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AQUACELL TECHNOLOGIES INC
Form DEFR14A
October 21, 2004

AMENDED
SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the registrant ☐
Filed by a party other than the registrant ☒

Check the appropriate box:

- ☐ Preliminary proxy statement.
☐ Confidential, for use of the Commission only
(as permitted by Rule 14a-6(e)(2)).
☒ Definitive proxy statement. (AMENDED)
☐ Definitive additional materials.
☐ Soliciting material under Rule 14a-12.

AQUACELL TECHNOLOGIES, INC.

(Name of Registrant as Specified in Its Charter)

HAROLD W. PAUL, LLC

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of filing fee (check the appropriate box):

- ☒ No fee required.
☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computes
pursuant to Exchange Act Rule 0-11 (set forth the amount on which the
filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

[] Fee paid previously with preliminary materials.

[] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

AQUACELL TECHNOLOGIES, INC.

10410 TRADEMARK STREET
RANCHO CUCAMONGA, CA 91730

NOTICE OF
ANNUAL MEETING OF STOCKHOLDERS

December 7, 2004

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders ("Annual Meeting") of AquaCell Technologies, Inc. (the "Company") will be held at The Center Club, 650 Town Center Drive, Costa Mesa, California 92626 on December 7, 2004, at 10:30 a.m., for the following purposes, all as more fully described in the attached Proxy Statement:

1. To elect one director to serve for the ensuing three-year period and until his successor is elected and qualified;
2. To ratify the appointment of Wolinetz, Lafazan & Company, PC as independent registered public accounting firm for 2005;
3. To transact such other business as may properly come before the meeting and any and all adjournments thereof.

The Board of Directors has fixed the close of business on October 12, 2004, as the record date for the determination of stockholders entitled to notice of, and to vote at, the meeting or any adjournment thereof.

You are earnestly requested to date, sign and return the accompanying form of proxy in the envelope enclosed for that purpose (to which no postage need be affixed if mailed in the United States) whether or not you expect to attend the meeting in person. The proxy is revocable by you at any time prior to its

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exercise and will not affect your right to vote in person in the event you attend the meeting or any adjournment thereof. The prompt return of the proxy will be of assistance in preparing for the meeting and your cooperation in this respect will be appreciated.

By Order of the Board of Directors

/s/ Karen B. Laustsen

Karen B. Laustsen, Secretary

Rancho Cucamonga, California
October 14, 2004

AQUACELL TECHNOLOGIES, INC.

10410 TRADEMARK STREET
RANCHO CUCAMONGA, CA 91730

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON DECEMBER 7, 2004

This Proxy Statement and the accompanying form of proxy is furnished to stockholders of AquaCell Technologies, Inc. ("Company") in connection with the solicitation of proxies, in the accompanying form, by the Board of Directors of the Company for use in voting at the Annual Meeting of Stockholders to be held at The Center Club, 650 Town Center Drive, Costa Mesa, California 92626 on December 7, 2004, at 10:30 a.m., and at any and all adjournments thereof. Any proxy given pursuant to this solicitation may be revoked by the person giving it by giving notice to the Secretary of the Company in person, or by written notification actually received by the Secretary, at any time prior to its being exercised. Unless otherwise specified in the proxy, shares represented by proxies will be voted FOR the election of the nominees listed herein.

The Company's executive offices are located at 10410 Trademark Street, Rancho Cucamonga, CA 91730. On or about October 14, 2004, this Proxy Statement and the accompanying form of proxy, together with a copy of the Annual Report of the Company for the fiscal year ended June 30, 2004, are to be mailed to each stockholder of record at the close of business on October 12, 2004.

VOTING SECURITIES

The Board of Directors has fixed the close of business on October 12, 2004, as the record date for the determination of stockholders entitled to notice of, and to vote at, the Annual Meeting. Only stockholders of record at the close of business on that date will be entitled to vote at the Annual Meeting or any and all adjournments thereof. As of October 12, 2004, the Company had issued and outstanding 15,048,769 shares of Common Stock, the Company's only class of voting securities outstanding. Each stockholder of the Company will be entitled to one vote for each share of Common Stock registered in his name on the record date. The presence, in person or by proxy, of a majority of all of the outstanding shares of Common Stock constitutes a quorum at the Annual Meeting.

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Proxies relating to "street name" shares that are returned to the Company but marked by brokers as "not voted" will be treated as shares present for purposes of determining the presence of a quorum on all matters but will not be treated as shares entitled to vote on the matter as to which authority to vote is withheld by the broker ("broker non-votes"). The election of directors requires a plurality vote of those shares voted at the Annual Meeting with respect to the election of directors. "Plurality" means that the individuals who receive the largest number of votes cast "FOR" are elected as directors. Consequently, any shares not voted "FOR" a particular nominee (whether as a result of a direction to withhold authority or a broker non-vote) will not be counted in such nominee's favor. All other matters to be voted on will be decided by the affirmative vote of a majority of the shares present or represented at the Annual Meeting and entitled to vote. On any such matter, an abstention will have the same effect as a negative vote, but because shares held by brokers will not be considered entitled to vote on matters as to which the brokers withhold authority, a broker non-vote will have no effect on the vote.

The following table sets forth certain information as of October 12, 2004 (on which date 15,048,769 shares of the Company's Common Stock were outstanding), with respect to (i) those persons or groups known to the Company to beneficially own more than 5% of the Company's Common Stock, (ii) each director and nominee, (iii) each executive officer whose compensation exceeded \$100,000 in fiscal 2004, and (iv) all directors and executive officers as a group. The information is determined in accordance with Rule 13d-3 promulgated under the Securities Exchange Act of 1934 based upon information furnished by the persons listed or contained in filings made by them with the Securities and Exchange Commission. Except as indicated below, the stockholders listed possess sole voting and investment power with respect to their shares.

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Name and Address	Shares of Common Stock Beneficially Owned	Percentage of Common Stock, Warrants and Options
James C. Witham..... 10410 Trademark Street Rancho Cucamonga, CA 91730	2,017,030 (1)	13.40 %
Karen B. Laustsen..... 10410 Trademark Street Rancho Cucamonga, CA 91730	576,172	3.83 %
Gary S. Wolff..... 10410 Trademark Street Rancho Cucamonga, CA 91730	488,367	3.25 %
Glenn A. Bergenfield..... 10410 Trademark Street Rancho Cucamonga, CA 91730	439,500 (2) (3)	2.87 %
Dr. William DiTuro..... 10410 Trademark Street Rancho Cucamonga, CA 91730	402,500 (2) (4)	2.62 %
All officers and directors as a group (five persons).....	3,923,569	25.09 %

(1) Includes an aggregate of 480,000 shares owned of record by Witham Group, LLC and JW Acquisitions, LLC which are entities in which Mr. Witham

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- controls 100% of the outstanding equity.
- (2) Includes 140,000 options exercisable within 60 days.
 - (3) Includes 75,000 series A convertible preferred shares and 75,000 common stock purchase warrants exercisable within 60 days.
 - (4) Includes 80,000 series A convertible preferred shares and 80,000 common stock purchase warrants exercisable within 60 days.

PROPOSAL NO. 1

ELECTION OF A DIRECTOR

Our Restated Certificate of Incorporation provides for three classes of directors. Directors Witham and Bergenfield have been appointed to Class I and will serve until the meeting of stockholders in 2006; directors Laustsen and DiTuro have been appointed to Class II and will serve until the meeting of stockholders in 2005; and director Wolff has been appointed to Class III and will serve until the annual meeting of stockholders in 2004. After these directors' terms expire, newly elected directors shall serve for three year terms or until their successors are duly elected and qualified.

One person will be elected at the Annual Meeting to serve as a director for a term of three years. The Board of Directors has nominated Gary S. Wolff as the candidate for election. Unless authority is withheld, the proxies solicited by the Board of Directors will be voted FOR the election of the nominee. In case this nominee becomes unavailable for election to the Board of Directors, an event which is not anticipated, the persons named as proxies, or their substitutes, shall have full discretion and authority to vote or refrain from voting for any other candidate in accordance with their judgment.

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Information About the Nominee

Name	Age	Position
Gary S. Wolff.....	66	Chief Financial Officer, Treasurer and Director

Mr. Gary S. Wolff is a founder of AquaCell and has served as its Treasurer, Chief Financial Officer and as a Director since March, 1997. Prior to founding AquaCell, Mr. Wolff served as Chief Financial Officer and a Director of U.S. Alcohol, a publicly held company from April, 1987 through July, 1996. Mr. Wolff also served as Chief Financial Officer and as a Director of U.S. Drug Testing, Inc. and as Treasurer and a Director of Good Ideas Enterprises, Inc. He is licensed as a Certified Public Accountant in the States of New York and New Jersey and during the period from July, 1996 through March, 1997 he was self-employed as a sole practitioner of accounting.

Information About the Other Directors and Executive Officers

The Company's other directors and executive officers are as follows:

Name	Age	Position
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James C. Witham.....	63	Chairman of the Board and Chief Executive Officer
Karen B. Laustsen.....	44	President, Chief Operating Officer, Secretary and Director
Glenn A. Bergenfield.....	51	Director
Dr. William DiTuro.....	49	Director

Mr. James C. Witham founded AquaCell in March, 1997 and serves as its Chairman and Chief Executive Officer. Prior to founding AquaCell, Mr. Witham founded JW Acquisition Co. in May, 1996 and served as its Chief Executive Officer until March, 1997. From April, 1987 through May, 1996, Mr. Witham founded and served as Chairman, Chief Executive Officer and President of U.S. Alcohol Testing. Mr. Witham also served as Chairman and Chief Executive Officer of U.S. Alcohol's two publicly held subsidiaries, U.S. Drug Testing, Inc. and Good Ideas Enterprises, Inc. Mr. Witham is the husband of Karen B. Laustsen, President of AquaCell.

Ms. Karen B. Laustsen is a founder of AquaCell and has served as its President, Chief Operating Officer, Secretary, and as a Director since March, 1997. Prior to founding AquaCell, Ms. Laustsen served as President of JW Acquisition Co. from May, 1996 through March, 1997. From April, 1987 through May, 1996, Ms. Laustsen served as Executive Vice President and a Director of U.S. Alcohol Testing of America, Inc. Ms. Laustsen also served on the Board of Directors of U.S. Drug Testing, Inc. and Good Ideas Enterprises, Inc. Ms. Laustsen is the wife of James C. Witham, Chairman of AquaCell.

Mr. Glenn A. Bergenfield has been a Director of AquaCell since July 1997. For the past fifteen years, Mr. Bergenfield has been self-employed as a sole practitioner of law in the State of New Jersey. Mr. Bergenfield served as a Director of U.S. Alcohol, and as a Director of U.S. Drug Testing, Inc. and Good Ideas Enterprises, Inc.

Dr. William DiTuro has been a Director of AquaCell since July 1997. Dr. DiTuro has been self-employed as a sole practitioner of general pediatrics since 1986 and has served as a clinical instructor of pediatrics at the Robert Wood Johnson Medical School. Dr. DiTuro served as a Director of U.S. Alcohol, U.S. Drug Testing, Inc. and Good Ideas Enterprises, Inc.

The executive officers of the Company are elected annually by the Board of Directors and serve at the discretion of the Board.

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Independence of Directors

The Company is listed on the American Stock Exchange ("Amex") and follows Amex rules in determining whether a director is independent. The Board of Directors also consults with counsel to ensure that the Board's determinations are consistent with those rules and relevant securities and other laws regarding director independence. Consistent with these considerations, the Board of Directors has affirmatively determined that Glenn Bergenfield and William DiTuro will be independent directors for the ensuing year. The remaining directors are not independent because they are employed by the Company.

Meetings and Committees of the Board of Directors

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During the fiscal year ended June 30, 2004 the Board of Directors held 6 meetings which all directors attended. The Board of Directors maintains an executive committee currently consisting of directors Witham, Laustsen and Wolff, which has all of the authority of the Board of Directors except as limited by applicable law. In addition we have an audit committee, a nominating committee and a compensation committee which are required to consist of a majority of outside directors. The audit committee, currently consisting of directors Bergenfield and DiTuro, oversees actions taken by our independent auditors and reviews our internal audit controls. The nominating committee, consisting of directors Bergenfield and DiTuro, oversees the selection of persons chosen to be nominated to the Board of Directors. The compensation committee, currently consisting of directors Witham, Bergenfield and DiTuro, reviews the compensation levels of our employees and makes recommendations to the Board regarding compensation.

Audit Committee Information and Report

General

The Company's audit committee was established in June 2000 and is currently comprised of Glenn Bergenfield and William DiTuro. The audit committee met 2 times in the fiscal year ended June 30, 2004.

Each member of the audit committee is an "independent director" and is "financially literate" as defined under the Amex listing standards. The Amex listing standards define an "independent director" generally as a person, other than an officer of the company, who does not have a relationship with the company that would interfere with the director's exercise of independent judgment. The Amex's listing standards define "financially literate" as being able to read and understand fundamental financial statements (including a company's balance sheet, income statement and cash flow statement).

Independent Auditors' Fees

For the fiscal year ended June 30, 2004, the aggregate fees billed for professional services rendered for the audit of the Company's annual financial statements and the reviews of its financial statements included in the Company's quarterly reports totaled approximately \$57,000. For our fiscal year ended June 30, 2003, those fees were \$51,000.

Tax Fees

For the fiscal years ended June 30, 2004 and June 2003, there were no fees billed for tax compliance, tax advice or tax planning.

All Other Fees

For the fiscal years ended June 30, 2004 and June 30, 2003, there were no other fees billed by the Company's independent auditors.

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Audit Committee Pre-Approval Policies and Procedures

In accordance with Section 10A(i) of the Securities Exchange Act of 1934, before the Company engages its independent accountant to render audit or permitted non-audit services, the engagement is approved by the audit committee. The audit committee approved all of the fees referred to in the section entitled "Independent Auditors' Fees" above for 2004.

Financial Expert on Audit Committee

The Board of Directors does not believe that any of the audit committee members qualify as an "audit committee financial expert" within the meaning of all applicable rules. While the Board of Directors believes that each audit committee member is financially literate and has an understanding of generally accepted accounting principles and financial statements, the ability to assess the general application of such principles in connection with the Company's financial statements, including estimates, accruals and reserves, experience in analyzing or evaluating financial statements of similar breadth and complexity as the Company's financial statements, an understanding of internal controls and procedures for financial reporting and an understanding of audit committee functions, none of the audit committee members has acquired these attributes through education or experience as, or actively supervising, a principal financial or accounting officer or a public accountant or auditor.

Pursuant to the audit committee's written charter, which was adopted on June 1, 2000, the audit committee's responsibilities include, among other things:

- * annually reviewing and reassessing the adequacy of the committee's formal charter;
- * reviewing the annual audited financial statements with the Company's management and its independent auditors and the adequacy of its internal accounting controls;
- * reviewing analyses prepared by the Company's management and independent auditors concerning significant financial reporting issues and judgments made in connection with the preparation of its financial statements;
- * making recommendations concerning the engagement of the independent auditor;
- * reviewing the independence of the independent auditors;
- * reviewing the Company's auditing and accounting principles and practices with the independent auditors and reviewing major changes to its auditing and accounting principles and practices as suggested by the independent auditor or its management; and
- * reviewing all related party transactions on an ongoing basis for potential conflict of interest situations.

A copy of the audit committee charter is attached as Appendix A.

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The Company's audit committee has met and held discussions with management and its independent auditors. Management represented to the committee that the Company's consolidated financial statements were prepared in accordance with

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generally accepted accounting principles, and the committee has reviewed and discussed the consolidated financial statements with management and the independent auditors. The committee discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees). The Company's independent auditors also provided the audit committee with the written disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and the committee discussed with the independent auditors and management the auditors' independence, including with regard to fees for services rendered during the fiscal year and for all other professional services rendered by the Company's independent auditors. Based upon the committee's discussion with management and the independent auditors and the committee's review of the representations of management and the report of the independent auditors to the audit committee, the committee recommended that the Board of

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Directors include the audited consolidated financial statements in its annual report on Form 10-KSB for the fiscal year ended June 30, 2004.

Glenn Bergenfield
William DiTuro

Code of Ethics

In May 2004, the Board of Directors adopted a Code of Ethics that applies to the Company's directors, officers and employees, as well as those of its subsidiaries. The Company will provide any stockholder, without charge, upon request, a copy of its Code of Ethics. Requests should be sent in writing to AquaCell Technologies, Inc., 10410 Trademark Street, Rancho Cucamonga, CA 91730. Attention: Secretary.

Executive Compensation

The following table sets forth information concerning compensation for the fiscal years indicated for services in all capacities awarded to, earned by or paid to the Company's Chief Executive Officer and the other executive officers whose compensation was in excess of \$100,000 during the fiscal year ended June 30, 2004.

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation	
		Salary (\$)	Bonus (\$)	Options Granted (3)	All Other Compensation
		(1) (2)			
James C. Witham.....	2004	277,000	50,000	150,000	--
Chairman of the Board and	2003	316,000	--	--	--
Chief Executive Officer	2002	265,000	--	--	--
Karen B. Laustsen.....	2004	167,000	25,000	75,000	--
President, Chief Operating Officer,	2003	190,000	--	--	--
Secretary and Director	2002	160,000	--	--	--

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Gary S. Wolff.....	2004	149,000	25,000	75,000	--
Treasurer, Chief Financial Officer	2003	170,000	--	--	--
and Director	2002	142,000	--	--	--
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- (1) Aggregate salaries actually paid in fiscal year 2003 were \$109,000. \$567,000 of accrued and unpaid salaries were utilized to pay principal on certain notes receivable from third parties that were personally guaranteed by the Company's executive officers.
- (2) All of the salaries actually paid to the officers during fiscal 2003 represented vacation pay.
- (3) Options were issued in January, 2004 and vest at the rate of 20% per year over a five-year period.

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The following table summarizes the number of options granted to the executive officers named above during the fiscal year ended June 30, 2004.

Options / SAR Grants in Last Fiscal Year Individual Grants				
Name	Options/Shares Granted (#)	% of Total Options/Shares Granted to Employees in Fiscal Year	Exercise Price (\$/Share)	Potential Realized Assumed Annual Stock Price Appreciation Option Term 5% (\$)
James C. Witham..... Chairman of the Board	150,000 (2)	30.6 %	\$1.24	76,500
Karen B. Laustsen..... President	75,000 (2)	15.3 %	\$1.24	38,250
Gary S. Wolff..... Chief Financial Officer	75,000 (2)	15.3 %	\$1.24	38,250

- (1) The above information concerning five percent and ten percent assumed annual rates of compounded stock price appreciation is mandated by the Securities and Exchange Commission. There is no assurance provided to any executive officer or to any other optionee that there will be appreciation of the stock price over the option term or that the optionee will realize any gains with respect to the options.
- (2) Represents options granted from the 1998 Incentive Stock Plan that vest 20% per year over a five year period.

The following table summarizes the number of exercisable and unexercisable options held by the executive officers named above at June 30, 2004, and their value at that date if such options were in-the-money.

----- 2004 Year End Option Values -----				
Name -----	Number of securities underlying unexercised options at June 30, 2004 -----		Value of securities under unexercised in-the-money o at June 30, 1004 (1) -----	
	Exercisable -----	Unexercisable -----	Exercisable -----	Unexercisable -----
James C. Witham.....	--	150,000	--	-0
Karen B. Laustsen.....	--	75,000	--	-0
Gary S. Wolff.....	--	75,000	--	-0
-----	-----	-----	-----	-----

(1) At June 30, 2004, the closing price of the stock was less than the price of the options.

The executive officers named above did not exercise any options during the fiscal year ended June 30, 2004.

Employment Agreements -----

On February 12, 2001, we entered into five-year employment agreements with each of Mr. Witham and Ms. Laustsen, and a two-year employment agreement with Mr. Wolff that was extended through June 30, 2005. These agreements provide for base salaries of \$265,000, \$160,000, and \$142,000, respectively, and also provide for bonuses to be paid based upon established financial performance targets. Each of these employment agreements contains standard noncompete, confidentiality and benefit provisions, including provisions for severance compensation in the event of a termination without cause or transactions that result in a change in control of

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AquaCell. Each of these contracts provide that after the first year, the base salary amounts will be subject to increase by 50% of the amount of any bonus, with such bonus to be based on net sales and net income earned during the prior year. The terms of the employment agreements, including bonus criteria were reviewed and approved by the compensation committee.

The Company employs Michael Witham as Operations Manager by a written employment agreement pursuant to which he is paid \$110,000 annually. Michael Witham is the son of James Witham, the Company's Chief Executive Officer.

The following table sets forth certain information at June 30, 2004 with respect to the Company's equity compensation plans that provide for the issuance of options, warrants or rights to purchase the Company's securities.

Number of Securities to be Issued upon Exercise of	Weighted-Average Exercise Price of	Number of Securities Remaining Available Future Issuance und Equity Compensation	

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Plan Category	Outstanding Options, Warrants and Rights	Outstanding Options, Warrants and Rights	(excluding securities reflected in the fi
Equity Compensation Plans Approved by Security Holders	906,000	\$ 1.09	1,094,000
Directors Equity Compensation Plans Approved by Security Holders	160,000	\$ 1.20	340,000

Report of the Compensation Committee Concerning Compensation of Executive Officers

The compensation committee of the Board of Directors met three times during the 2004 fiscal year. The compensation committee has not developed a formal compensation policy for the Company's executive officers.

During 2004, Mr. Witham served as the Company's Chairman of the Board and Chief Executive Officer. The compensation package provided to Mr. Witham and the other executive officers are based upon five (5) year and two (2) year employment agreements.

Bonus compensation, if any, to executive officers is based generally upon the Company's fiscal performance and the availability of resources as well as the executive officer's individual performance and level of responsibility.

Stock option awards under the Company's stock option plans are intended to attract and retain the best available talent and encourage the highest level of performance by affording key employees an opportunity to acquire proprietary interests in the Company. The executive officers are also each entitled to receive options.

James C. Witham
Glenn Bergenfield
William DiTuro

Summary of 1998 Incentive Stock Plan

Our 1998 Incentive Stock Plan, covering 2,000,000 shares of our Common Stock, is administered by the compensation committee of our Board of Directors. Among the compensation committee's powers will be the authority to:

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- * interpret the plan;
- * establish rules and regulations for its operation;
- * select officers, other key employees, consultants and advisors to receive awards; and

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- * determine the form, amount and other terms and conditions of awards.

Directors, officers, key employees and independent contractors will be eligible to participate in the plan. The selection of participants is within the discretion of the compensation committee.

The plan provides for the grant of any or all of the following types of awards:

- * stock options, including nonqualified stock options and incentive stock options;
- * stock awards;
- * stock appreciation rights;
- * performance shares; and
- * performance units.

Awards may be granted by themselves, in combination or in tandem with other awards as determined by the compensation committee.

- * Under the plan, the compensation committee may grant awards in the form of nonqualified stock options or incentive stock options, shares of our Common Stock, stock appreciation rights, performance shares or performance units. The compensation committee, with regard to each stock option, will determine the number of shares subject to the option, the manner and time of the option's exercise and vesting, and the exercise price per share of stock subject to the option. The following limitations are applicable under the plan: no incentive stock options may be exercisable later than ten years after the date they are granted and no nonqualified stock options may be exercisable later than fifteen years after the date they are granted;
- * the aggregate fair market value at the time of grant of shares of Common Stock with respect to which incentive stock options are exercisable for the first time by a participant during any calendar year cannot be more than \$100,000;
- * the exercise price of a stock option will not be less than 100% of the fair market value of the shares of Common Stock on the date the option is granted for incentive stock options or less than 85% of the market value for non qualified stock options (or, in either case, not less than 110% of fair market value if the optionee is an officer, director or a 10% stockholder);
- * the option price must be paid by a participant by check or, in the discretion of the compensation committee, by delivery of our Common Stock; and
- * awards may be subject to such terms, conditions, restrictions or limitations, as the compensation committee deems appropriate, including restrictions on transferability and continued employment.

Under the plan, each stock appreciation right will entitle the holder to elect to receive the appreciation in the fair market value of the shares subject to the stock appreciation right up to the date the right is exercised. Stock appreciation rights may be granted independent of, or in connection with, stock options. In the case of stock appreciation rights issued independent of stock options, the appreciation shall not be measured from a value less than 85% of

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the fair market value of the shares on the date of grant. If the stock appreciation rights are issued in

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connection with stock options, the appreciation shall be measured from not less than the option price. No stock appreciation right may be exercised earlier than six months after the date of grant or later than the earlier of the term of the related option or fifteen years after the date it was granted.

Performance shares and units may be awarded either alone or in addition to other awards and will consist of:

- * in the case of performance shares, the right to receive shares of Common Stock or cash of equal value at the end of a specified performance period; or
- * in the case of performance units, the right to receive a fixed dollar amount, payable in cash or shares of Common Stock or a combination of both at the end of a specified performance period.

The compensation committee may condition the performance shares or units on the attainment of specified performance goals or such other facts or criteria as the committee shall determine.

The plan provides that awards shall not be transferable otherwise than by law or by will or the laws of descent and distribution. However, the compensation committee may permit the transferability of an award to members of the participant's immediate family or trusts or family partnerships for the benefit of such family members.

The Board of Directors has the right to amend, suspend or terminate the plan at any time, subject to the rights of participants under any outstanding awards. However, no amendment to the plan may be made without the approval of our stockholders if such approval is required by law or regulatory authority.

Summary of 2002 Directors Stock Option Plan

The 2002 Directors Plan is intended to encourage stock ownership by non-employee directors and thereby enhance their proprietary interest in the Company. The Company currently has two (2) non-employee directors serving on the Board of Directors, whose service as directors is compensated solely by the issuance of stock options. These directors do not receive any cash compensation for their service as directors.

A summary of the significant provisions of the 2002 Directors Plan is set forth below.

Shares Subject to the 2002 Directors Plan

No more than 500,000 shares of common stock may be issued pursuant to the exercise of options granted under the 2002 Directors Plan. If any option expires or terminates for any reason, without having been exercised in full, the unpurchased shares subject to such option will be available again for purposes of the 2002 Directors Plan.

Participation

The Committee is authorized to grant non-qualified options under the 2002

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Directors Plan from time to time to such non-employee directors of the Company as the Committee, in its sole discretion, may determine.

Terms of Options

The Committee has the discretion to fix the term of each option granted under the 2002 Directors Plan, except past the maximum length of term of each option is ten (10) years, subject to earlier termination as provided in the 2002 Directors Plan.

Administration of the 2002 Directors Plan

The 2002 Directors Plan is administered by a committee (the "Committee") consisting of two or more persons who are appointed by, and serve at the pleasure of, the Board and each of whom is a "disinterested person" as that term is defined in Rule 16b of the General Rules and Regulations under the Securities Exchange Act of 1934.

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Subject to the express provisions of the 2002 Directors Plan, the Committee has the sole discretion to determine to whom among those eligible, and the time or times at which, options will be granted, the number of shares to be subject to each option and the manner in and price at which options may be exercised. In making such determinations, the committee may take into account the nature and period of service of eligible directors, their level of compensation, their past, present and potential contributions to the Company and such other factors as the Committee in its discretion deems relevant.

The Committee may amend, suspend or terminate the 2002 Directors Plan at any time, except that no amendment may be adopted without the approval of shareholders which would (i) increase the maximum number of shares which may be issued pursuant to the exercise of options granted under the Plan; (ii) change the eligibility requirements for participation in the 2002 Directors Plan; or (iii) extend the term of any incentive stock options or the period during which any incentive stock options may be granted under the 2002 Directors Plan.

Unless the 2002 Directors Plan is terminated earlier by the Board, the 2002 Directors Plan will terminate on December 31, 2012.

Nominating Committee Information

In August 2004, the Board of Directors established a nominating committee comprised of Glenn Bergenfield and William DiTuro, each an independent director under Amex listing standards. The nominating committee will be responsible for overseeing the selection of persons to be nominated to serve on the Company's Board of Directors. The nominating committee will consider persons identified by its members, management, stockholders, investment bankers and others. The nominating committee does not yet have a formal written charter, not has it established any formal selection criteria for nominees. However, the nominating committee intends to adopt a written charter by the date of the Annual Meeting, which will include the criteria, if any, established. The Company has not yet established a method by which stockholders may propose to the nominating committee candidates for selection as nominees for directors. The Company intends to establish such a procedure by the date of the Annual Meeting.

Since the nominating committee was not formed until August 2004, it did not meet during the fiscal year ended June 30, 2004.

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Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires AquaCell's directors and executive officers to file with the SEC initial reports of ownership and changes in ownership of AquaCell's Common Stock during the fiscal year ended June 30, 2004. AquaCell believes that its officers and directors complied with all these filing requirements during the fiscal year. The Company has relied upon the representations of its directors and executive officers. The Company does not believe any other stockholders are subject to Section 16(a) filing requirements.

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Stock Performance Graph

The graph depicted below shows a comparison of cumulative stockholder returns for the Company, the American Stock Exchange Index and the Company's peer group.

Comparison of Cumulative Return for
The Period February 12, 2001 to June 30, 2004

[TOTAL RETURN GRAPH]

Total Return to Shareholders
(Includes reinvestment of dividends)

Company Name / Index	ANNUAL RETURN PERCENTAGE Years Ending			
	Jun01	Jun02	Jun03	Jun04
AQUACELL TECHNOLOGIES INC	-10.00	-81.56	261.45	-70.33
AMERICAN STOCK EXCHANGE	-2.12	-2.70	8.53	28.95
PEER GROUP	19.95	28.22	-26.38	45.21

Company Name / Index	Base Period 12Feb01	INDEXED RETURNS Years Ending			
		Jun01	Jun02	Jun03	Jun04
AQUACELL TECHNOLOGIES INC	100	90.00	16.60	60.00	17.80
AMERICAN STOCK EXCHANGE	100	97.88	95.23	103.36	133.29
PEER GROUP	100	119.95	153.80	113.23	164.42

Peer Group Companies

IONICS INC
PENTAIR INC
VEOLIA ENVIRONNEMENT -ADR (Name change from Vivendi Environmental 5/2003)

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PROPOSAL NO. 2

APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

On August 6, 2004, the Board of Directors selected Wolinetz, Lafazan & Company, PC as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2005.

Although neither federal nor state law requires the approval of the auditors by stockholders, the Board believes that, in view of the importance of financial statements to the stockholders, the selection of independent public accountants should be passed on by stockholders. Accordingly, approval of the following resolution will be requested at the Meeting:

"RESOLVED, that the Board of Directors appointment of Wolinetz, Lafazan & Company, PC to serve as the Company's independent public accountants for fiscal year ending June 30, 2005 be, and the same hereby is ratified and approved."

The Board of Directors recommends a vote FOR the foregoing resolution. In the event that stockholders disapprove of the selection, the Board of Directors will consider the selection of other auditors.

A representative of Wolinetz, Lafazan & Company, PC will be present at the Annual Meeting or available by telephone. The Company has been informed that the representative does not intend to make any statement to the stockholders at the Annual Meeting, but will be available to respond to appropriate questions from stockholders.

2005 ANNUAL MEETING STOCKHOLDER PROPOSAL AND NOMINATIONS

In order for any stockholder proposal to be presented at the annual meeting of stockholders to be held in 2005 or to be eligible for inclusion in the Company's proxy statement for such meeting, they must be received by the Company at its principal executive offices by July 9, 2005. Each proposal should include the exact language of the proposal, a brief description of the matter and the reasons for the proposal, the name and address of the stockholder making the proposal and the disclosure of that stockholder's number of shares of common stock owned, length of ownership of the shares, representation that the stockholder will continue to own the shares through the stockholder meeting, intention to appear in person or by proxy at the stockholder meeting and material interest, if any, in the matter being proposed.

The Company has not yet established a method by which stockholders may propose to the nominating committee candidates for selection as nominees for directors. The Company intends to establish such a procedure by the date of the Annual Meeting.

OTHER STOCKHOLDER COMMUNICATIONS WITH THE BOARD OF DIRECTORS

The Board of Directors provides a process for stockholders and interested parties to send communications to the Board. Stockholders and interested parties may communicate with the Board of Directors, any committee chairperson or the non-management directors as a group by writing to the Board or committee chairperson in care of AquaCell Technologies, Inc., 10410 Trademark Street,

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Rancho Cucamonga, California 91730. Each communication will be forwarded, depending on the subject matter, to the Board, the appropriate committee chairperson or all non-management directors.

DISCRETIONARY VOTING OF PROXIES

Pursuant to Rule 14a-4 promulgated by the Securities and Exchange Commission, stockholders are advised that the Company's management will be permitted to exercise discretionary voting authority under proxies it solicits and obtains for the 2005 Annual Meeting of Stockholders with respect to any proposal presented by a stockholder at such meeting, without any discussion of the proposal in our proxy statement for such meeting, unless we receive

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notice of such proposal at the Company's principal office in Rancho Cucamonga, California, not later than September 23, 2005.

WHERE YOU CAN FIND MORE INFORMATION

We are a public company and file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document we file at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. You can request copies of these documents by writing to the SEC and paying a fee for the copying cost. Please call the SEC at 1-800-SEC-0330 for more information about the operation of the public reference room. Our SEC filings are also available to the public at the SEC's web site at <http://www.sec.gov>. In addition, you can read and copy our SEC filings at the office of the National Association of Securities Dealers, Inc. at 1735 K Street, Washington, D.C. 20006.

You should rely only on the information contained or incorporated by reference in this Proxy Statement. We have not authorized anyone else to provide you with information that is different from what is contained or incorporated in this Proxy Statement. This document is dated October 14, 2004. You should not assume that the information in this Proxy Statement is accurate as of any later date, and the mailing of this Proxy Statement to stockholders shall not create any implication to the contrary.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Securities and Exchange Commission allows us to "incorporate by reference" the information we file with them, which means that we can disclose important information to you by referring you to those documents. We incorporate by reference the documents listed below:

- * Our Annual Report on Form 10-KSB for the fiscal year ended June 30, 2004, which accompanies this Proxy Statement.

We will provide without charge to each person to whom a copy of this Proxy Statement is delivered, upon request, a copy of any and all documents incorporated by reference in this Proxy Statement. Requests for such copies should be made to Gary S. Wolff, Chief Financial Officer of the Company, 10410 Trademark Street, Rancho Cucamonga, California 91730 or by calling (800) 326-5222.

SOLICITATION OF PROXIES

The solicitation of proxies in the enclosed form is made on behalf of the company and the cost of this solicitation is being paid by the Company. In addition to the use of the mails, proxies may be solicited personally or by telephone or telephone using the services of directors, officers and regular employees of the Company at nominal cost. Banks, brokerage firms and other custodians, nominees and fiduciaries will be reimbursed by the Company for expenses incurred in sending proxy material to beneficial owners of the Company's stock.

OTHER MATTERS

The Board of Directors knows of no matter which will be presented for consideration at the Annual Meeting other than the matters referred to in this Proxy Statement. Should any other matter properly come before the Annual Meeting, it is the intention of the persons named in the accompanying proxy to vote such proxy in accordance with their best judgment.

Karen B. Laustsen, Secretary

Rancho Cucamonga, California
October 14, 2004

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Appendix A
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AUDIT COMMITTEE CHARTER
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OF

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AQUACELL TECHNOLOGIES, INC.
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I. ORGANIZATION
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There shall be a committee of the Board of Directors ("Board") for AQUACELL
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TECHNOLOGIES, INC., a Delaware corporation ("Corporation"), to be known as the
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Audit Committee ("Committee"). The Committee shall be composed of directors who
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are independent of the management of the Corporation and are free of any
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relationship that, in the opinion of the Board, would interfere with their
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exercise of independent judgment as a Committee member.
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The Committee shall be comprised of at least two (2) members who shall be
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independent directors until such time as the Corporation is no longer
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considered a "Small Business Filer" under Securities and Exchange Commission
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Rules, at which time the Committee shall consist of at least three (3) members,
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each of whom is able to read and understand fundamental financial statements,
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or will become able to do so within a reasonable period of time after his or
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her appointment. In addition, the Corporation will continue to have at least
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one member of the Committee that has past employment history in finance or
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accounting, requisite professional certification in accounting, or any other
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comparable experience or background which results in the individual's financial
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sophistication. Committee members may enhance their familiarity with finance
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and accounting by participating in educational programs conducted by the
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Corporation or an outside consultant.
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The members of the Committee shall be elected by the Board at the annual
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organizational meeting of the Board or until their successors shall be duly
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elected and qualified. Unless a chair is elected by the full Board, the members
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of the Committee may designate a chair by majority vote of the full Committee
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membership.
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II. PURPOSE

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The Committee shall provide assistance to the directors in fulfilling their
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responsibility to the shareholders, potential shareholders, and investment
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community relating to corporate accounting, reporting practices of the
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Corporation, and the quality and integrity of the financial reports of the
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Corporation. It shall be the responsibility of the Committee to maintain free
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and open means of communication between the directors, the independent
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auditors, and the financial management of the Corporation. Consistent with this
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function, the Committee should encourage continuous improvement of, and should
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foster adherence to, the Corporation's policies, procedures and practices at
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all levels.
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While the Committee has the responsibilities and powers set forth in this
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Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditor or to assure compliance with laws and regulations and the Corporation's business conduct guidelines.

In carrying out its responsibilities, the Committee believes its policies and procedures should remain flexible in order to best react to changing conditions and to ensure to the directors and shareholders that the corporate accounting and reporting practices of the Corporation are in accordance with all requirements and are of the highest quality.

The Committee's primary duties and responsibilities are to:

- . Serve as an independent and objective party to monitor the Corporation's financial reporting process and internal control system.

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- . Review and appraise the audit efforts of the Corporation's independent accountants and financial management of the corporation.

- . Provide an open avenue of communication among the independent accountants, financial and senior management, and the Board.

The Committee will primarily fulfill these responsibilities by carrying out the activities enumerated in Section IV of this Charter.

III. MEETINGS

The Committee shall meet at least four (4) times annually, or more frequently as circumstances dictate. As part of its responsibility to foster open communication, the Committee should meet at least annually with

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management, and the independent accountants in separate executive sessions to
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discuss any matters that the Committee or each of these groups believe should
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be discussed privately. In addition, the Committee or its chair should meet
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with the independent accountants and management annually to review the
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Corporation's financials in accordance with Section IV (3) below.
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IV. RESPONSIBILITIES AND DUTIES

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To fulfill its responsibilities and duties the Committee shall:
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Documents / Reports Review

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1. Review and update this Charter periodically (at least annually) as
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conditions dictate.
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2. Review the Corporation's annual financial statements and any reports or
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other financial information submitted to any governmental body, or the
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public, including any certification, report, opinion, or review rendered
=====
by the independent accountants.
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3. Review with financial management and the independent accountants, the
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Annual Report on Form 10-K prior to its filing or prior to the release
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of earnings. The chairman of the Committee may represent the entire
=====
Committee for purposes of this review.
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4. Issue annually a report to be included in the Corporation's proxy
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statement as required by the rules of the Securities and Exchange
=====
Commission.
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5. Discuss with management and/or the Corporation's general counsel any
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legal matters (including the status of pending litigation) that may have
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a material impact on the Corporation's financial statements, and any
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material reports or inquires from regulatory or governmental agencies.
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Independent Accountants

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6. Recommend to the Board the selection of the independent accountants,
considering independence and effectiveness and approve the fees and
other compensation to be paid to the independent accountants. On an
annual basis, the Committee should review and discuss with the
accountants all significant relationships the accountants have with the
Corporation to determine the accountants' independence. The committee
shall be responsible for obtaining a formal written statement from the
independent accountants delineating all relationships between the
accountants and the Corporation consistent with Independence Standards
Board Standard 1.

7. Review the performance of the independent accountants and approve any
proposed discharge of the independent accountants when circumstances
warrant.

8. Periodically consult with the independent accountants out of the
presence of financial management about internal controls and the
fullness and accuracy of the Corporation's financial statements.

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Financial Reporting Processes

9. In consultation with the independent accountants and the financial
management, review the integrity of the Corporation's financial
reporting processes, both internal and external.

10. Consider the independent accountants judgments about the quality and
appropriateness of the Corporation's accounting principles as applied in
its financial reporting.

11. Consider and approve, if appropriate, major changes to the Corporation's
auditing and accounting principles and practices as suggested by the

independent accountants, or financial management.

Process Improvement

12. Establish regular and separate systems of reporting to the Committee by each of financial management, and the independent accountants regarding any significant judgments made in financial management's preparation of the financial statements and the view of each as to appropriateness of such judgments.

13. Following completion of the annual audit, review separately with each of financial management, and the independent accountants, any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.

14. Review any significant disagreement among financial management and the independent accountants in connection with the preparation of the financial statements.

15. Review with the independent accountants and financial management the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented; provided such review shall be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Committee.

Compliance

16. Review activities, organizational structure, and qualifications of financial management of the corporation.

17. Perform any other activities consistent with this Charter, the Corporation's by-laws and governing law, as the Committee or the Board deem necessary or appropriate.

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PROXY CARD

AQUACELL TECHNOLOGIES, INC.

PROXY FOR ANNUAL MEETING OF STOCKHOLDERS TO BE HELD DECEMBER 7, 2004
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned Stockholder(s) of AQUACELL TECHNOLOGIES, INC., a Delaware corporation (the "Company"), hereby appoints James C. Witham, Proxy, with full power of substitution in the name, place and stead of the undersigned, to vote the Annual Meeting of Stockholders of the Company to be held on December 7, 2004 and at all adjournments thereof, according to the number of votes that the undersigned would be entitled to vote if personally present, upon the following matters.

(Continued and to be signed below)

DETACH PROXY CARD HERE

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PROXY

1. Election of a Director: Gary S. Wolff

- ☐ FOR the nominee listed above
☐ WITHHOLD AUTHORITY to vote for the nominee listed above

2. To ratify the appointment of Wolinetz, Lafazan & Company, PC as Independent Registered Public Accounting Firm for 2005.

- ☐ FOR ☐ AGAINST ☐ ABSTAIN

3. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting or any and all adjournments thereof.

COMPANY ID:

PROXY NUMBER:

ACCOUNT NUMBER:

Signature _____ Signature _____ Date _____, 2004

Note: Please sign exactly as name appears hereon. When shares are held by joint owners, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.