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WATER CHEF INC
Form 10QSB/A
February 11, 2004

U.S. 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 June 30, 2003

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

For the transition period from _____ to _____

Commission file number 0-30544

WATERCHEF, 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

APPLICABLE ONLY TO CORPORATE ISSUERS

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 AUGUST 13, 2003

| Class | Common |
|-----------------------------|------------|
| ----- | ----- |
| Par value \$0.001 per share | 89,559,886 |

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WATERCHEF, INC.

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

CONDENSED BALANCE SHEET

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(UNAUDITED)

AT JUNE 30, 2003

ASSETS

CURRENT ASSETS:

| | | |
|------------------|----|--------|
| Cash | \$ | 15,057 |
| Prepaid expenses | | 12,000 |
| Inventory | | 26,500 |

| | | |
|----------------------|--|--------|
| TOTAL CURRENT ASSETS | | 53,557 |
|----------------------|--|--------|

OTHER ASSETS:

| | | |
|--|--|--------|
| Patents and trademarks - net of accumulated amortization of \$4,161 | | 21,894 |
| Security deposits | | 3,162 |

| | | |
|--------------------|--|--------|
| TOTAL OTHER ASSETS | | 25,056 |
|--------------------|--|--------|

| | | |
|--------------|----|--------|
| TOTAL ASSETS | \$ | 78,613 |
|--------------|----|--------|

=====

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

CURRENT LIABILITIES:

| | | |
|---|----|-----------|
| Accounts payable | \$ | 362,547 |
| Accrued expenses and other current liabilities | | 1,016,228 |
| Notes payable (including accrued interest of \$329,166) | | 1,013,137 |
| Common stock to be issued | | 1,316,357 |

| | | |
|---------------------------|--|-----------|
| TOTAL CURRENT LIABILITIES | | 3,708,269 |
|---------------------------|--|-----------|

LONG-TERM LIABILITIES:

| | | |
|--|--|---------|
| Loans payable to shareholder (including accrued interest of \$69,419) | | 442,200 |
|--|--|---------|

| | | |
|-------------------|--|-----------|
| TOTAL LIABILITIES | | 4,150,469 |
|-------------------|--|-----------|

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' DEFICIENCY:

| | | |
|---|--|--------------|
| Preferred stock - \$.001 par value; 10,000,000 shares authorized; 514,250 shares issued and outstanding | | 514 |
| Common stock - \$.001 par value; 90,000,000 shares authorized; 89,564,286 shares issued and 89,559,886 shares outstanding | | 89,564 |
| Additional paid-in capital | | 12,919,402 |
| Subscription receivable | | (37,300) |
| Treasury stock, at cost - 4,400 shares of common stock | | (5,768) |
| Accumulated deficit through December 31, 2001 | | (14,531,596) |
| Deficit accumulated during development stage | | (2,506,672) |

| | | |
|--------------------------------|--|-------------|
| TOTAL STOCKHOLDERS' DEFICIENCY | | (4,071,856) |
|--------------------------------|--|-------------|

| | | |
|--|----|--------|
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY | \$ | 78,613 |
|--|----|--------|

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See notes to condensed financial statements.

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

CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|--|--|----------------|--------------------------------------|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| SALES | \$ -- | \$ -- | \$ -- | \$ 40,000 |
| COST OF SALES | 24,000 | 26,200 | 48,000 | 51,680 |
| GROSS (LOSS) PROFIT | (24,000) | (26,200) | (48,000) | (11,680) |
| GENERAL AND ADMINISTRATIVE EXPENSES | 238,160 | 226,989 | 405,790 | 368,337 |
| NON-DILUTION AGREEMENT TERMINATION COST | (149,240) | 596,958 | 388,022 | 596,958 |
| LOSS ON SETTLEMENT OF DEBT | -- | 184,250 | -- | 184,250 |
| INTEREST EXPENSE | 37,745 | 65,257 | 75,114 | 102,625 |
| NET LOSS | (150,665) | (1,099,654) | (916,926) | (1,263,850) |
| PREFERRED STOCK DIVIDENDS | (35,340) | (27,075) | (66,445) | (54,150) |
| NET LOSS APPLICABLE TO COMMON STOCK | \$ (186,005) | \$ (1,126,729) | \$ (983,371) | \$ (1,318,000) |
| BASIC AND DILUTED LOSS PER COMMON SHARE | \$ (0.00) | \$ (0.01) | \$ (0.01) | \$ (0.01) |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED | 89,559,886 | 88,591,759 | 89,559,886 | 87,608,485 |

See notes to condensed financial statements.

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

CONDENSED STATEMENTS OF STOCKHOLDERS' DEFICIENCY
 (UNAUDITED)

| | Preferred Stock | | Common Stock | | |
|---|-----------------|--------------|--------------|---------------|--|
| | Shares | Amount | Shares | Amount | |
| For the Six Months Ended June 30, 2003: | | | | | |
| Balance - January 1, 2003 | 270,500 | \$ 271 | 89,564,286 | \$ 89,564 | |
| Proceeds from sale of preferred stock | 162,500 | 162 | -- | -- | |
| Preferred stock issued for services | 81,250 | 81 | -- | -- | |
| Net loss | -- | -- | -- | -- | |
| Balance - June 30, 2003 | 514,250 | \$ 514 | 89,564,286 | \$ 89,564 | |
| | | | | | |
| | | Additional | Stock | Treasury | |
| | | Paid-In | Subscription | Stock | |
| | | Capital | Receivable | | |
| For the Six Months Ended June 30, 2003: | | | | | |
| Balance - January 1, 2003 | | \$12,700,894 | \$ (37,300) | \$ (5,768) | |
| Proceeds from sale of preferred stock | | 137,338 | -- | -- | |
| Preferred stock issued for services | | 81,170 | -- | -- | |
| Net loss | | -- | -- | -- | |
| Balance - June 30, 2003 | | \$12,919,402 | \$ (37,300) | \$ (5,768) | |
| | | | | | |
| | | Accumulated | Deficit | Total | |
| | | Deficit | Accumulated | Stockholders' | |
| | | Through | During | Deficiency | |
| | | December 31, | Development | | |
| | | 2001 | Stage | | |

For the Six Months Ended June 30, 2003:

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| | | | |
|---------------------------------------|-----------------|----------------|----------------|
| Balance - January 1, 2003 | \$ (14,531,596) | \$ (1,589,746) | \$ (3,373,681) |
| Proceeds from sale of preferred stock | -- | -- | 137,500 |
| Preferred stock issued for services | -- | -- | 81,251 |
| Net loss | -- | (916,926) | (916,926) |
| Balance - June 30, 2003 | \$ (14,531,596) | \$ (2,506,672) | \$ (4,071,856) |
| | ===== | ===== | ===== |

See notes to condensed financial statements.

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

CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | For the Six Months Ended June 30, | | For the Period January 1, 2002 to June 30, 2003 |
|---|--------------------------------------|----------------|--|
| | 2003 | 2002 | |
| | ----- | ----- | ----- |
| Cash flows from operating activities: | | | |
| Net loss | \$ (916,926) | \$ (1,263,850) | \$ (2,506,672) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation and amortization | 926 | 926 | 2,779 |
| Non-cash compensation | 81,250 | 36,000 | 117,250 |
| Non-dilution agreement termination cost | 388,022 | 596,958 | 596,958 |
| Loss on settlement of debt | -- | 184,250 | 206,150 |
| Inventory reserve | -- | -- | 159,250 |
| Changes in assets and liabilities: | | | |
| Inventory | -- | 13,250 | (26,500) |
| Prepaid expenses and other current assets | (12,000) | 50,000 | 44,500 |
| Accounts payable, accrued expenses and interest | 313,527 | 100,043 | 800,632 |
| Net cash used IN operating ACTIVITIES | (145,201) | (282,423) | (605,654) |
| | ----- | ----- | ----- |
| Cash flows from financing activities: | | | |
| Receipt of stock subscription receivable | -- | -- | 30,200 |
| Proceeds from sale of preferred stock | 137,500 | -- | 255,000 |
| Proceeds from sale of common stock and exercise of warrants | -- | 322,000 | 100,000 |
| Proceeds from sale of common stock to be issued | -- | -- | 200,000 |
| Net cash provided by financing | | | |
| | ----- | ----- | ----- |

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| | | | |
|---|-----------|-----------|-----------|
| activities | 137,500 | 322,000 | 585,200 |
| | ----- | ----- | ----- |
| Net change in cash and cash equivalents | (7,701) | 39,577 | (20,454) |
| Cash and cash equivalents - Beginning of Period | 22,758 | 35,512 | 35,511 |
| | ----- | ----- | ----- |
| Cash and cash equivalents - End of Period | \$ 15,057 | \$ 75,089 | \$ 15,057 |
| | ===== | ===== | ===== |

See notes to condensed financial statements.

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WATERCHEF, INC.

(A Development State Company Commencing January 1, 2002)

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - DESCRIPTION OF BUSINESS

WaterChef, 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 in the United States of America for interim financial information. Accordingly these financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America. 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 six-month period ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. 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 May 23, 2003, for the year ended December 31, 2002.

The Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 addresses the disclosures requirements of a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. FIN 45 also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 are effective for our first quarter ending March 31, 2003. The liability recognition requirements will be applicable prospectively to all guarantees issued or modified after December 31, 2002.

The FASB issued Statement of Financial Standards ("SFAS") No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This standard requires

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companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 replaces the existing guidance provided by EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs incurred in a restructuring)." SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

The FASB issued SFAS No. 148, "Accounting for Stock - Based Compensation-Transition and disclosure - an amendment of FASB Statement No. 123" that provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The provision of this Statement is effective for fiscal years ending after December 15, 2002. As of June 30, 2003, the Company has not issued any stock options.

The Company adopted the above pronouncements during the current year and there was no material effect on the Company's financial statements.

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WATERCHEF, INC.

(A Development State Company Commencing January 1, 2002)

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2 - 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 \$3,655,000 at June 30, 2003. 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 3 - RECENT ACCOUNTING STANDARDS

The following pronouncements have been issued by the FASB.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities." In general, a variable interest entity is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or, (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidated requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2002, regardless of when the variable interest entity was established.

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In April 2003, FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." The Statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under Statement 133. This Statement is effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003. The guidance should be applied prospectively. The provision of this Statement that relate to Statement 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003 should continue to be applied in accordance with their respective effective dates. In addition, certain provision relating to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to existing contracts as well as new contracts entered into after June 30, 2003.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 establishes standards for classification and measurement in the statement of financial position of certain financial instruments with characteristics of both liabilities and equity. It requires classification of a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and, otherwise, is effective at the beginning of the first interim period beginning after June 15, 2003.

Management does not believe that the adoption of any of these pronouncements will have a material effect on the Company's financial statements.

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WATERCHEF, INC.

(A Development State Company Commencing January 1, 2002)

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4 - NON-DILUTION AGREEMENT TERMINATION COST

In May 2002, the Company agreed to issue to the Company's President and Chief Executive Officer and to related parties of such an aggregate of 14,923,958 shares of its common stock, in connection with the voluntary surrender of a non-dilution agreement that the President had entered into with the Company in June 1997. These shares are not included in the loss-per-share calculations. Since the issuance of these shares is subject to stockholder approval, the measurement date for purposes of valuation will be established when such stockholder approval has been obtained. Accordingly, the Company is utilizing variable accounting to determine the value of these shares and the related liability is included in common stock to be issued. The value of these shares as of June 30, 2003 is \$596,958.

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

Basic net income (loss) per share of common stock is computed based on the weighted average number of common shares outstanding during the periods presented.

Diluted net income per share of common stock is computed based on the weighted

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average number of common shares outstanding during the periods presented, plus any dilutive common stock equivalents. Common stock equivalents consisting of warrants were not included in the calculation of loss per share for the six months ended June 30, 2003 and 2002 because their inclusion would have been antidilutive. Total shares issuable upon the exercise of warrants and the conversion of preferred stock for the six months ended June 30, 2003 and 2002 were 15,302,575 and 1,666,667, respectively. These shares have been excluded from loss per share calculations as they are antidilutive. In addition, common stock to be issued upon stockholder approval of the increase in the authorized stock of the Company, aggregating 36,711,629 shares are also excluded from loss per share calculations.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

The Company's lease for its administrative facilities located in Glen Head, New York expired in September 2001. The Company has been leasing such facilities since the expiration on a month-to-month basis.

The Company was a defendant in an action, brought by a customer, relating to a series of contracts that the Company entered into. These contracts were with the Company's discontinued water cooler and filter operation. Such operations were sold in November 2001, however legal actions with regard to the operations prior to sale, remain the Company's responsibility. The customer claims that the Company breached these contracts by shipping certain goods that did not conform to the contract. Most of the damages that the customer seeks consist of lost business profits. Company management and legal counsel believe that the action is without merit. However, due to the costs in defending the Company in such a legal action, Company management opted for a settlement in 2003 as the most cost effective manner to handle this matter. The Company has agreed to pay the customer \$27,500 payable over nine months. In the event the Company fails to make their settlement payments, a stipulated judgment of \$71,000, less any payment made to such time, would be in effect. The settlement calls for a pledge of preferred stock to serve as collateral. During the six months ended June 30, 2003, \$15,500 has been paid.

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WATERCHEF, INC.

(A Development State Company Commencing January 1, 2002)

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 6 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

In May 2001, the Company entered into a distribution agreement with a company (the "Sub-distributor") based in the County of Jordan. The Sub-distributor has agreed to purchase no fewer than 100 units of the Company's "Pure Safe Water Station", in the calendar year commencing January 1, 2002. A minimum purchase of 50 units is required to be purchased in each of the subsequent years commencing January 1, 2002 and 2003, respectively. During the year ended December 31, 2001, 18 units were shipped under this agreement. The sale will be recognized when the Company receives payments. The Company has recorded the cost of the inventory shipped in cost of sales, since the return of the items is uncertain. The Sub-distributor agreement has been cancelled by the Company because of failure to meet pre-established minimum thresholds. A criminal complaint has been lodged against the former Sub-Distributor, two management employees of the Jordan

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National Bank, and the Jordan National Bank for their actions in perpetrating a fraud. A trial date has not yet been set.

NOTE 7 - PREFERRED STOCK

In April 2003, management authorized the Company to raise up \$550,000 through a private placement by issuing 10% two-year convertible preferred instruments. The preferred, designated as Series F, and providing for one million shares in total, will be convertible into shares of Water Chef's common stock at such time as the stockholders of the corporation approve an increase in the authorized capital stock of the corporation. All dividends are payable in shares of the Company's common stock valued at the then current market price per share, or upon conversion, whichever is earlier. The conversion rate for shares and accrued dividends payable is 40 shares of common for each 1 share of preferred stock and dividends payable, or \$0.025 for each share of common stock. The Series F convertible preferred stockholders have voting rights equal to the common stockholders. The Series F convertible preferred stock has no stated rights in the assets of the Company upon liquidation.

Cash

In February 2003, the Company raised \$25,000 through the sale of Series C convertible preferred stock.

In April 2003, the Company raised an additional \$25,000 through the sale of Series C convertible preferred stock.

In April 2003, the Company raised \$87,500 through the sale of Series F convertible preferred stock.

Services

In January 2003, the Company issued 30,000 shares of its Series C convertible preferred stock for professional services totaling \$30,000.

In April 2003, the Company issued an aggregate of 51,250 shares of its Series C convertible preferred stock for professional services totaling \$51,251.

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ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OR PLAN OF OPERATIONS

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 and Section 21E of the Securities Exchange Act of 1934. 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

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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 negotiated 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

With the sale of these assets consummated in December 2001, The Company made the strategic decision to exit the water cooler and consumer filter segments of its business in order to concentrate its resources on the development of the market for the PureSafe Water Station.

For the three months ended June 30, 2003 and June 30, 2002, Water Chef reported no revenues. For the six months ended June 30, 2003 and June 30, 2002 Water Chef reported revenues of \$0 and \$40,000 respectively.

Cost of sales for the three and six-month periods ended June 30, 2003 \$24,000 and \$48,000 respectively, compared to \$26,200 and \$51,680 in the three and six months ended June 30, 2002.

Selling, general and administrative expenses for the three months ended June 30, 2003 were \$238,160, compared to \$226,989 for the year earlier period, an increase of 5%; and \$405,790 for the six months ended June 30, 2003 compared to \$368,337 for the six months ended June 30, 2002, an increase of 10%, primarily due to higher marketing costs.

The net loss for the three and six months period ended June 30, 2003 was \$150,665 and \$916,926 compared to \$1,099,654 and \$1,263,850 in the three and six months period ended June 30, 2002.

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Liquidity and Capital Resources

At June 30, 2003 the Company had a working capital deficiency of approximately \$3,655,000. 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

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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 six months ended June 30, 2003 the Company raised \$137,500 from the sale of preferred stock.

We are of the opinion that cash on hand will not be sufficient to meet future cash requirements. It will be necessary for the Company to raise capital through the sale of stock or other financing means until the Company has the ability to generate productive sales. There can be no assurance of the Company's success in its efforts.

Settlements

In second quarter 2002 the Company reached a negotiated settlement in an action brought by certain debenture holders (the "Bridge Lenders") in New Hampshire Superior Court. The Company and the Bridge Lenders settled this dispute for a total \$497,500 payable in shares of the Company's common stock. The number of shares of common stock to be paid was determined by dividing \$497,500 by the average daily trading price of WaterChef common over a thirty (30)-day measurement period. Due to these requirements the Company is obligated to issue 17,037,671 shares of common stock. The total authorized common stock of the Company does not provide a sufficient number of authorized but unissued shares to fulfill the terms of the settlement agreement. As such the Company has recorded these 17,037,671 shares to be issued as a liability in common stock to be issued for \$497,500 as of June 30, 2003.

In addition to the above settlement with Bridge Lenders who participated in the legal action, the Company settled its obligation with those Bridge Lenders who did not participate in the legal action. These lenders had total debentures of \$75,000, plus accrued interest of \$9,850 for a total of \$84,850 as of the settlement date. In conjunction with the above settlement, the Company settled these remaining debentures, plus accrued interest, with the issuance of 750,000 shares of common stock valued at \$21,900. As of June 30, 2003 the 750,000 shares have not been issued as the Company does not currently have a sufficient number of authorized and unissued shares to complete the settlement and has recorded these 750,000 shares to be issued as a liability in common stock to be issued for \$21,900 as of June 30, 2003.

During 2002 the Company agreed to issue stock for the voluntary surrender by the Company's President and CEO of his anti-dilution agreement. Such cost is expected to be satisfied by the issuance of 14,923,958 shares of the Company's common stock, upon approval by the Company's shareholders of the proposed increase in the authorized common stock of the Company. As such the Company has recorded these 14,923,958 shares to be issued as a liability in common stock to be issued for \$ 596,957 as of June 30, 2003.

The Company intends to request approval of its stockholders for an increase in the authorized common stock of the Corporation from 100,000,000 to 200,000,000 shares. Upon approval, the issuance of the shares of common stock described above will increase the outstanding common stock of the Corporation to approximately 128,000,000 shares, in satisfaction of many of the above obligations. This increase in the outstanding will dilute the ownership interest of current shareholders and will adversely earnings per share and may result in a lower market value for the Company's stock.

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Recent Accounting Standards

The following pronouncements have been issued by the Financial Accounting Standards Board ("FASB").

In January 2003, the FASB issued Interpretation 46, Consolidation of Variable Interest Entities. In general, a variable interest entity is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights, or (b) has equity investors that do not provide sufficient financial resources to for the entity to support its activities. Interpretation 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns, or both. The consolidation requirements of Interpretation 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established.

In April 2003, Financial Accounting Standards Board , "FASB", issued Statement of Financial Accounting Standard, SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." The Statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under Statement 133. This Statement is effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003. The guidance should be applied prospectively. The provisions of this Statement that relate to Statement 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003 should continue to be applied in accordance with their respective effective dates. In addition, certain provisions relating to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to existing contracts as well as new contracts entered into after June 30, 2003.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 establishes standards for classification and measurement in the statement of financial position of certain financial instruments with characteristics of both liabilities and equity. It requires classification of a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and, otherwise, is effective at the beginning of the first interim period beginning after June 15, 2003.

Management does not believe that the adoption of any of these pronouncements will have a material effect on the Company's financial statements.

ITEM 3 - CONTROLS AND PROCEDURES

(a) Evaluation of 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 and 15d-15e promulgated under the Exchange Act as of this report. Based

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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.

(b) Changes in Internal Controls

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

(c) 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.

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PART 11 - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

The Company was a defendant in an action, brought by a customer, relating to a series of contracts the Company entered into. These contracts were with the Company's discontinued water cooler and consumer filter operation. These segments were sold in December, 2001, however legal actions with regard to these operations prior to the sale remain the Company's responsibility. The customer claimed breach of contract, maintaining that the Company shipped goods that did not meet the customer's specification. The customer sought damages in the form of lost opportunity and lost business profits. A negotiated settlement was reached calling for payment by WaterChef of \$27,500, with payment of \$3,500 in February and \$3,000 per month payable for eight consecutive months thereafter. During the six months ended June 30, 2003 \$15,500 has been paid.

The Company is plaintiff in a criminal action brought before the court in the Kingdom of Jordan, seeking full payment for PureSafe Water Stations shipped to a customer in Jordan, related costs and damages. Jordanian counsel has been retained and is confident that the Company will prevail.

ITEM 2 - CHANGES IN SECURITIES

None.

ITEM 3 - DEFAULT ON SENIOR SECURITIES

None.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SHAREHOLDERS

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A preliminary Proxy for the purpose of increasing the authorized common stock of the Corporation was submitted to the SEC, whose questions and comments have been addressed and resubmitted. Upon approval by the SEC, the proxy will be mailed to the shareholders and a vote by the shareholders will be scheduled.

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

Exhibit

31 - Certification of Chief Executive Officer pursuant to 18 U.S.C.ss.1350, adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 - Certification of Chief Executive Officer pursuant to 18 U.S.C.ss.1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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.

WaterChef, Inc.

July 14, 2003
Date

/s/ David A. Conway

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