WATER CHEF INC
Form 10QSB/A
July 16, 2003

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-QSB/A

(Mark One)

(X) QUARTERLY REPORT UNDER SECTION 13 0R 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 0-30544

WATER CHEF, INC.
(Exact name of small business issuer as specified in its charter)

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

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

516-656-0059
(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No

APPLICABLE ONLY TO CORPORATE ISSUERS

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

OUTSTANDING AS OF

CLASS	November 21, 2002
Common	

Par value $0.001 per share	89,564,286

WATERCHEF, INC.

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

CONDENSED BALANCE SHEET

SEPTEMBER 30, 2002

(Unaudited)

ASSETS

	(As Restated See Note 2)
CURRENT ASSETS:	
Cash	$ 41,753
Inventories	185,500
Prepaid expenses and other current assets	3,163
TOTAL CURRENT ASSETS	230,416
PATENTS AND TRADEMARKS (net of accumulated amortization of $2,771)	23,284
	$ 253,700

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:	
Accounts payable	$ 387,128
Accrued expenses and other current liabilities	640,573
Notes payable (including accrued interest of $224,264)	844,056
Common stock to be issued	1,204,118
TOTAL CURRENT LIABILITIES	3,075,875
LONG-TERM LIABILITIES	
Loans payable to shareholder (including accrued interest of $51,518)	424,299
TOTAL LIABILITIES	3,500,174
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' DEFICIT:	
Preferred stock, $.001 par value; 10,000,000 shares authorized; 145,500 shares issued and outstanding, liquidation preference $990,000	146
Common stock, $.001 par value; 90,000,000 shares authorized; 89,564,286 shares issued and outstanding	89,564
Additional paid-in capital	12,583,518
Stock subscription receivable	(45,500)
Treasury stock, 4,400 common shares, at cost	(5,768)

Accumulated deficit through December 31, 2001	(14,531,596)
Accumulated deficit	(1,336,838)
TOTAL STOCKHOLDERS' DEFICIT	(3,246,474)
	$ 253,700

See notes to condensed financial statements.

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

CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30,		Nine Mont Septem
	2002	2001	2002
	(As Restated See Note 2)	(As Restated See Note 2)	(As Restated See Note 2)
Net Sales	$ --	$ --	$ 40,000
Costs and Expenses			
Cost of sales	12,000	28,875	63,680
Selling, general and administrative	150,460	304,705	518,797
Research and development	--	53,125	--
Non-dilution agreement termination costs	(149,240)	--	447,718
Loss (gain) on settlement of debt	21,900	(3,390)	206,150
Interest expense	37,868	111,114	140,493
Loss contingency	--	--	--
	72,988	494,429	1,376,838
Loss from continuing operations	(72,988)	(494,429)	(1,336,838)
Discontinued operations:			
Loss from discontinued operations	--	(49,177)	--
Net Loss	(72,988)	(543,606)	(1,336,838)
Preferred stock dividends	(27,075)	(27,075)	(81,225)

Net Loss Applicable to Common Stockholders	$ (100,063)	$ (570,681)	$ (1,418,063)
Basic and Diluted Loss Per Common Share:			
Continuing operations	$ (0.00)	$ (0.01)	$ (0.02)
Discontinued operations	(0.00)	(0.00)	(0.00)
	$ (0.00)	$ (0.01)	$ (0.02)
Weighted Average Common Shares Outstanding - Basic and Diluted	89,564,286	82,776,924	88,372,478

See notes to condensed financial statements.

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

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30,	
	2002	2001
	(As Restated See Note 2)	(As Restated See Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(1,336,838)	$(1,213,212)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	1,389	225
Non-cash compensation	36,000	209,050
Amortization of debt discount	--	62,000
Common stock issued for non-payment of note and interest payable	--	12,300
Loss on settlement of debt	206,150	(69,021)
Non-dilution agreement termination cost	447,718	--
Change in assets and liabilities		
Inventories	(26,250)	(419,348)
Prepaid expenses and other current assets	56,500	(26,396)
Accounts payable and accrued expenses	262,574	563,392
Net cash used in continuing operations	(352,757)	(881,010)

Net cash provided by (used in) discontinued operations	--	(275,598)
NET CASH USED IN OPERATING ACTIVITIES	(352,757)	(1,156,608)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	--	(551)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	--	450,000
Repayment of notes payable	--	(25,000)
Proceeds from sale of preferred and common stock	359,000	621,426
NET CASH PROVIDED BY FINANCING ACTIVITIES	359,000	1,046,426
NET INCREASE (DECREASE) IN CASH	6,243	(110,733)
CASH AT BEGINNING OF PERIOD	35,512	158,100
CASH AT END OF PERIOD	$ 41,755	$ 47,367

See notes to condensed financial statements.

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

NOTES TO FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-QSB. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for all periods presented have been made. The results of operations for the nine month period ended September 30, 2002, are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2002. These financial statements should be read in conjunction with the Company's December 31, 2001 Form 10-KSB, financial statements and accompanying notes thereto.

In November 2001, the Company sold its water cooler and filter operations segment. Accordingly, this segment of the Company's business is reported as discontinued operations for the three and nine months ended September 30, 2002 and 2001. The three and nine months ended September 30, 2001 has been restated to reflect such operations as discontinued.

The Company's condensed statements of operations and cash flows for the nine-month period ended September 30, 2002 represent the cumulative from inception information required by Statement of Financial Accounting Standards ("SFAS") No. 7, "Development Stage Enterprises."

2. RESTATEMENT

As a result of certain adjustments to the annual 10-KSB financial statements for the years ended December 31, 2002 and 2001, the Company is restating its Form 10-QSB filings included in those periods. The September 30, 2002 and 2001 results were restated as a result of such adjustments.

The Company has corrected an error relating to the accrual of non-dilution agreement termination cost and recording of certain other expenses and adjustments. The Company recorded a reduction of expenses of $149,241 and $559,856 for the three and nine months period ended September 30, 2002, respectively, as a result of these adjustments.

The Company has corrected an error relating to the accrual of loss (gain) on settlement of debt and recording of certain other expenses and adjustments. The Company recorded additional expenses of $13,933 and $165,589 for the three and nine months period ended September 30, 2001, respectively, as a result of these adjustments

The effect of the preceding adjustments on net loss and net loss per share for the three and nine-month periods ended September 30, 2002 and 2001 are as follows:

	Three Months Ended September 30,			
	2002		2001	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
Net loss applicable to common stock	$ (249,304)	$ (100,063)	$ (556,748)	$ (570,681)
Net loss per share	$ (0.02)	$ (0.01)	$ (0.00)	$ (0.00)

	Nine Months Ended September 30,			
	2002		2001	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
Net loss applicable to common stock	$(1,977,919)	$(1,418,063)	$(1,128,848)	$(1,294,437)
Net loss per share	$ (0.02)	$ (0.02)	$ (0.01)	$ (0.01)

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

NOTES TO FINANCIAL STATEMENTS
(Unaudited)

3. GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has suffered recurring losses. Additionally, the Company had working capital and total capital deficiencies of approximately $2,845,000 and $3,247,000, respectively, at September 30, 2002. 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, raising additional capital through future issuances 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.

4. RECENT ACCOUNTING PRONOUNCEMENTS

a. Effective January 1, 2002, the Company adopted SFAS No. 142 "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill acquired in the acquisition will not be amortized but instead be tested annually for impairment. The adoption of SFAS No. 142 had no impact on the Company's financial position or results of operations.

b. In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-lived Assets." SFAS 144 superceded Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-lived Assets and Assets to be Disposed of" and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS 144 also amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The provisions of SFAS 144 are effective for fiscal years beginning after December 15, 2001.

The most significant changes made by SFAS 144 are (1) goodwill is removed from its scope and, therefore, it eliminates the requirements of SFAS 121 to allocate goodwill to long-lived assets to be tested for impairment, and (2) it describes a probability-weighted cash flow estimation approach to apply to situations in which alternative courses of action to recover the carrying amount of long- lived assets are under consideration or a range is estimated for the amount of possible future cash flows. The Company's adoption of SFAS 144 on

January 1, 2002 did not have a material effect on its financial position or results of operations.

c. On April 30, 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statement No. 4, 44 and 64, Amendment of FASB Statement No.13, and Technical Corrections." The rescission of SFAS No.4, "Reporting Gains and Losses from Extinguishments, and SFAS No.64, "Extinguishments of Debt Made to Satisfy Sinking Fund Requirements," which amended SFAS No.4 will affect income statement classification of gains and losses from extinguishment of debt. SFAS No.4 requires that gains and losses from extinguishment of debt be classified as an extraordinary item, if material. Under SFAS No. 145, extinguishment of debt is now considered a risk management strategy by the reporting enterprise and the FASB does not believe it should be considered extraordinary under the criteria in APB Opinion No.30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," unless the debt extinguishment meets the unusual in nature and infrequency of occurrence criteria in APB Opinion No. 30. SFAS No. 145 will be effective for fiscal years beginning after May 15, 2002. The Company has not yet determined the impact of SFAS No.145 on its financial position and results of operations, if any.

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

NOTES TO FINANCIAL STATEMENTS
(Unaudited)

4. RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

d. In June 2002, the FASB issued SFAS No.146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullified Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. A fundamental conclusion reached by the FASB in this statement is that an entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. SFAS No. 146 also establishes that fair value is the objective for initial measurement of the liability. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company has not yet determined the impact of SFAS No.146 on its financial position and results of operations, if any.

5. PREFERRED STOCK:

- At September 30, 2002, dividends in arrears on preferred stock was $747,331.

- In September 2002, the Company's Board of Directors approved the Private Placement Sale of 125,000 shares of One-Year 15% Convertible Preferred stock at $1.00 per share. These shares convert to the Company's common stock at $0.03 per share, or 33.33 shares of common for each $1.00 invested. All accrued dividends payable are payable in shares of common stock.

  In September 2002, the Company sold 37,000 shares for $37,000. These funds are not refundable to the investor, as such, these amounts have been recorded as "Stock to be issued" in the accompanying financial statements.

6. COMMON STOCK

- In February 2002, the Company's Board of Directors approved the increase in the number of authorized common shares to 190,000,000 pending shareholders' approval.

- During the nine months ended September 30, 2002, the Company sold 2,500,000 shares of its common stock, for net proceeds of $100,000.

6. COMMON STOCK (Continued)

- During the nine months ended September 30, 2002, the Company issued an aggregate of 450,000 shares of its common stock for consulting services totaling $36,000.

- During the nine months ended September 30, 2002, the Company received $200,000 for 4,000,000 shares of its common stock to be sold, which shall be issued upon the approval of the shareholders on the increase of the authorized capital shares of the Company. These funds are not refundable to the investor, as such these amounts have been recorded as "Stock to be issued" in the accompanying financial statements. These shares are not included for basic and diluted earnings per share calculations.

- During the nine months ended September 2002, the Company collected $22,000 of the stock subscription receivable.

7. COMMON STOCK TO BE ISSUED

During the quarter ended September 30, 2002, the Company recorded a liability 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.

In September 2002, the Company sold 37,000 shares for $37,000. These funds are not refundable to the investor, as such, these amounts have been recorded as "Stock to be issued" in the accompanying financial statements.

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 Company has recorded the liability of approximately $448,000 based upon the market price of its shares as of September 30, 2002.

c. Settlement of Debt

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 plaintiff's 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.

7. COMMON STOCK TO BE ISSUED (Continued)

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 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 (see Note 11) 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 September 30, 2002, neither the 3,000,000 nor the additional shares of 14,037,671 have been issued, and accordingly the Company has recorded these shares as common stock to be issued valued at $497,500. These shares are not included in the loss per share calculations.

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. As of September 30, 2002, the 750,000 shares have not been issued, and accordingly the Company has recorded these shares as common stock to be issued valued at $21,900. 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 36,711,629.

8. COMMITMENTS AND CONTINGENCIES

- The Company is a defendant in an action, brought by a customer, relating to a series of contracts that the Company entered into. These contracts were with the Company's discontinued water cooler and filter operation. Such operations were sold in November 2001, however legal actions with regards to the operations prior to the sale, remain the Company's responsibility. The customer claims that the Company breached these contracts by shipping certain goods that did not conform to the contract. Most of the damages that the customer seeks consist of lost business profits. Company management, and legal counsel, believe that the action is without merit. The Company has made a $5,000 settlement offer to the customer, for the nuisance value of the lawsuit. The customer has rejected such offer, and has proposed a $75,000 settlement. No provision has been provided for at September 30, 2002.

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

NOTES TO FINANCIAL STATEMENTS
(Unaudited)

8. COMMITMENTS AND CONTINGENCIES (Continued)

- In May 2001, the Company entered 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 "PureSafe 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 have been shipped under this agreement. The sale will be recognized when the Company receives payments. The Company has recorded the costs of the inventory shipped in cost of sales, since return of the items is uncertain.

  The Company is a plaintiff in a criminal action brought before the court in the Kingdom of Jordan, claiming the full payment for PureSafe Water Stations shipped, its related costs and damages. Criminal charges have been brought against a former sub-distributor and against two management employees of the Jordan National Bank and against the Jordan National Bank. A trial date has not yet been set.

9. SUBSEQUENT EVENT

In October 2002 the Company sold an additional $35,500 of their 15% Convertible Preferred Stock at $1.00 per share.

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ITEM II: Management's Discussion and Analysis or Plan of Operations

Introduction:

Until the fourth quarter of 2001 Water Chef was engaged in the manufacture and marketing of water coolers and water purification and filtration products. In the fourth quarter of 2001, the Company negotiated the sale of this business in order to focus its activities on its PureSafe line of business. The PureSafe Water Station has been designed by the Company to meet the needs of communities who either do not have access to municipally treated water, or for those whose municipal systems have been compromised, either by environmental factors or because of faulty design or maintenance.

Results of Operations

During 2001 Water Chef made the strategic decision to exit the water cooler and consumer filter segments of its business in order to concentrate its resources on the development of the market for the PureSafe Water Station. With the sale of these assets consummated in December 2001, the Company's water cooler and consumer businesses are reported as discontinued operations for the three month and nine month periods ended September 30, 2001, resulting in a loss from discontinued operations of $49,177 and $36,003 for the three and nine month periods respectively. The discontinued operations were sold in December 2001, and no operations existed for theses businesses in 2002.

For the three month periods ended September 30, 2002 and September 30, 2001 Water Chef reported no revenues. For the nine month periods ended September 30, 2002 and September 30, 2001 the Company reported revenues of $40,000 and $0 respectively. The PureSafe unit purchased in the first quarter of 2002 by White Cross Partners for placement in Honduras was delivered in the Third Quarter, the personnel responsible for its operation and maintenance were trained, and the Catholic Diocese of Tegucigalpa is producing pure water for the people on a daily basis. White Cross Partners expects to purchase additional units in the Fourth Quarter.

Cost of sales for the three and nine month periods ended September 30, 2002 were $12,000 and $63,680, respectively, compared to $28,875 in the three and nine month periods ended September 30, 2001.

Selling, general and administrative expenses for the three months ended September 30, 2002 were $150,460 compared to $304,705 for the three months ended September 30, 2001, a decrease of $154,245 or 51%; and $518,797 for the nine months ended September 30, 2002 compared to $614,999 for the nine months ended September 30, 2001, a decrease of $96,202 or 16%. The reduction in expenses is primarily due to reduced staffing and consulting costs and lower rent, business travel and marketing expenses.

Water Chef has incurred no research and development expense in 2002, compared to $53,125 and $159,375 for the three and nine month periods ended September 30, 2001. During the first nine months of 2002 the Company negotiated the settlement of debt and accrued interest for stock, which resulted in a reported loss of $206,150 in the nine months ended September 30, 2002.

During the nine months ended September 30, 2002 the Company agreed to issue to the President and Chief Executive Officer, and related parties, an aggregate 14,923,958 shares of its common stock under the terms of a non-dilution agreement which the Company and the President had entered into in 1997. The President subsequently, on behalf of himself and all related parties, voluntarily surrendered all future rights under this agreement. This non-cash event was valued at the then-current market price of $0.03 per share or $447,000, and represents a non-cash cost to the Company. During the nine months ended September 30, 2002, the Company did not issue any shares under the terms of this agreement.

Interest expense for the three months ended September 30, 2002 was $37,868 compared to $111,114 for the three months ended September 30, 2001, a decrease of $73,246 or 66%. The reduction in interest expenses for the quarter ended September 30, 2002 as compared to September 30, 2001, is primarily due to the amortization of a debt discount that occurred in the third as well as the second quarter of 2001. The Company has interest expense of $140,493 for the nine months ended September 30, 2002 compared to $200,946 for the nine months ended September 30, 2001, a decrease of $60,453 or 30%. In the nine months ended September 30, 2002 the Company settled various notes payable, and issued additional notes payable, that are currently outstanding as of September 30, 2002. For the nine months ended September 30, 2001, the Company's interest expense of $200,946, includes $62,000 of amortized debt discount. For the nine months ended September 30, 2002, the Company's interest expense of $140,493 does not include the amortization of debt discount.

Liquidity and Capital Resources

At September 30, 2002, the Company had a stockholders' deficit of approximately $3,247,000 and a working capital deficit of approximately $2,845,000. In addition the Company has incurred losses from continuing operations of approximately $73,000 and $1,377,000 for the three and nine month periods ended September 30, 2002. The accompanying financial statements have been prepared assuming 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 issues 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 honor all of its 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.

In the second quarter 2002 the Company reached a negotiated settlement concerning certain debentures and accrued interest payable aggregating $339,400. The terms of the settlement agreement call for the issuance of 3,000,000 shares of common stock to be valued at $497,500. The difference between the $497,500 settlement and the $339,400, or $158,100, is recorded as a loss on settlement of debt. An additional 14,037,671 shares are to be issued due to Company's per share stock price over a 30 trading day measurement period, not having achieved the $0.15 per share value as set by the initial valuation of the 3,000,000 shares at $497,500. The remaining conditions of the settlement, requires that the Company extend the exercise period for 1,666,666 warrants, attached to these notes payable when originally issued in May 1997, for an additional two years through June 2004, and that the Company files a registration statement with the Securities and Exchange Commission within 180 days of the agreement, to register the 17,037,671 shares. As of September 30, 2002, neither the 3,000,000 nor the additional shares of 14,037,671 have been issued Debenture holders not

included in the above settlement. ("non- participating debentures"), settled their debentures of $75,000, plus accrued interest of $9,850, with the issuance of 750,000 shares of common stock valued at $0.0292 per share. 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 September 30, 2002, the 750,000 shares have not been issued.

During the nine months ended September 30, 2002 the Company raised $100,000 from the sale of 2,500,000 shares of common stock. In addition, the Company sold non refundable subscriptions to purchase 4,000,000 shares of common stock at $0.05 per share, for a total receipt of $200,000, and 37,000 shares of 15% Convertible Preferred stock for $37,000. Since these shares have not been issued, they have been recorded as "Stock to be issued" in the accompanying financial statements. These shares are not included for basic and diluted earnings per share calculations. During the nine months ended September 30, 2002 the Company received payment of $22,000 for shares issued in 2001, which was accounted for as stock subscription receivable.

The Company also issued 450,000 shares of common stock, in lieu of cash for consulting services performed.

During the nine month period ended September 30, 2001 the Company raised $584,770 through the sale of 11,536,246 shares of common stock and settled accounts payable, notes payable and accrued interest of $120, 595 with the issuance of 1,210,000 shares of common stock.

In May 2002, the Company issued to its President and Chief Executive Officer, and related parties, an aggregate 14,923,958 shares of 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.

ITEM 3 - CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Based on their evaluation of our disclosure controls and procedures conducted within 90 days of the date of filing this quarterly report on Form 10-QSB, our Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-(c) and 15d-(c) promulgated under the Securities Exchange Act of 1934 are effective.

(b) Changes in Internal Controls

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

Part II OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

The Company is a defendant in an action brought by a customer relating to contracts between the Company and the customer. These contracts, covering the period 1996 to 1998, were with the Company's discontinued water cooler and consumer filter operation. These segments were sold in December 2001, however legal actions with regard to these operations prior to the sale remain the Company's responsibility. The customer claims breach of contract, maintaining that the Company shipped goods that did not meet the customer's specification. The customer seeks damages in the form of lost opportunity and lost business profits. The Company and its legal counsel believe that the action is without merit. The Company has made a $5,000 settlement offer, for the nuisance value of the case. The customer refused the offer, and has proposed a $75,000 settlement. No provision has been provided for at September 30, 2002.

The Company is a plaintiff in a criminal action brought before the court in the Kingdom of Jordan, claiming the full payment for PureSafe Water Stations shipped, its related costs and damages. Criminal charges have been brought against a former sub-distributor and against two management employees of the Jordan National Bank and against the Jordan National Bank. A trial date has not yet been set.

ITEM 2 - CHANGES IN SECURITIES AND USE OF PROCEEDS

At September 30, 2002, dividends in arrears on preferred stock was $747,331.

In September 2002, the Company's Board of Directors approved the Private Placement Sale of 125,000 shares of One-Year 15% Convertible Preferred stock at $1.00 per share. These shares convert to the Company's common stock at $0.03 per share, or 33.33 shares of common for each $1.00 invested. All accrued dividends payable are payable in shares of common stock.

In September 2002, the Company sold 37,000 shares for $37,000. These funds are not refundable to the investor, as such, these amounts have been recorded as "Stock to be issued" in the accompanying financial statements.

In February 2002, the Company's Board of Directors approved the increase in the number of authorized common shares to 190,000,000 pending shareholders' approval.

During the nine months ended September 30, 2002, the Company sold 2,500,000 shares of its common stock, for net proceeds of $100,000.

During the nine months ended September 30, 2002, the Company issued an aggregate of 450,000 shares of its common stock for consulting services totaling $36,000.

During the nine months ended September 30, 2002, the Company received $200,000 for 4,000,000 shares of its common stock to be sold, which shall be issued upon the approval of the shareholders on the increase of the authorized capital shares of the Company. These funds are not refundable to the investor, as such these amounts have been recorded as "Stock to be issued" in the accompanying financial statements. These shares are not included for basic and diluted earnings per share calculations.

During the nine months ended September 2002, the Company collected $22,000 of the stock subscription receivable.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SHAREHOLDERS

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

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

Exhibit

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

Reports on Form 8-K

No reports were filed on Form 8-K during the quarter ended September 30, 2002.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

WaterChef, Inc.

July 9, 2003 /s/ David A. Conway
Date
David A. Conway
President, Chief Executive Officer, and Chief Financial Officer
(Principal Operating Officer)

CERTIFICATION

I, David A. Conway, certify that:

I have reviewed this quarterly report on Form 10-QSB of WaterChef, Inc.;

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;

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 and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

The registrant's other certifying officers 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 have:

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; Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

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 our financial controls; and Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

The registrant's other certifying officers 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.

/s/ David A. Conway

David A. Conway
President and Chief Executive Officer
and Chief Financial Officer

July 9, 2003