AQUACELL TECHNOLOGIES INC
Form 10QSB
May 16, 2005

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

FORM 10-QSB

(Mark one)

_X_ Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2005.

___ 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 _X_ 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
18,880,465 shares outstanding as of May 16, 2005.

Transitional Small Business Disclosure Format (check one): Yes ___ No _X_

AQUACELL TECHNOLOGIES, INC.

FORM 10-QSB

FOR THE QUARTER ENDED MARCH 31, 2004

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

		PAGE
Item 1.	Financial Statements:	
	Condensed Consolidated Balance Sheet as of March 31, 2005	1
	Condensed Consolidated Statements of Operations for the three and nine month periods ended March 31, 2005 and 2004	2
	Condensed Consolidated Statements of Cash Flow for the nine month periods ended March 31, 2005 and 2004	3
	Notes to Condensed Consolidated Financial Statements	5
Item 2.	Management's Discussion and Analysis	12
	Forward-Looking Statements	12
	Overview	12
	Critical Accounting Policies	13
	Results of Operations	15
	Liquidity and Capital Resources	15
	PART II - OTHER INFORMATION	
Item 2(C).	Sales of Unregistered Securities	16
Item 3.	Controls and Procedure	17
Item 4.	Submission of Matters to a Vote of Security Holders	17
Item 6.	Exhibits and Reports on Form 8-K	17
Signature		17
Index to Exhibits		18

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
March 31, 2005
(Unaudited)

ASSETS	
Current assets:	
Cash	$ 80,000
Subscription receivable	2,000
Accounts receivable, net of allowance of $47,000	93,000
Inventories	80,000
Prepaid expenses and other current assets	37,000
Total current assets	292,000
Property, equipment and billboard coolers, net	1,131,000
Other assets:	
Goodwill	824,000
Patents, net	60,000
Security deposits	16,000
Total other assets	900,000
	$ 2,323,000
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 516,000
Accrued liabilities	832,000
Preferred stock dividend payable	1,000
Dividend payable	33,000
Customer deposits	81,000
Unearned income	10,000
Current portion of deferred payable-derivative	24,000
Total current liabilities	1,497,000
Deferred payable-derivative, net of current portion	449,000
Total liabilities	1,946,000
Commitments and contingencies	
Stockholders' Equity:	
Preferred stock - Class A, par value $.001; 1,870,000 shares authorized; 70,000 shares issued and outstanding	-
Preferred stock, par value $.001; 8,130,000 shares authorized; no shares issued	-
Common stock, par value $.001; 40,000,000 shares authorized; 18,413,464 shares issued and outstanding	18,000
Additional paid-in capital	22,208,000
Accumulated deficit	(20,156,000)
	2,070,000
Subscription receivable	(64,000)
Unamortized deferred compensation	(1,629,000)

Total stockholders' equity	377,000
	$ 2,323,000

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,		Nine Mon Marc
	2005	2004	2005
Revenue:			
Net sales	$ 271,000	$ 117,000	$ 581,000
Advertising revenue	20,000	-	20,000
	291,000	117,000	601,000
Cost and expenses:			
Cost of sales	152,000	79,000	356,000
Salaries and wages	338,000	318,000	922,000
Legal, accounting and other professional expenses	72,000	42,000	183,000
Stock based compensation	262,000	233,000	745,000
Fair value adjustment of derivative	-	(72,000)	-
Write-off of accrued interest on notes	-	-	-
Other	339,000	451,000	990,000
	1,163,000	1,051,000	3,196,000
Loss from operations before other income	(872,000)	(934,000)	(2,595,000)
Other income:			
Interest income	-	1,000	-
	-	1,000	-
Net loss for the period	$ (872,000)	$ (933,000)	$(2,595,000)
Weighted average shares outstanding- basic and diluted	17,906,000	12,274,000	16,046,000
Loss attributable to common stockholders:			
Net loss	$ (872,000)	$ (933,000)	$(2,595,000)
Preferred stock dividends	1,000	9,000	19,000
Loss attributable to common stockholders	$ (873,000)	$ (942,000)	$(2,614,000)
Net loss per common share	$ (0.05)	$ (0.08)	$ (0.16)

See notes to condensed consolidated financial statements.

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

	Nine Months Ended Ma	
	2005	2
Cash flows from operating activities:		
Net loss	$ (2,595,000)	$ (3,
Adjustment to reconcile net loss to net cash used in operating activities:		
Write-off of accrued interest on notes receivable	-	
Fair value adjustment of derivative	-	
Stock based compensation	745,000	
Depreciation and amortization	41,000	
Bad debt provision	4,000	
Changes in:		
Accounts receivable	(46,000)	
Accrued interest receivable	-	
Prepaid expenses and other current assets	16,000	
Inventories	14,000	(
Accounts payable	(72,000)	(
Accrued liabilities	126,000	
Customer deposits	20,000	
Unearned income	10,000	
Other	(1,000)	
Net cash used in operating activities	(1,738,000)	(2,
Cash flows from investing activities:		
Payments on note issued for purchase of property and equipment	(3,000)	
Collections on notes receivable	-	
Capital expenditures	(359,000)	
Net cash provided by (used in) investing activities	(362,000)	
Cash flows from financing activities:		
Proceeds from private placements of common stock	170,000	3,
Expenses of offerings	-	(
Preferred stock dividends paid	-	
Exercise of stock options	-	
Proceeds from subscriptions receivable	40,000	
Proceeds from exercise of common stock warrants	1,113,000	
Expense of warrant exercise	(3,000)	
Proceeds (repayments) of loans from related parties	-	
Net cash provided by financing activates	1,320,000	2,
Increase (decrease) in cash	(780,000)	
Cash, beginning of period	860,000	
Cash, end of period	$ 80,000	$

See notes to condensed consolidated financial statements.

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

	Nine Months Ended Ma	
	2005	2
Supplemental disclosure of cash flow information:		
Cash paid for interest...$	-	$
Supplemental schedule of non-cash investing and financing activities:		
Conversion of inventory to depreciable assets for advertising program......$	-	$
Issuance of common stock and warrants for services to the company..........$	294,000	$ 2,
Dividends payable on preferred stock.....................................$	19,000	$
Subscriptions receivable for exercise of warrants.........................$	66,000	$
Write-off of notes receivable against reserve............................$	-	$
Issuance of common stock in payment of dividends on preferred stock........$	26,000	$
Issuance of common stock for legal fee in connection with stock offering...$	24,000	$
Expense of warrant exercise offset against subscription receivable.........$	134,000	$
Dividend of subsidiary common stock to the Company's common stockholders...$	33,000	$
Accrued legal fees paid as consideration for warrant exercise.............$	-	$
Legal fees prepaid as consideration for warrant exercise..................$	-	$
Conversion of 605,000 shares of Class A preferred stock into 605,000 shares of common stock..$	1,000	$

See notes to condensed consolidated financial statements.

AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005 (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.

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 nine months ended March 31, 2005 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, 2004.

At March 31, 2005 the Company's ability to continue as a going concern, for the reasons outlined on the 10-KSB filed for the year ended June 30, 2004, still existed. During the nine months ended March 31, 2005 the Company successfully obtained external financing through exercise of warrants and plans to continue to raise capital through the sale or exercise of equity securities on a just in time basis.

Advertising Revenues:

Revenues from advertising on billboard coolers are recognized during the periods for which the advertisements are placed. Unearned advertising revenues reflect that portion of revenues billed but not earned in the period.

Reclassifications:

Certain items in these financial statements have been reclassified to conform to the current period presentation.

New Accounting Pronouncements:

In December 2004, the FASB issued SFAS NO. 123R, "Share Based Payment." This statement is a revision of SFAS No. 123 and supersedes APB 25 and its related implementation guidance. SFAS 123R addresses all forms of share based payment ("SBP") awards including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciations rights. Under SFAS 123R, SBP awards result in a cost that will be measured at fair value on the awards' grant date, based on the estimated number of awards that are expected to vest. This statement is effective for public entities that file as small business issuers - as of January 1, 2006. The adoption of this pronouncement is not expected to have a material effect on the Company's financial statements.

AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005 (Unaudited)

NOTE B - SUBSCRIPTIONS RECEIVABLE

At March 31, 2005 a part of subscriptions receivable in the amount of $2,000 is reported as a current asset since such amount represented a receivable for exercise of warrants that has been subsequently collected prior to the issuance of the financial statements.

NOTE C - INVENTORIES

Inventories consist of the following at March 31, 2005:

Raw materials	$ 55,000
Work in progress	25,000
	$ 80,000

NOTE D - PROPERTY, EQUIPMENT, AND BILLBOARD COOLERS

Property, equipment, and billboard coolers is summarized as follows at March 31, 2005:

Billboard coolers, including parts	$ 1,123,000
Furniture and fixtures	36,000
Equipment- office	102,000
Machinery and equipment	130,000
Rental units	9,000
Leasehold improvements	12,000
Truck	11,000
	1,423,000
Less accumulated depreciation	292,000
	$ 1,131,000

Depreciation expense was $25,000 and $26,000 for the nine months ended March 31, 2005 and 2004 respectively.

NOTE E - ACCRUED LIABILITIES

At March 31, 2005 the accrued liabilities consisted of unpaid officers' salaries of $118,000, payroll taxes withheld by the Company of $142,000 and by the subsidiaries of $237,000, accrued payroll taxes of $28,000 owed by the Company and $100,000 owed by the subsidiaries and other accrued liabilities of $207,000. At March 31, 2005 two tax liens have been filed; one Federal tax lien against the Company in the amount of $53,000 and a state tax lien against an inactive subsidiary in the amount of $26,000.

NOTE F - UNEARNED INCOME

At March 31, 2005 the unearned income of $10,000 represented the portion of our advertising revenue that was attributable to a period subsequent to the date of the financial statements.

6

AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005 (Unaudited)

NOTE G - DEFERRED PAYABLE

At March 31, 2005 the deferred payable in the amount of $473,000 represented the balance due to a private company for the return and cancellation of all exclusive distribution and marketing rights previously held under a distribution agreement. This amount is payable solely from 5% of the future revenues to be generated by our Global Water-Aquacell subsidiary.

NOTE H - COMMITMENTS AND CONTINGENCIES

1). Employment Agreement

During December 2004 the Company entered into a three year employment contract, effective January 2005, with an officer of the Company's Aquacell Media, Inc. subsidiary. The contract calls for a signing bonus of 50,000 shares of common stock of the Company, valued at $20,000, and a minimum annual salary of $125,000.

2). Consulting Agreement

During January 2005 the Company entered into a three year consulting agreement with a company owned by an officer of the Company's Aquacell Media, Inc. subsidiary. This officer also has an employment agreement with the Company (see Note H1). The agreement calls for payment of cash compensation for water cooler placements and/or for securing advertisers. Such commissions will be paid from advertising revenues collected. In addition the consultant may earn up to 150,000 warrants for securing new locations for coolers.

3). Other

During December 2004 the Company announced that it would spinoff of its Aquacell Water, Inc. subsidiary, an inactive company, to its common stockholders on a share for share basis. In connection with the spinoff it is anticipated that Aquacell Water will acquire Water Science Technologies, Inc., a wholly owned subsidiary of the Company.

NOTE I - EQUITY TRANSACTIONS

During August 2004 the Company amended a February 2004 consulting agreement to provide for additional compensation of 100,000 common shares. These shares were valued at $66,000 based upon closing market price at the date of issuance. Such amount will be amortized to expense over the remaining term of the agreement. Amortization amounted to $17,000 for the nine months ended March 31, 2005.

During August 2004 the Company issued 50,000 common stock purchase warrants at a price of $.66 per share in connection with performance under an existing consulting agreement. These warrants were valued at $25,000 utilizing the Black Scholes valuation method. Such amount will be amortized over a period of 31 months. Amortization amounted to $6,000 for the nine months ended March 31, 2005.

NOTE I - EQUITY TRANSACTIONS -(continued)

During September 2004 the Company issued an aggregate of 457,000 shares of common stock in connection with the exercise of 457,000 common stock purchase warrants issued in previously completed private placements. Warrants with exercise prices of $2.00 and $4.00 were repriced to $.70 and $.56. The Company realized gross proceeds of $286,000 and expenses were $32,000 in connection with the exercise. New common stock purchase warrants were issued for 247,000 shares of common stock exercisable at $.90 per share and 210,000 shares of common stock exercisable at $.95 per share and an additional 210,000 shares of common stock exercisable at $4.00 per share.

During October and November 2004 the Company issued an aggregate of 693,000 shares of common stock in connection with the exercise of 693,000 common stock purchase warrants issued in previously completed private placements. Warrants with exercise prices ranging from $.80 to $4.00 were repriced to prices ranging from $.55 to $.68. The Company realized gross proceeds of $434,000 and expenses were $43,000 in connection with the exercise. New common stock purchase warrants were issued for 600,000 shares of common stock exercisable at $.80 per share and 93,000 shares of common stock exercisable at $.90 per share.

During November 2004 the Company amended an August 2003 consulting agreement to provide for additional compensation of 300,000 common shares. These shares were valued at $177,000 bases upon closing market price at the date of issuance. The original agreement was extended for a two year period and the remaining aggregate deferred compensation in the amount of $410,632 will be amortized to expense over the remaining term of the agreement. Amortization amounted to $51,000 for the nine months ended March 31, 2005.

During November 2004 the Company amended an August 2003 nonexclusive finders arrangement to provide for the issuance of 225,000 common stock purchase warrants at an exercise price of $.85 per share. These warrants were valued at $143,000 utilizing the Black-Scholes valuation method and have been charged to Additional Paid-In Capital as a cost of raising capital.

During November 2004 the Company issued 40,000 shares of common stock in payment of legal fees in connection with the January 2005 filing of a registration statement. The shares were valued at $24,000 based upon the closing market price at the date of issuance.

During December 2004 the Company issued an aggregate of 974,000 shares of common stock in connection with the exercise of 974,000 common stock purchase warrants issued in previously completed private placements. Warrants with exercise prices ranging from $1.75 to $4.00 were repriced to $.55. The Company realized gross proceeds of $536,000 and expenses were $54,000 in connection with the exercise. New common stock purchase warrants were issued for 974,000 shares of common stock exercisable at $.75. In connection with the transaction 301,000 warrants were repriced from $2.00 and $4.00 to $1.00.

During December 2004 605,000 shares of class A preferred stock were converted into 605,000 shares of common stock.

NOTE I - EQUITY TRANSACTIONS -(continued)

During December 2004 the Company issued an aggregate of 35,000 shares of common stock in payment of dividends on preferred stock in the amount of $26,000 for the quarters ended June 2004, September 2004 and December 2004.

During December 2004 the Company issued 50,000 shares of common stock in connection with an employment agreement. These shares were valued at $20,000 based upon the closing market price at the date of issuance. Such amount was charged to operations in the current period.

During December 2004 the Company issued 100,000 common stock purchase warrants at a price of $.40 per share in connection with two consulting agreements. These warrants were valued at $30,000 utilizing the Black Scholes valuation method. Such amount will be amortized over a five year period. Amortization of $2,000 was recorded during the nine months ended March 31, 2005.

During January 2005 the Company issued an aggregate of 100,000 shares of common stock in connection with the exercise of 100,000 common stock purchase warrants issued in previously completed private placements. Warrants with an exercise price of $.80 were repriced to $.55. The Company realized gross proceeds of $55,000 and expenses were $5,000 in connection with the exercise. New common stock purchase warrants were issued for 100,000 shares of common stock exercisable at $.75.

During March 2005 the Company completed a private placement of 566,667 shares of its common stock. The offering consisted of one share of common stock at a price of $.30 and one common stock purchase warrant exercisable at $.75 per share. The warrant contains a call feature. The Company received proceeds of $175,000 and there were no expenses incurred.

NOTE J - SPINOFF OF AQUACELL WATER, INC.

Aquacell Water, Inc. is an inactive company without assets, liabilities or operations. Accordingly the spinoff will have no material effect on our financial statements.

NOTE K - OTHER COSTS AND EXPENSES

Other costs and expenses consisted of the following:

	Nine Months Ended March 31, 2005	Nine Months Ended March 31, 2004
Rent	$ 153,000	$ 126,000
Telephone and utilities	47,000	50,000
Travel	57,000	46,000
Business promotion	78,000	184,000
Consulting fees and expenses	50,000	100,000
Insurance	90,000	77,000
Vehicle expenses	71,000	78,000
Listing fees	28,000	23,000
Exchange fees, transfer agent fees and investor fees and expenses	47,000	43,000
Office expenses, postage and supplies	92,000	72,000
Other expenses	277,000	288,000
	$ 990,000	$ 1,087,000

NOTE L - SEGMENT DATA

The Company has two reportable segments; water systems and related products and advertising.

The following table presents information about the Company's business segments as of and for the three and nine months ended March 31, 2005:

	Three Months Ended March 31, 2005			Nine Months Ended March 31, 2005	
	Water Systems and Related Products	Advertising	Total	Water Systems and Related Products	Advertis
Net revenue....................$	271,000	$ 20,000	$ 291,000	$ 581,000	$ 20,0
Loss from operations...........$	(493,000)	$ (379,000)	$ (872,000)	$ (1,604,000)	$ (991,0
Stock based compensation.......$	217,000	$ 45,000	$ 262,000	$ 653,000	$ 92,0
Depreciation and amortization..$	3,000	$ 16,000	$ 19,000	$ 18,000	$ 23,0
Identifiable assets............$	1,052,000	$1,271,000	$2,323,000	$ 1,052,000	$1,271,0

Segment accounting was not applicable to the year ended June 30, 2004.

10

AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005 (Unaudited)

NOTE M - SUBSEQUENT EVENTS

During April 2005 the Company completed a private placement of 416,667 shares of its common stock. The offering consisted of one share of common stock at a price of $.30 and one common stock purchase warrant exercisable at $.75 per share. The Company received proceeds of $125,000 and there were no expenses incurred.

During April 2005 the Company issued 50,000 shares of common stock in connection with the exercise of 50,000 common stock warrants. Warrants with an exercise price of $.90 were repriced to $.32. The Company realized gross proceeds of $16,000 and expenses were $2,000 in connection with the exercise. New common stock purchase warrants were issued for 50,000 shares of common stock exercisable at $.75 per share.

11

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

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 that 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 constructed to imply any conclusion that such results or trends will necessarily continue in the future.

During the nine months ended March 31, 2005 the Company raised net equity of $1,320,000 to enable the Company to move forward with the "Message On The Bottle" advertising program through our Aquacell Media subsidiary. Aquacell Media installs our patented Aquacell 1000 Bottled Water Cooler Systems free of charge into various locations while retaining ownership of the coolers. Revenue is generated through the sale of advertising on the band of the cooler's permanently attached five-gallon bottle, as well as on the cup holder.

During the nine months ended March 31, 2005, we commenced the initial rollout of installations in Rite Aid stores, the nation's third largest drug store chain with more than 3000 locations. Under the five-year agreement, signed in October 2004 the Company installs its Aquacell 1000 coolers at no cost to Rite Aid, and sells the advertising space on the bottle band.

During the quarter ended March 31, 2005 we generated our first advertising revenues with an inaugural promotion for Unilever's Dove(R) Cool Moisture body wash and bar soap. The Dove Cool Moisture advertising was displayed on our coolers in select Rite Aid stores nationwide, as well as on coolers installed in Duane Reade drug stores in the New York Metropolitan area. In a report the Company received from Unilever, the cooler advertising provided a 34% sales lift for the Dove Cool Moisture products, validating the value of the "Message on the Bottle" advertising. The test compared sales of Dove Cool Moisture in the 100 Duane Reade stores in the greater NY area that have our water coolers installed with a Dove Cool Moisture advertising band on the permanently attached five-gallon bottle, to all other Duane Reade stores without cooler advertising. The data was gathered over a four-week period from Duane Reade's cash register scanners. Sales of Dove Cool Moisture increased steadily in all stores; however, the stores with "Message on the Bottle" advertising had consistently higher sales of both bar soap and body wash, averaging 34% higher than stores without cooler advertising. The cooler advertising was the only variable in the test.

12

While securing advertisers is important to the success of our advertising program, as it is the source of revenue generation, securing locations, or "real estate", for the coolers is a critical first-step. Unlike other in-store advertising mechanisms, we actually own a piece of "real estate" in the stores for a five-year period, the intrinsic value of which cannot be measured.

Aquacell Media has installed Aquacell 1000 systems on a test basis into other stores including the nationwide drug chain CVS and Winn Dixie supermarkets, as well as smaller regional drug and grocery chain stores. We anticipate finalizing agreements with these and other chain retailers in the near future.

In January 2005, we announced the hiring of Michael Dougherty as President of our AquaCell Media subsidiary. Mr. Dougherty spent over 30 years with Unilever, where he established programs with Advantage Sales and Marketing, the nation's leading sales and marketing agency for suppliers of food products and consumer goods. Mr. Dougherty will leverage his experience and relationship with Advantage, to facilitate both location placements and advertisers for our "Message On The Bottle" program.

In December 2004, we were notified by the American Stock Exchange that the Amex accepted the Company's 18-month plan (the "Plan") for continued listing, in connection with the Amex's listing requirements, following receipt of notification of non-compliance with the Amex's minimum stockholder equity requirement. The Plan was evaluated and accepted by the Amex, indicating that the Company made a reasonable demonstration of an ability to regain compliance with the continued listing standards within the allotted time frame.

In December 2004, the Company announced it was spinning off its Aquacell Water subsidiary to AquaCell Technologies stockholders, who will receive one share of common stock in Aquacell Water for every share of common stock held in AquaCell Technologies. Aquacell Water is currently an inactive company without assets, liabilities or operations. Aquacell Water will operate as a holding company to acquire companies in the water industry with the first acquisition expected to be Water Science Technologies, Inc. (WST), currently a wholly owned subsidiary of AquaCell Technologies. The pay date for the shares will coincide with the effectiveness of the Aquacell Water registration statement, which we intend to file with the Securities and Exchange Commission no later than the first quarter of our fiscal year.

During the nine months ended March 31, 2005 we continued to incur non-cash charges for stock based compensation for warrants issued to consultants, which we believe is a continuing benefit to the Company and its stockholders for the future growth of the Company. Such charges were $745,000 for the nine months.

Critical Accounting Policies

The accompanying discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The preparation of these condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from

other sources. We base our estimates and judgments on historical experience and all available information. However, future events are subject to change, and the best estimates and judgments routinely require adjustment. US GAAP requires us to make estimates and judgments in several areas, including those related to recording various accruals, income taxes, the useful lives of long-lived assets, such as property and equipment and intangible assets, and potential losses from contingencies and litigation. We believe the policies discussed below are the most critical to our condensed consolidated financial statements because they are affected significantly by management's judgments, assumptions and estimates.

Goodwill:

Goodwill represents the excess of the purchase price over the fair value of net assets of a business acquired. The Company has adopted Statements of Financial Accounting Standards No. 142 (SFAS 142), "Goodwill and Other

Intangible Assets". The Company operates as a single integrated business, and as such has one operating segment which is also the reportable unit. Fair value of the reporting unit is determined by comparing the fair value of the unit with its carrying value, including goodwill. Impairment tests are performed using discounted cash flow analysis and estimates of sales proceeds. The annual evaluation of goodwill is performed at June 30th, the end of the Company's fiscal year.

Income taxes:

The Company accounts for income taxes using the asset and liability method described on SFAS No. 109, "Accounting For Income Taxes", the objective of which is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting and the tax bases of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. A valuation allowance related to deferred tax assets is recorded when it is more likely than no that some portion or all of the deferred tax assets will not be realized.

Long-lived assets:

The Company accounts for the impairment and disposition of long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets." In accordance with SFAS No. 144, long-lived assets to be held are reviewed whenever events or changes in circumstances indicate that their carrying value may not recoverable. The Company periodically reviews the carrying value of long-lived assets to determine whether or not an impairment to such value has occurred, and has determined that as of June 30, 2004 that impairment, where appropriate, was recorded in the financial statements.

New Accounting Pronouncements:

In December 2004, the FASB issued SFAS NO. 123R, "Share Based Payment." This statement is a revision of SFAS No. 123 and supersedes APB 25 and its related implementation guidance. SFAS 123R addresses all forms of share based payment ("SBP") awards including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. Under SFAS 123R, SBP awards result in a cost that will be measured at fair value on the awards' grant date, based on the estimated number of awards that are expected to vest. This statement is effective for public entities that file as small business issuers - as of January 1, 2006. The adoption of this pronouncement in not expected to have a material effect on the Company's financial statements.

Results of Operations

During the nine months ended March 31, 2005 on a consolidated basis, revenues were $601,000 as compared to $518,000 for the similar period of the preceding year, resulting primarily from our initial advertising revenues of $20,000 and an increase in sales by our WST subsidiary of $83,000, and cost of sales was 59% for the nine months ended March 31, 2005 as compared to 69% for the same period of the prior year. The decrease in cost of sales percentage resulted from spreading manufacturing cost over an increased sales volume from our WST subsidiary.

Net loss on a consolidated basis, attributable to common stockholders, for the nine months ended March 31, 2005 decreased to $2,614,000 or $0.16 per share, as compared to $3,330,000 or $.31 per share for the same period of the prior year. The decrease in the loss is primarily attributable to the decrease in stock based compensation in the amount of $90,000, a fair value adjustment of a derivative in the amount of $322,000, and write-off of accrued interest on notes receivable in the amount of $48,000.

Salaries and wages decreased by $97,000 for the nine months ended March 31, 2005 over the prior year resulting primarily from bonuses paid in the prior year. Legal, accounting and other professional expenses increased by approximately $41,000 for the nine months ended March 31, 2005 resulting primarily from independent consulting services. Stock based compensation decreased by $90,000 to $745,000 for the nine months ended March 31, 2005 resulting from a direct write-off of certain warrants issued during the prior year. Other selling, general and administrative expenses, decreased by approximately $97,000 to $990,000 for the nine months ended March 31, 2005. Current period expenses consisted primarily of rent - $153,000, telephone and utilities- $47,000, travel- $57,000, business promotion- $78,000, insurance- $90,000, and vehicle expenses-$71,000.

Liquidity and Capital Resources

The Company has developed a plan to address liquidity, in connection with its ability to continue as a going concern, in several ways. It intends to continue to raise capital through the sale or exercise of equity securities. Toward that end the Company raised net equity of approximately $1,320,000 through the exercise of warrants to purchase common shares and a private placement of common shares during the nine months ended March 31, 2005. The Company has continued to pursue the placement of our water cooler billboards in various locations and the Company is seeking to increase its revenues through the sale of advertising on the band of the cooler's permanently attached five-gallon bottle as outlined in the Overview section of Management's Discussion.

The spinoff of our Aquacell Water, Inc. subsidiary will have no material effect on the financial statements because this is an inactive company without assets, liabilities or operations.

Cash used by operations during the nine months ended March 31, 2005 amounted to $1,738,000. Net loss of $2,595,000 was reduced by non-cash stock based compensation in the amount of $745,000, depreciation and amortization of $41,000 and a bad debt provision of $4,000. Cash used by operations was further increased by a decrease in accounts payable in the amount of $72,000 and an increase in accounts receivable of $46,000. Net loss was further decreased by an increase in accrued liabilities of $126,000 and by net changes in prepaid expenses, accrued liabilities, customer deposits, unearned income and inventories aggregating $59,000.

Cash used by investing activities during the nine months ended March 31, 2005 represented capital expenditures in the amount of $359,000 primarily for billboard coolers and by payments on notes issued for the purchase of equipment in the amount of $3,000.

Cash provided by financing activities was approximately $1,320,000. Proceeds from a private placement of common stock amounted to $170,000. Proceeds from sales of common stock purchase warrants amounted to $1,113,000 and expenses amounted to $3,000. Proceeds from subscriptions receivable were $40,000.

We have granted warrants, subsequent to our initial public offering, in connection with private placements, consulting, marketing and financing agreements that remain outstanding at the date of this filing and may generate additional capital of up to approximately $10,750,000 if exercised. As of March 31, 2005 250,000 warrants generating $42,000 were in the money and 6,879,000 warrants generating $10,793,000 were out of the money. Historically, the Company has repriced out of the money warrants issued in connection with equity placements to generate additional capital. There is no assurance however, that any of the warrants will be exercised.

At March 31, 2005 two tax liens have been filed; one Federal tax lien against the Company in the amount of $53,000 and a state tax lien against an inactive subsidiary in the amount of $26,000. We are in negotiations to reach settlement agreements with the appropriate tax agencies. There are no assurances that these negotiations will result in successful agreements and the Company's assets could be subject to enforcement action.

Management believes that its present cash position combined with subsequent equity raises and conversion of warrants 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.

PART II. OTHER INFORMATION

ITEM 2 (C). SALES OF UNREGISTERED SECURITIES

During the quarter ended March 2005 the Registrant sold 566,667 shares of common stock in a Private Placement to 3 accredited investors pursuant to the exemption provided by Regulation D, Rule 505, and Section 4(2) of the Securities Act of 1933, as amended. Common Stock Purchase Warrants were issued to the investors at an exercise price of $.75. In addition, the Registrant sold 100,000 shares of common stock upon exercise of Common Stock Purchase Warrants to 1 accredited investor pursuant to the exemption provided by Regulation D, Rule 505, and Section 4(2) of the Securities Act of 1933 as amended. New Common Stock Purchase Warrants were issued to the investor at an exercise price of $.75.

16

ITEM 3. CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this Report the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's chief executive officer and chief financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-14 adopted under the Securities Exchange Act of 1934. Based upon that evaluation, the chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

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

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A. Exhibits.

31.1 CEO's Certification Pursuant to Rule 13a-14(a)/ 15d-14(a)

31.2 CFO's Certification Pursuant to Rule 13a-14(a)/ 15d-14(a)

32.0 Certification Pursuant to 18 U.S.C. Section 1350

B. 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: May 16, 2005

/s/ Gary S. Wolff

Name: Gary S. Wolff
Title: Chief Financial Officer

INDEX TO EXHIBITS

Exhibit Number	Description
31.1	CEO's Certification Pursuant to Rule 13a-14(a)/ 15d-14(a)
31.2	CFO's Certification Pursuant to Rule 13a-14(a)/ 15d-14(a)
32.0	Certification Pursuant to 18 U.S.C. Section 1350