WATER CHEF INC
Form 10QSB
May 17, 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 March 31, 2004

( ) 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 it charter)

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

1007 Glen Cove Avenue, Suite 1, Glen Head, New York 11545
(Address of principal executive offices)

516-656-0059
(Issuer's telephone number, including area code)

(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 APRIL 30, 2004

| CLASS | Common |
|---|---|

Par value $0.001 per share 89,917,019

WATERCHEF, INC.

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

CONDENSED BALANCE SHEET

AT MARCH 31, 2004
(UNAUDITED)

ASSETS

| | |
|---|---|
| CURRENT ASSETS: | |
| Cash | $ 306,363 |
| Inventory | 13,250 |
| Prepaid expenses | 66,978 |
| TOTAL CURRENT ASSETS | 386,591 |
| OTHER ASSETS: | |
| Patents and trademarks - net of accumulated amortization of $5,552 | 20,503 |
| Other assets | 3,162 |
| TOTAL OTHER ASSETS | 23,665 |
| TOTAL ASSETS | $ 410,256 |

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

| | |
|---|---|
| CURRENT LIABILITIES: | |
| Accounts payable | $ 150,609 |
| Accrued expenses and other current liabilities | 1,064,478 |
| Notes payable (including accrued interest of $424,682) | 1,107,907 |
| Common stock to be issued | 3,184,790 |
| Debenture liabilities | 519,400 |
| TOTAL CURRENT LIABILITIES | 6,027,184 |
| LONG-TERM LIABILITIES: | |
| Loans payable to shareholder (including accrued interest of $87,319) | 460,101 |
| TOTAL LIABILITIES | 6,487,285 |

| | |
|---|---|
| COMMITMENTS AND CONTINGENCIES | |
| STOCKHOLDERS' DEFICIENCY: | |
| Preferred stock - $.001 par value; 10,000,000 shares authorized; 1,069,676 shares issued and outstanding | 1,070 |
| Common stock - $.001 par value; 90,000,000 shares authorized; 89,921,419 shares issued and 89,917,019 shares outstanding | 89,921 |
| Additional paid-in capital | 14,095,937 |
| Subscription receivable | (6,666) |
| 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 | (5,719,927) |
| TOTAL STOCKHOLDERS' DEFICIENCY | (6,077,029) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY | $ 410,256 |

See notes to condensed financial statements.



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

CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | For the Three Months Ended March 31, 2004 | For the Three Months Ended March 31, 2003 | For the Period January 1,2002 (Inception) to March 31, 2004 |
|---|---|---|---|
| SALES | $ 56,290 | $ -- | $ 96,290 |
| COST OF SALES | 29,250 | 24,000 | 363,680 |
| GROSS (LOSS) PROFIT | 27,040 | (24,000) | (267,390) |
| GENERAL AND ADMINISTRATIVE EXPENSES | 285,706 | 167,630 | 1,892,451 |
| NON-DILUTION AGREEMENT TERMINATION COST | 298,479 | 537,262 | 2,984,790 |
| INTEREST EXPENSE | 37,557 | 37,369 | 369,146 |
| LOSS ON SETTLEMENT OF DEBT | -- | -- | 206,150 |
| NET (LOSS) | (594,702) | (766,261) | (5,719,927) |
| PREFERRED STOCK DIVIDENDS | (55,638) | (33,168) | (321,502) |

| | | | |
|---|---|---|---|
| NET (LOSS) APPLICABLE TO COMMON STOCK | $ (650,340) | $ (799,429) | $ (6,041,429) |
| BASIC AND DILUTED LOSS PER COMMON SHARE | $ (0.01) | $ (0.01) | |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED | 89,917,019 | 89,559,886 | |

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 Three Months Ended March 31, 2004:** | | | | |
| Balance - January 1, 2004 | 887,166 | $ 887 | 89,564,286 | $ 89,56 |
| Proceeds from sale of preferred stock | | | | |
| ($2.00 Per share) | 58,334 | 59 | -- | -- |
| ($2.40 Per share) | 3,860 | 4 | -- | -- |
| ($2.60 Per share) | 19,231 | 19 | -- | -- |
| ($2.80 Per share) | 3,000 | 3 | -- | -- |
| ($4.00 Per share) | 3,984 | 4 | -- | -- |
| ($4.80 Per share) | 41,668 | 42 | -- | -- |
| Preferred stock issued for services | | | | |
| ($2.00 Per share) | 17,265 | 17 | -- | -- |
| ($3.20 Per share) | 20,625 | 21 | -- | -- |
| ($4.00 Per share) | 1,000 | 1 | -- | -- |
| ($4.27 Per share) | 9,375 | 9 | -- | -- |
| ($4.80 Per share) | 4,168 | 4 | -- | -- |
| Common stock issued for services | | | | |
| ($0.05 Per share) | -- | -- | 357,133 | 357 |
| Net loss | -- | -- | -- | -- |
| Balance - March 31, 2004 | 1,069,676 | $ 1,070 | 89,921,419 | $ 89,921 |

| | Additional Paid-In Capital | Stock Subscription Receivable | Treasury Stock |
|---|---|---|---|
| **For the Three Months Ended March 31, 2004:** | | | |
| Balance - January 1, 2004 | $13,513,834 | $ -- | $ (5,768 |
| Proceeds from sale of preferred stock | | | |
| ($2.00 Per share) | 116,608 | (6,666) | -- |
| ($2.40 Per share) | 9,256 | -- | -- |
| ($2.60 Per share) | 49,981 | -- | -- |
| ($2.80 Per share) | 8,397 | -- | -- |
| ($4.00 Per share) | 15,925 | -- | -- |
| ($4.80 Per share) | 199,958 | -- | -- |
| Preferred stock issued for services | | | |
| ($2.00 Per share) | 34,513 | -- | -- |
| ($3.20 Per share) | 65,979 | -- | -- |
| ($4.00 Per share) | 3,999 | -- | -- |
| ($4.27 Per share) | 39,991 | -- | -- |
| ($4.80 Per share) | 19,996 | -- | -- |
| Common stock issued for services | | | |
| ($0.05 Per share) | 17,500 | -- | -- |
| Net loss | -- | -- | -- |
| Balance - March 31, 2004 | $14,095,937 | $ (6,666) | $ (5,768) |

See notes to condensed financial statements.



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

CONDENSED STATEMENTS OF STOCKHOLDERS' DEFICIENCY
(UNAUDITED)

| Accumulated Deficit Through December 31, 2001 | Deficit Accumulated During Development Stage | Total Stockholders' Deficiency |
|---|---|---|

| | | | |
|---|---|---|---|
| **For the Three Months Ended March 31, 2004:** | | | |
| Balance - January 1, 2004 | $(14,531,596) | $ (5,125,225) | $ (6,058,304) |
| Proceeds from sale of preferred stock | | | |
| ($2.00 Per share) | -- | -- | 110,001 |
| ($2.40 Per share) | -- | -- | 9,260 |
| ($2.60 Per share) | -- | -- | 50,000 |
| ($2.80 Per share) | -- | -- | 8,400 |
| ($4.00 Per share) | -- | -- | 15,929 |
| ($4.80 Per share) | -- | -- | 200,000 |
| Preferred stock issued for services | | | |
| ($2.00 Per share) | -- | -- | 34,530 |
| ($3.20 Per share) | -- | -- | 66,000 |
| ($4.00 Per share) | -- | -- | 4,000 |
| ($4.27 Per share) | -- | -- | 40,000 |
| ($4.80 Per share) | -- | -- | 20,000 |
| Common stock issued for services | | | |
| ($0.05 Per share) | -- | -- | 17,857 |
| Net loss | -- | (594,702) | (594,702) |
| Balance - March 31, 2004 | $(14,531,596) | $(5,719,927) | $(6,077,029) |

See notes to condensed financial statements.



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

CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | For the Three Months Ended March 31, 2004 | For the Three Months Ended March 31, 2003 | For the Perio January 1, 20 (Inception) t March 31, 200 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |

| | | | |
|---|---|---|---|
| Net (loss) | $ (594,702) | $ (766,261) | $(5,719,927 |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation and amortization | 463 | 463 | 4,170 |
| Non-cash Compensation | 182,387 | 30,000 | 425,407 |
| Non-dilution agreement termination cost | 298,479 | 537,262 | 2,991,455 |
| Loss on settlement of debt | -- | -- | 206,150 |
| Inventory reserve | -- | -- | 159,250 |
| Write-off of stock subscription receivable | -- | -- | 21,800 |
| Changes in assets and liabilities: | | | |
| Inventory | 13,250 | -- | (13,250 |
| Prepaid expenses and other current assets | (55,758) | -- | (10,478 |
| Accounts payable, accrued expenses and interest | (34,177) | 150,778 | 749,614 |
| NET CASH USED IN OPERATING ACTIVITIES | (190,058) | (47,758) | (1,185,809 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Stock subscription receivable | -- | -- | 45,700 |
| Proceeds from sale of preferred stock | 393,590 | 25,000 | 1,110,961 |
| Proceeds from sale of common stock | -- | -- | 100,000 |
| Proceeds from sale of common stock to be issued | -- | -- | 200,000 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 393,590 | 25,000 | 1,456,661 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 203,532 | (22,758) | 270,852 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD | 102,831 | 22,758 | 35,511 |
| CASH AND CASH EQUIVALENTS - END OF PERIOD | $ 306,363 | $ -- | $ 306,363 |

See notes to condensed financial statements.



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

NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - DESCRIPTION OF BUSINESS

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 three-month period ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. These financial statements should be read in conjunction with the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-KSB, filed on March 12, 2004, for the year ended December 31, 2003.

Stock-Based Compensation - In December 2002, the FASB issued SFAS No. 148,"Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No.123." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The disclosure requirements apply to all companies for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The Company will continue to account for stock-based compensation according to APB Opinion No. 25.

The following table summarizes relevant information as to reported results under the Company's intrinsic value method of accounting for stock awards, with supplemental information as if the fair value recognition provisions of FAS 123 had been applied for the following periods ended March 31, 2004 and 2003 as follows:

| | Period Ended March 31, | |
|---|---|---|
| | 2004 | 2003 |
| Net loss | $ (594,702) | $ (766,261) |
| Stock-based employee compensation cost, net of tax effect, under fair value accounting | (34,618) | - |
| Proforma net loss under fair value method | $ (629,320) | $ (766,261) |
| Loss per share - basic and diluted | $(0.01) | $(0.01) |
| Per share stock-based employee compensation cost, net of tax effect, under fair value accounting | - | - |
| Proforma loss per share - basic and diluted | $(0.01) | $(0.01) |

During the current quarter, the Company has issued 6,000,000 stock options to purchase common stock of the Company to the president and a director. The total stock options granted may be converted to common stock at an exercise price of $0.25 over the defined vesting period which extends up to five years.

NOTE 3 - GOING CONCERN

The accompanying condensed financial statements have been prepared assuming that the Company will continue as a going concern. The Company has suffered recurring losses and has a working capital deficiency of approximately $5,641,000 at March 31, 2004. 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.



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

NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 4 - RECENT ACCOUNTING STANDARDS

In January 2003, the FASB issued Interpretation Number 46, "Consolidation of Variable Interest Entities" ("FIN No. 46"). This interpretation of Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements," provides guidance for identifying a controlling interest in a variable interest entity ("VIE") established by means other than voting interests. FIN No. 46 also requires consolidation of a VIE by an enterprise that holds such a controlling interest. In December 2003, the FASB completed its deliberations regarding the proposed modification to FIN No. 46 and issued Interpretation Number 46(R), "Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51" ("FIN No. 46(R)"). The decisions reached included a deferral of the effective date and provisions for additional scope exceptions for certain types of variable interests. Application of FIN No. 46(R) is required in financial statements of public entities that have interests in VIEs or potential VIEs commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application by public small business issuers' entities is required in all interim and annual financial statements for periods ending after December 15, 2004. Management does not believe that the adoption of this pronouncement will have a material effect on the Company's financial statements.

NOTE 5 - COMMON STOCK TO BE ISSUED

In February 2002, the Company's Board of Directors approved, pending stockholder approval, the increase in the number of authorized common shares to be issued to 190,000,000 shares. Such approval has not yet been received, although on May 10, 2004, the Company filed a proxy statement for a special meeting to be held on June 4, 2004 where the Company will seek the approval of its stockholders to amend the Company's Articles of Incorporation to reflect such increase.

During the quarter ended March 31, 2004, the Company had recorded liabilities for common stock to be issued for the following transactions:

a. Cash

During the year end December 31, 2002, the Company received $200,000 for 4,000,000 shares of its common stock. These shares, will be issued upon the approval by the stockholders on the increase in the number of authorized common shares of the Company. These shares are not included in the loss per share calculations($200,000 is included in common stock to be issued as of March 31, 2004).

b. 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 March 31, 2004 is $2,984,792.





NOTE 5 - COMMON STOCK TO BE ISSUED(Continued)

c. Services

During the year ended December 31, 2002, the Company agreed to issue to various parties an aggregate of 1,329,191 shares of its common stock in connection with professional services. These shares will be issued upon the approval by the stockholders of the increase in the number of authorized common shares of the Company. These shares are not included in the loss per share calculation.

The total shares to be issued upon stockholder approval of the increase in the authorized stock of the Company as a result of the transactions described above aggregate 20,253,149.

NOTE 6 - DEBENTURE LIABILITIES

The Company was a defendant in an action brought by certain debenture holders (The "Bridge Loans") in New Hampshire Superior Court seeking repayment of $300,000 of debenture principal together with interest from 1997, and the issuance of penalty shares for non payment of principal and interest. In addition, the plaintiffs claim that they had suffered by the Company's failure to register the shares issued under the warrant agreement.

The Company had interposed defenses and counterclaims. In June 1997, in connection with the debentures, the Company had issued 6,667 shares of common stock for every $1,000 of debt at a price of $0.15 per share. The Company claimed that it was owed the $300,000 consideration for such shares. In addition, the Company had issued warrants for the purchase of 2,500,000 shares of common stock at an exercise price of $0.15 per share exercisable until March 2002.

Furthermore, the Company had issued another 100,000 shares of common stock to each debenture holder, or 1,300,000 shares, at a price of $0.15 per share.

In the second quarter of 2002, the Company and the Bridge Lenders participating in the legal action, settled this dispute requiring the Company to: (i) Issue a minimum of 3,000,000 shares of common stock valued at $497,500 in lieu of the principal and interest owed to the debenture holders who participated ("participants") in this legal action. The Company prior to the settlement had recorded the debentures at $300,000, plus accrued interest of $39,400, for a total of $339,400. The difference between the $497,500 settlement and the $339,400, or $158,100, is recorded as a loss on settlement of debt. (ii) Extend the warrants attached to the participants' debentures for another two years until March 2004, for which the Company has recorded a non cash expense charge of $111,000 which was recorded as loss on settlement of debt and (iii) Issue additional shares if the product of the $497,500, as valued for the 3,000,000 shares above, divided by the average daily trading price for the 30 days subsequent to the settlement, is greater than the original 3,000,000 shares. Due to these requirements the Company is obligated to issue an additional 14,037,671 shares, due to the average trading price of $0.0292 in the 30 days subsequent to the settlement. As of March 31, 2004, neither the 3,000,000 nor the additional shares of 14,037,671 have been issued, and accordingly the Company has valued these shares at $497,500, which are recorded in the financial statements as Debenture Liabilities. These shares are not included in the loss per share calculations. If at the time the shares are issued, the stock price exceeds $0.0292 per share, the value of the 17,037,671 shares issued will exceed $497,500 and the Company will record a loss on settlement of debt.





NOTE 6 - DEBENTURE LIABILITIES(Continued)

The debenture holders that did not participate ("non-participating debentures") in the above legal action had total debentures of $75,000, plus accrued interest of $9,850 as of the settlement date, totaling $84,850. In conjunction with the above settlement, the Company settled these outstanding non-participating debentures, plus accrued interest, with the issuance of 750,000 shares of common stock valued at $0.0292 per share, or $21,900. The terms of their warrants were not extended, nor are they entitled to receive additional shares based on the Company's common stock achieving a certain average trading price 30 days subsequent to the settlement with the participating debenture holders. The Company has recorded a $62,950 gain with regard to the settlement of the non-participating debentures which was recorded as loss on settlement of debt. As of March 31, 2004, the 750,000 shares have not been issued, and accordingly the Company has valued these shares at $21,900 which are included in the financial statements as Debenture Liabilities. These shares are not included in the loss per share calculations.

The total shares to be issued upon stockholder approval of the increase in the authorized stock of the Company as a result of the transactions described above aggregate 17,787,671.

NOTE 7 - 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 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 three months ended March 31, 2004 and 2003 because their inclusion would have been antidilutive. Total shares issuable upon the exercise of options, warrants and the conversion of preferred stock for the three months ended March 31, 2004 and 2003 were 49,781,309 and 8,025,398, respectively. In addition, common stock to be issued upon stockholder approval of the increase in the authorized stock of the Company, aggregating 38,040,820 shares are also excluded from loss per share calculations.

NOTE 8 - 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.

In May 2001, the Company entered into a distribution agreement with a company (the "Sub distributor") based in the State 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, 2001. A minimum purchase of 50 units are 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 had been shipped under this agreement. The sale will be recognized when the Company receives payments. The Company recorded the cost of the inventory shipped as a loss contingency of $242,035 during the year ended December 31, 2001, since return of the items is uncertain.

NOTE 8 - COMMITMENTS AND CONTINGENCIES (Continued)

On November 17, 2000, the Company entered into a three-year master distribution agreement for their "Pure Safe Water Station" with a distributor based out of Hong Kong ("the distributor"). Under this agreement, upon meeting minimum quantities of sales in each of the years of agreement, the distributor will receive a rebate of 20% of the total price for all products, parts and supplies purchased from the Company. Furthermore, the distributor, upon meeting these minimum sales quantities will have the right to purchase up to 30,000,000 shares of the Company's common stock at $0.05 per share. The sales targets were never met and the agreement was cancelled on June 17, 2002.

NOTE 9 - PREFERRED STOCK-SERIES F

During 2003, management authorized the Company to raise up to $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 cumulative and are payable in shares of the Company's common stock valued at the then current market price per share, at the time of maturity, or upon conversion, whichever is earlier. The conversion rate for shares and accrued dividends payable is 40 shares of common for each share of preferred 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.

Although there was a discount upon the issuance of all of the preferred stock in accordance with Emerging Issue Task Force ("EITF") 98-5, a security is not yet convertible if certain contingencies exist which are dependent upon the occurrence of a future event outside the control of the security holder. In this case, the shares can only be converted into common stock after the stockholders of the Company approve an increase in the authorized capital stock of the corporation. In accordance with EITF 98-5, any beneficial conversion (discount) feature is measured at the commitment date, but will not be recognized as an adjustment to earnings until the contingency is resolved,(the date the increase in shares are approved). As of March 31, 2004, the deferred contingent beneficial conversion adjustment was approximately $1,966,047.

Cash
----

During the three months ended March 31, 2004, the Company raised $393,590 through the sale of shares Series F convertible preferred stock.

Services
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In January 2004, the Company issued an aggregate of 357,133 shares of its Common stock for professional services totaling $17,857.

In March 2004, the Company issued an aggregate of 52,433 shares of its Series F convertible preferred stock for professional services totaling $164,530.

ITEM 2 - MANAGEMENTS DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

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

Forward-Looking Statements
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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 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
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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
---------------------

Revenue for the three months ended March 31, 2004 and March 31, 2003 were $56,290 and $0 respectively. During the current quarter, the Company sold one purification system.

Cost of sales for the three month periods ended March 31, 2004 and March 31, 2003 were $29,250 and $24,000 respectively, an increase of 22%. An analysis of the components of cost of sales in the 2004 and 2003 periods follows:

| Cost of Sales Period | Actual CGS | Rent and Overhead Payments to Manufacturer | Total |
|---|---|---|---|
| 03/31/04 | $ 13,250 | $ 16,000 | $ 29,250 |
| 03/31/03 | - | 24,000 | 24,000 |

Selling, general and administrative expenses for the three months ended March 31, 2004 were $285,706, compared to $167,630 for the year earlier period, an increase of 71%, primarily due to higher marketing costs and sales commissions.

The net loss for the period ended March 31, 2004 was $594,702 compared to

$766,261 in the period ended March 31, 2003.



Liquidity and Capital Resources

At March 31, 2004 the Company had a working capital deficiency of approximately $5,641,000. In addition the Company continues to suffer recurring losses. The accompanying financial statements have been prepared assuming that that the Company will continue as a going concern, These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with respect to these matters include restructuring its existing debt, raising additional capital through future issuances of stock and/or equity, and finding sufficient profitable markets for its products to generate sufficient cash to meet its business obligations. The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

During the three months ended March 31, 2004 the Company raised $393,590 from the sale of preferred stock.

Settlements

During 2002 the Company continued the restructuring of its debt. In the second quarter of 2002 the Company reached a negotiated settlement in an action brought by certain debenture holders (the "Bridge Lenders") in New Hampshire Superior Court. The litigants sought repayment of $300,000 of debenture principal, together with interest from 1997, and the issuance of penalty shares for non-payment of principal and interest. In addition, damages were sought relating to the Company's failure to register the shares issued under a related warrant agreement.

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 trading period, commencing upon the execution of the settlement agreement. Due to these requirements, the Company is obligated to issue 17,037,671 shares of common stock, based on an average price over the measurement period of $0.0292. The total authorized common stock of the Company does not currently provide a sufficient number of authorized and 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 Debenture Liabilities for $497,500 as of March 31, 2004. If at the time the shares are issued, the stock price exceeds $0.0292 per share, the value of the 17,037,671 shares issued will exceed $497,500 and the Company will record a loss on settlement of debt.

In addition to the issuance of the above-mentioned shares, attached to the original Bridge Loans were warrants for the purchase of the Company's common stock at $0.15 per share. The debenture holders that participated in the legal action had the lives of their warrants extended until March 2004 as part of the settlement agreement, and such warrants have now been extended for a period of twelve months following the registration of the shares underlying those warrants A total of 1,666,667 shares of common stock may be purchased under these extended warrants. In 2002, the Company has recorded a non-cash charge of $111,000 related to the extension of the lives of these warrants. Such charge is included in the loss on settlement of debt.

In addition to the above settlement with Bridge Lender who participated in the legal action, the Company settled its obligation with debenture holders that did not participate ("non-participating debenture holders") in the legal action. These non-participating debenture holders had total debentures of $75,000, plus accrued interest of $9,850, totaling $84,850 as of the settlement date. In conjunction with the above settlement, the Company settled these outstanding non-participating debentures, plus accrued interest, with the issuance of 750,000 shares of common stock valued at $0.0292 per share, or $21,900. The terms of their warrants were not extended, nor are they entitled to receive additional shares based of the Company's common stock achieving a certain average trading price 30 days subsequent to the settlement with the participating debenture holders. The Company has recorded a $62,950 gain with regard to the settlement of the non-participating debentures. As of December 31, 2002, the 750,000 shares have not been issued as the Company does not currently have a sufficient number of authorized and unissued common shares to settle these non-participating debentures. As such the Company has recorded these 750,000 shares to be issued Debenture Liabilities for $21,900 as of March 31, 2004. In addition the Company recorded charge of $298,479 in 2004, and $537,262 in 2003 for the voluntary surrender by the Company's President and CEO of his anti-dilution agreement. Such cost is expected to be satisfied with the issuance of 14,923,958 shares of common stock, upon approval by the Company's shareholders, in the number of authorized shares of the Company common stock. As such the Company has recorded these 14,923,958 shares to be issued as a liability in common stock to be issued for $2,984,790 as of March 31, 2004.

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During the year ended December 31, 2002, the Company received $200,000 for 4,000,000 shares of its common stock. These shares will be issued upon the approval by the stockholders of the increase in the number of authorized common shares of the Company. Therefore the Company has recorded these 4,000,000 shares to be issued as a liability in common stock to be issued for $200,000 as of March 31, 2004.

During the year ended December 31, 2002, the Company agreed to issue to various third parties an aggregate of 1,329,191 shares of its common stock in connection with professional services. These shares will be issued upon the approval by the stockholders of the increase in the number of authorized common shares of the Company. These shares are not included in the loss per share calculation.

On May 10, 2004 the Company filed a proxy statement for a special meeting to be held on June 4, 2004 to request approval of its stockholders for an increase in the authorized shares of the Company from 100,000,000 shares to 200,000,000 shares. This increase in the outstanding will dilute the ownership interest of current shareholders and will adversely affect earnings per share and may result in a lower market value for the Company's stock.

Failure to obtain shareholder approval of the proposed increase in the authorized common stock of the Corporation will prevent the Company from discharging its obligations, as listed above, which will have a material adverse impact on the Company's financial position, its operations and its ability to continue as a going concern.

Management is currently attempting to settle or restructure the remaining debt, and plans to raise additional capital through future issuances of stock and/or debentures to finance the growth of the Company.

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

In January 2003, the FASB issued Interpretation Number 46, "Consolidation of Variable Interest Entities" ("FIN No. 46"). This interpretation of Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements," provides guidance for identifying a controlling interest in a variable interest entity ("VIE") established by means other than voting interests. FIN No. 46 also requires consolidation of a VIE by an enterprise that holds such a controlling interest. In December 2003, the FASB completed its deliberations regarding the proposed modification to FIN No. 46 and issued Interpretation Number 46(R), "Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51" ("FIN No. 46(R)"). The decisions reached included a deferral of the effective date and provisions for additional scope exceptions for certain types of variable interests. Application of FIN No. 46(R) is required in financial statements of public entities that have interests in VIEs or potential VIEs commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application by public small business issuers' entities is required in all interim and annual financial statements for periods ending after December 15, 2004.

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

ITEM 3 - CONTROLS AND PROCEDURES

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

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

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

PART 11 - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

The Company is plaintiff in a criminal action, brought against I. Salman Import and Export Trading Establishment and two employees of the Jordan National Bank, before the Supreme Court of Justice in the Kingdom of Jordan in November 2002 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

During the three months ended March 31, 2004, the Company raised $393,590 through the sale of shares Series F convertible preferred stock.

In January 2004, the Company issued an aggregate of 357,133 shares of its Common stock for professional services totaling $17,857.

In March 2004, the Company issued an aggregate of 52,433 shares of its Series F convertible preferred stock for professional services totaling $164,530.

ITEM 3 - DEFAULT UPON SENIOR SECURITIES

None.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On May 10, 2004, the Company filed a definitive proxy statement with the Securities and Exchange Commission for a special meeting of the Company's shareholders to amend the Certificate of Incorporation to increase the authorized capital stock of the Company from 100,000,000 shares to 200,000,000 shares, consisting of 190,000,000 shares of common stock and 10,000,000 shares of preferred stock, which Certificate of Amendment was approved by the Board of Directors on August 20, 2002.

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

| Exhibit No. | Description |
| --- | --- |
| 10.1 | Mutual Settlement Agreement and General Release, dated June 20,2002, by and between the Company: K. Thomas and Callaway Decoster, as husband and wife; K. Thomas Decoster, Individually; Michael P. and Roberta S. Gaudette, as husband and wife; Dominic M. Strazzulla; the Felix A. Hertzka Estate; Claudette L. Gelfand Revocable Trust; Catherine C. Griffin; Michael B. and Diane L. Hayden, as husband and wife; Alexander Harris; Holly O. Harris; and Joseph R. Fichtl and the |

Joseph R. Fichtl 1995 Trust. Attached as Exhibit 10.1 to the Company's Amendment to Annual Report on Form 10K/A for the fiscal year ended December 31, 2003.

10.2 Addendum to Settlement Agreement, dated June 20, 2002, by and between the Company; K. Thoma and Callaway Decoster, as husband and wife; K. Thomas Decoster, individually; Michael P. and Roberta S. Gaudette, as husband and wife; Dominic M. Strazzulla; the Felix A. Hertzka Estate; Claudette L. Gelfand Revocable Trust; Catherine C. Griffin; Michael B. and Diane L. Hayden, as husband and wife; Alexander Harris; Holly O. Harris; and Joseph R. Fichtl and the Joseph R. Fichtl 1995 Trust. Attached as Exhibit 10.2 to the Company's Amendment to Annual Report on Form 10K/A for the fiscal year ended December 31, 2003.

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* 10.3 Form of Second Amendment to Settlement Agreement, dated retroactively as of June 20, 2002, by and between the Company; K. Thomas and Callway Decoster, as husband and wife; K. Thomas Decoster, individually; Michael P. and Roberta S. Gaudette, as husband and wife;Dominic M. Strazzulla; the Felix A. Hertzka Estate; Claudette L. Gelfand and the Claudette L Gelfand Revocable Trust; Catherine C. Griffin; Michael B.and Diane L. Hayden, as husband and wife; Alexander Harris; Holly O. Harris; and Joseph R. Fichtl and the Joseph R. Fichtl 1995 trust.

*31 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.

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

* filed herewith

(b) Reports on Form 8-K

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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.

5/14/2004 /s/ David A. Conway

Date

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

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Index of Exhibits

| Exhibit No. | Description |
|---|---|
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| 31 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 30 of Sarbanes-Oxley Act of 2002. |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 8 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |