

Edgar Filing: WATER CHEF INC - Form 10QSB

WATER CHEF INC  
Form 10QSB  
May 10, 2006

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, 2006

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

For the transition period from to

Commission file number 1-09478

WATER CHEF, INC.

-----  
(Exact name of small business issuer as specified in its 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  
-----

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

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 3, 2006

Edgar Filing: WATER CHEF INC - Form 10QSB

CLASS	Common
-----	-----
Par value \$0.001 per share	190,508,267
Transitional Small Business Disclosure Format (Check one): Yes	No X
	-----

WATER CHEF, INC.

INDEX

PART I - FINANCIAL INFORMATION:	Page
	----
ITEM 1 - FINANCIAL STATEMENTS	
CONDENSED BALANCE SHEET (UNAUDITED)	2
At March 31, 2006	
CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)	3
For the Three Months Ended March 31, 2006 and 2005	
For the Period January 1, 2002 to March 31, 2006	
CONDENSED STATEMENT OF STOCKHOLDERS' DEFICIENCY (UNAUDITED)	4-5
For the Three Months Ended March 31, 2006	
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)	6
For the Three Months Ended March 31, 2006 and 2005	
For the Period January 1, 2002 to March 31, 2006	
NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)	7 - 9
ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN	
OF OPERATION	10 - 11
ITEM 3 - CONTROLS AND PROCEDURES	11 - 12
PART II - OTHER INFORMATION:	
ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE	
OF PROCEEDS	12
ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	12
ITEM 6 - EXHIBITS	12
SIGNATURE	13
CERTIFICATIONS	

# Edgar Filing: WATER CHEF INC - Form 10QSB

WATER CHEF, INC.  
(A Development-Stage Company Commencing January 1, 2002)  
CONDENSED BALANCE SHEET  
AT MARCH 31, 2006  
(UNAUDITED)

## ASSETS -----

CURRENT ASSETS:	
Cash	\$ 196,921
Prepaid expenses	28,669
	-----
TOTAL CURRENT ASSETS	225,590
OTHER ASSETS:	
Patents and trademarks - net	16,794
Other assets	3,162
	-----
TOTAL OTHER ASSETS	19,956
	-----
TOTAL ASSETS	\$ 245,546
	=====

## LIABILITIES AND STOCKHOLDERS' DEFICIENCY -----

CURRENT LIABILITIES:	
Accounts payable (including related party of \$19,677)	\$ 201,304
Accrued expenses and other current liabilities	324,173
Accrued compensation	537,417
Accrued consulting and director fees	550,333
Notes payable (including accrued interest of \$567,016)	1,226,274
Convertible promissory note (including interest of \$6,461)	208,374
Fair-value of detachable warrants	35,200
Fair-value of embedded conversion option	261,200
Accrued dividends payable	147,470
	-----
TOTAL CURRENT LIABILITIES	3,491,745
LONG-TERM LIABILITIES:	
Loans payable to stockholder (including accrued interest of \$135,056)	507,837
	-----
TOTAL LIABILITIES	3,999,582
	-----

## COMMITMENTS AND CONTINGENCIES

### STOCKHOLDERS' DEFICIENCY:

Preferred stock - \$.001 par value; 10,000,000 shares authorized; 235,585 shares issued and outstanding, (liquidation preference \$1,651,375)	236
Common stock - \$.001 par value; 340,000,000 shares authorized; 186,067,785 shares issued and 186,063,385 shares outstanding	186,068
Additional paid-in capital	21,139,350
Treasury stock, at cost - 4,400 shares of common stock	(5,768)
Deficit accumulated through December 31, 2001	(14,531,596)

## Edgar Filing: WATER CHEF INC - Form 10QSB

Deficit accumulated during development stage	(10,542,326)
	-----
TOTAL STOCKHOLDERS' DEFICIENCY	(3,754,036)
	-----
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	\$ 245,546
	=====

See notes to condensed financial statements.

2

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

	For the Three Months Ended March 31,		For the Period January 1, 2002 March 31, 2006
	2006	2005	
SALES	\$ 115,000	\$ 260,000	\$ 471,200
	-----	-----	-----
COST OF SALES	51,000	--	489,600
SELLING, GENERAL AND ADMINISTRATIVE - Including stock based compensation of \$15,000 and \$18,000 for the three months ended March 31, 2006 and 2005 and \$792,390 for the period January 1, 2002 to March 31, 2006, respectively	284,971	347,979	4,382,500
NON-DILUTION AGREEMENT TERMINATION COST	--	--	2,462,400
INTEREST EXPENSE - including interest expense to a related party of \$5,967 and \$5,967 for the three months ended March 31, 2006 and 2005 and \$101,439 for the period January 1, 2002 through March 31, 2006	155,800	37,557	881,800
FINANCING COSTS - EXTENSION OF WARRANTS	--	--	74,700
LOSS ON SETTLEMENT OF DEBT	--	--	2,614,000
STOCK APPRECIATION RIGHTS - REDUCTION IN VALUE	--	(121,340)	--
CHANGE IN FAIR VALUE OF WARRANTS AND EMBEDDED CONVERSION OPTION	114,200	--	108,400
	-----	-----	-----
	605,971	264,196	11,013,600

Edgar Filing: WATER CHEF INC - Form 10QSB

NET LOSS	(490,971)	(4,196)	(10,542,3
DEEMED DIVIDEND ON PREFERRED STOCK	--	--	(2,072,2
PREFERRED STOCK DIVIDENDS	--	(43,885)	(466,6
	--	(43,885)	(2,538,9
NET LOSS APPLICABLE TO COMMON STOCKHOLDERS	\$ (490,971)	\$ (48,081)	\$ (13,081,2
BASIC AND DILUTED LOSS PER COMMON SHARE	\$ (0.00)	\$ (0.00)	
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED	182,431,046	157,097,654	

See notes to condensed financial statements.

3

WATER CHEF, INC.  
(A Development Stage Company Commencing January 1, 2002)  
CONDENSED STATEMENT OF STOCKHOLDERS' DEFICIENCY  
FOR THE THREE MONTHS ENDED MARCH 31, 2006  
(UNAUDITED)

	Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount
BALANCE - JANUARY 1, 2006	235,585	\$ 236	181,779,000	\$ 181,779
Proceeds from sale of common stock (\$0.07 per share) March 21, 2006	--	--	3,600,000	3,600
Common stock issued for services (\$0.06 per share) March 21, 2006	--	--	250,000	250
Common stock issued in repayment of debt (\$0.11 per share) February 13, 2006	--	--	438,785	439
Net loss	--	--	--	--
BALANCE - MARCH 31, 2006	235,585	\$ 236	186,067,785	\$ 186,068

See notes to condensed financial statements

WATER CHEF, INC.  
 (A Development Stage Company Commencing January 1, 2002)  
 CONDENSED STATEMENT OF STOCKHOLDERS' DEFICIENCY  
 FOR THE THREE MONTHS ENDED MARCH 31, 2006  
 (UNAUDITED)  
 (Continued)

		Treasury Stock	Deficit Accumulated Through December 31, 2001	Deficit Accumulated During Development Stage	To Stockh Defic
	\$	-----	-----	-----	-----
BALANCE - JANUARY 1, 2006	(5,768)	\$ (14,531,596)	\$ (10,051,355)	\$ (3,5	\$ (3,5
Proceeds from sale of common stock (\$0.07 per share) March 21, 2006	--	--	--	--	2
Common stock issued for services (\$0.06 per share) March 21, 2006	--	--	--	--	--
Common stock issued in repayment of debt (\$0.11 per share) February 13, 2006	--	--	--	--	--
Net loss	--	--	(490,971)	(4	(4
BALANCE - March 31, 2006	\$ (5,768)	\$ (14,531,596)	\$ (10,542,326)	\$ (3,7	\$ (3,7
	=====	=====	=====	=====	=====

See notes to condensed financial statements.

WATER CHEF, INC.  
 (A Development-Stage Company Commencing January 1, 2002)  
 CONDENSED STATEMENTS OF CASH FLOWS  
 (UNAUDITED)

	For the Three Months Ended March 31,	For the Period January 1, 2002 (Inception) to March 31, 2006
	-----	-----
	2006	2005

Edgar Filing: WATER CHEF INC - Form 10QSB

	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (490,971)	\$ (4,196)	\$ (10,542,326)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of patents	463	463	7,879
Interest expense - deferred financing	4,687	--	7,500
Stock-based compensation	15,000	18,000	792,390
Accretion of debt discount	112,800	--	188,000
Change in fair value of warrants and embedded conversion option	114,200	--	108,400
Loss on settlement of debt	--	--	2,614,017
Non-dilution agreement termination cost	--	--	2,462,453
Inventory reserve	--	--	159,250
Write-off of stock subscription receivable	--	--	21,800
Financing cost - warrant extension	--	--	74,700
Changes in assets and liabilities:			
Accounts receivable	--	(125,000)	--
Inventory	30,000	--	--
Prepaid expenses	(5,705)	10,613	27,831
Accounts payable, accrued expenses, accrued dividends, accrued compensation, accrued Consulting and director fees, and other current liabilities	(69,546)	24,016	1,402,593
NET CASH USED IN OPERATING ACTIVITIES	(289,072)	(76,104)	(2,675,513)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Reduction in stock subscription receivable	--	20,000	65,700
Proceeds from sale of preferred stock	--	--	1,130,127
Proceeds from sale of common stock	250,000	10,000	1,222,560
Proceeds from sale of common stock to be issued	--	--	200,000
Deferred financing costs	--	--	(7,500)
Proceeds from convertible promissory note	--	--	250,000
Repayment of notes payable	(8,602)	--	(23,964)
NET CASH PROVIDED BY FINANCING ACTIVITIES	241,398	30,000	2,836,923
NET (DECREASE) INCREASE IN CASH	(47,674)	(46,104)	161,410
CASH AT BEGINNING OF PERIOD	244,595	81,732	35,511
CASH AT END OF PERIOD	\$ 196,921	\$ 35,628	\$ 196,921
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:			
Compensation satisfied by issuance of common stock	\$ --	\$ --	\$ 55,250
Common stock issued for settlement of debt and accrued interest	\$ 48,485	\$ --	\$ 5,763,206

See notes to condensed financial statements.

# Edgar Filing: WATER CHEF INC - Form 10QSB

WATER CHEF, 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. The Company's corporate headquarters are located in Glen Head, New York.

### NOTE 2 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICES

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted 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.

The operating results for the three-month period ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. 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 March 22, 2006, for the year ended December 31, 2005.

### DEVELOPMENT STAGE COMPANY

The Company is in the development stage as defined by Statement of Financial Accounting Standards ("SFAS") Statement No. 7, "Accounting and Reporting for Development Stage Companies." To date, the Company has generated limited sales and has devoted its efforts primarily to developing its products, implementing its business and marketing strategy and raising working capital through equity financing or short-term borrowings.

### REVENUE RECOGNITION

The Company recognizes its revenue when products are shipped and or title passes and collection is reasonably assured.

### STOCK BASED COMPENSATION

Prior to January 1, 2006, the Company accounted for employee stock transactions in accordance with Accounting Principle Board, APB Opinion No. 25, "Accounting for Stock Issued to Employees." The Company had adopted the pro forma disclosure requirements of Statement of Financial Accounting Standards No. 123, "Accounting For Stock-Based Compensation."

Effective January 1, 2006, the Company adopted SFAS No. 123R "Share Based Payment." This statement is a revision of SFAS No. 123, and supersedes APB Opinion No. 25, 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 will result in a charge to operations that will be measured at fair value on the awards grant date, based on the estimated number of awards expected to vest over the service period.

No table has been disclosed for the period ended March 31, 2005 to illustrate



## Edgar Filing: WATER CHEF INC - Form 10QSB

the effect on the net loss and loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation. Since no options were granted during the respective period net loss and pro forma net loss are identical. The Company has granted no employee options during the three months ended March 31, 2006 and 2005.

### 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 incurred recurring losses from operations, an accumulated deficit since its inception of approximately \$25,070,000 and has a working capital deficiency of approximately \$3,266,000 at March 31, 2006. 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. However, there can be no assurance that the Company will be able to obtain sufficient funds to continue the development of its product, marketing plan and distribution network.

The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

7

WATER CHEF, INC.

(A Development Stage Company Commencing January 1, 2002)

### NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

### NOTE 4 - RECENT ACCOUNTING STANDARDS

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, which is an amendment of SFAS No. 133 and 140. This Statement; a) permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, b) clarifies which interest-only strip and principal-only strip are not subject to the requirements of SFAS 133, c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, e) amends SFAS 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for financial statements for fiscal years beginning after September 15, 2006. Earlier adoption of this Statement is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued any financial statements for that fiscal year. Management is evaluating if this Statement will have a significant impact on the financial statements of the Company.

In March 2006, the FASB issued SFAS No. 156, which amends FASB Statement No. 140. This Statement establishes, among other things, the accounting for all separately recognized servicing assets and servicing liabilities. This Statement amends SFAS No. 140 to require that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable.

## Edgar Filing: WATER CHEF INC - Form 10QSB

This Statement permits, but does not require, the subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value. An entity that uses derivative instruments to mitigate the risks inherent in servicing assets and servicing liabilities is required to account for those derivative instruments at fair value. Under this Statement, an entity can elect subsequent fair value measurement to account for its separately recognized servicing assets and servicing liabilities. By electing that option, an entity may simplify its accounting because this Statement permits income statement recognition of the potential offsetting changes in fair value of those servicing assets and servicing liabilities and derivative instruments in the same accounting period. This Statement is effective for financial statements for fiscal years beginning after September 15, 2006. Earlier adoption of this Statement is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued any financial statements for that fiscal year. Management believes that the adoption of this Statement will not have a significant impact on its financial statements.

### NOTE 5 - CONVERTIBLE PROMISSORY NOTES

In November 2005, the Company entered into a Convertible Promissory Note agreement for \$250,000 which included 430,000 warrants, which are exercisable at \$0.14 per share and have a life of three years. The warrants carry a cashless exercise provision. The Convertible Promissory Note bears interest at a rate of 8% per annum and matured in March 2006.

The note included certain conversion features as follows:

- o convertible at any time after the maturity date, at the option of the holder,
- o convertible at 85% of the average of the three 3 lowest closing bid prices for the common stock, for the ten trading days ending on the trading day immediately before the conversion date.

The Convertible Promissory Note agreement required the Company to file a registration statement no later than sixty business days from the date of the agreement and no less than the amount of subscribed shares, and to cause the registration statement relating to the registrable securities to become effective the earlier of five business days after notice from the Securities and Exchange Commission that the registration statement may be declared effective, or (b) one hundred twenty days.

The Convertible Promissory Note agreement included a liquidated damages clause, which stipulates if the registration statement is not filed by the filing date or declared effective by the effective date, then upon failure of either event the subscriber shall be entitled to liquidated damages, payable in cash, in the sum of one percent (1%) of the principal amount of the Note:

- a. for each 30 day period after the filing date that transpires until the date that the Company files the registration statement, and
- b. for each 30 day period after the effective date that transpires until such date as the registration statement is declared effective.

The gross proceeds of \$250,000 were recorded net of a discount of \$188,000. The debt discount consisted of \$47,200 related to the warrants and \$140,800 related to the embedded conversion option. The warrants and the embedded conversion option were accounted for under EITF issue No. 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" and EITF 05-4, view A "The effect of a Liquidated Damages Clause on a

## Edgar Filing: WATER CHEF INC - Form 10QSB

Freestanding Financial Instrument." Due to certain factors and the liquidated damage provision in the registration rights agreement, the Company determined that the embedded conversion option and the warrants are derivative liabilities. Accordingly, the warrants and the embedded conversion option will be marked to market through earnings at the end of each reporting period. Due to the fact that the registration statement became effective on January 30, 2006, the value of the registration rights was deemed to be de minimis. The warrants and the conversion option are valued using the Black-Scholes valuation model. For the period ended March 31, 2006, the Company reflected a loss of \$114,200 representing the change in the value of the warrants and conversion option. The Company charged to interest expense \$112,800 for the remaining debt discount.

During the period ended March 31, 2006, the Company issued 438,750 shares of common stock for the partial settlement of \$48,087 of the debt and \$398 of accrued interest.

This Convertible Promissory Note is secured by 4,000,000 shares held by an officer of the Company.

Subsequent to March 31, 2006, the Company issued 2,573,762 shares of common stock for the settlement of the remaining \$201,913 principal and accrued interest of \$6,064.

### NOTE 6 - 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, 2006 and 2005 were 11,270,107 and 31,325,702, respectively.

### NOTE 7 - COMMITMENTS AND CONTINGENCIES

#### Leases

-----

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

### NOTE 8 - COMMON STOCK ISSUED

#### Cash

----

During the three months ended March 31, 2006, the Company raised \$250,000 through the sale of 3,600,000 shares of common stock.

#### Services

-----

During the three months ended March 31, 2006, the Company issued 250,000 shares of common stock for services for a value of \$15,000.

#### Debt

----

During the three months ended March 31, 2006, the Company issued 438,785 shares of common stock to pay-down \$48,485 of its debt and accrued interest.

## Edgar Filing: WATER CHEF INC - Form 10QSB

### NOTE 9- MAJOR CUSTOMERS/CREDIT RISK

During the three months ended March 31, 2006, the Company sold two units to one customer and recognized revenues of \$115,000. During the three month period ended March 31, 2005, the Company sold five units to two customers and recognized revenues of \$260,000.

The Company maintains cash deposits with financial institutions, which from time to time may exceed federally insured limits. The Company has not experienced any losses and believes it is not exposed to any significant credit risk from cash.

### NOTE 10- SUBSEQUENT EVENTS

Subsequent to March 31, 2006, the Company converted 46,868 shares of Convertible Series F Preferred Stock to 1,866,720 shares of common stock.

9

## 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 Condensed Financial Statements and related Footnotes.

### Forward-Looking Statements

-----  
This quarterly report on Form 10-QSB contains "forward-looking statements" intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. 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 ("SEC"). 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, 2006 and 2005 were \$115,000 and \$260,000 respectively. During the three months ended March 31, 2006, the Company recognized the sale of two PureSafe Water Station Systems

## Edgar Filing: WATER CHEF INC - Form 10QSB

Cost of sales for the three month period ended March 31, 2006 and 2005 were \$51,000 and \$0, respectively. An analysis of the components of cost of sales in the 2006 and 2005 periods follows:

Cost of Sales Period	Product CGS	Rent and Overhead Payments to Manufacturer	Total
For the three months ended March 31, 2006	\$ 30,000	\$ 21,000	\$ 51,000
For the three months ended March 31, 2005	\$ --	\$ --	\$ --

Selling, general and administrative expenses for the three months ended March 31, 2006 were \$284,971, compared to \$347,979 for the three months ended March 31, 2005, a decrease of 18%.

The net loss for the three months ended March 31, 2006 was \$490,971 compared to \$4,196 in the same period ended March 31, 2005.

### Liquidity and Capital Resources

At March 31, 2006, the Company had a working capital deficiency of approximately \$3,266,000. In addition, the Company continues to suffer recurring losses from operations and has an accumulated deficit since inception of approximately \$25,070,000. 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. However, there can be no assurance that the Company will be able to obtain sufficient funds to continue the development of its product, marketing plan and distribution network.

The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

### Recent Accounting Standards

In February 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Statement ("SFAS") No. 155, which is an amendment of SFAS No. 133 and 140. This Statement; a) permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, b) clarifies which interest-only strip and principal-only strip are not subject to the requirements of SFAS 133, c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, e) amends SFAS 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative

## Edgar Filing: WATER CHEF INC - Form 10QSB

financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for financial statements for fiscal years beginning after September 15, 2006. Earlier adoption of this Statement is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued any financial statements for that fiscal year. Management is evaluating if this Statement will have an impact on the financial statements of the Company.

In March 2006, the FASB issued SFAS No. 156, which amends FASB Statement No. 140. This Statement establishes, among other things, the accounting for all separately recognized servicing assets and servicing liabilities. This Statement amends SFAS No. 140 to require that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. This Statement permits, but does not require, the subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value. An entity that uses derivative instruments to mitigate the risks inherent in servicing assets and servicing liabilities is required to account for those derivative instruments at fair value. Under this Statement, an entity can elect subsequent fair value measurement to account for its separately recognized servicing assets and servicing liabilities. By electing that option, an entity may simplify its accounting because this Statement permits income statement recognition of the potential offsetting changes in fair value of those servicing assets and servicing liabilities and derivative instruments in the same accounting period. This Statement is effective for financial statements for fiscal years beginning after September 15, 2006. Earlier adoption of this Statement is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued any financial statements for that fiscal year. Management believes that the adoption of this Statement will not have a significant impact on its 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 Securities Exchange Act of 1934, as amended (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 significant deficiency in the financial reporting. Management has mitigated these factors by hiring an outside accountant/bookkeeper to review and compile the financial statements on a quarterly and annual basis.

At this time management has decided that considering the employees involved and the control procedures in place and the potential benefits of adding additional employees to clearly segregate duties does not justify the additional expense.

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

## Edgar Filing: WATER CHEF INC - Form 10QSB

duties within the general administrative and financial functions.

### Changes in Internal Controls

-----

Management has evaluated the effectiveness of the disclosure controls and procedures as of March 31, 2006. Based on such evaluation, management has concluded that the disclosure controls and procedures were effective for their intended purpose described above. There were no changes to the internal controls during the quarter ended March 31, 2006 that have materially affected or that are reasonably likely to affect the internal controls.

11

### 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. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving its objectives. The Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective at that reasonable assurance level.

## PART II - OTHER INFORMATION

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

During the three months ended March 31, 2006, the Company raised \$250,000 through the sale of 3,600,000 shares of common stock.

During the three months ended March 31, 2006, the Company issued 250,000 shares of common stock for services for a value of \$15,000.

During the three months ended March 31, 2006, the Company issued 438,785 shares of common stock to pay-down \$48,485 of its debt and accrued interest.

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 there under. These shares were offered to less than 35 "non-accredited" investors and were purchased for investment purposes with no view to resale.

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

Edgar Filing: WATER CHEF INC - Form 10QSB

- a) On March 14, 2006, the Company held its annual meeting in Saugus, Massachusetts;
- b) The following Directors were elected based upon the following tabulations of votes:

	FOR -----	WITHHELD -----
David A. Conway	142,097,415	1,086,957
John J. Clarke	142,410,479	744,993
Marshall S. Sterman	142,119,887	1,039,485

The second order of business was to consider and vote upon a proposal to amend the Company's Restated Certificate of Incorporation to increase the authorized capital stock of the Company from 200,000,000 shares to 350,000,000 shares, consisting of 340,000,000 shares of common stock and 10,000,000 shares of preferred stock, which passed based upon the following tabulations of votes.

FOR -----	AGAINST -----	WITHHELD -----
135,754,711	7,328,926	75,735

ITEM 6 - EXHIBITS

Exhibit No.	Description
31	Certificate of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31	Certificate of Chief Executive Officer and Chief Financial Officer pursuant to 8 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

12

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.

Date May 10, 2006

/s/ David A. Conway

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

13



