

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

FORM 10-QSB

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

For the quarterly period ended June 30, 1999

OR

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

Commission file number 333-75137

PACIFIC SOFTWARES, INC.
(Exact name of registrant as specified in its charter)

California 77-0390628
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

703 Rancho Conejo Boulevard 91320
Newbury Park, California (Zip Code)
(Address of principal executive offices)

(805) 499-7722
Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
--- ---

There were 4,250,000 shares outstanding of the registrant's Common Stock, par value \$.001 per share, as of September 7, 1999.

PACIFIC SOFTWARES, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PACIFIC SOFTWARES, INC.
CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 1999 -----	December 31, 1998 -----
ASSETS		
Current assets		
Cash and cash equivalents	\$ 186,190	\$ 224,031
Accounts receivable, net of allowance of \$86,400 and \$86,400	399,328	268,902
Related party receivable	0	43,000
Other receivables	25,000	0
Prepaid expenses	37,703	15,523
Total current assets	----- 648,221	----- 551,456
Fixed assets, net of accumulated depreciation and amortization of \$363,474 and \$348,761	115,792	82,196
Other assets	10,192	9,674
Deferred offering costs	524,450	0
Total assets	----- \$1,298,655 =====	----- \$ 643,326 =====

See accompanying notes to condensed financial statements.

PACIFIC SOFTWARES, INC.
CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 1999 -----	December 31, 1998 -----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 467,728	\$ 180,469
Related party payable	0	103,705
Line of credit	249,295	0
Taxes payable	14,462	21,705
Customer deposits	0	23,100
	-----	-----
Total current liabilities	731,485	328,979
Deferred revenues	150,874	106,874
Commitments and contingencies		
Stockholders' equity		
Preferred stock, par value \$.01 per share, 10,000,000 shares authorized; no shares outstanding		
Common stock, par value \$.001 per share, 50,000,000 shares authorized; 3,300,000 and 3,200,000 shares issued and outstanding	3,300	3,200
Additional paid in capital	874,558	174,658
Retained earnings	(445,533)	18,452
Cumulative adjustment for currency translation	(16,029)	11,163
	-----	-----
Total stockholders' equity	416,296	207,473
	-----	-----
	\$ 1,298,655	\$ 643,326
	=====	=====

See accompanying notes to condensed financial statements.

PACIFIC SOFTWARES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	1999	1998	1999	1998
	----	----	----	----
Net revenue				
Sales	\$ 495,678	\$ 724,624	\$ 1,208,737	\$ 1,403,716
Royalties and others	151,711	109,498	210,302	126,485
Total	647,389	834,122	1,419,039	1,530,201
Cost of revenue				
Purchases and royalty fees	44,923	32,729	75,259	60,572
	44,923	32,729	75,259	60,572
Gross profit	602,466	801,393	1,343,780	1,469,629
Expenses				
Selling, general and administrative	541,476	544,948	922,291	931,395
Research and development	354,145	196,634	677,969	410,337
Depreciation and amortization	13,460	14,713	26,920	29,426
Former officers consulting and administrative expense	97,905	82,680	180,585	165,360
Total	1,006,986	838,975	1,807,765	1,536,518
Net loss	\$ (404,520)	\$ (37,582)	\$ (463,985)	\$ (66,889)
Net loss per common share Basic and diluted	\$ (0.12)	\$ (0.01)	\$ (0.14)	\$ (0.02)
Weighted average common stock shares outstanding Basic and diluted	3,440,000	3,340,000	3,409,613	3,340,000

See accompanying notes to condensed financial statements.

PACIFIC SOFTWARES, INC.
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	----- 1999 -----	1998 -----	----- 1999 -----	1998 -----
Net loss	\$ (404,520)	\$ (37,582)	\$ (463,985)	\$ (66,889)
Other comprehensive income (loss)				
Foreign currency translation adjustment	1,377	14,149	(27,192)	4,131
	-----	-----	-----	-----
Comprehensive loss	\$ (403,143)	\$ (20,433)	\$ (491,177)	\$ (62,758)
	=====	=====	=====	=====

PACIFIC SOFTWARES, INC.
STATEMENT OF CASH FLOWS
(Unaudited)

	For the Six Months Ended June 30,	
	----- 1999 -----	----- 1998 -----
Cash flows from operating activities		
Net loss	\$ (463,985)	\$ (66,889)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	26,920	29,426
(Increase) decrease in assets:		
Accounts receivable	(130,426)	(280,285)
Related party receivable	43,000	0
Other receivables	(25,000)	2,125
Prepaid expenses	(22,180)	5,512
Deposits and trademarks	(518)	1,034
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	287,260	44,272
Accrued taxes payable	(7,243)	(14,136)
Customer deposits	(23,100)	0
Deferred revenue	44,000	0
	-----	-----
Net cash provided by (used in) operating activities	(271,272)	(278,941)
Cash flows from investing activities		
Acquisition of fixed assets	(61,770)	(20,036)
Disposition of assets, net	1,254	0
	-----	-----
Net cash used in investing activities	(60,516)	(20,036)
Cash flows from financing activities:		
Proceeds from borrowings	249,295	0
Repayment of borrowings	(103,705)	0
Acquisition of stock in subsidiary	0	(5,500)
Deferred offering costs	(324,450)	0
Private placement of common stock	500,000	0
	-----	-----
Net cash provided by financing activities	321,140	(5,500)
Effect of exchange rate changes on cash	(27,193)	232
Net increase (decrease) in cash	(37,841)	(304,245)
Cash - Beginning	224,031	624,952
	-----	-----
Cash - Ending	\$ 186,190	\$ 320,707
	=====	=====

Supplemental non-cash financing activities: During the period ended June 30, 1999, warrants valued at \$200,000 were issued in connection with the public offering

See accompanying notes to condensed financial statements.

PACIFIC SOFTWARES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(1) Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation of the Company's financial position at June 30, 1999, the results of operations for the three and six months ended June 30, 1999 and June 30, 1998, and the cash flows for the six months ended June 30, 1999 and June 30, 1998 are included. Operating results for the three and six month periods ended June 30, 1999 are not necessarily indicative of the results that may be expected for the year ending December 31, 1999.

The information contained in this Form 10-QSB should be read in conjunction with audited financial statements as of December 31, 1998 and the unaudited financial statements as of March 31, 1999 filed as a part of the Company's Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on July 30, 1999. (File 333-75137).

(2) Earnings per share

The Company adopted SFAS No. 128, "Earnings Per Share", during 1998. SFAS No. 128 requires presentation of basic and diluted earnings per share. Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts, such as stock options, to issue common stock were exercised or converted into common stock. All prior period weighted average and per share information has been restated in accordance with SFAS No. 128.

(3) Year 2000 issues

The Company is aware of the issues associated with the programming code in existing computer systems as the year 2000 approaches. The year 2000 problem is pervasive and complex, as many computer systems will be affected in some way by the rollover of the two-digit year value to 00. Systems that do not properly recognize this information could generate erroneous data or cause a system to fail. The year 2000 issue could create risk for the Company from unforeseen problems in its own computer systems and from third parties with which it deals on transactions worldwide. Failures of the Company's and/or third parties' computer systems could have a material impact on its ability to conduct business. Based on the Company's review and analysis, however, it believes that its computer systems and software products are year 2000 compliant. The Company has further concluded that the products it obtains from its vendors and suppliers for use within its systems and products are also year 2000 compliant. The Company has not incurred and does it expect to incur any material expense in connection with year 2000 matters.

(4) Subsequent events

On May 1, 1999 the Company granted stock options to certain employees, covering 283,000 shares. The options are exercisable for five years at an exercise price of \$5.00 per share for 253,000 shares and \$5.50 per share for 30,000 shares. The options vest at the rate of 2% of the shares covered per month up to 36 months at which time they will be fully vested. The Company accounts for its stock options under the provisions of APB No.25. The following proforma information is based on estimating the fair value of grants based on the provisions of SFAS No.123. The fair value of each option granted during the period ended June 30, 1999 has been estimated as of the date of the grant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 5.5%, life of options 5 years and expected dividend yield of 0%. Under these assumptions, the weighted average fair value of options granted during the period ended June 30, 1999 was \$1.10. Accordingly the Company's proforma net loss and net loss per share as determined under SFAS No.12 would have been \$(531,942) and \$(0.16).

At June 30, 1999 the Company had been advanced \$250,000 pursuant to its line of credit arrangement with Bank of America. The advance was due on August 1, 1999.

On July 5, 1999 the Company executed a promissory note with the underwriter in the amount of \$200,000. As of July 29, 1999 the full \$200,000 had been advanced to the Company.

As of July 29, 1999 the Company completed an initial public offering of 950,000 units consisting of 950,000 common shares and 950,000 warrants priced at \$5.25 per unit. Net proceeds from the offering were \$4,339,125 after deducting underwriters discount and non-accountable expenses. The Company expects to use the majority of the net proceeds for research and development of internet web products, enhancements of existing internet and application products and the development of a marketing and sales organization. The shares and warrants are listed on the Nasdaq Small Cap Market under the ticker symbols of PASW and PASWW respectively.

On September 3, 1999 the Company entered into a Letter of Intent to acquire a 100% interest in privately-held ApplianceWare, Inc. a California corporation ("Ware"). Under the Letter of Intent the Company will issue 1,846,154 shares of common stock with a value of approximately \$12 million for all of the outstanding shares of Ware and will acquire the software tools and technology and key business relationships of Ware in the Far East consumer electronics industry. The Company expects to complete the acquisition in the fourth quarter of 1999.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS.

Cautionary Note Regarding Forward-Looking Statements

Except for historical information contained herein, the statements in this report (including without limitation, statements indicating that the Company "expects," "estimates," "anticipates," or "believes" and all other statements concerning future financial results, product offerings, proposed acquisitions or combinations or other events that have not yet occurred) are forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. Forward-looking statements involve known and unknown factors, risks and uncertainties, which may cause the Company's actual results in future periods to differ materially from forecasted results. Those factors, risks and uncertainties include, but are not limited to: the positioning of the Company's products in the Company's market segments; the Company's ability to effectively manage its various businesses in a rapidly changing environment; the timing of new product introductions; sell-through of the Company's products; the continued emergence of the internet resulting in new competition and changing customer demands; the Company's ability to adapt and expand its product offerings in light of changes to and developments in the internet environment; growth rates of the Company's market segments; variations in the cost of, and demand for, customer service and technical support; price pressures and competitive environment; the possibility of programming errors or other "bugs" in the Company's software; the timing and customer acceptance of new product releases and services (including current users' willingness to upgrade from older versions of the Company's products); the consummation of possible acquisitions or combinations; and the Company's ability to integrate acquired or combined operations with its existing business and otherwise manage growth; and the Company's ability to generate or obtain additional capital resources to fund its operations and growth. Additional information on these and other risk factors are included in the Company's Registration Statement on Form SB-2 (File No. 333-75137) filed with the Securities and Exchange Commission on July 29, 1999 under the headings "Risk Factors" and elsewhere in this Form 10-QSB.

General

The Company completed an initial public offering of 950,000 units consisting of one share of common stock and one warrant on July 29, 1999. The Company develops and licenses software which enables internet and web based communications. The software products are embedded into systems and "information appliances" developed or manufactured by others. Information appliances are internet-connected versions of every day products such as telephones, fax machines, personal digital assistants and other digitally based devices. The Company has developed a new proprietary internet browser for use within independent, "non Windows(R)" information appliances. The browser may be effectively placed in use without an operating system and does not require substantial amounts of memory. The Company expects to begin marketing the initial version of this browser during the fourth quarter of 1999. The Company operates in one business segment. The Company's fiscal year ends on December 31.

Results of Operations

The following table sets forth, for the periods indicated, the percentage relationship to net revenue of certain items in the consolidated statements of operations and comprehensive income:

	Unaudited Three Months Ended June 30,		Unaudited Six Months Ended June 30,	
	1999 ----	1998 ----	1999 ----	1998 ----
Net revenue	100.00%	100.00%	100.00%	100.00%
Cost of revenue	6.94	3.92	5.30	3.96
Gross profit	93.06	96.08	94.70	96.04
Selling, general and administrative	83.64	65.33	65.00	60.86
Research and development	54.70	23.57	47.77	26.82
Depreciation and Amortization	2.08	1.76	1.90	1.92
Former officer consulting and And administrative expense	15.12	9.92	12.72	10.81
Total operating expenses	155.54	100.58	127.39	100.41
Net loss from operations	(62.48)	(4.50)	(32.69)	(4.37)
Foreign currency translation adjustment	0.21	2.06	(1.92)	0.27
Comprehensive loss	(62.27%) =====	(2.44%) =====	(34.61%) =====	(4.10%) =====

The following table sets forth, for the periods indicated, the percentage of net revenue by principal geographic area to total revenue:

	Unaudited			
	Three Months Ended June 30,		Six Months Ended June 30,	
	----- 1999 -----	----- 1998 -----	----- 1999 -----	----- 1998 -----
United States	53%	43%	48%	50%
United Kingdom and Europe	20	40	32	34
Japan and Asia	26	16	19	15
Other	1	1	1	1
	---	---	---	---
Total	100%	100%	100%	100%
	===	===	===	===

Three months ended June 30, 1999 and 1998.

Net revenue

For the three months ended June 30, 1999 revenues decreased 22% to \$647,389 from \$834,122 for the three months ended June 30, 1998. Sales of licenses decreased 32% for the three months ended June 30, 1999 due to lower sales in the United Kingdom. This was partially offset by a 38% increase in royalty income in Japan and Asia.

Cost of revenue

The cost of revenue for the three months ended June 30, 1999 was \$44,923 or 6.9% of sales compared to \$32,729 or 3.9% of sales for the three months ended June 30, 1998. The increase in cost of sales related to direct and indirect costs for production and duplication of manuals and media for software products charged against lower sales for the three months ended June 30, 1999.

Selling, general and administrative

Selling, general and administrative expense decreased \$3,472 to \$541,476 for the three months ended June 30, 1999 from \$544,948 for the three months ended June 30, 1998. This reduction from period to period reflects a reduction of sales and operating expenses offset by an increase in rent following the relocation of the Company's principal office to a new location in mid 1998. Because of the 22% decrease in net revenues the cost of these expenses as a percentage of revenue increased to 84% of net revenue for the three months ended June 30, 1999 from 65% for the three months ended June 30, 1998.

Research and development expense

Research and development expense increased to \$354,145 or 54% of revenue for the three months ended June 30, 1999 from \$196,634 or 24% of revenue for the three months ended June 30, 1998. The increase is principally attributable to a continuation of development of the Fast Track product line and the development of the FUSION WebPilot Micro Browser(TM) begun in 1998.

Depreciation and amortization

Depreciation and amortization decreased to \$13,460 in the three months ended June 30, 1999 from \$14,713 for the three months ended June 30, 1998. This decrease was attributable to capitalized costs of computer software acquired from third party vendors in 1996 that became fully amortized in 1998.

Former officer's consulting and administrative expense

Former officer's consulting and administrative expense increased to \$97,905 for the three months ended June 30, 1999 from \$82,680 for the three months ended June 30, 1998. This increase of \$15,225 related to an acceleration of the final payment on the former officer's employment contract entered into in 1996. This agreement plus an agreement not to compete and a consulting agreement with the former officer will expire in September 1999.

Provision for taxes

Commencing in 1995 the Company elected to be treated as a subchapter S corporation. Through 1998 all federal tax liabilities were recognized at the individual stockholder level. In February 1999 the Company terminated the S election and became subject to taxation at the corporate level. Had the Company been subject to taxation as a C corporation in 1998, it would have received a pro forma tax benefit of \$1,099. For the three months ended June 30, 1999 the Company had no income tax liability.

Six months ended June 30, 1999 and 1998.

Net revenue

For the six months ended June 30, 1999 revenues decreased 7% to \$1,419,039 from \$1,530,201 for the six months ended June 30, 1998. Sales of licenses decreased 14% for the six months ended June 30, 1999 principally due to a decline in domestic sales early in 1999 and lower sales in the United Kingdom in the three month period ended June 30, 1999. This was partially offset by a 66% increase in royalty income in Japan and Asia.

Cost of revenue

The cost of revenue for the six months ended June 30, 1999 was \$75,259 or 5.3% of sales compared to \$60,572 or 4% of sales for the six months ended June 30, 1998. The increase in cost of sales related to direct and indirect costs for production and duplication of manuals and media for software products charged against lower sales for the three month period ended June 30, 1999.

Selling, general and administrative

Selling, general and administrative expense was \$922,291 or 65% of revenue for the six months ended June 30, 1999 compared to \$931,395 or 61% for the six months ended June 30, 1998. This reduction of \$9,104 from period to period reflects a reduction of sales and operating expenses offset by an increase in rent following the relocation of the Company's principal office to a new location in mid 1998.

Research and development expense

Research and development expense was \$677,969 or 48% of revenue for the six months ended June 30, 1999 compared to \$410,337 or 27% of revenue for the six months ended June 30, 1998. The increase is principally attributable to a continuation of development of the Fast Track product line and the development of the FUSION WebPilot Micro Browser(TM) begun in 1998.

Depreciation and amortization

Depreciation and amortization decreased to \$26,920 in the six months ended June 30, 1999 from \$29,426 for the six months ended June 30, 1998. This decrease was attributable to capitalized costs of computer software acquired from third party vendors in 1996 that became fully amortized in 1998.

Former officer's consulting and administrative expense

Former officer's consulting and administrative expense was \$180,585 for the six months ended June 30, 1999 compared to \$165,360 for the six months ended June 30, 1998. This increase of \$15,225 related to an acceleration of the final payment on the former officer's employment contract entered into in 1996. This agreement plus an agreement not to compete and a consulting agreement with the former officer will expire in September 1999.

Provision for taxes

Commencing in 1995 the Company elected to be treated as a subchapter S corporation. Through 1998 all federal tax liabilities were recognized at the individual stockholder level. In February 1999 the Company terminated the S election and became subject to taxation at the corporate level. Had the Company been subject to taxation as a C corporation in 1998, it would have received a pro forma tax benefit of \$1,099. For the six months ended June 30, 1999 the Company had no income tax liability.

Liquidity and capital resources

At June 30, 1999 and December 31, 1998 the Company had working capital deficit of (\$234,138) and \$115,603 and cash and cash equivalents of \$186,190 and \$224,031.

The Company used \$271,272 in cash flow from operating activities in the six months ended June 30, 1999 compared to using \$278,941 in the six months ended June 30, 1998. The decrease of \$6,669 was the result a decrease of \$149,859 in accounts receivable, a decrease of \$28,210 in prepaid expenses, a decrease of \$28,180 in other receivables, an increase of \$242,987 in accounts payable and accrued expenses, \$44,000 in deferred revenue, an decrease in accrued taxes of \$6,893 offset by an increase in related party receivable of \$43,000, an increase in deferred revenue of \$44,000. a decrease of \$6,893 in accrued taxes and an increase of \$23,100 in customer deposits.

Investing activities in the six months ended June 30, 1999 consisted of purchase of fixed assets of \$61,770 and the disposition of assets of \$1,254 compared to the purchase of assets of \$20,036 in the six months ended June 30, 1998.

The Company provided \$321,140 from financing activities in the six months ended June 30, 1999 consisting of \$145,590 from borrowings and \$500,000 from a private placement for common stock offset by \$324,450 in deferred offering costs. In the six months ended June 30, 1998 the Company used \$5,500 for the acquisition of the minority interest in the Company's Japanese subsidiary.

On July 30, 1999 the Company completed an initial public offering of 950,000 units consisting of 950,000 common shares and 950,000 warrants priced at \$5.25 per unit. Net proceeds from the offering were \$4,339,125 after deducting underwriters discount and non-accountable expenses. The Company expects to use the majority of the net proceeds for research and development of internet web products, enhancements of existing internet and application products and the development of a marketing and sales organization. The shares and warrants are listed on the Nasdaq Small Cap Market under the ticker symbols of PASW and PASWW respectively.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In June 1999 Glenn Golenberg and Mark Guren notified the Company in writing through their legal counsel that they are evaluating for possible legal action a claim against the Company for an option to acquire 10% of outstanding, fully diluted shares of the Company as of June 18, 1998 for \$400,000. This claim arises out of a June 1998 letter agreement between Golenberg & Co., merchant bankers, and the Company. In that letter, Golenberg & Co. agreed to create for the Company a business plan, to develop a comprehensive financing plan and to perform other related services. Golenberg & Co. has asserted that it is entitled to the option based on the services it allegedly provided the Company. The Company believes that Golenberg & Co. has not fulfilled the conditions required to vest the option. If the Company is compelled to litigate or arbitrate this claim the Company intends to defend itself vigorously. If however Golenberg & Co. is successful in pursuit of this claim, it may be awarded an option to purchase up to 320,000 shares of common stock of the Company at a price of approximately \$1.25 per share.

In June 1999 the Company was served with a summons and complaint by United States Software Corporation. The suit was filed in the United States District Court of the district of Oregon, Case Number CV 99-496. The complaint named Glenn Russell, Laura Russell and Luke Systems International, Inc. as additional defendants.

United States Software alleged:

- o copyright infringement,
- o misappropriation of trade secrets,
- o breach of contract,
- o fraud, and
- o unfair competition.

The complaint alleged that in November 1996 the Company, Glenn Russell and Laura Russell improperly obtained source code of two copyrighted computer programs and incorporated that source code along with other trade secrets of United States Software within the Company's FUSION products. In the suit United States Software demanded a jury trial and principally sought:

- o to enjoin the Company and the other defendants from copying or distributing its computer code,

- o to enjoin the Company and the other defendants for disclosing its trade secrets,
- o orders from the court requiring the Company to destroy, or the court to impound, all files and media containing trade secrets of United States Software,
- o damages in an amount not yet ascertained but more than \$1 million, and
- o punitive damages and attorney fees.

The Company filed an answer to the complaint on July 1, 1999. On or around July 20, 1999 United States Software and the Company agreed to settle the litigation on terms which have no material financial impact on the Company.

The Company is not currently involved in any litigation that is expected to have a material adverse effect on the Company's business or financial position. There can be no assurance, however, that third parties will not assert infringement or other claims against the Company in the future which, regardless of the outcome, could have an adverse impact on the Company as a result of defense costs, diversion of management resources and other factors.

ITEM 2. CHANGES IN SECURITIES.

Not Applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not Applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not Applicable

ITEM 5. OTHER INFORMATION.

Not Applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(A) The following exhibits are included herewith:

- Exhibit 1 - Letter of Intent
- Exhibit 11 - Weighted Average of Common Stock Shares Outstanding
- Exhibit 27 - Financial Data Schedule

(B) The Company filed no reports on Form 8-K during the quarter for which this form is filed.

SIGNATURES

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

Date: September 7, 1999

PACIFIC SOFTWARES, INC.

/s/ WILLIAM E. SLINEY

William E. Sliney
Chief Financial Officer
(Duly Authorized Officer and Principal
Financial and Accounting Officer)

EXHIBIT 1

LETTER OF INTENT

This Letter of Intent ("LOI") is entered into and effective the 24th day of August, 1999 between Pacific Softworks, Inc. ("Pacific") a California corporation, and ApplianceWare, Inc. ("Ware"), a California corporation, collectively (the "Parties") under the following terms and conditions.

1. Pacific, through its wholly owned subsidiary Pacific Acquisition Corp ("PAC"), will issue 1,846,154 shares of Pacific common stock in exchange for the acquisition of 100% of the stock of Ware (the "Acquisition"). As of August 24, 1999, the date of approval by Pacific's Board of Directors, this Acquisition is valued at \$12,000,000 as based upon Pacific's closing price of \$6.50 per share on that date. The parties hereto contemplate that the Acquisition will be structured as an IRS Code 368(a) tax free reorganization with an effective date of October 1, 1999 and a closing date no later than October 31, 1999.
2. Pacific shall form a US subsidiary tentatively known as Appliance Net ("Appliance"). Ware's stockholders' shall participate in the ownership of Appliance proportionate to (1) Pacific's ownership in Appliance and (2) the shares of Appliance in any dividend trust deemed to be a dividend return for the beneficial ownership of Pacific's stockholders. Ware's stockholders will own, through attribution, a pro rata portion of the shares held by Pacific prior to declaration of the dividend and the shares of the dividend trust as based upon Ware's ownership of the shares in Pacific prior to the dividend.
3. Ware shall have free and clear title to certain intellectual property and software technology without any liabilities or commitments other than what may be disclosed during the diligence to be performed by the Parties prior to consummation of the Acquisition.
4. Ware shall have acquired and established certain operating rights ("Operating Rights") with respect to the software technology and the marketing of software technology and related services, and the design, manufacture and distribution of hardware.
5. Upon completion of the acquisition of Ware by Pacific, Pacific shall elect one of Ware's existing stockholders, Mr. Kaz Hashimoto or his designee, on the Board of Directors of Pacific and Appliance.
6. In selecting the Chief Executive Officer and any Vice Presidents for Pacific and Appliance, Ware's existing stockholders, as represented by Mr. Kaz Hashimoto or his designee, will be given the right to

participate in the selection, choice and recommendation for employment of any candidates. Pacific may not proceed in the selection process without resolution and agreement by said representative of Ware's existing stockholders whose approval may not be unreasonably withheld.

7. The Parties represent and warrant that no brokers, investment bankers or other "finders" are involved in introducing the Parties to each other and that no brokers fees, investment bankers or other finders are owed to any person.
8. This LOI is further subject to and conditioned upon the satisfaction of the following conditions:
 - (a) The negotiation, execution and delivery of a definitive binding written agreement and such other documentation as may be necessary or appropriate (the "Acquisition Agreement"), all in form and substance satisfactory to the Parties, and will include customary representations and warranties which shall survive the closing of the Acquisition as well as customary conditions precedent and indemnification;
 - (b) The completion by the Parties and their respective accountants, counsel and other experts of a customary due diligence investigation with respect to the business and affairs (including business, financial and legal matters) of Pacific, and Ware and the resolution, in a manner satisfactory to the Parties of any and all issues raised as a result of such investigation; including but not limited to Pacific's anticipation that the Acquisition will yield at least \$2.0 million in Earnings Before Interest and Taxes ("EBIT") during the first year following the effective date of the Acquisition.
 - (c) The receipt of all necessary and appropriate corporate stockholder, and governmental approvals by the Parties to enter into, and consummate the transactions contemplated by the Acquisition;
 - (d) The obtaining of such consents and approvals from third parties as may be required in order lawfully to consummate the Acquisition without violating any contract or rights of third parties; and
 - (e) The occurrence prior to the Closing Date (as defined within the Acquisition Agreement) of no material adverse change in the financial condition, business or prospects of any of the Parties and no threatened litigation with respect to the transactions contemplated hereby or otherwise with respect to any of the Parties.

9. The Parties represent to each other that each has the necessary power and authority to execute and deliver this LOI. By executing and delivering this LOI the Parties represent that to their knowledge neither of the Parties nor any stockholder of the Parties is in violation of, breach of or default under any material contract, agreement or understanding, whether oral or written, to which the Parties or stockholders is a party.
10. This LOI is only an expression of mutual interest by the Parties concerning some aspects of the proposed transactions described herein, it being understood that all of the material terms of such proposed transactions are not yet agreed upon among the Parties and still must be agreed upon mutual satisfaction of the Parties.
11. For and during the period of time commencing with the date hereof and ending on the expiration date of this LOI, or the close of the Acquisition (whichever occurs first) (the "Lock-Up Period") none the Parties shall permit any officers, directors, stockholders, employees, agents or representatives (including without limitation, investment bankers, attorneys and accountants) to, directly or indirectly (1) initiate contact with, (2) make, solicit or encourage any inquiries or proposals by, (3) enter into or participate in any discussions or negotiations with any other entity with respect to an acquisition of Ware, or (4) disclose any of the terms and conditions of the Acquisition or other information not customarily disclosed concerning the business and properties of Ware or Pacific hereto without the prior approval of the Parties.
12. It is the further understanding and agreement of the Parties except as explicitly otherwise set forth in this LOI that (1) no liabilities or obligations of any kind whatsoever are intended to be created hereby among the Parties; (2) this LOI is not intended to constitute a legally binding contract or to consummate the proposed transactions described herein and is not an agreement to enter into a legally binding agreement, (3) any binding legal obligation of any nature among the Parties shall be only set forth in the definitive agreement; (4) no party may claim any legal rights against the other by reason of the execution of this LOI or by taking any action in reliance thereon and (5) each Party shall bear their own costs in connection with this LOI, any due diligence and the Acquisition contemplated thereby.

13. Pacific and Ware intend in good faith to use their best efforts to proceed promptly with the negotiation, execution and the delivery of the definitive agreement and the closing transactions contemplated by this LOI. This LOI shall terminate and shall be of no further force or effect if the Acquisition Agreement has not been approved by Pacific's and Ware's Boards of Directors, all required regulatory agencies and, if required, submitted to the stockholders of Pacific and Ware for approval no later than October 31, 1999 or any other date that may be mutually acceptable to the Parties.

AGREED:

AGREED:

Glenn P. Russell
Chief Executive Officer
Pacific Softworks, Inc.

Kaz Hashimoto
Chairman and CEO
ApplianceWare, Inc.

EXHIBIT 11

PACIFIC SOFTWARES, INC.

COMPUTATION OF WEIGHTED AVERAGE
COMMON SHARES OUTSTANDING

	Total Number Of Shares -----	Three Months Ended June 30, 1999 -----	Six Months Ended June 30, 1999 -----
Outstanding shares as of January 1, 1999	3,200,000	3,200,000	3,200,000
Private placement of common stock on 2/24/99	100,000	100,000	69,613
Options treated as common stock	140,000 -----	140,000 -----	140,000 -----
Total weighted average shares outstanding	3,440,000 =====	3,440,000 =====	3,409,613 =====
Net loss		\$ (404,520) =====	\$ (463,985) =====
Net loss per common share basic and diluted		\$ (0.12) =====	\$ (0.14) =====

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM PACIFIC
 SOFTWORKS, INC. BALANCE SHEET AT JUNE 30, 1999 AND THE STATEMENTS OF OPERATIONS,
 STOCKHOLDERS' EQUITY AND CASH FLOWS FOR THE PERIOD THEN ENDED, AND IS QUALIFIED
 IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

6-MOS		
	DEC-31-1999	
	JAN-01-1999	
	JUN-30-1999	
		186,190
		0
		485,728
		86,400
		0
	648,221	479,266
		363,474
	1,298,655	
	882,359	0
	0	0
		3,300
		412,996
1,298,655		
		1,419,039
	1,419,039	75,259
		1,807,765
		0
		0
		0
	(463,985)	0
	0	0
		0
		0
		0
	(463,985)	0
		(0.14)
		(0.14)