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AQUACELL TECHNOLOGIES INC

Form 8-K/A

May 30, 2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934

Date of Report (Date of earliest event reported): March 19, 2002

AQUACELL TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Commission File No. 1-16165

Delaware

(State of incorporation)

33-0750453

(IRS Employer Identification Number)

10410 Trademark Street  
Rancho Cucamonga, CA

(Address of principal executive offices)

91730

(Zip Code)

(909) 987-0456

(Telephone number, including area code)

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS.

- (a) The acquisition of Water Science Technologies, Inc. on March 19, 2002 was timely reported on Form 8-K on April 3, 2002.

The undersigned registrant hereby amends Item 7 of its Current Report

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on Form 8-K dated April 3, 2002 and files such amended Item 7 with this report.

### ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS.

(a) Financial Statements of Business Acquired.

Balance Sheet of Water Science Technologies, Inc. at June 30, 2001 and the related statements of operations, stockholders' equity and cash flows for the fiscal years ended June 30, 2001 and 2000.

See Index to Financial Statements.

(b) Pro Forma Financial Information.

Unaudited pro forma consolidated balance sheet of AquaCell Technologies, Inc. as of December 31, 2001 and unaudited pro forma consolidated statement of operations for the year ended June 30, 2001 and the six months ended December 31, 2001.

See Index to Financial Statements.

(c) Exhibits filed with Form 8-K on April 3, 2002 are incorporated by reference.

Pursuant to the requirements of the Securities Exchange Act of 1934 the Company has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AQUACELL TECHNOLOGIES, INC.

Date: May 30, 2002

By: /s/ Gary S. Wolff

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Gary S. Wolff  
Chief Financial Officer

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### REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors  
Water Science Technologies, Inc.

We have audited the accompanying balance sheet of Water Science Technologies, Inc. as of June 30, 2001, and the related statements of operations, stockholders' deficiency, and cash flows for each of the two years in the period ended June 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Water Science Technologies, Inc. as of June 30, 2001, and the results of its operations and its cash flows for each of the two years in the period ended June 30, 2001 in conformity with accounting principles generally accepted in the United States of America.

WOLINETZ, LAFAZAN & COMPANY, P.C.

Rockville Centre, New York

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May 8, 2002

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WATER SCIENCE TECHNOLOGIES, INC.  
BALANCE SHEET  
June 30, 2001

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 16,000
Accounts receivable, net of allowance for doubtful accounts of \$5,000	99,000
Inventories	95,000
Prepaid expenses and other current assets	3,000
	-----
Total current assets	213,000

PROPERTY AND EQUIPMENT, net	11,000
-----------------------------	--------

DEPOSITS	8,000
----------	-------

	-----
	\$ 232,000
	-----

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

CURRENT LIABILITIES:

Accounts payable - trade	\$ 288,000
Payable to related party	34,000
Accrued expenses	26,000
Note payable - other	22,000
Customer deposits	14,000
	-----
Total current liabilities	384,000

COMMITMENTS

STOCKHOLDERS' DEFICIENCY:

Common stock, \$1 par value; 100,000 shares authorized 1,991 shares issued and outstanding	2,000
Additional paid-in capital	313,000
Accumulated deficit	(467,000)
	-----
Total stockholders' deficiency	(152,000)
	-----

	-----
	\$ 232,000
	-----

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See notes to financial statements.

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WATER SCIENCE TECHNOLOGIES, INC.  
STATEMENTS OF OPERATIONS

	For the Year Ended June 30,	
	2001	2000
SALES - NET	\$ 1,153,000	\$ 1,332,000
COST OF SALES	646,000	792,000
GROSS PROFIT	507,000	540,000
EXPENSES:		
Salaries and wages	224,000	298,000
Selling, general and administrative	259,000	322,000
Total expenses	483,000	620,000
INCOME (LOSS) FROM OPERATIONS	24,000	(80,000)
OTHER EXPENSE - Interest	5,000	7,000
NET INCOME (LOSS)	\$ 19,000	\$ (87,000)

See notes to financial statements.

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WATER SCIENCE TECHNOLOGIES, INC.  
STATEMENTS OF STOCKHOLDERS' DEFICIENCY  
FOR THE YEARS ENDED JUNE 30, 2001 AND 2000

	Common stock	Additional paid-in capital	Accumulated deficit	Total
BALANCE, July 1, 1999	\$ 2,000	\$ 313,000	\$ (400,000)	\$ (85,000)

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Net loss			(86,000)	(86,000)
BALANCE, June 30, 2000	2,000	313,000	(486,000)	(171,000)
Net income			19,000	19,000
BALANCE, June 30, 2001	\$ 2,000	\$ 313,000	\$ (467,000)	\$ (152,000)

See notes to financial statements.

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WATER SCIENCE TECHNOLOGIES, INC.  
STATEMENTS OF CASH FLOWS

	For the Year Ended June 30,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 19,000	\$ (86,000)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation	8,000	10,000
Decrease in allowance for doubtful accounts	(3,000)	(7,000)
Changes in operating assets and liabilities:		
Accounts receivable	109,000	65,000
Inventories	25,000	(25,000)
Receivable from stockholder	11,000	(1,000)
Prepaid expenses and other current assets	(42,000)	(10,000)
Accounts payable - trade	(77,000)	54,000
Accrued expenses	(10,000)	(13,000)
Customer deposits	(43,000)	25,000
Net cash (used in) provided by operating activities	(3,000)	12,000
CASH FLOWS FROM INVESTING ACTIVITIES -		
Purchase of property and equipment	(1,000)	(5,000)
CASH FLOWS FROM FINANCING ACTIVITIES -		
Principal payments on note payable to bank	(2,000)	(4,000)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,000)	3,000

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CASH AND CASH EQUIVALENTS, beginning of year	22,000	19,000
	-----	-----
CASH AND CASH EQUIVALENTS, end of year	\$ 16,000	\$ 22,000
	-----	-----
SUPPLEMENTAL DISCLOSURES OF CASH FLOW		
INFORMATION -		
Cash paid for:		
Interest	\$ 5,000	\$ 7,000
	-----	-----
Income taxes	\$ -	\$ -
	-----	-----

See notes to financial statements.

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WATER SCIENCE TECHNOLOGIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001

NOTE A - DESCRIPTION OF BUSINESS

Water Science Technologies, Inc. (WST or the Company) manufactures and distributes a full line of water treatment and purification systems for sale in the United States and international markets.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Cash and Cash Equivalents:

The Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

(2) Inventories:

Inventories are carried at the lower of cost, determined using the FIFO (first-in, first-out) method or market.

(3) Property and equipment:

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from three to five years.

(4) Customer deposits:

The Company requires deposits on all large custom design projects. The deposits are a liability to the Company prior to shipping.

(5) Revenue recognition:

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Revenues are recorded at the time of shipment of products or performance of services.

(6) Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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WATER SCIENCE TECHNOLOGIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(7) Income taxes:

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

(8) Fair value of financial instruments:

The carrying amounts of the Company's cash and cash equivalents, accounts receivable, accounts payable and note payable approximate fair value because of the short maturity of these instruments.

NOTE C - INVENTORIES

Inventories consist of the following at June 30, 2001:

Raw materials	\$ 82,000
Work in progress	6,000
Completed product	7,000
	-----
	\$ 95,000
	-----
	-----

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at June 30, 2001:



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Equipment - office	\$ 55,000
Machinery and equipment	46,000
	-----
	101,000
Less accumulated depreciation	90,000
	-----
	\$ 11,000
	-----
	-----

Depreciation expense amounted to \$8,000 and \$10,000 for the years ended June 30, 2001 and 2000, respectively.

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WATER SCIENCE TECHNOLOGIES, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2001

NOTE E - PAYABLE TO RELATED PARTY

The Company has a noninterest-bearing payable to a vendor for the purchase of stationary and other supplies. The proprietor of this vendor is the father of the President of the Company. The payable balance is \$34,000 at June 30, 2001.

NOTE F - NOTE PAYABLE - OTHER

Note payable - other represented indebtedness to a vendor. The note was payable in monthly installments of \$3,000 with interest imputed at 7%. In March 2002 the note was paid in full (see Note I).

NOTE G - INCOME TAXES

At June 30, 2001, the Company had available federal net operating loss carryforwards to reduce future taxable income, if any, of approximately \$239,000. The net operating loss carryforwards expire at various dates through 2021.

The Company had deferred tax assets of approximately \$100,000 at June 30, 2001, resulting primarily from net operating loss carryforwards. The deferred tax assets have been fully offset by a valuation allowance resulting from the uncertainty surrounding the future realization of the net operating loss carryforwards.

Provision for income taxes consisted of the following:

	Year Ended June 30,	
	2001	2000
	-----	-----
Current	\$ 3,000	\$ -

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Deferred (benefit)	(3,000)	-
	-----	-----
	\$ -	\$ -
	-----	-----
	-----	-----

Deferred tax benefit for the year ended June 30, 2001 resulted from the utilization of net operating loss carryforwards.

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WATER SCIENCE TECHNOLOGIES, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2001

NOTE H - COMMITMENTS

The Company occupies office space in Arizona. As of June 30, 2001, future minimum commitments under an office lease is as follows:

Year Ending June 30,	
-----	
2002	\$ 12,000
	-----
	-----

Rent expense amounted to \$106,000 and \$101,000 for the years ended June 30, 2001 and 2000, respectively.

NOTE I - SUBSEQUENT EVENTS

On March 19, 2002 AquaCell Technologies, Inc. ("AQA") acquired all of the issued and outstanding common stock of the Company. As consideration AQA issued an aggregate of 203,252 shares of its common stock, valued at \$1,000,000, to the four stockholders of the Company. In addition, AQA issued to various creditors of the Company an aggregate of 55,337 shares of its common stock, valued at \$190,000, as consideration for payment of certain accounts payable in the amount of \$168,000 and note payable in the amount of \$22,000.

The Company rents office space and manufacturing facilities on a month-to-month basis from AQA effective October, 2001. AQA holds the lease for these facilities under a five-year lease at a minimum annual rental of \$45,000.

The Company entered into a five-year employment contract with its President. The agreement calls for a minimum annual salary of \$100,000 to take effect July 1, 2002.

Unaudited Pro Forma Consolidated Financial Statements

The unaudited pro forma consolidated balance sheet as of December 31, 2001 and the unaudited pro forma consolidated statements of operations for year ended June 30, 2001 and the six months ended December 31, 2001 include the consolidated accounts of AquaCell Technologies, Inc. (AQA) and Water Science Technologies, Inc. (WST). The unaudited pro forma consolidated financial statements have been prepared to illustrate the estimated effects of the acquisition of WST. The acquisition is accounted for under the purchase method of accounting. The unaudited pro forma consolidated financial statements were derived by adjusting the historical financial statements of AQA and WST for certain transactions pursuant to the acquisition described in the notes to the unaudited consolidated pro forma financial statements.

The unaudited pro forma consolidated balance sheet and unaudited pro forma consolidated statement of operations for the six months ended December 31, 2001 were prepared as if the acquisition had occurred on July 1, 2001.

The unaudited consolidated statement of operations for the year ended June 30, 2001 was prepared as if the acquisition was effective from July 1, 2000.

The unaudited pro forma consolidated financial data does not purport to be indicative of the results which actually could have been obtained had such transactions been completed as of the assumed dates or which may be obtained in the future. The unaudited pro forma consolidated financial data should be read in conjunction with the financial statements of AQA and WST.

AQUACELL TECHNOLOGIES, INC. AND WATER SCIENCE TECHNOLOGIES, INC.  
 UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET  
 DECEMBER 31, 2001

	AquaCell Technologies, Inc.	Water Science Technologies, Inc.	Pro Forma
	-----	-----	-----
ASSETS			
Current assets:			

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Cash	\$	7,000	\$	14,000	
Notes receivable, including accrued interest		1,329,000			
Accounts receivable, net		62,000		66,000	
Inventories		90,000		59,000	
Prepaid expenses and other current assets		293,000		2,000	
		-----		-----	
Total current assets		1,781,000		141,000	
Property and equipment, net		67,000		12,000	
Other assets:					
Goodwill					1) \$ 1,270,000
Investment in Corbett Water Technologies, Inc.		274,000			
Patents, net		132,000			
Security deposits		12,000		5,000	
		-----		-----	
	\$	2,266,000	\$	158,000	\$ 1,270,000
		-----		-----	-----
		-----		-----	-----
LIABILITIES					
Current liabilities:					
Accounts payable	\$	322,000	\$	347,000	2) \$ 168,000 3) 19,000
Accrued expenses		175,000		28,000	
Note payable - other				22,000	2) 22,000
Customer deposits				11,000	
		-----		-----	-----
Total current liabilities		497,000		408,000	209,000
		-----		-----	-----
STOCKHOLDERS' EQUITY (DEFICIENCY):					
Common stock		8,000		2,000	1) 2,000
Additional paid-in capital		11,465,000		313,000	1) 313,000
Accumulated deficit		(9,330,000)		(565,000)	
		-----		-----	-----
Unamortized deferred compensation		2,143,000 (374,000)		(250,000)	315,000
		-----		-----	-----
		1,769,000		(250,000)	315,000
		-----		-----	-----
	\$	2,266,000	\$	158,000	\$ 524,000
		-----		-----	-----
		-----		-----	-----

See notes to unaudited pro forma consolidated balance sheet.

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Notes to Unaudited Pro Forma Consolidated Balance Sheet

- 1) Represents \$1,000,000 value of 203,252 shares of common stock of AQA issued to stockholders of WST, the elimination of the equity accounts of WST and the recording of the resulting goodwill in consolidation.
- 2) Represents \$190,000 value of 55,337 shares of common stock of AquaCell issued to vendors and a note holder of WST in settlement of debt.

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3) Represents elimination of intercompany account between AQA and WST.

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AQUACELL TECHNOLOGIES, INC. AND WATER SCIENCE TECHNOLOGIES, INC.  
 UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF INCOME  
 YEAR ENDED JUNE 30, 2001

	AquaCell Technologies, Inc. -----	Water Science Technologies, Inc. -----	Consoli -----
Net revenues	\$ 191,000	\$ 1,153,000	\$ 1,34
Cost of sales	82,000	646,000	72
Gross profit	----- 109,000	----- 507,000	----- 61
Selling, general and administrative expenses:			

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Salaries and wages	602,000	224,000	82
Legal, accounting and other professional expenses	521,000	-	52
Other	764,000	259,000	1,02
Reduction of notes receivable carrying amount to fair value	365,000	-	365
	2,252,000	483,000	2,73
Income (loss) from operations before other (expenses) income and extraordinary item	(2,143,000)	24,000	(2,11
Other (expense) income:			
Amortization of debt discount	(695,000)		(69
Interest expense	(116,000)	(5,000)	(12
Interest income	56,000		5
	(755,000)	(5,000)	(76
Net income (loss) before extraordinary item	(2,898,000)	19,000	(2,87
Extraordinary item	(163,000)		(16
Net income (loss)	\$ (3,061,000)	\$ 19,000	\$ (3,04
Net loss per common share - basic and diluted:			
Net loss before extraordinary item	\$ (0.46)		\$
Extraordinary item	(0.02)		
Net loss per common share	\$ (0.48)		\$
Weighted average common shares outstanding - basic and diluted	6,339,000		6,69

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AQUACELL TECHNOLOGIES, INC. AND WATER SCIENCE TECHNOLOGIES, INC.  
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF INCOME  
SIX MONTHS ENDED DECEMBER 31, 2001

	AquaCell Technologies, Inc.	Water Science Technologies, Inc.	Consoli
Net revenues	\$ 156,000	\$ 355,000	\$ 51
Cost of sales	63,000	258,000	32
Gross profit	93,000	97,000	19
Selling, general and administrative expenses:			

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Salaries and wages	467,000	96,000	56
Legal, accounting and other professional expenses	267,000	-	26
Stock based compensation	450,000	-	45
Other	517,000	98,000	61
	-----	-----	-----
	1,701,000	194,000	1,89
	-----	-----	-----
Loss from operations before other (expenses) income	(1,608,000)	(97,000)	(1,70
	-----	-----	-----
Other (expenses) income:			
Impairment loss on investment in Corbett Water Technologies, Inc.	(1,226,000)		(1,22
Interest expense		(1,000)	(
Interest income	75,000		7
Other income	100,000		10
	-----	-----	-----
	(1,051,000)	(1,000)	(1,05
	-----	-----	-----
Net loss	\$ (2,659,000)	\$ (98,000)	\$ (2,75
	-----	-----	-----
	-----	-----	-----
Net loss per common share basic and diluted	\$ (0.33)		\$
	-----	-----	-----
	-----	-----	-----
Weighted average common shares outstanding - basic and diluted	7,947,000		8,20
	-----	-----	-----
	-----	-----	-----