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AQUACELL TECHNOLOGIES INC

Form 10QSB

February 14, 2003

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

Form 10-QSB

(Mark one)

Quarterly report under Section 13 or 15(d) of the Securities  
Exchange Act of 1934  
For the quarterly period ended December 31, 2002.

Transition report under Section 13 or 15(d) of the Exchange Act  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-16165

AQUACELL TECHNOLOGIES, INC.

(Exact Name of Small Business Issuers as Specified in its Charter)

Delaware 33-0750453  
(State of Incorporation) (IRS employer identification number)

10410 Trademark Street  
Rancho Cucamonga, CA 91730  
(Address of Principal Executive Offices)

(909) 987-0456  
(Issuer's Telephone Number, Including Area Code)

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  No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDING DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports  
required to be filed by Section 12, 13 or 15(d) of the Exchange  
Act after the distribution of Securities under a plan confirmed  
by a court.

Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's  
classes of common equity, as of the latest practicable date:

Common Stock, \$.001 par value 8,701,224 shares issued and  
outstanding as of February 10, 2003.

Transitional Small Business Disclosure Format (check one):

Yes  No

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AQUACELL TECHNOLOGIES, INC.

FORM 10-QSB

FOR THE QUARTER ENDED DECEMBER 31, 2002

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### AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEET December 31, 2002 (Unaudited)

#### ASSETS

##### Current assets:

Cash.....	\$	2,000
Notes receivable, including accrued interest of \$57,000.....		294,000
Accounts receivable, net of allowance of \$4,000.....		449,000
Inventories.....		112,000

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Prepaid expenses and other current assets.....	101,000	
Total current assets .....	958,000	
Property and equipment, net .....	54,000	
Other assets:		
Goodwill.....	1,114,000	
Investments.....	274,000	
Patents, net .....	109,000	
Security deposits .....	14,000	
Total other assets .....	1,511,000	
	\$ 2,523,000	
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable .....	\$ 747,000	
Accrued expenses .....	330,000	
Loans payable to finance company.....	282,000	
Customer deposits.....	32,000	
Current portion of long-term debt.....	4,000	
Loans payable to related parties.....	68,000	
Total current liabilities	1,463,000	
Loan-term debt, net of current portion.....	5,000	
Total liabilities.....	1,468,000	
Commitments and contingencies		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, par value \$.001;		
10,000,000 shares authorized; no shares issued.....	-	
Common stock, par value \$.001;		
40,000,000 shares authorized; 8,601,224 shares		
issued and outstanding.....	9,000	
Additional paid-in capital.....	12,833,000	
Accumulated deficit.....	(11,250,000)	
	1,592,000	
Unamortized deferred compensation.....	(537,000)	
Total stockholders' equity.....	1,055,000	
	\$ 2,523,000	

See notes to condensed consolidated financial statements.

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## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2002	2001	2002	2001
Revenue:				
Net sales.....	\$ 204,000	\$ 84,000	\$ 1,134,000	\$ 152,000
Rental income.....	2,000	2,000	4,000	4,000
	206,000	86,000	1,138,000	156,000
Cost of sales.....	139,000	35,000	604,000	63,000
	67,000	51,000	534,000	93,000
Selling, general and administrative expenses:				
Salaries and wages.....	283,000	234,000	593,000	467,000
Legal, accounting and other professional expenses.....	30,000	104,000	104,000	267,000
Stock based compensation.....	55,000	260,000	100,000	450,000
Impairment loss on investment in Corbett Water Technologies, Inc.	-	1,226,000	-	1,226,000
Other.....	245,000	273,000	522,000	517,000
	613,000	2,097,000	1,319,000	2,927,000
Loss from operations before other (expense) income.....	(546,000)	(2,046,000)	(785,000)	(2,834,000)
Other (expense) income:				
Interest expense.....	(18,000)	-	(22,000)	-
Interest income.....	14,000	35,000	32,000	75,000
Other income.....	-	100,000	-	100,000
	(4,000)	135,000	10,000	175,000
Net loss attributable to common stockholders.....	\$ (550,000)	\$ (1,911,000)	\$ (775,000)	\$ (2,659,000)
Net loss per common share---				
basic dilute.....	\$ (0.06)	\$ (0.23)	\$ (0.09)	\$ (0.33)
Weighted average shares outstanding--				
basic and diluted.....	8,601,000	8,160,000	8,601,000	7,947,000

See notes to condensed consolidated financial statements.

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### CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended December 31,	
	2002	2001
Cash flows from operating activities:		
Net loss.....	\$ (775,000)	\$ (2,659,000)
Adjustment to reconcile net loss to net cash used in operating activities;		
Impairment loss on investment in Corbett Water Technologies, Inc.....	-	1,226,000
Stock based compensation.....	100,000	459,000
Depreciation and amortization.....	31,000	27,000
Changes in:		
Accounts receivable.....	(258,000)	(31,000)
Accrued interest receivable.....	(32,000)	27,000
Prepaid expenses and other current assets.....	115,000	1,000
Inventories.....	(10,000)	(2,000)
Accounts payable.....	29,000	222,000
Accrued expenses.....	416,000	130,000
Customer deposits.....	16,000	-
Net cash used in operating activities.....	(368,000)	(600,000)
Cash flows from investing activities:		
Notes issued for purchase of property and equipment, net of payments.....	9,000	-
Collections on notes receivable.....	-	317,000
Purchase of property and equipment.....	(11,000)	(4,000)
Net cash provided by (used in) investing activities.....	(2,000)	313,000
Cash flows from financing activities:		
Proceeds of loans from finance company.....	438,000	-
Payments on loans from finance company.....	(156,000)	-
Loans and advances from related parties, net.....	39,000	(4,000)
Net cash provided by (used in) financing activities.....	321,000	(4,000)
Decrease in cash.....	\$ (49,000)	\$ (291,000)
Cash, beginning of period.....	51,000	298,000
Cash, end of period.....	\$ 2,000	\$ 7,000
Supplemental disclosure of cash flow information:		
Cash paid for interest.....	\$ 10,000	\$ -
Supplemental schedule of non-cash investing and financing activities:		
Issuance of common stock in connection with investment.....	\$ -	\$ 1,500,000
Issuance of common stock and warrants for services to the company.....	\$ 43,000	\$ 525,000
Principal payments on notes receivable by conversion of accrued officers salaries.....	284,000	\$ -

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Retirement of 82,422 shares of treasury stock.. \$ 251,000 \$ -

See notes to condensed consolidated financial statements.

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### AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 (Unaudited)

##### NOTE A - BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of the company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with 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 normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the six months ended December 31, 2002 are not necessarily indicative of the results to be expected for the full year. For further information, refer to the Company's annual report filed on Form 10-KSB for the year ended June 30, 2002.

##### NOTE B - NOTES RECEIVABLE

At December 31, 2002, the notes receivable consist of \$50,000 from a non-affiliated party and \$552,000 from non-director/employee stockholders and entities owned by them at an annual interest rate of 8%. Notes totaling \$1,750,000 maturing August 16, 2001 were extended to September 16, 2001. At September 16, 2001, the notes were restructured into twelve-month installment notes collateralized by marketable securities with the first installment due October 16, 2001. Officers/stockholders of Aquacell, have personally guaranteed up to \$1,750,000 of the notes and have offered as collateral designated assets and have paid \$852,000 in principal and \$32,000 in interest through contribution of salaries in the amount of \$633,000 and surrender of 82,422 shares of the Company's common stock, valued at \$251,000, at December 31, 2002. Such shares were recorded as treasury stock and retired by the Company at December 31, 2002. During December 2002 the officers/stockholders contributed accrued salaries totaling \$131,000 as payment under the guaranty provisions of the notes receivables. The Company has recorded an adjustment to reflect a reduction in the estimated fair value of these notes of \$365,000 at June 30, 2001. The balance of the notes are unsecured and matured between March 2002 and October 2002. The note that

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matured in October 2002 was extended for one year. Interest receivable at December 31, 2002 amounted to \$7,000 from a non-affiliated party and \$50,000 from non-director/employee stockholders and entities owned by them.

### NOTE C - INVENTORIES

Inventories consist of the following at December 31, 2002:

Raw materials.....	\$ 80,000
Work in progress.....	32,000
	-----
	\$ 112,000
	-----
	-----

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### AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 (Unaudited)

### NOTE D - PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at December 31, 2002:

Furniture and fixtures.....	\$ 35,000
Equipment - office.....	95,000
Machinery and equipment.....	122,000
Rental units.....	9,000
Leasehold improvements.....	10,000
Truck.....	11,000
	282,000
Less accumulated depreciation.....	228,000
	-----
	\$ 54,000
	-----
	-----

### NOTE E - LOANS PAYABLE TO FINANCE COMPANY

On August 24, 2002 the Company entered into a credit facility agreement to finance the receivables of its largest customer, Corbett Water Technologies, Inc. The agreement is for a one-year term, and calls for interest at the rate of 18 1/4% per annum in addition to the payment of certain processing fees. Payments are made directly to the lender by Corbett Water and the financing is collateralized by the Company's accounts receivable from Corbett Water Technologies, Inc. (See Note H.)

### NOTE F - LOANS PAYABLE TO RELATED PARTIES

At December 31, 2002 the loans payable to related parties consist of unsecured demand interest free loans of \$68,000.

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## NOTE G - LONG TERM DEBT

At December 31, 2002 long-term debt consists of an installment note, secured by a truck, payable in monthly payments of \$342 through February 2005. Maturities on the note are as follows:

Twelve months ending	December 31, 2003.....	\$ 4,000
	December 31, 2004.....	4,000
	December 31, 2005.....	1,000
		-----
		\$ 9,000
		-----
		-----

## NOTE H - EQUITY TRANSACTIONS

In connection with a one-year credit facility agreement entered into in August 2002, the lender was granted warrants to purchase 160,000 shares of common stock, at an exercise price of \$0.78 per share, whose total value is estimated at approximately \$43,000. The estimated value of the warrants is being amortized to expense over one year. Amortization for the six months ended December 31, 2002 was \$18,000.

On December 4, 2002 stockholders approved the adoption of the Company's 2002 Directors Stock Option Plan. The plan covers an aggregate of 500,000 shares of the Company's common stock for non-employee directors.

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

### Forward-Looking Statements

When used in this Form 10-QSB and in future filings by the Company with the Commission, statements identified by the words "believe", "positioned", "estimate", "project", "target", "continue", "will", "intend", "expect", "future", "anticipates", and similar expressions express management's present belief, expectations or intentions regarding the Company's future performance within the meaning of the Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on any such forward-looking statements, each of which speaks only as of the date made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company has no obligations to publicly release the result of any revisions which may be made to any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements.

### Overview

The following discussions and analysis should be read in

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conjunction with the Company's condensed consolidated financial statements and the notes presented following the condensed consolidated financial statements. The discussion of results, causes and trends should not be construed to imply any conclusion that such results or trends will necessarily continue in the future.

For the six months ended December 31, 2002 we increased revenues by 629% to \$1,138,000 while cutting our per share losses by 73% and decreasing our selling, general and administrative expenses by 55% to \$1,319,000. This increase in revenues is primarily attributable to the growing acceptance of our flagship Purific Water Cooler in the marketplace. We believe that through our marketing efforts that sales of Purific coolers will continue to grow with an increase of sales in our other products and emerging product lines.

During late September, Corbett Water Technologies, Inc., the exclusive distributor of our Purific Water Cooler, made a decision to restructure its business model, reduced its sales staff and has not implemented a plan for national marketing, as was the clear intent of our Distribution Agreement. We are restructuring our exclusive relationship with Corbett to allow us to implement a national marketing program.

### Results of Operations

During the six months ended December 31, 2002 on a consolidated basis, we increased revenues by 629% to \$1,138,000 as compared to \$156,000 for the similar period of the preceding year. Net loss on a consolidated basis for the six months ended December 31, 2002 was decreased by 71% to \$775,000 or \$0.09 per share, as compared to \$2,659,000 or \$0.33 per share for the same period of the prior year. The decrease in the loss is primarily attributable to the increase in revenues, as well as a reduction in selling, general and administrative expenses of \$1,608,000 or 55%.

Operating expenses consisting of salaries and wages and other selling, general and administrative expenses, exclusive of depreciation and amortization of \$31,000 were \$1,084,000 for the six months ended December 31, 2002 as compared to \$957,000 for the comparable six months of the prior year. In addition, legal, accounting and other professional expenses for the six months ended December 31, 2002 were \$104,000 compared to \$267,000 for the six months ended December 31, 2001. This reduction was partially attributable to a net reduction of \$55,000 in accrued consulting fees written off. Stock based compensation was \$100,000 for the six months ended December 31, 2002 as compared to \$450,000 for the same period of the prior year.

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### Liquidity and Capital Resources

During the six months ended December 31, 2002 we financed our operations primarily from the collections of receivables in the normal course of business and the financing of certain receivables due from Corbett Water Technologies. A net increase in loans from officers and others amounted to \$39,000 during the

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period.

Cash used by operations during the six months ended December 31, 2002 amounted to \$368,000. Net loss of \$775,000 was reduced by non-cash stock based compensation in the amount of \$100,000 and depreciation and amortization of \$31,000. Cash used by operations was further increased by an increase in accounts receivable in the amount of \$258,000 and decreased by accounts payable and accrued expenses in the amount of \$445,000. Net loss was further decreased by net changes in accrued interest receivable, prepaid expenses, customer deposits, and inventories amounting to \$89,000.

During January 2003, the Company borrowed \$100,000 from an unrelated party at 18% interest for a period of ninety days. As consideration for the availability of short term financing the Company granted the Lender 100,000 shares of its restricted common stock.

We have granted warrants, subsequent to our initial public offering in connection with consulting, marketing, and financing agreements that may generate additional capital of up to approximately \$5,500,000 if exercised.

Cash used in investing activities during six months ended December 31, 2002 represented expenditures for property and equipment in the amount of \$11,000 decreased by notes issued for the purchase of equipment in the amount of \$9,000.

The principal payments of \$284,000, which consisted of accrued officers' salaries, reduced the balance on the \$1,750,000 installment notes receivable to \$460,000 at December 31, 2002.

Management believes that the collections on notes receivable, and cash flows expected to be generated from future operations will be sufficient to meet presently anticipated needs for working capital and capital expenditures through at least the next 12 months; however, there can be no assurance in that regard. The Company presently has no material commitments for future capital expenditures.

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### PART II. OTHER INFORMATION

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

During the period covered by this Report on Form 10-QSB the Company held its annual meeting of stockholders on December 4, 2002 and the following matters were submitted to a vote of security holders through the solicitation of proxies:

- (a) A matter voted upon at the meeting was the election of two Company directors, to wit, Karen B. Laustsen and Dr. William DiTuro. The Company's three other directors, namely James C. Witham, Glenn A. Bergenfield, and Gary S. Woff continued in office after the meeting. In addition, the appointment of Wolinetz, Lafazan & Company, PC as the Company's independent auditors and the adoption of the Company's 2002

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Directors Stock Option Plan were other matters voted upon at the meeting.

- (b) The election of Ms. Laustsen and Dr. DiTuro as directors was voted upon at the meeting. Each of the nominees received 6,411,753 votes in favor of election and no votes abstained. Wolinetz, Lafazan & Company, PC was elected as the Company's independent auditors receiving 6,378,252 votes and 10,232 votes abstained. The 2002 Directors Stock Option Plan was voted upon at the meeting and was passed receiving 4,307,149 votes and 115,250 abstained. There were no broker non-votes recorded.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

None.

SIGNATURE

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

AquaCell Technologies, Inc.  
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Registrant

Date: February 14, 2003

/s/ Gary S. Wolff  
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Gary S. Wolff  
Chief Financial Officer

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of AquaCell Technologies, Inc. (the "Company") on Form 10-QSB for the second fiscal quarter ended December 31, 2002 as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

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Date: February 14, 2003

/s/ James C. Witham

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Name: James C. Witham  
Title: Chief Executive Officer

Date: February 14, 2003

/s/ Gary S. Wolff

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Name: Gary S. Wolff  
Title: Chief Financial Officer

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CERTIFICATION PURSUANT TO RULE 13a-14 AND 15d-14  
UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, James C. Witham, Chief Executive Officer of AquaCell Technologies, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of AquaCell Technologies, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days of the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the

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registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

- (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2003

/s/ James C. Witham

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Name: James C. Witham

Title: Chief Executive Officer

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### CERTIFICATION PURSUANT TO RULE 13a-14 AND 15d-14 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Gary S. Wolff, Chief Financial Officer of AquaCell Technologies, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of AquaCell Technologies, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the

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registrant, including its consolidated subsidiaries, is made known to us by others within those entities,

particularly during the period in which this quarterly report is being prepared;

- (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days of the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
- (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2003

/s/ Gary S. Wolff

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Name: Gary S. Wolff  
Title: Chief Financial Officer