PACIFIC SANDS INC
Form 10-Q
May 20, 2010

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

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended March 31, 2010

OR

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

For the transition period from ____________________________ to ____________________________

Commission file number 000-29483

Pacific Sands, Inc.

(Exact Name of Registrant 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)	(Zip Code)

Issuer's Telephone Number, Including Area Code: (262) 619-3261

N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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 o No o

Indicate by check mark whether the registrant is a larger accelerated filer, an accelerated filer, a non-accelerated or a smaller reporting company. See the definition of "large accelerated filer, accelerated filer and smaller reporting company "in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

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

Yes ¨ No Q

The number of shares outstanding of each of the issuer's classes of common equity, as of May 19, 2010 are as follows:

Class of Securities	Shares Outstanding
Common Stock, $0.001 par value	43,581,940

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PART II OTHER INFORMATION

PACIFIC SANDS, INC.
BALANCE SHEETS
MARCH 31, 2010 AND JUNE 30, 2009

ASSETS

	March 31, 2010 (Unaudited)	June 30, 2009
Current assets:		
Cash and cash equivalents	$ 2,110	$ 7,144
Trade receivables, net of allowances for doubtful accounts of $9,373 and $70,000	131,793	137,412
Inventories	132,235	108,803
Other current assets	6,330	1,257
Total Current Assets	272,468	254,616
Property and equipment, net	50,083	59,663
Other assets:		
Goodwill	-	877,854
	-	877,854
Total Assets	$ 322,551	$ 1,192,133

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:		
Accounts payable	$ 155,901	$ 152,022
Accrued expenses	196,221	125,660
Current portion of notes payable and capital leases	167,113	223,330
Total Current Liabilities	519,235	501,012
Notes payable and capital leases - net of discount of $12,460 and $33,946, less current portion	1,048,520	989,285
Total Liabilities	1,567,755	1,490,297
Stockholders' deficit		
Common stock (50,000,000 shares authorized, 50,191,127 and 49,196,090 shares issued, and 43,581,940 and 42,586,903 shares outstanding)	50,192	49,196
Additional paid in capital	4,173,367	4,134,561
Treasury stock, at cost	(132,030)	(132,030)
Accumulated deficit	(5,336,733)	(4,349,891)
Total Stockholders' Deficit	(1,245,204)	(298,164)
Total Liabilities and Stockholders' Deficit	$ 322,551	$ 1,192,133

See accompanying notes.

PACIFIC SANDS, INC.
STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2010 AND 2009
(UNAUDITED)

	Three months ended March 31, 2010	Three months ended March 31, 2009	Nine months ended March 31, 2010	Nine months ended March 31, 2009
Net sales	$262,742	$328,070	$782,165	$857,875
Cost of sales	88,829	126,636	322,202	408,998
Gross profit	173,913	201,434	459,963	448,877
Selling and administrative expenses	158,823	217,740	512,049	673,525
Impairment of intangible asset	-	-	877,854	-
Income (loss) from operations	15,090	(16,306)	(929,940)	(224,648)
Other expense				
Interest expense	(18,292)	(18,893)	(56,902)	(56,504)
Other income	-	59,463		59,463
Income (loss) before income taxes	(3,202)	24,264	(986,842)	(221,689)
Income taxes	-	-	-	-
Net income (loss)	$(3,202)	$24,264	$(986,842)	$(221,689)
Basic and diluted income (loss) per share:	$(0.000)	$0.001	$(0.023)	$(0.006)
Basic and diluted weighted average shares outstanding:	43,581,940	40,551,236	43,556,519	39,961,808

See accompanying notes.

PACIFIC SANDS, INC.
STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED MARCH 31, 2010 AND 2009
(UNAUDITED)

	2010	2009
Cash flows from operating activities		
Net loss	$ (986,842)	$ (221,689)
Adjustments to reconcile net loss to net cash used in operating activities -		
Depreciation and amortization	18,152	18,165
Amortization of debt discount	21,486	35,206
Common shares issued for services and compensation	2,000	32,950
Impairment of intangible asset	877,854	-
Changes in assets and liabilities -		
Trade accounts receivable	5,619	61,425
Inventories	(23,432)	2,130
Prepaid expenses	-	948
Other assets	(5,073)	(6,070)
Accounts payable and other current liabilities	74,440	1,883
Net Cash Used in Operating Activities	(15,796)	(75,052)
Cash flows from investing activities		
Purchases of equipment	(8,572)	(4,645)
Net Cash Used in Investing Activities	(8,572)	(4,645)
Cash flows from financing activities		
Proceeds from common stock issued	8,930	49,801
Proceeds from notes payable	73,238	149,576
Repayment of notes payable and long term obligations	(62,834)	(122,125)
Net Cash Provided by Financing Activities	19,334	77,252
Net decrease in cash and cash equivalents	(5,034)	(2,445)
Cash and cash equivalents:		
Beginning of period	7,144	7,487
End of period	$ 2,110	$ 5,042
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 26,509	$ 16,359
Income taxes	$ -	$ -

Supplemental disclosure of non cash financing and investing activities

Conversion of debt to equity	$	28,871	$	50,000
Conversion of accrued salaries to equity		-	$	49,676
Conversion of deferred compensation to notes payable		-	$	285,693
Convertible notes discount with corresponding increase to paid in capital for value of beneficialconversion feature	$	-	$	18,174

See accompanying notes.

PACIFIC SANDS, INC

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited interim financial statements of Pacific Sands, Inc., have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (“SEC”), and should be read in conjunction with the audited financial statements and notes thereto contained in Pacific Sands, Inc’s Annual Report filed with the SEC on Form 10-K for the year ended June 30, 2009. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which would substantially duplicate the disclosure contained in the audited financial statements for fiscal 2009 as reported elsewhere in this Form 10-Q have been omitted.

2. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business - Pacific Sands, Inc. with the right to do business as Natural Water Technologies (the "Company" or “Pacific Sands”) was incorporated in Nevada on July 7, 1994. Pacific Sands develops, manufactures, markets and sells a range of nontoxic, environmentally friendly cleaning and water-treatment products based on proprietary blended botanical, nontoxic and natural chemical technologies. The Company’s products have applications ranging from water maintenance (spas, swimming pools, fountains, decorative ponds) to cleaning (nontoxic household and industrial) and pet care.

In February of 2008, the Company acquired Natural Choices Home Safe Products, LLC (“Natural Choices”), a developer and manufacturer of environmentally friendly cleaning and laundry products. The acquisition added dozens of new products to the Pacific Sands portfolio of earth, health, pet and kid-friendly offerings, including Oxy-Boost™ an oxygen-bleach based, chlorine-free bleach alternative. The Company now has a large selection of oxygen- bleach based formulations available both for retail distribution under its ecoone®, e-2 elemental earth® and Natural Choices™ brands as well as for contract manufacturing and re-label.

The Company markets and sells its product lines directly, over the Internet and through pool, spa, hardware, specialty and other retail outlets in the US, Canada and Europe. The products are also sold via Pacific Sands distributors, manufacturers’ representatives and internationally established pool and spa industry distribution networks. The Company’s products are also sold through numerous popular pool and spa websites. The Company’s Natural Choices branded products are sold in numerous retail outlets around the country and in Europe as well as dozens of the top environmentally-oriented websites.

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

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PACIFIC SANDS, INC
NOTES TO FINANCIAL STATEMENTS

Depreciation and Amortization - For financial reporting purposes, depreciation and amortization of property and equipment has been computed over estimated useful lives of two to seven years primarily using the straight-line method. Depreciation and amortization charges totaled $18,152 and $13,085 during the nine months ended March 31, 2010 and 2009, respectively.

Revenue Recognition - Revenue is recognized when the related products are shipped.

Income Taxes - The Company uses the asset and liability method in accounting for income taxes. Deferred taxes are recognized for temporary differences between the basis of assets and liabilities for financial statement and income tax purposes. The temporary differences relate primarily to net operating loss carryforwards and deferred compensation charges. A valuation allowance is recorded for deferred tax assets when it is more likely than not that some or all of the deferred tax assets will not be realized through future operations.

The income tax accounting process for uncertainty in income taxes prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. A company must determine whether it is "more-likely-than-not" that a tax position will be sustained upon examination, including resolution of any related appeals or litigation procedures, based on the technical merits of the position. Once it is determined that a position meets the more-likely-than-not recognition threshold, the position is measured to determine the amount of benefit to recognize in the financial statements. Management's review of the Company’s possible tax for the three and nine months ended March 31, 2010 and 2009 did not result in any positions requiring disclosure. Should the Company need to record interest and/or penalties related to uncertain tax positions, or other tax authority assessments, it would classify such expenses as part of the income tax provision.

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 $9,373 is adequate as of March 31, 2010.

Impairment of long lived assets - Periodically, the Company evaluates the carrying value of its plant and equipment, and long-lived assets, which includes patents and other intangible assets, by comparing the anticipated future net cash flows associated with those assets to the related net book value. If impairment is indicated as a result of such reviews, the Company would remove the impairment based on the fair market value of the assets, using techniques such as projected future discounted cash flows or third party valuations.

In accordance with guidance for Goodwill and Other Intangible Assets, goodwill and certain intangible assets are deemed to have indefinite lives and are no longer amortized, but are reviewed at least annually for impairment. Other identifiable intangible assets are amortized over their estimated useful lives. The guidance requires that goodwill be tested for impairment annually, utilizing the “fair value” methodology. The Company has adopted December 31st as the date of the annual impairment test for goodwill.

Goodwill impairment is determined using a two-step process. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit with the net book value (or carrying amount), including goodwill. If the fair value of the reporting unit exceeds the carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of the reporting unit exceeds the fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied

fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. Accordingly, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit.
In performing the first step of the fiscal 2010 intangible asset or goodwill impairment test, management determined there was an indicator of impairment in the intangible asset recorded for the acquisition of Natural Choices because the carrying value of the reporting unit exceeded its estimated fair value.

In performing the second step of the impairment test, the Company performed a discounted cash flow model using management's current business plan projected for expected cash flows and determined that the intangible was fully impaired. Based on the Company’s annual review of goodwill on December 31, 2009, the Company recorded an impairment charge of $877,854, for the intangible asset recorded for the acquisition of Natural Choices which represented the entire intangible asset balance.

PACIFIC SANDS, INC
NOTES TO FINANCIAL STATEMENTS

Basic and Diluted Net Earnings (Loss) Per Share - Basic net earnings (loss) per share is based upon the weighted average number of common shares outstanding. Dilutive convertible shares and stock options are not included in the compensation of the weighted average number of shares outstanding for dilutive net loss per common share, as the effect would be antidilutive.

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.

Recent Accounting Pronouncements –

In April 2010, the FASB issued new accounting guidance to provide clarification on the classification of a share-based payment award as either equity or a liability. Under ASC 718, Compensation-Stock Compensation , a share-based payment award that contains a condition that is not a market, performance, or service condition is required to be classified as a liability. The amendments clarify that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, such an award should not be classified as a liability if it otherwise qualifies as equity. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. Earlier application is permitted. The Company is evaluating the impact of this standard on our consolidated financial statements.

Management does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying financial statements.

PACIFIC SANDS, INC
NOTES TO FINANCIAL STATEMENTS

3. 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 March 31, 2010, the Company has incurred cumulative losses of $5,336,733. 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 through the sale of common stock, debt financings 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.

4. INVENTORIES

Inventories at March 31, 2010 and June 30, 2009 consisted of the following:

	March 31, 2010	June 30, 2009
Raw materials	$ 101,960	$ 94,484
Finished goods	30,275	14,319
Total	$ 132,235	$ 108,803

5. PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2010 and June 30, 2009 consisted of the following:

	March 31, 2010	June 30, 2009
Furniture and office equipment	$ 40,868	$ 33,596
Manufacturing equipment	63,104	63,104
Leasehold improvements	3,035	3,035
Computer software	16,577	15,277
	123,584	115,012
Less accumulated depreciation and amortization	(73,501)	(55,349)
Property and equipment, net	$ 50,083	$ 59,663

PACIFIC SANDS, INC
NOTES TO FINANCIAL STATEMENTS

6. ACCRUED EXPENSES

Accrued expenses at March 31, 2010 and June 30, 2009 consisted of the following:

	March 31, 2010	June 30, 2009
Accrued compensation	$ 103,672	$ 55,894
Accrued payroll withholding taxes and penalties	44,009	39,525
Accrued professional fees	27,058	18,766
Accrued interest	17,801	9,897
Accrued other	3,681	1,578
Total	$ 196,221	$ 125,660

7. NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS

Notes payable at March 31, 2010 and June 30, 2009 consisted of the following:

	March 31, 2010	June 30, 2009
Dell Financial Services – line of credit	$ 10,609	$ 13,652
J.P. Morgan Chase – business line of credit	81,970	94,992
Notes payable - stockholders and directors	34,506	59,652
Notes payable – settlement obligation	20,500	44,500
Notes payable – acquisition, net of discount	646,627	629,684
Convertible notes payable – net of discount	129,413	68,370
Notes payable – executive officers	271,443	274,443
Capital leases	20,565	27,322
	1,215,633	1,212,615
Less current maturities	167,113	223,330
	$ 1,048,520	$ 989,285

The scheduled annual maturities for notes payable and capital lease obligations are as follows for the years ending December 31,

2010	$ 167,113
2011	92,736

2012	968,244

On October 1, 2009, the Company executed convertible notes payable (the “Notes”) to eight investors for a total of $82,000. Interest accrues at a rate of 12% per annum and is payable quarterly. The Notes mature on October 1, 2011 at which time all outstanding principal is payable in full in the form of freely tradable common stock of the Company at an agreed upon conversion price of $0.10 (ten cents) per share. The Company shall have the right, but not the obligation, to pay up to one half of the principle balance in cash. On November 1, 2009, the Company executed new convertible notes payable (the “New Notes”) in the amount of $56,500 to the same investors under the same terms as the Notes. The New Notes mature on November 1, 2012. Pursuant to a Stock Pledge Agreement dated October 1, 2009, each Note and each New Note is secured by the number of shares of common stock of the Company necessary to satisfy the entire principal amount at the agreed upon price of $0.10 (ten cents) per share.

8. STOCKHOLDERS’ DEFICIT

On July 7, 2009, the Company issued 50,000 shares of its common stock to a consultant for services performed. The fair market value of the shares on the date issued was $0.04 per share. The Company recorded consulting fee expense of $2,000 related to the issuance of these shares.

PACIFIC SANDS, INC
NOTES TO FINANCIAL STATEMENTS

On July 7, 2009, the Company issued 150,000 shares of its common stock to an unrelated investor for a cash investment of $6,000.

On July 7, 2009, the Company issued 73,259 shares of its common stock to an employee for a cash investment of $2,930.

On July 7, 2009, the Company issued 721,778 shares of its common stock to a related party shareholder as settlement of a note payable in the amount of $28,871. On July 7, 2009 the Company's common stock had a fair market value of $0.04 per share.

9. EARNINGS (LOSS) PER SHARE

Basic loss per common share is based on the weighted average number of common shares outstanding in each period and net loss.

The following table sets forth the computation of basic and diluted earnings (loss) per share.

	Three months ended March 31,		Nine months ended March 31,	
	2010	2009	2010	2009
Numerator:				
Basic and diluted income (loss)	$ (3,202)	$ 24,264	$ (983,640)	$ (221,689)
Denominator:				
Basic and diluted per share data - weighted average shares	43,581,940	40,551,236	43.556,519	39,961,808
Basic and diluted income (loss) per share	$ (0.000)	$ 0.001	$ (0.023)	$ (0.006)

Outstanding stock options were not included in the computation of diluted loss per common share for the nine month periods ended March 31, 2010 and 2009 since their inclusion would have resulted in an antidilutive effect.

Anti-dilutive securities not included in the net loss per share calculation:

	March 31, 2010	March 31, 2009
Stock options	3,000,000	3,000,000

PACIFIC SANDS, INC
NOTES TO FINANCIAL STATEMENTS

10. 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 March 31, 2010 and June 30, 2009 are as follows:

	March 31, 2010	June 30, 2009
Net operating loss carryforwards	$ 1,388,000	$ 1,342,000
Deferred compensation	123,000	134,000
Accounts receivable allowance	4,000	30,000
Valuation allowance	(1,515,000)	(1,506,000)
Net deferred tax asset	$ --	$ --

At March 31, 2010, the Company has net operating loss carryforwards for Federal tax purposes of approximately $3,305,000 which, if unused to offset future taxable income, will expire in years beginning in 2018.

Item 2. Management Discussion and Analysis of Financial Condition and Results of Operation

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-K FOR THE YEAR ENDED JUNE 30, 2009 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.

General

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", ecoONE Marketing Group and Natural Choices Home Safe Products (see discussion below).

The Company develops, manufactures, markets and sells a range of non-toxic, environmentally 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 as well as ecoONE® Pool conditioner and the Pacific Sands All-Purpose Hose Filter. Pacific Sands is also the master distributor for Rain Forest Blue, an EPA Registered chlorine and bromine free, non irritating, odor free, bactericide / algaecide alternative for the treatment of pool water.

In mid February of 2008, the Company acquired Natural Choices Home Safe Products, LLC (“Natural Choices”), a developer and manufacturer of environmentally friendly cleaning and laundry products. The acquisition added dozens of new products to the Pacific Sands portfolio of earth, health, pet and kid-friendly offerings, including Oxy-Boost™ an oxygen-bleach based, chlorine-free bleach alternative. The Company now has a large selection of oxygen- bleach based formulations available both for retail distribution under its ecoone®, e-2 elemental earth® and Natural Choices™ brands as well as for contract manufacturing and re-label.

The Company markets and sells its product lines directly, over the Internet and through pool, spa, hardware, specialty and other retail outlets in the US, Canada and Europe. The products are also sold via Pacific Sands distributors, manufacturers’ representatives and internationally established pool and spa industry distribution networks. The Company’s products are also sold through numerous popular pool and spa websites. The Company’s Natural Choices branded products are sold in numerous retail outlets around the country and in Europe as well as dozens of the top environmentally-oriented websites.

The Company's goal is to achieve sustained and significant profitability through revenues achieved by marketing and sales of its nontoxic, earth, health and kid-friendly, ecoONE® Pool, Spa, Household Cleaning and other product lines.

Management intends to continue the aggressive marketing and sale of its products through direct retail and a widening base of retail outlets, distribution centers and OEM arrangements in order to achieve its goals.

The Company's ability to achieve its objectives is dependent on its ability to sustain and enhance its revenue stream and to continue to raise funds through loans, credit and the private placement of restricted securities until such time as the Company achieves sustained fiscal profitability.

To date, the Company has funded operations through a combination of revenues from the sale of its products, established credit with vendors, a bank line of credit and the sale of rule 144 stocks through private placement. The Company's failure to continue to raise adequate financing to fund operations may jeopardize its existence. (See “Liquidity and Capital Resources”)

Management knows of no additional trends or uncertainties beyond those discussed that are reasonably likely to have a material impact on the Company's short or long-term liquidity.

RESULTS OF OPERATIONS

Results for the three months ending March 31, 2010 compared to the three months ending March 31, 2009.

For the three months ended March 31, 2010, net sales were $262,742, a decrease of 20% from net sales of $328,070 for the same period in fiscal 2009. The decrease was due to a lack of demand for private label products.

For the three months ended March 31, 2010, cost of goods sold was $88,829 compared to $126,636 for the same period in the previous fiscal year. The Company's gross margin increased from 61% for the three months ended March 31, 2009 to 66% for the current fiscal quarter. This large increase is due to the fact that the Company has begun to recognize significant cost savings from efficiencies of manufacturing certain products in-house that were previously manufactured by a third party contract manufacturer. Additionally, the Company discontinued a few of their lower margin products.

For the three months ended March 31, 2010 and 2009, selling and general administrative expenses were $158,823 and $217,740 respectively. The decrease in operating expenses is explained in large part by a significant decrease in salaries and wage expense resulting from layoffs and salary reductions. Salaries and wage expense for the three months ended March 31, 2010 approximated $78,000 compared to $111,000 for the three months ended March 31, 2009.

Interest expense for the three months ended March 31, 2010 was $18,292 compared to $18,893 for the three months ended March 31, 2009. During the three months ended March 31, 2010, the Company amortized $5,220 of discounts of notes payable compared to $11,452 during the three months ended March 31, 2009. Interest expense on notes payable was $13,072 and $7,441 for the three months ended March 31, 2010 and 2009, respectively. The increase is due to additional borrowings on the form of convertible notes that were executed in November 2009, and the additional interest resulting from the restructured note with the former owners of Natural Choices. This note was amended in March 2009.

During the three months ended March, 31, 2009, the Company recorded other income of $59,463 resulting from the settlement of certain accounts payable obligations with three vendors.

The Company recorded a net loss of $3,202 or $0.000 loss per share for the three months ended March 31, 2010 as compared to net income of $24,264 or $0.001 earnings per share for the three months ended March 31, 2009.

Results for the nine months ending March 31, 2010 compared to the nine months ending March 31, 2009.

For the nine months ended March 31, 2010 and 2009, net sales were $782,165 and 857,875, respectively. The 9% decrease is due to lack of marketing resources, significant staff reductions and the repurposing of sales and administration personnel to cover manufacturing, shipping and warehouse operations.

For the nine months ended March 31, 2010, cost of goods sold was $322,202 compared to $408,898 for the same period in the previous fiscal year. The Company's gross margin increased from 52% for the nine months ended March 31, 2009 to 59% for the nine months ended March 31, 2010. This increase is due to cost savings from efficiencies of manufacturing certain products in-house that were previously manufactured by a third party contract manufacturer. Additionally, the Company discontinued some of their lower margin products.

For the nine months ended March 31, 2010 and 2009, selling and general administrative expenses were $512,049 and $673,525 respectively. The decrease in operating expenses is explained in large part by a significant decrease in salaries and wage expense resulting from layoffs and salary reductions. Salaries and wage expense for the nine months ended March 31, 2010 approximated $229,000 compared to $384,000 for the nine months ended March 31, 2009.

On December 31, 2009, the Company recorded an impairment charge $877,854 representing the entire amount of the intangible asset recorded for the acquisition of Natural Choices Home Safe Products in February 2008. Applying the guidance for Goodwill and Other Intangible Assets, the Company determined that the carrying amount of the intangible asset exceeded the fair value, and further determined that the entire value of the intangible asset should be written off.

Interest expense for the nine months ended March 31, 2010 was $56,902 compared to $56,504 for the nine months ended March 31, 2009. During the nine months ended March 31, 2010, the Company recorded notes payable discount amortization $21,486 compared to $35,206 during the nine months ended March 31, 2009. During the nine months ended March 31, 2010, the Company also recorded interest expense of $19,500 pursuant to the amended note payable for the acquisition of Natural Choices. The note was amended in March 2009.

During the nine months ended March, 31, 2009, the Company recorded other income of $59,463 resulting from the settlement of certain accounts payable obligations with three vendors.

The Company recorded a net loss of $986,842 or $0.023 per share for the nine months ended March 31, 2010 as compared to a net loss of $221,689 or $0.006 per share for the nine months ended March 31, 2009.

LIQUIDITY AND CAPITAL RESOURCES

Management believes that the Company is positioned for sales growth but will require additional funding to continue operations. The Company's ability to achieve its objectives is dependent upon its ability to sustain and enhance its current revenue stream and to continue to raise funds through loans, vendor credit and the private placement of restricted securities until such time as the Company sustains fiscal profitability. To date, the Company has funded operations and expansion through a combination of revenues from the sale of its products, established credit with vendors, deferred salaries (subsequently converted to notes payable to officers), debt financings and the sale of rule 144 stock through private placement. The Company's failure to continue to raise adequate financing to fund planned expansion may jeopardize its plans for growth.

At March 31, 2010, the Company had current assets of $272,468 and total assets of $322,551, compared to June 30, 2009 when current assets were $254,616 and total assets were $1,192,133. The decrease in total assets is a result of the write off of the intangible asset recorded for the acquisition of Natural Choices Home Safe Products in February 2008.

Current liabilities at March 31, 2010 were $519,235 as compared to $501,012 at June 30, 2009. Current liabilities include accounts payable, current portion of notes payable and capital lease obligations and accrued expenses. At March 31, 2010, the Company had outstanding line of credit balances with banks totaling approximately $93,000. Accrued liabilities also include $20,000 in payments due to a former officer pursuant to a settlement agreement executed in December 2007.

Non-current liabilities include notes payable due for the acquisition of Natural Choices for approximately $647,000, net of discount. Non-current liabilities also include $138,000 of convertible debt and $272,000 of notes payable due the Company’s two executive officers.

Net cash used in operating activities during the nine months ended March 31, 2010 was $15,796 compared to $88,594 used in operating activities during the nine months ended March 31, 2009.

For the nine months ended March 31, 2010, net cash used in investing activities was $8,572, representing the purchase of property and equipment. Net cash used in investing activities during the nine months ended March 31, 2009 was $7,671 and included $3,146 of equipment purchases and an increase in security deposits of $4,525.

Net cash provided by financing activities was $19,334 and $88,778 for the nine months ended March 31, 2010 and 2009, respectively. During the nine months ended March 31, 2010, the Company issued restricted common stock for cash totaling $8,930 compared to $41,169 in 2009, and also received proceeds from borrowings in the amount of $73,238 and $135,201 during the nine months ended March 31, 2010 and 2009, respectively. Those proceeds included amounts received from issuing convertible notes payable in amounts of $56,500 and $82,000 in fiscal 2010 and 2009, respectively. Proceeds from financing activities were used to fund operations and to meet current obligations of notes payable.

On March 31, 2010 the Company had an accumulated deficit of $5,336,733 and total stockholders’ deficit of $1,245,204.

The Company's ability to achieve its objectives is dependent on its ability to sustain and enhance its revenue stream and to continue to raise funds through loans, credit and the private placement of restricted securities until such time as the Company achieves profitability. To date, management has been successful in raising cash on an as-needed basis for the continued operations of the Company. There is no guarantee that management will be able to continue to raise needed cash in this fashion.

The Company has no material commitments for capital expenditures at this time. The Company has no “off balance sheet” source of liquidity arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

An investment in the common stock of the Company involves a high degree of risk. In addition to the other information in this report, the following risk factors should be considered carefully in evaluating the Company and its business. This Report contains forward-looking statements. 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," "plan," "expect," or similar expressions, and are subject to numerous known and unknown risks and uncertainties. In evaluating such statements, prospective investors should review carefully various risks and uncertainties identified in this report, including the matters set below and in the Company's 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 HAS EXPERIENCED LOSSES FROM OPERATIONS SINCE COMMENCING OPERATIONS:
With the exception of the 3rd quarter of fiscal 2009 and the 4th quarters of fiscal 2007 and 2006, the Company since commencing operations, has not been profitable on an annual or quarterly basis. The Company may not, in the future, generate sufficient revenues to achieve sustainable profitability.

POSSIBLE DIFFICULTY FINANCING PLANNED GROWTH:
The Company's present plans require an amount of expenditure and working capital. In the future the Company will require financing in addition to the cash generated from operations to fund planned growth. If additional resources are unavailable the Company may be unable to grow according to its present plan.

MANAGEMENT'S ASSUMPTIONS REGARDING THE FUTURE MARKET MAY BE FAULTY:
Management assumes there will be a continuing and increased desirability in the retail market for nontoxic, environment and health friendly products for cleaning and water treatment use. Should management's assumptions as to this increased desirability be faulty, the Company may have difficulty achieving its planned growth.

THE LOSS OF KEY PERSONNEL COULD ADVERSELY AFFECT THE COMPANY:
The Company is run by a small number of key personnel. Should the Company experience a loss of these key people due to their inability or unwillingness to continue in their present positions, the Company's business and financial results could be adversely affected.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based upon an evaluation of the effectiveness of disclosure controls and procedures, our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the SEC and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

As reported in our Annual Report on Form 10-K for the year ended June 30, 2009, management is aware that there is a significant deficiency in our internal control over financial reporting. The significant deficiency relates to a lack of segregation of duties due to the small number of employees involvement with general administrative and financial matters. However, management believes that compensating controls are in place to mitigate the risks associated with the lack of segregation of duties. Compensating controls include outsourcing certain financial functions to an independent contractor. Management concluded that internal controls over financial reporting were effective as of June 30, 2009.

There have not been any changes in the Company's internal control over financial reporting during the quarter ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting

PART II OTHER INFORMATION

Item 1 – LEGAL PROCEEDINGS

None

Item 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On July 7, 2009, the Company issued 50,000 shares of its common stock to a consultant for services performed. The fair market value of the shares on the date issued was $0.04 per share. The Company recorded consulting fee expense of $2,000 related to the issuance of these shares.

On July 7, 2009, the Company issued 150,000 shares of its common stock to an unrelated investor for a cash investment of $6,000.

On July 7, 2009, the Company issued 73,259 shares of its common stock to an employee for a cash investment of $2,930.

On July 7, 2009, the Company issued 721,778 shares of its common stock to a shareholder as settlement of a note payable in the amount of $28,871.

Item 3 – DEFAULTS UPON SENIOR SECURITIES

None

Item 4 – OTHER INFORMATION

None

Item 5 – EXHIBITS

(a) Exhibit Index

Exhibit	Description of the Exhibit
31.1	Chairman of the Board Certification of Periodic Financial Report Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer Certification of Periodic Financial Report Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Chairman of the Board Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

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.

Dated: May 20, 2010	By:	/s/ Michael Wynhoff Michael Wynhoff Chief Executive Officer
Dated: May 20, 2010	By:	/s/ Michael Michie Michael Michie Chief Financial Officer (principal accounting officer)