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AQUACELL TECHNOLOGIES INC

Form 10QSB

November 12, 2002

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 September 30, 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 8,601,224 shares outstanding
as of November 7, 2002.

Transitional Small Business Disclosure Format (check one):
Yes ☒ No ☐

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AQUACELL TECHNOLOGIES, INC.

FORM 10-QSB

FOR THE QUARTER ENDED SEPTEMBER 30, 2002

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
September 30, 2002
(Unaudited)

ASSETS

Current assets:

Cash..... \$ 26,000

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Notes receivable, including accrued interest of \$42,000.....	410,000
Accounts receivable, net of allowance of \$4,000.....	734,000
Inventories.....	107,000
Prepaid expenses and other current assets.....	176,000

Total current assets.....	1,453,000

Property and equipment, net.....	64,000

Other assets:	
Goodwill.....	1,114,000
Investments.....	274,000
Patents, net.....	115,000
Security deposits.....	14,000

Total other assets.....	1,517,000

	\$ 3,034,000

LIABILITIES	
Current liabilities:	
Accounts payable.....	\$ 783,000
Accrued expenses.....	263,000
Loans payable to finance company.....	376,000
Customer deposits.....	17,000
Current portion of long-term debt.....	4,000
Loans payable to related parties.....	35,000

Total current liabilities.....	1,478,000

Long-term debt, net of current portion.....	6,000

Total liabilities.....	1,484,000

Commitments and contingencies	
STOCKHOLDERS' EQUITY:	
Preferred stock, par value \$.001; 10,000,000 shares authorized; no shares issued Common stock, par value \$.001; 40,000,000 shares authorized; 8,683,646 shares issued.....	9,000
Additional paid-in capital.....	13,084,000
Accumulated deficit.....	(10,700,000)

	2,393,000
Unamortized deferred compensation.....	(592,000)
Treasury stock, 82,422 shares at cost.....	(251,000)

Total stockholders' equity.....	1,550,000

	\$ 3,034,000

See notes to condensed consolidated financial statements.

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(Unaudited)

	Three Months Ended September 30,	
	2002	2001
Revenue:		
Net sales.....	\$ 930,000	\$ 68,000
Rental income.....	2,000	2,000
	932,000	70,000
Cost of sales.....	465,000	28,000
Gross profit.....	467,000	42,000
Selling, general and administrative expenses:		
Salaries and wages.....	310,000	233,000
Legal, accounting and other professional expenses..	74,000	154,000
Stock based compensation.....	45,000	199,000
Other.....	277,000	244,000
	706,000	830,000
Loss from operations before other income (expense)...	(239,000)	(788,000)
Other income (expense):		
Interest income.....	18,000	40,000
Interest (expense).....	(4,000)	-
	14,000	40,000
Net loss attributable to common stockholders.....	\$ 225,000	\$ (748,000)
Net loss per common share- basic and diluted.....	\$ (0.03)	(0.10)
Weighted average share outstanding- basic and diluted.....	8,601,000	7,734,000

See notes to condensed consolidated financial statements.

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AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended September 30,	
	2002	2001
Cash flows from operating activities:		
Net loss.....	\$ (225,000)	\$ (748,000)
Adjustment to reconcile net loss to net cash used in operating activities:		
Stock based compensation.....	45,000	199,000
Depreciation and amortization.....	15,000	13,000

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Changes in:

Accounts receivable.....	(543,000)	(8,000)
Accrued interest receivable.....	(18,000)	41,000
Prepaid expenses and other current assets.....	40,000	35,000
Inventories.....	(5,000)	24,000
Security deposits.....	3,000	-
Accounts payable.....	65,000	155,000
Accrued expenses.....	217,000	62,000
Customer deposits.....	1,000	-

Net cash used in operating activities.....	(405,000)	(227,000)
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Cash flows from investing activities:

Note issued for purchase of property and equipment.	9,000	-
Purchase of property and equipment.....	(11,000)	(4,000)

Net cash used in investing activities.....	(2,000)	(4,000)
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Cash flows from financing activities:

Proceeds of loans from finance company.....	376,000	-
Loans and advances from officers, stockholders and others, net.....	6,000	(1,000)

Net cash provided by (used in) financing activities.....	382,000	(1,000)
---	---------	---------

Decrease in cash.....	(232,000)	(25,000)
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Cash, beginning of period.....	51,000	298,000
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Cash, end of period.....	\$ 26,000	\$ 66,000
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Supplemental disclosure of cash flow information:

Cash paid for interest.....	\$ -	\$ -
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Supplemental schedule of non-cash investing and financing activities:

Issuance of common stock warrants for services to the company.....	\$ 43,000	\$ 223,000
Principal payments on notes receivable by conversion of accrued officers salaries.....	\$ 153,000	\$ -

See notes to condensed consolidated financial statements.

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AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2002 (Unaudited)

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of AquaCell Technologies, Inc. and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

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The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. 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 U.S. 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 three months ended September 30, 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 September 30, 2002, the notes receivable consist of \$50,000 from a non-affiliated party and \$683,000 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. Officer/stockholders of Aquacell, have personally guaranteed up to \$1,750,000 of the notes and have offered as collateral designated assets and have paid \$721,000 in principal and \$32,000 in interest through contribution of salaries in the amount of \$502,000 and surrender of 82,422 shares of the Company's common stock, valued at \$251,000, at September 30, 2002. Such shares have been recorded as treasury stock. During September, 2002 the officers/stockholders contributed accrued salaries totaling \$153,000 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 matured in October 2002 was extended for one year. Interest receivable at September 30, 2002 amounted to \$6,000 from a non-affiliated party and \$36,000 from non-director/ employee stockholders and entities owned by them.

NOTE C - INVENTORIES

Inventories consist of the following at September 30, 2002:	
Raw materials.....	\$ 106,000
Work in progress.....	1,000

	\$ 107,000

AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2002 (Unaudited)

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NOTE D - PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at September 30, 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.....	218,000

	\$ 64,000

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 September 30, 2002 the loans payable to related parties consist of unsecured demand interest free loans of \$35,000.

NOTE G - LONG TERM DEBT

At September 30, 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:

Year ending September 30, 2003.....	\$ 4,000
September 30, 2004.....	4,000
September 30, 2005.....	2,000

	\$ 10,000

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 three months ended September 30, 2002 was \$4,000.

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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 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 three months ended September 30, 2002 we increased revenues by 1231% to \$932,000 while cutting our per share losses by 70%. 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, as the educational process continues to reach corporate America on the savings Purific provides along with the inconveniences it eliminates, we expect that sales of Purific coolers will continue to grow along with an increase of sales in our other products and emerging product lines.

To improve cash flow in order to meet the demands of our manufacturing requirements based upon our significant sales increases, we entered into a credit facility agreement to finance the receivables of our largest customer, Corbett Water Technologies, Inc. This enabled us to turn the cash in a more expeditious manner and to meet all of our production requirements.

Results of Operations

During the three months ended September 30, 2002 on a consolidated basis, we increased revenues by 1231% to \$932,000 as compared to \$70,000 for the similar period of the preceding year. Our gross profit margin of our flagship Purific water coolers,

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based on material and direct labor costs, was maintained at approximately 56% for the three months ended September 30, 2002.

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Net loss on a consolidated basis for the three months ended September 30, 2002 was decreased by 70% to \$225,000 or \$0.03 per share, as compared to \$748,000 or \$.10 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 professional fees and a reduction in stock based compensation.

Operating expenses consisting of salaries and wages and other selling, general and administrative expenses, exclusive of depreciation and amortization of \$15,000 were \$572,000 for the three months ended September 30, 2002 as compared to \$464,000 for the comparable three months of the prior year. In addition, legal, accounting and other professional expenses for the three months ended September 30, 2002 were \$74,000 compared to \$154,000 for the three months ended September 30, 2001.

Current period expenses includes \$45,000 of stock based compensation representing the amortization of deferred compensation based on the value of common stock and warrants issued in connection with consulting and credit facility agreements. Stock based compensation for the comparable period of the prior year was \$199,000.

Liquidity and Capital Resources

During the three months ended September 30, 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 \$6,000 during the period.

Cash used by operations during the three months ended September 30, 2002 amounted to \$405,000. Net loss of \$225,000 was reduced by non-cash stock based compensation in the amount of \$45,000 and depreciation and amortization of \$15,000. Cash used by operations was further increased by an increase in accounts receivable in the amount of \$543,000 and decreased by accounts payable and accrued expenses in the amount of \$282,000. Net loss was further decreased by net changes in accrued interest receivable, prepaid expenses, security deposits, customer deposits and inventories amounting to \$21,000.

We have granted warrants, subsequent to our initial public offering in connection with consulting and marketing agreements that may generate additional capital of up to approximately \$6,900,000 if exercised. There is no assurance that any of these warrants will be exercised.

Cash used in investing activities during the three months ended September 30, 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 \$153,000, which consisted of the

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conversion of accrued officers' salaries, reduced the balance on the \$1,750,000 installment notes receivable to \$591,000 at September 30, 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 6. EXHIBITS AND REPORTS ON FORM 8-K

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.

Registrant

Date: November 12, 2002

/s/ Gary S. Wolff

Name: Gary S. Wolff

Title: 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 first fiscal quarter ended September 30, 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

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2. the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 12, 2002

/s/ James C. Witham

Name: James C. Witham

Title: Chief Executive Officer

Date: November 12, 2002

/s/ Gary S. Wolff

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

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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: November 12, 2002

/s/ James C. Witham

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:

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- (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 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: November 12, 2002

/s/ Gary S. Wolff

Name: Gary S. Wolff

Title: Chief Financial Officer