WATER CHEF INC
Form 10QSB
November 07, 2006

UNITED STATES
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 September 30, 2006

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

For the transition period from to

Commission file number 1-09478

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes No X

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 November 3, 2006

CLASS	Common
Par value $0.001 per share	198,977,497

Page 1

WATER CHEF, INC.

INDEX

WATER CHEF, INC.
(A Development-Stage Company Commencing January 1, 2002)
CONDENSED BALANCE SHEET
AT SEPTEMBER 30, 2006
(UNAUDITED)

ASSETS

CURRENT ASSETS:	
Cash	$ 26,117
Prepaid expenses	5,988
TOTAL CURRENT ASSETS	32,105
OTHER ASSETS:	
Patents and trademarks - net of accumulated amortization of $10,188	15,867
Other assets	3,162
TOTAL OTHER ASSETS	19,029
TOTAL ASSETS	$ 51,134

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

CURRENT LIABILITIES:	
Accounts payable	$ 187,316
Accrued expenses and other current liabilities	175,017
Accrued compensation	532,417
Accrued consulting and director fees	421,833
Notes payable (including accrued interest of $318,654)	970,552
Accrued dividends payable	189,871
TOTAL CURRENT LIABILITIES	2,477,006
LONG-TERM LIABILITIES:	
Loans payable to stockholder (including accrued interest of $146,990)	519,771

TOTAL LIABILITIES	2,996,777
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' DEFICIENCY:	
Preferred stock - $.001 par value; 10,000,000 shares authorized; 188,917 shares issued and outstanding, (liquidation preference $2,159,500)	189
Common stock - $.001 par value; 340,000,000 shares authorized; 198,977,497 shares issued and 198,973,097 shares outstanding	198,977
Additional paid-in capital	23,125,664
Treasury stock, at cost - 4,400 shares of common stock	(5,768)
Deficit accumulated through December 31, 2001	(14,531,596)
Deficit accumulated during development stage	(11,733,109)
TOTAL STOCKHOLDERS' DEFICIENCY	(2,945,643)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$ 51,134

See notes to condensed financial statements.

WATER CHEF, INC.
(A Development-Stage Company Commencing January 1, 2002)
CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended September 30,		For the Nin Sept
	2006	2005	2006
SALES	$ --	$ --	$ 115,000
COST OF SALES	21,000	21,000	93,000
SELLING, GENERAL AND ADMINISTRATIVE - including stock based compensation of $0, and $0 for the three months ended September 30, 2006 and 2005 and $767,699 and $18,000 for the nine months ended September 30, 2006 and 2005, and $1,545,089 for the period January 1, 2002 to			

September 30, 2006, respectively	118,335	275,299	1,282,272
NON-DILUTION AGREEMENT TERMINATION COST	--	--	--
INTEREST EXPENSE (Including interest expense to related party of $5,967 and $17,901 for the three and nine months ended September 30, 2006 and 2005, respectively and $113,373 for the period January 1, 2002 to September 30, 2006	43,018	37,182	234,882
FINANCING COST - EXTENSION OF WARRANTS	--	--	--
LOSS ON SETTLEMENT OF DEBT	--	--	--
STOCK APPRECIATION RIGHTS - REDUCTION IN VALUE	--	--	--
CHANGE IN FAIR VALUE OF WARRANTS AND EMBEDDED CONVERSION OPTION	--	--	186,600
	182,363	333,481	1,796,754
NET LOSS	(182,363)	(333,481)	(1,681,754
DEEMED DIVIDEND ON PREFERRED STOCK	--	--	--
PREFERRED STOCK DIVIDENDS	--	(34,909)	(42,401
	--	(34,909)	(42,401
NET LOSS APPLICABLE TO COMMON STOCKHOLDERS	$ (182,363)	$ (368,390)	$ (1,724,155
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.00)	$ (0.00)	$ (0.01
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED	198,795,306	168,354,650	191,550,874

See notes to condensed financial statements.

WATER CHEF, INC.
(A Development Stage Company Commencing January 1, 2002)
CONDENSED STATEMENT OF STOCKHOLDERS' DEFICIENCY
(UNAUDITED)

	Preferred Stock		Common S
	Shares	Amount	Shares
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006			
BALANCE - JANUARY 1, 2006	235,585	$ 236	181,779,000
Proceeds from sale of common stock			
($0.07 per share) March 21, 2006	--	--	3,600,000
($0.08 - $0.10 per share) May 8, 2006	--	--	3,769,230
($0.10 per share) June 28, 2006	--	--	100,000
($0.07 per share) August 17, 2006	--	--	400,000
Common stock issued for services			
($0.06 per share) March 21, 2006	--	--	250,000
($0.05 per share) May 8, 2006	--	--	450,000
($0.15 per share) June 6, 2006	--	--	166,666
Common stock issued in repayment of debt			
($0.11 per share) February 13, 2006	--	--	438,785
($0.08 per share) April 3, 2006	--	--	614,131
($0.08 per share) April 6, 2006	--	--	1,959,631
($0.10 - $0.15 per share) June 6, 2006	--	--	3,583,334
Preferred stock converted to common stock during the quarter ended June 30, 2006	(46,668)	(47)	1,866,720
Reclassification of derivative liabilities upon conversion of debt	--	--	--
4,000,000 Warrants granted for services, May 18, 2006	--	--	--
2,500,000 Warrants granted for services, May 24, 2006	--	--	--
Preferred stock dividend	--	--	--
Net loss	--	--	--
BALANCE - SEPTEMBER 30, 2006	188,917	$ 189	198,977,497

See notes to condensed financial statements.

5

WATER CHEF, INC.
(A Development Stage Company Commencing January 1, 2002)
CONDENSED STATEMENT OF STOCKHOLDERS' DEFICIENCY
(UNAUDITED)
(Continued)

	Treasury Stock -at cost	Deficit Accumulated Through December 31, 2001	Deficit Accumulated During Development Stage	St D
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006				
BALANCE - JANUARY 1, 2006	$ (5,768)	$(14,531,596)	$(10,051,355)	$
Proceeds from sale of common stock				
($0.07 per share) March 21, 2006	--	--	--	
($0.08 - $0.10 per share) May 8, 2006	--	--	--	
($0.10 per share) June 28, 2006	--	--	--	
($0.07 per share) August 17, 2006	--	--	--	
Common stock issued for services				
($0.06 per share) March 21, 2006	--	--	--	
($0.05 per share) May 8, 2006	--	--	--	
($0.15 per share) June 6, 2006	--	--	--	
Common stock issued in repayment of debt				
($0.11 per share) February 13, 2006	--	--	--	
($0.08 per share) April 3, 2006	--	--	--	
($0.08 per share) April 6, 2006	--	--	--	
($0.10 - $0.15 per share) June 6, 2006	--	--	--	
Preferred stock converted to common stock during the quarter ended June 30, 2006	--	--	--	
Reclassification of derivative liabilities upon conversion of debt	--	--	--	
4,000,000 Warrants granted for services, May 18, 2006	--	--	--	
2,500,000 Warrants granted for services, May 24, 2006	--	--	--	
Preferred stock dividend	--	--	--	
Net loss	--	--	(1,681,754)	
BALANCE - SEPTEMBER 30, 2006	$ (5,768)	$(14,531,596)	$(11,733,109)	$

See notes to condensed financial statements.

WATER CHEF, INC.
(A Development-Stage Company Commencing January 1, 2002)
CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Nine Months Ended September 30, 2006	For the Nine Months Ended September 30, 2005	For the Period January 1, 2002 to September 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(1,681,754)	$ (768,161)	$(11,733,109)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of patents	1,390	1,390	8,806
Interest expense - deferred financing	4,687	--	7,500
Stock-based compensation	767,699	18,000	1,545,089
Accretion of debt discount	112,800	--	188,000
Change in fair value of warrants and embedded conversion option	186,600	--	180,800
Loss on settlement of debt	--	--	2,614,017
Non-dilution agreement termination cost	--	--	2,462,453
Inventory reserve	--	--	159,250
Write-off of stock subscription receivable	--	--	21,800
Financing cost - warrant extension	--	74,700	74,700
Changes in assets and liabilities:			
Inventory	30,000	(30,000)	--
Prepaid expenses	16,976	8,359	50,512
Accounts payable, accrued expenses and other current liabilities, accrued compensation, accrued consulting and director fees accrued dividends and customer deposits	(208,914)	341,863	1,263,225
NET CASH USED IN OPERATING ACTIVITIES	(770,516)	(353,849)	(3,156,957)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Stock subscription receivable	--	20,000	65,700
Proceeds from sale of preferred stock	--	--	1,130,127
Proceeds from sale of common stock	568,000	255,000	1,540,560
Proceeds from sale of common stock to be issued	--	--	200,000
Deferred financing costs	--	--	(7,500)
Proceeds from convertible promissory note	--	--	250,000
Repayment of notes payable	(15,962)	--	(31,324)

NET CASH PROVIDED BY FINANCING ACTIVITIES	552,038	275,000	3,147,563
NET (DECREASE) INCREASE IN CASH	(218,478)	(78,849)	(9,394)
CASH AT BEGINNING OF PERIOD	244,595	81,732	35,511
CASH AT END OF PERIOD	$ 26,117	$ 2,883	$ 26,117
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:			
Compensation satisfied by issuance of common stock	--	40,000	55,250
Common stock issued for settlement of debt and accrued interest	$ 650,563	$ --	$ 6,364,284
Reclassification of derivative liabilities upon conversion of debt	$ 368,800	$ --	$ 368,800

See notes to condensed financial statements.

WATER CHEF, INC.
(A Development Stage Company Commencing January 1, 2002)
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - DESCRIPTION OF BUSINESS

Water Chef, 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. The Company's corporate headquarters are located in Glen Head, New York.

NOTE 2 - BASIS OF PRESENTATION AND ACCOUNTING POLICIES

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 interim financial statements do not include all of the information and footnotes required for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary to make the financial statements not misleading have been included.

The operating results for the nine-month period ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending

December 31, 2006. 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 22, 2006, for the year ended December 31, 2005.

DEVELOPMENT STAGE COMPANY

The Company is in the development stage as defined by Statement of Financial Accounting Standards ("SFAS") Statement No. 7, "Accounting and Reporting for Development Stage Companies." To date, the Company has generated limited sales and has devoted its efforts primarily to developing its products, implementing its business and marketing strategy and raising working capital through equity financing or short-term borrowings.

REVENUE RECOGNITION

The Company recognizes its revenues when the product is shipped and or title passes and collection is reasonably assured.

STOCK BASED COMPENSATION

Prior to January 1, 2006, the Company accounted for employee stock transactions in accordance with Accounting Principles Board, APB Opinion No. 25, "Accounting for Stock Issued to Employees." The Company had adopted the pro forma disclosure requirements of Statement of Financial Accounting Standards No. 123, "Accounting For Stock-Based Compensation."

Effective January 1, 2006, the Company adopted SFAS No. 123R "Share Based Payment." This statement is a revision of SFAS No. 123, and supersedes APB Opinion No. 25, and its related implementation guidance. SFAS No. 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 No. 123R, SBP awards will result in a charge to operations that will be measured at fair value on the awards grant date, based on the estimated number of awards expected to vest over the service period.

The Company adopted SFAS No. 123R, "Share Based Payment," using the modified -prospective-transition method. As of January 1, 2006, the Company had no unvested employee stock options. During the three and nine months ended September 30, 2005, the Company did not grant any employee stock options; therefore, no table has been disclosed to illustrate the effect on the pro forma Net loss and pro forma net loss per share as if the Company had applied the fair value recognition provisions of SFAS No. 123.

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 incurred recurring losses from operations, an accumulated deficit since its inception of approximately $26,265,000 and has a working capital deficiency of approximately $2,445,000 at September 30, 2006. 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. However, there can be no assurance that the Company will be able to obtain sufficient funds to continue the development of its product, marketing plan and distribution network.

The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

WATER CHEF, INC.
(A Development Stage Company Commencing January 1, 2002)
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 4 - RECENT ACCOUNTING STANDARDS

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, which is an amendment of SFAS No. 133 and 140. This Statement; a) permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, b) clarifies which interest-only strip and principal-only strip are not subject to the requirements of SFAS 133, c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, e) amends SFAS 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for financial statements for fiscal years beginning after September 15, 2006. Earlier adoption of this Statement is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued any financial statements for that fiscal year. Management is evaluating if this Statement will have a significant impact on the financial statements of the Company.

In March 2006, the FASB issued SFAS No. 156, which amends FASB Statement No. 140. This Statement establishes, among other things, the accounting for all separately recognized servicing assets and servicing liabilities. This Statement amends SFAS No. 140 to require that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. This Statement permits, but does not require, the subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value. An entity that uses derivative instruments to mitigate the risks inherent in servicing assets and servicing liabilities is required to account for those derivative instruments at fair value. Under this Statement, an entity can elect subsequent fair value measurement to account for its separately recognized servicing assets and servicing liabilities. By electing that option, an entity may simplify its accounting because this Statement permits income statement recognition of the potential offsetting changes in fair value of those servicing assets and servicing liabilities and derivative instruments in the same accounting period. This Statement is effective for financial statements for fiscal years beginning after September 15, 2006. Earlier adoption of this Statement is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued any financial statements for that fiscal year. Management believes that the adoption of this Statement will not have a significant impact on its financial statements.

In September 2006, the FASB issued SFAS No. 157, "Accounting for Fair Value Measurements." SFAS No. 157 defines fair value, and establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurements. SFAS No. 157 is effective for the Company for financial statements issued subsequent to November 15, 2007. The Company does not expect the new standard to have any material impact on the financial position and results of operations.

NOTE 5 - CONVERTIBLE PROMISSORY NOTES

In November 2005, the Company entered into a Convertible Promissory Note agreement for $250,000 which included 430,000 warrants, which are exercisable at $0.14 per share and have a life of three years. The warrants carry a cashless exercise provision. The Convertible Promissory Note bore interest at a rate of 8% per annum and matured in March 2006.

The note included certain conversion features as follows:

- convertible at any time after the maturity date, at the option of the holder,
- convertible at 85% of the average of the three 3 lowest closing bid prices for the common stock, for the ten trading days ending on the trading day immediately before the conversion date.

The Convertible Promissory Note agreement required the Company to file a registration statement no later than sixty business days from the date of the agreement and no less than the amount of subscribed shares, and to cause the registration statement relating to the registrable securities to become effective the earlier of five business days after notice from the Securities and Exchange Commission that the registration statement may be declared effective, or (b) one hundred twenty days.

The Convertible Promissory Note agreement included a liquidated damages clause, which stipulates if the registration statement is not filed by the filing date or declared effective by the effective date, then upon failure of either event the subscriber shall be entitled to liquidated damages, payable in cash, in the sum of one percent (1%) of the principal amount of the Note:

a. for each 30 day period after the filing date that transpires until the date that the Company files the registration statement, and
b. for each 30 day period after the effective date that transpires until such date as the registration statement is declared effective.

The gross proceeds of $250,000 were recorded net of a discount of $188,000. The debt discount consisted of $47,200 related to the warrants and $140,800 related to the embedded conversion option. The warrants and the embedded conversion option were accounted for under EITF issue No. 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" and EITF 05-4, View A "The effect of a Liquidated Damages Clause on a Freestanding Financial Instrument." Due to certain factors and the liquidated damage provision in the registration rights agreement, the Company determined that the embedded conversion option and the warrants are derivative liabilities.

Accordingly, the warrants and the embedded conversion option will be marked to market through earnings at the end of each reporting period. Due to the fact that the registration statement became effective on January 30, 2006, the value

---

WATER CHEF, INC.
(A Development Stage Company Commencing January 1, 2002)
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 5 - CONVERTIBLE PROMISSORY NOTES (continued)

of the registration rights was deemed to be de minimis. The warrants and the conversion option are valued using the Black-Scholes valuation model. For the period ended September 30, 2006, the Company reflected a loss of $186,600 representing the change in the value of the warrants and conversion option. During the nine months ended September 30, 2006, the Company charged to interest expense $112,800 for the remaining debt discount.

During the nine months ended September 30, 2006, the Company issued 3,012,547 shares of common stock for the settlement of the debt and accrued interest. As a result of the conversion the Company recorded a reclass to equity of $368,800 for the derivative liabilities.

This Convertible Promissory Note was secured by 4,000,000 shares held by an officer of the Company. At the date of conversion the officer was released from the security interest.

NOTE 6 - NET LOSS PER SHARE OF COMMON STOCK

Basic loss per share was computed using the weighted average number of outstanding common shares. Diluted loss per share includes the effect of dilutive common stock equivalents from the assumed exercise of options, warrants and convertible preferred stock. Common stock equivalents were excluded in the computation of diluted loss per share since their inclusion would be anti-dilutive. Total shares issuable upon the exercise of warrants and conversion of preferred stock for the nine months ended September 30, 2006 and 2005 were 8,666,680 and 17,256,233, respectively.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Leases

The Company leases its administrative facilities, located in Glen Head, New York, on a month-to-month basis.

Consulting Agreement

On May 18, 2006, the Company entered into an agreement with a consultant for services. The agreement provides consideration of $6,000 per month. The term of the agreement is on a month to month basis. In addition the Company granted 4,000,000 warrants. The warrants fully vested on the date of the grant, have a life of 3 years and are exercisable at $0.10 per share.

NOTE 8 - COMMON STOCK ISSUED

Cash

During the nine months ended September 30, 2006, the Company raised $568,000 through the sale of 7,869,230 shares of common stock.

Services

During the nine months ended September 30, 2006, the Company issued 866,666 shares of common stock for services for a value of $62,499.

On May 18, 2006, the Company granted 4,000,000 warrants to a consultant for services. The warrants fully vested on the date of the grant, have a life of 3 years and are exercisable at $0.10 per share. The Company incurred a stock based compensation charge of $464,000.

On May 24, 2006, the Company granted 2,500,000 warrants to two directors for services. The warrants fully vested on the date of the grant, have a life of 3 years and are exercisable at $0.15 per share. The Company incurred a stock based compensation charge of $241,200.

Debt

During the nine months ended September 30, 2006, the Company issued 6,595,881 shares of common stock for debt and accrued interest of $650,563.

Conversion of preferred stock into common stock

During the nine months ended September 30, 2005, the Company issued to various parties 1,866,720 shares of common stock in connection with the conversion of 46,668 shares of preferred stock.

NOTE 9- MAJOR CUSTOMERS / CREDIT RISK

During the nine months ended September 30, 2006, the Company sold two systems to one customer and recognized revenues of $115,000. During the nine month period ended September 30, 2005, the Company sold five systems to two customers and recognized revenue of $260,000. The Company had no sales during each of the three months ended September 30, 2006 and 2005.

The Company maintains cash deposits with financial institutions, which from time to time may exceed federally insured limits. The Company has not experienced any losses and believes it is not exposed to any significant credit risk from cash.

NOTE 10 CONTINGENCIES

On July 14, 2006, Funding Group, Inc. filed a complaint with the Supreme Court of the State of New York in New York County seeking damages due to an alleged breach of contract related to a $25,000 loan made by the plaintiff to the Company. On October 11, 2006, the Company filed a counter claim against Funding Group, Inc. with the Supreme Court of the State of New York. The Company believes the complaint is without merit and intends to vigorously defend itself in these actions, and believes that the eventual outcome of these matters will not have a material adverse effect on the Company. However, the ultimate outcome of these matters cannot be determined at this time.

NOTE 11 - SUBSEQUENT EVENTS

On October 17, 2006, the Company entered into a Convertible Promissory Note for proceeds of $300,000. The loan has a stated interest rate of 8% per annum and matures on February 17, 2007. The Company issued a warrant for 882,352 shares of the Company's common stock, exercisable at $0.085 per share and has a life of three years. The note and accrued interest is convertible at any time after the maturity date into shares of the Company's common stock at a conversion price equal to the current marked price multiplied by eighty-five percent (85%).

The Convertible Promissory Note agreement requires the Company to file a registration statement no later than thirty business days from the date of the agreement and no less than the amount of subscribed shares, and to cause the registration statement relating to the registrable securities to become effective the earlier of five business days after notice from the Securities and Exchange Commission that the registration statement may be declared effective, or (b) one hundred twenty days.

The Convertible Promissory Note agreement included a liquidated damages clause, which stipulates if the registration statement is not filed by the filing date or declared effective by the effective date, then upon failure of either event the subscriber shall be entitled to liquidated damages, payable in cash, in the sum of one percent (1%) of the principal amount of the Note:

a. for each 30 day period after the filing date that transpires until the date that the Company files the registration statement, and
b. for each 30 day period after the effective date that transpires until such date as the registration statement is declared effective.

The Company will account for the above transaction in accordance with EITF issue No. 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." The Company has determined that the embedded conversion option and the warrants are derivative liabilities. Accordingly, the warrants and the embedded conversion option will be recorded at fair market value and marked to market through earnings at the end of each reporting period.

This Convertible Promissory Note was secured by 4,000,000 shares held by an officer of the Company.

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

This quarterly report on Form 10-QSB contains "forward-looking statements" intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. 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 ("SEC"). Accordingly, actual results could differ materially from those contemplated by the forward-looking statements.

Introduction

Until the fourth quarter of 2001, Water Chef was engaged in the manufacture and marketing of water coolers and water purification and filtration products. In the fourth quarter of 2001, the Company completed 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 which either do not have access to municipal water treatment systems, or for those which systems have been compromised, either by environmental factors or by faulty design or maintenance.

Results of Operations

Revenue for the nine months ended September 30, 2006 and 2005 was $115,000 and $260,000 respectively. During the nine months ended September 30, 2006, the Company recognized the sale of two PureSafe Water Station Systems. Cost of sales for the nine month period ended September 30, 2006 and 2005 was $93,000 and $42,000, respectively. An analysis of the components of cost of sales in the 2006 and 2005 periods follows:

Cost of Sales Period	Product CGS	Rent and Overhead Payments to Manufacturer	Total
For the nine months ended September 30, 2006	$ 30,000	$ 63,000	$ 93,000
For the nine months ended September 30, 2005	$ --	$ 42,000	$ 42,000

Selling, general and administrative expenses for the nine months ended September 30, 2006 were $1,282,272, compared to $920,505 for the nine months ended September 30, 2005, an increase of $361,767 or 39%.

The net loss for the nine months ended September 30, 2006 was $1,681,754 compared to $768,161 in the same period ended September 30, 2005.

Selling, general and administrative expenses for the three months ended September 30, 2006 were $118,335, compared to $275,299 for the three months ended September 30, 2005, a decrease of $156,964 or 57%.

The net loss for the three months ended September 30, 2006 was $182,363 compared to $333,481 in the same period ended September 30, 2005.

In the second quarter 2006 the Company entered into a consulting agreement with a marketing professional and granted three year stock purchase warrants for four million shares of common stock at an exercise price of $0.10 per share. The

Company incurred a stock-based compensation charge of $464,000 which was charged to operations during nine months ended September 30, 2006.

In addition the Company granted three-year stock purchase warrants for 1,250,000 shares to each of two independent Directors. The warrants are exercisable at $0.15 per share. The fair value of the stock purchase warrants estimated on the date of grant using the Black-Scholes option pricing model is $.19 per share or $241,200.

The Company issued 866,666 shares of common stock for services provided primarily by our independent directors and the Chairman of our Scientific Advisory Board. The Company recorded a charge to operations during the nine months ended September 30, 2006 of $62,499.

Liquidity and Capital Resources

At September 30, 2006, the Company had a working capital deficiency of approximately $2,445,000. In addition, the Company continues to suffer recurring losses from operations and has an accumulated deficit since inception of approximately $26,265,000. 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. However, there can be no assurance that the Company will be able to obtain sufficient funds to continue the development of its product, marketing plan and distribution network.

The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

Recent Accounting Standards

In February 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Statement ("SFAS") No. 155, which is an amendment of SFAS No. 133 and 140. This Statement; a) permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, b) clarifies which interest-only strip and principal-only strip are not subject to the requirements of SFAS 133, c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, e) amends SFAS 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for financial statements for fiscal years beginning after September 15, 2006. Earlier adoption of this Statement is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued any financial statements for that fiscal year. Management is evaluating if this Statement will have an impact on the financial statements of the Company.

In March 2006, the FASB issued SFAS No. 156, which amends FASB Statement No. 140. This Statement establishes, among other things, the accounting for all separately recognized servicing assets and servicing liabilities. This Statement amends SFAS No. 140 to require that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. This Statement permits, but does not require, the subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value. An entity that uses derivative instruments to mitigate the risks inherent in servicing assets and servicing liabilities is required to account for those derivative instruments at fair value. Under this Statement, an entity can elect subsequent fair value measurement to account for its separately recognized servicing assets and servicing liabilities. By electing that option, an entity may simplify its accounting because this Statement permits income statement recognition of the potential offsetting changes in fair value of those servicing assets and servicing liabilities and derivative instruments in the same accounting period. This Statement is effective for financial statements for fiscal years beginning after September 15, 2006. Earlier adoption of this Statement is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued any financial statements for that fiscal year. Management believes that the adoption of this Statement will not have a significant impact on its financial statements.

In September 2006, the FASB issued SFAS No. 157, "Accounting for Fair Value Measurements." SFAS No. 157 defines fair value, and establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurements. SFAS No. 157 is effective for the Company for financial statements issued subsequent to November 15, 2007. The Company does not expect the new standard to have any material impact on the financial position and results of operations.

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 promulgated under the Securities Exchange Act of 1934, as amended (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.

Management is aware that there is a lack of segregation of duties at the Company due to the small number of employees dealing with general administrative and financial matters. This constitutes a significant deficiency in the financial reporting. Management has mitigated these factors by hiring an outside accountant/bookkeeper to review and compile the financial statements on a quarterly and annual basis.

At this time management has decided that considering the employees involved and the control procedures in place and the potential benefits of adding additional employees to clearly segregate duties does not justify the additional expense.

Management will periodically reevaluate this situation. If the volume of the business increases and sufficient capital is secured, it is the Company's intention to increase staffing to mitigate the current lack of segregation of duties within the general administrative and financial functions.

Changes in Internal Controls

Management has evaluated the effectiveness of the disclosure controls and procedures as of September 30, 2006. Based on such evaluation, management has concluded that the disclosure controls and procedures were effective for their intended purpose described above. There were no changes to the internal controls during the quarter ended September 30, 2006 that have materially affected or that are reasonably likely to affect the internal controls.

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. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving its objectives. The Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective at that reasonable assurance level.

PART II - OTHER INFORMATION

ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the nine months ended September 30, 2006, the Company raised $568,000 through the sale of 7,869,230 shares of common stock.

During the nine months ended September 30, 2006, the Company issued 866,666 shares of common stock for services for a value of $62,499.

During the nine months ended September 30, 2006, the Company issued 6,595,881 shares of common stock to pay-down $650,563 of its debt and accrued interest.

On May 18, 2006, the Company granted 4,000,000 warrants to a consultant for services. The warrants fully vested on the date of the grant, have a life of 3 years and are exercisable at $0.10 per share. The Company incurred a stock based compensation charge of $464,000.

On May 24, 2006, the Company granted 2,500,000 warrants to two directors for services. The warrants fully vested on the date of the grant, have a life of 3 years and are exercisable at $0.15 per share. The Company incurred a stock based compensation charge of $241,200.

The Company issued these shares in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act of 1933 and Regulation D promulgated there under. These shares were offered to less than 35 "non-accredited" investors and were purchased for investment purposes with no view to resale.

ITEM 5 - OTHER INFORMATION

In September 2006, Lord John Gilbert submitted his notice of resignation from the Company's Board of Scientific Advisors. His resignation was accepted, and the Company and the Board of Directors thanked him for his contribution.

ITEM 6 - EXHIBITS

Exhibit No.	Description
31	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the 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.

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.

Water Chef, Inc.

/s/ David A. Conway

Date November 6, 2006

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