WATER CHEF INC
Form 10QSB
May 20, 2005

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

Form 10-QSB

(Mark One)

(X) QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2005

( ) TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE EXCHANGE ACT

For the transition period from __________ to __________

Commission file number 1-09478

WATERCHEF, INC.

(Exact name of small business issuer as specified in it charter)

Delaware	86-0515678
(State of other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1007 Glen Cove Avenue, Suite 1, Glen Head, New York 11545

(Address of principal executive offices)

516-656-0059

(Issuer's telephone number)

(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 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

State the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date.

OUTSTANDING AS OF MAY 18, 2005

CLASS	Common
Par value $0.001 per share	160,534,527

WATERCHEF, INC.

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WATERCHEF, INC.
(A Development-Stage Company Commencing January 1, 2002)
CONDENSED BALANCE SHEET
AT MARCH 31, 2005

(UNAUDITED)

ASSETS

CURRENT ASSETS:	
Cash	$ 35,628
Accounts receivable	125,000
Prepaid expenses	6,500
TOTAL CURRENT ASSETS	167,128
OTHER ASSETS:	
Patents and trademarks - net of accumulated amortization of $7,407	18,648
Other assets	3,162
TOTAL OTHER ASSETS	21,810
TOTAL ASSETS	$ 188,938

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

CURRENT LIABILITIES:	
Accounts payable (including related party payable of $18,625)	$ 160,700
Accrued expenses and other current liabilities	1,135,439
Notes payable (including accrued interest of $511,045)	1,194,266
Accrued dividends payable	84,259
Customer deposits	115,000
TOTAL CURRENT LIABILITIES	2,689,664
LONG-TERM LIABILITIES:	
Loans payable to stockholder (including accrued interest of $111,188)	483,969
TOTAL LIABILITIES	3,173,633
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' DEFICIENCY:	
Preferred stock - $.001 par value; 10,000,000 shares authorized; 558,443 shares issued and outstanding, (liquidation preference $1,112,000)	558
Common stock - $.001 par value; 190,000,000 shares authorized; 158,838,927 shares issued and 158,834,527 shares outstanding	158,835
Additional paid-in capital	20,280,499
Treasury stock, at cost - 4,400 shares of common stock	(5,768)
Deficit accumulated through December 31, 2001	(14,531,596)
Deficit accumulated during development stage	(8,887,223)
TOTAL STOCKHOLDERS' DEFICIENCY	(2,984,695)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$ 188,938

See notes to condensed financial statements.

WATERCHEF, INC.
(A Development-Stage Company Commencing January 1, 2002)
CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended March 31, 2005	For the Three Months Ended March 31, 2004	For the Period January 1,2002 (Inception) to March 31, 2005
SALES	$ 260,000	$ 56,290	$ 356,290
COST OF SALES	--	29,250	396,680
GROSS PROFIT (LOSS)	260,000	27,040	(40,390
SELLING, GENERAL AND ADMINISTRATIVE	347,979	285,706	3,250,989
NON-DILUTION AGREEMENT TERMINATION COST	--	298,479	2,462,453
INTEREST EXPENSE (INCLUDING INTEREST EXPENSE TO RELATED PARTY OF $5,967 AND $77,571 FOR THE PERIOD JANUARY 1, 2002 TO MARCH 31, 2005)	37,557	37,557	519,374
LOSS ON SETTLEMENT OF DEBT	--	--	2,614,017
STOCK APPRECIATION RIGHTS - REDUCTION IN VALUE	(121,340)	--	--
NET LOSS	(4,196)	(594,702)	(8,887,223
DEEMED DIVIDEND ON PREFERRED STOCK	--	--	(2,072,296
PREFERRED STOCK DIVIDENDS	(43,885)	(55,638)	(444,115
NET LOSS APPLICABLE TO COMMON STOCKHOLDERS	$ (48,081)	$ (650,340)	$ (11,403,634
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.00)	$ (0.01)	
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED	157,097,654	89,917,019	

See notes to condensed financial statements.

WATER CHEF, INC.
(A Development Stage Company Commencing January 1, 2002)
CONDENSED STATEMENT OF STOCKHOLDERS' DEFICIENCY
(UNAUDITED)

	Preferred Stock		Common S
	Shares	Amount	Shares
FOR THE THREE MONTHS ENDED MARCH 31, 2005			
BALANCE - JANUARY 1, 2005	614,413	$ 615	155,885,727
Proceeds from sale of common stock March 31,2005 - ($0.05 per share)	--	--	200,000
Common stock issued for services March 31, 2005 - ($0.05-$0.10 Per share)	--	--	230,000
Preferred stock converted to common stock March 31, 2005	(55,970)	(56)	2,518,800
Preferred stock dividend	--	--	--
Net loss	--	--	--
BALANCE - MARCH 31, 2005	558,443	$ 559	158,834,527

WATER CHEF, INC.
(A Development Stage Company Commencing January 1, 2002)
CONDENSED STATEMENT OF STOCKHOLDERS' DEFICIENCY
(UNAUDITED)
(Continued)

	Treasury Stock	Deficit Accumulated Through December 31, 2001	Deficit Accumulat During Developme Stage
FOR THE THREE MONTHS ENDED MARCH 31, 2005			
BALANCE - JANUARY 1, 2005	$ (5,768)	$(14,531,596)	$ (8,883,
Proceeds from sale of common stock March 31, 2005 - ($0.05 per share)	--	--	-
Common stock issued for services			

March 31, 2005 - ($0.05-$0.10 per share)	--	--	-
Preferred stock converted to common stock			
March 31, 2005	--	--	-
Preferred stock dividend	--	--	-
Net loss	--	--	(4,
BALANCE - MARCH 31, 2005	$ (5,768)	$(14,531,596)	$ (8,887,

See notes to condensed financial statements.

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WATERCHEF, INC.
(A Development-Stage Company Commencing January 1, 2002)

CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Three Months Ended March 31, 2005	For the Three Months Ended March 31, 2004	For the Period January 1, 2002 (Inception) to March 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (4,196)	$ (594,702)	$(8,887,223)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of patents	463	463	6,025
Non-cash Compensation	18,000	182,387	741,563
Non-dilution agreement termination cost	--	298,479	2,462,453
Loss on settlement of debt	--	--	2,614,017
Inventory reserve	--	--	159,250
Write-off of stock subscription receivable	--	--	21,800
Changes in assets and liabilities:			
Accounts receivable	(125,000)	--	(125,000)
Inventory	--	13,250	--
Prepaid expenses	10,613	(55,758)	50,000
Accounts payable, accrued expenses, accrued dividends and customer deposits	24,016	(34,177)	1,073,805
NET CASH USED IN OPERATING ACTIVITIES	(76,104)	(190,058)	(1,883,310)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Stock subscription receivable	20,000	--	65,700
Proceeds from sale of preferred stock	--	393,590	1,130,127
Proceeds from sale of common stock	10,000	--	487,600
Proceeds from sale of common stock to be issued	--	--	200,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	30,000	393,590	1,883,427

NET (DECREASE) INCREASE IN CASH	(46,104)	203,532	117
CASH AT BEGINNING OF PERIOD	81,732	102,831	35,511
CASH AT END OF PERIOD	$ 35,628	$ 306,363	$ 35,628

See notes to condensed financial statements.

WATERCHEF, INC.
(A Development Stage Company Commencing January 1, 2002)

NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - DESCRIPTION OF BUSINESS

Water Chef, Inc. (the "Company"), is a Delaware corporation currently engaged in the design and marketing of water dispensers and purification equipment both inside and outside the United States.

NOTE 2 - BASIS OF PRESENTATION AND ACCOUNTING POLICES

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted accounting principles in the United States of America for interim financial information. Accordingly, these financial statements do not include all of the information and footnotes required for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary to make the financial statements not misleading have been included. Operating results for the three-month period ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. These financial statements should be read in conjunction with the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-KSB, filed on April 6, 2005, for the year ended December 31, 2004.

Accounts receivable-Accounts receivable is reported net of an allowance for doubtful accounts, future returns, and markdowns and allowances. The amount of each allowance was determined by management to be adequate based on a periodic review of the status of the individual accounts receivable and the volume of returns.

Revenue recognition-Revenue is recognized when products are shipped, title passes and collectibility is reasonably assured.

Stock-Based Compensation - In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company will continue to account for stock-based compensation according to APB Opinion No. 25.

The following table summarizes relevant information as to reported results under the Company's intrinsic value method of accounting for stock awards, with supplemental information as if the fair value recognition provisions of SFAS No.123 had been applied for the periods ended March 31, 2005 and 2004 as follows:

	Three Months Ended March 31,	
	2005	2004
Net loss applicable to common stock	$ (4,196)	$ (594,702)
Add:		
Stock-based employee compensation adjustment included in reported net loss	--	--
Less:		
Stock-based employee compensation cost net of tax effect under fair value accounting	--	(34,618)
Proforma net loss under fair value accounting	$ (4,196)	$ (629,320)
Loss per share - basic and diluted as reported	$ (0.00)	$ (0.01)
Proforma loss per share - basic and diluted	$ (0.00)	$ (0.01)

NOTE 3 - GOING CONCERN

The accompanying condensed financial statements have been prepared assuming that the Company will continue as a going concern. The Company has suffered recurring losses and has a working capital deficiency of approximately $2,523,000 at March 31, 2005. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with respect to these matters include restructuring its existing debt, settling its existing debt by issuing shares of its common stock and raising additional capital through future issuance of stock and or debentures. The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

NOTE 4 - RECENT ACCOUNTING STANDARDS

In December 2004, the FASB issued SFAS No. 123R, "Share Based Payment." This statement is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS No.123R addresses all forms of share based payment ("SBP") awards including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. Under SFAS No.123R, SBP awards result in a cost that will be measured at fair value on the awards' grant dates, based on the estimated number of awards that are expected to vest. This statement is effective for public entities that file as small business issuers - as of the beginning of the first interim or annual reporting period that begins after December 15, 2005.

The adoption of this pronouncement is not expected to have a material effect on the Company's financial statements.

NOTE 5 - NET INCOME (LOSS) PER SHARE OF COMMON STOCK

Basic loss per share was computed using the weighted average number of outstanding common shares. Diluted loss per share includes the effect of dilutive common stock equivalents from the assumed exercise of options, warrants and convertible preferred stock. Common stock equivalents were excluded in the computation of diluted loss per share since their inclusion would be anti-dilutive. Total shares issuable upon the exercise of options, warrants and conversion of preferred stock for the three months ended March 31, 2005 and 2004 were 31,325,702 and 49,781,309, respectively.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Leases

The Company leases its administrative facilities, located in Glen Head, New York, on a month-to-month basis.

NOTE 7 - COMMON STOCK ISSUED

Cash

During the three months ended March 31, 2005, the Company raised $10,000 through the sale of 200,000 shares of common stock.

Services

During the three months ended March 31, 2005, the Company issued 230,000 shares of common stock for services for a value of $18,000.

Conversion of preferred stock into common stock

During the three months ended March 31, 2005, the Company issued various parties 2,518,800 shares of common stock in connection with the conversion of preferred stock.

WATERCHEF, INC.
(A Development Stage Company Commencing January 1, 2002)

NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 8- MAJOR CUSTOMERS

During the quarter ended March 31, 2005, the Company sold five units to two customers. During the quarter ended March 31, 2004, the Company sold one unit to one customer. At March 31, 2005, accounts receivable from one customer totaled $125,000.

ITEM 2 - MANAGEMENTS DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion and analysis of financial condition and results of operations of the Company should be read in conjunction with the Company's Financial Statements and related Footnotes.

Forward-Looking Statements

Management's discussion and analysis of financial condition and results of operations and other sections of this Report contain "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. We intend for the forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in these sections. All statements regarding the Company's expected financial position, business and financing plans are forward-looking statements. Such forward-looking statements are identified by use of forward-looking words such as "anticipates," "believes," "plans," "estimates," "expects," and "intends" or words or phrases of similar expression. These forward-looking statements are subject to various assumptions, risks and uncertainties, including but not limited to, changes in political and economic conditions, demand for the Company's products, acceptance of new products, technology developments affecting the Company's products and to those discussed in the Company's filings with the Securities and Exchange Commission. Accordingly, actual results could differ materially from those contemplated by the forward-looking statements.

Introduction

Until the fourth quarter of 2001, Water Chef was engaged in the manufacture and marketing of water coolers and water purification and filtration products. In the fourth quarter of 2001, the Company completed the sale of this business in order to focus its activities on its PureSafe line of business. The PureSafe Water Station has been designed by the Company to meet the needs of communities who either do not have access to municipal water treatment systems, or for those whose systems have been compromised, either by environmental factors or by faulty design or maintenance.

Results of Operations

Revenue for the three months ended March 31, 2005 and March 31, 2004 were $260,000 and $56,290 respectively. During the quarter ended March 31, 2005, the Company recognized the sale of five PureSafe Water Station Systems. Four of these systems are to be used for the sale of water in Ecuador, and the fifth system was purchased by a humanitarian buyer to be used as part of the tsunami relief effort in Sri Lanka. In addition, Water Chef received deposits of $115,000 during the first quarter for relief effort systems that will be shipped in the second quarter of 2005.

Cost of sales for the three month periods ended March 31, 2005 and March 31, 2004 were $0 and $29,250 respectively. The cost of the units sold during the first quarter of year 2005 was previously written off. An analysis of the components of cost of sales in the 2005 and 2004 periods follows:

Cost of Sales Period	Product CGS	Rent and Overhead Payments to Manufacturer	Total
For the three month Ended March 31, 2005	$ --	$ --	$ --
For the three month Ended March 31, 2004	13,250	16,000	29,250

Selling, general and administrative expenses for the three months ended March 31, 2005 were $347,979, compared to $285,706 for the three months ended March 31, 2004, an increase of 22% primarily caused by an increase in commissions payable associated with the sales of PureSafe Water Station Systems as described above.

The net loss for the three months ended March 31, 2005 was $4,196 compared to $594,702 in the same period ended March 31, 2004.

Liquidity and Capital Resources

At March 31, 2005, the Company had a working capital deficiency of approximately $2,523,000. In addition, the Company continues to suffer recurring losses. The accompanying financial statements have been prepared assuming that that the Company will continue as a going concern. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with respect to these matters include restructuring its existing debt, raising additional capital through future issuances of stock and/or equity, and finding sufficient profitable markets for its products to generate sufficient cash to meet its business obligations. The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

During the three months ended March 31, 2005 the Company raised $10,000 from the sale of its common stock.

Recent Accounting Standards

In December 2004, the FASB issued SFAS No. 123R, "Share Based Payment." This statement is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS No.123R addresses all forms of share based payment ("SBP") awards including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. Under SFAS No.123R, SBP awards result in a cost that will be measured at fair value on the awards' grant dates, based on the estimated number of awards that are expected to vest. This statement is effective for public entities that file as small business issuers - as of the beginning of the first interim or annual reporting period that begins after December 15, 2005.

The adoption of this pronouncement is not expected to have a material effect on the Company's financial statements.

ITEM 3 - CONTROLS AND PROCEDURES

Evaluation and Disclosure Controls and Procedures

The Company, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's "disclosure controls and procedures," as such term is defined in Rules 13a-15e promulgated under the Exchange Act as of this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer has concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Management is aware that there is a lack of segregation of duties at the Company due to the small number of employees dealing with general administrative and financial matters. This constitutes a material weakness in the financial reporting. However, at this time management has decided that considering the employees involved and the control procedures in place, the risks associated with such lack of segregation are insignificant and the potential benefits of adding additional employees to clearly segregate duties do not justify the expenses associated with such increases. Management will periodically reevaluate this situation. If the volume of the business increases and sufficient capital is secured, it is the Company's intention to increase staffing to mitigate the current lack of segregation of duties within the general administrative and financial functions.

Changes in Internal Controls

There have been no changes in internal controls or in other factors that could significantly affect those controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Limitations on the Effectiveness of Controls

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a Company have been detected.

PART 11 - OTHER INFORMATION

ITEM 2 - CHANGES IN SECURITIES AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

During the three months ended March 31, 2005, the Company raised $10,000 through the sale of 200,000 shares of common stock on March 21, 2005.

During the three months ended March 31, 2005, the Company issued an aggregate of 230,000 shares of its Common stock for professional services totaling $18,000.

During the three months ended March 31, 2005, the Company issued various parties 2,518,800 shares of common stock in connection with the conversion of preferred stock.

The Company issued these shares in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act of 1933 and Regulation D promulgated thereunder. These shares were offered to less than 35 "non-accredited" investors and were purchased for investment purposes with no view to resale.

SIGNATURE

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

Water Chef, Inc.

/s/ David A. Conway

Date 5/20/05

David A. Conway
President, Chief Executive Officer, and Chief Financial Officer
(Principal Operating Officer)

Index of Exhibits

Exhibit No.	Description
31	Certification of Chief Executive Officer and Chief Financial

	Officer pursuant to Section 30 of Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 8 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.