVENTS OR FUTURE PERFORMANCE OF THE COMPANY. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH ARE ONLY PREDICTIONS AND SPEAK ONLY AS OF THE DATE HEREOF. FORWARD-LOOKING STATEMENTS USUALLY CONTAIN THE WORDS "ESTIMATE," "ANTICIPATE," "BELIEVE," "EXPECT," OR SIMILAR EXPRESSIONS, AND ARE SUBJECT TO NUMEROUS KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES. IN EVALUATING SUCH STATEMENTS, PROSPECTIVE INVESTORS SHOULD CAREFULLY REVIEW VARIOUS RISKS AND UNCERTAINTIES IDENTIFIED BELOW, AS WELL AS THE MATTERS SET FORTH IN THE COMPANY'S

ANNUAL REPORT ON 10-KSB FOR THE YEAR ENDED JUNE 30, 2005 AND ITS OTHER SEC FILINGS. THESE RISKS AND UNCERTAINTIES COULD CAUSE THE COMPANY'S ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE INDICATED IN THE FORWARD-LOOKING STATEMENTS. THE COMPANY UNDERTAKES NO OBLIGATION TO UPDATE OR PUBLICLY ANNOUNCE REVISIONS TO ANY FORWARD-LOOKING STATEMENTS TO REFLECT FUTURE EVENTS OR DEVELOPMENTS.

THE COMPANY:

Pacific Sands, Inc. (the "Company" or "Pacific Sands") was incorporated in the State of Nevada on July 7, 1994. The Company's fiscal year ends June 30. The Company is a C-Corporation for federal income tax purposes. The Company does not have subsidiaries or affiliated entities. The Company also does business as "Natural Water Technologies."

The Company develops, manufactures, markets and sells a range of non-toxic, environment friendly cleaning and water-treatment products based on proprietary blended botanical and nontoxic chemical technologies. The company's products have applications ranging from water installation maintenance (spas, swimming pools, fountains, decorative ponds) to cleaning (non-toxic household and industrial) and pet care.

The Company has a mature, actively marketed product line known as the EcoOne Spa Treatment system.

Currently the Company markets and sells The Eco One Spa Treatment Products and Pool Product lines over the Internet and through retail outlets in the US, Canada and the United Kingdom. The products are also sold via Pacific Sands distributors, manufacturer's representatives and internationally established pool and spa industry distribution networks. The Pacific Sands All-Purpose Hose Filter was introduced to the marketplace in late June of 2005 via targeted direct response television ads and is currently sold direct and over the Internet.

RESULTS OF OPERATIONS:

The company had revenues of $130,582 and $59,348 for the six months and three months ending December 31, 2005, a net increase 354% and 296% respectively compared to $36,817 and $20,019 for the same periods the previous fiscal year. The increase in net sales is largely attributable to continuing orders of the EcoOne line of consumer pool and spa products from a retail and wholesale customer base largely developed in the third and forth quarters of FY 2005 (January through June, 2005).

Cost of sales for the six months and three months ending December 31, 2005 were $60,000 and $37,421 compared to $15,271 and 4,903 for the previous fiscal year. The increase was due largely to the addition of manufacturing employees and the expansion of our warehousing and manufacturing facility to meet increasing product demand.

Gross profits for the six months and three months ending December 31, 2005 were $70,582 and $21,927 compared to $21,546 and 15,116 for the same period of the previous fiscal year.

Selling and administrative expenses for the six months and three months were $302,409 and $147,554 compared to $203,127 and $81,276 the previous fiscal year. The increase in expenses is primarily attributable to a combination of additional employees, expanded office space and the addition of new production and accounting/inventory control technologies. The company also spent substantially more marketing and advertising dollars than in the previous fiscal year. Management notes that selling and administrative expenses increased at a substantially lower rate than revenues due to increases in efficiencies an expanded market.

The company incurred a net loss of $237,196 for the six months ending December 31, 2005 compared to $181,691 for the same period the previous fiscal year. Negative cash flow from operations for the six months ending December 31 2005 were $65,053 against a negative cash flow $76,236 for the same period the previous fiscal year.

There was a net reduction in the basic and diluted weighted average shares outstanding for the six months and three months ending December 31, 2005 over the same periods the previous fiscal year. The reduction in total shares outstanding is partially responsible for an increase in net loss per share from $0.008 and $0.004 per share for the six and three months ending December 31, 2005 compared to a loss of $0.006 and $0.002 for the same periods the previous fiscal year.

Seasonal Business:

In the company's 10K-SB filing for the fiscal year ending June 30, 2005, management anticipated that revenues for fiscal year 2006 would concentrate in the 3rd and 4th quarters in a similar pattern to the 2005 fiscal year. Despite the increase in revenues for the 2nd quarter over the same quarter of the previous fiscal year, management believes that the bulk of the company's FY 2006 revenues will again be realized in the 3rd and 4th quarters.

Pacific Sands is primarily engaged in the manufacture, marketing and distribution of nontoxic pool and spa treatment systems. The primary "buying season" for these types of products in the wholesale market is January through May and May through August in the retail market. Additionally, expenses for this industry will concentrate in our second quarter as that is when new marketing materials are introduced and the bulk of the industry trade shows take place.

Management is taking steps to offset the seasonal nature of its' business and revenue stream with the planned introduction of a line of household cleaning and pet care products in mid-2006.

Item 3. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures

We maintain disclosure controls and procedures designed to ensure that financial information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized, and reported within the required time periods, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding disclosure.

In connection with the completion of its audit of, and issuance of its report on, our financial statements for the year ended June 30, 2005, Frank L. Sassetti & Co. ("Sassetti") considered our internal controls in order to determine their auditing procedures for the purpose of expressing their opinion on the financial statements and not to provide assurance on our internal controls. Sassetti identified deficiencies that existed in the design or operation of our internal controls over financial reporting that it considered to be "significant deficiencies" or "material weaknesses." The Public Company Accounting Oversight Board ("PCAOB") has defined "significant deficiency" as a control deficiency, or a combination of control deficiencies, that adversely affects the company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that the misstatement of the company's annual or interim financial statements that is more than inconsequential will not be detected. The PCAOB has defined a "material weakness" as a "significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial will not be prevented or detected."

During the first quarter ended September 3, 2005, we hired an outside accounting firm to assist in the timely reconciliation of general ledger accounts, and controls over property and equipment and debt documentation. However, significant deficiencies or material weaknesses in our internal controls related to segregation of incompatible duties and controls over inventory and equity transactions still exist. We have disclosed those significant deficiencies and material weaknesses to our Board of Directors. Additional effort will continue to work with our management and outside advisors with the goal to implement internal controls over financial reporting that are adequate and effective.

Because of inherent limitations of internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control to future periods is subject to the risk that internal control may become inadequate because of changes in conditions or that the degree of compliance may deteriorate. Sassetti noted the following reportable conditions that they believe to be material weaknesses: (i) Improve segregation of incompatible accounting department duties, (ii) Improve maintenance of accounting records by implementing the use of an accounting software system and (iii) Implement a Corporate Code of Conduct.

Based upon the above evaluation of Management, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are not yet effective, but the procedures are as effective as possible, considering the fact that there is a lack of segregation of duties which will continue until such time as the Company can support additional executive personnel to enhance segregation of duties.

(b) Changes in internal controls and procedures

There has been no change in our internal control over financial reporting during the second quarter ended December 31, 2005, that has materially affected, or is reasonably likely to material affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

There are no legal proceedings against the Company and the Company is unaware of proceedings contemplated against it.

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None.

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

No matters were submitted to the security holders for a vote during this quarter.

Item 5. Other Information

There is no other information deemed material by management for disclosure herein.

Item 6. Exhibits and Reports on Form 8-K

<u>Reports on Form 8-K</u>

Inapplicable

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PACIFIC SANDS, INC.

By: /s/ Michael Michie
Michael Michie
Chief Financial Officer

Dated: November 15, 2006