AQUACELL TECHNOLOGIES INC
Form 10QSB/A
August 04, 2005

Changes are Blacklined (====)

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

FORM 10-QSB-A
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AMENDMENT NO. 1
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(Mark one)

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

___ Transition report under Section 13 or 15(d) of the Exchange Act
For the transition period from __________ to __________

Commission File Number 1-16165

AQUACELL TECHNOLOGIES, INC.
(Exact Name of Small Business Issuers as Specified in its Charter)

Delaware	33-0750453
(State of Incorporation)	(IRS Employer Identification Number)

10410 Trademark Street
Rancho Cucamonga, CA 91730
(Address of Principal Executive Offices)

(909) 987-0456
(Issuer's Telephone Number, Including Area Code)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDING DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of Securities under a plan confirmed by a court. Yes ___ No ___

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Common Stock, $.001 par value
18,880,465 shares outstanding as of May 16, 2005.

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

PART I - FINANCIAL INFORMATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources

During the nine months ended March 31, 2005 the Company incurred a net loss of $872,000 and has aggregate net losses of $20,000,000 since inception of which non-cash losses amounted to approximately $6,500,000. As of March 31, 2005 we had a cash balance of $80,000 and a working capital deficiency of $1,205,000. The Company presently has in excess of 7,000,000 warrants, at prices ranging from $.75 to $8.25, which if exercised would generate approximately $10,750,000. As of March 31, 2005, 250,000 warrants generating $42,000 were in the money. We could reprice warrants and complete private placements to raise necessary equity to fund continued placement of our billboard coolers and generate additional advertising revenues from those coolers.

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

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

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

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

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

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

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

Management believes that its present cash position combined with subsequent equity raises and conversion of warrants and cash flows expected to be generated from future operations will be sufficient to meet presently anticipated needs for working capital and capital expenditures through at least the next 12 months; however, there can be no assurance in that regard. The Company presently has no material commitments for future capital expenditures.

PART II. OTHER INFORMATION

ITEM 3. CONTROLS AND PROCEDURES

As of the end of the period covered by this Report the Company carried out
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an evaluation, under the supervision and with the participation of the Company's management, including the Company's chief executive officer and chief financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e)
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adopted under the Securities Exchange Act of 1934. Based upon that evaluation, the chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls as of the date of their evaluation.
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