WATER CHEF INC
Form 10QSB
May 14, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 March 31, 2007

( ) 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.)

68 South Service Road, Suite 100, Melville, New York 11747
(Address of Principal Executive Offices)

631-577-7915
(Issuer's Telephone Number, Including Area Code)

1007 Glen Cove Avenue, Glen Head, New York 11545
(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 equity, as of the last practicable date.

OUTSTANDING AS OF May 2, 2007

CLASS	Common
Par value $0.001 per share	184,802,456

Transitional small business disclosure format (check one): Yes ___ No X

WATER CHEF, INC.

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WATER CHEF, INC.
(A Development-Stage Company Commencing January 1, 2002)
CONDENSED BALANCE SHEET
AT MARCH 31, 2007
(UNAUDITED)

ASSETS

CURRENT ASSETS:	
Cash	$ 39,388
Prepaid expenses	6,833
TOTAL CURRENT ASSETS	46,221
OTHER ASSETS:	
Patents and trademarks - net of accumulated amortization of $11,115	14,940
Other assets	6,360
TOTAL OTHER ASSETS	21,300
TOTAL ASSETS	$ 67,521

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

CURRENT LIABILITIES:	
Accounts payable and accrued expenses	$ 368,533
Accrued compensation	108,000
Accrued consulting and director fees	140,583
Notes payable to officer and director (including accrued Interest of $397	100,397
Notes payable (including accrued interest of $373,553)	1,021,144
Convertible promissory note (including accrued interest of $5,867)	130,867
Fair value of detachable warrants and options	437,600
Fair value of embedded conversion options	61,400
Accrued dividends payable	190,010
TOTAL CURRENT LIABILITIES	2,558,534
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' DEFICIENCY:	
Preferred stock - $.001 par value; 10,000,000 shares authorized; 186,069 shares issued and outstanding, (liquidation preference $2,294,425)	186

Common stock - $.001 par value; 340,000,000 shares authorized; 180,845,070 shares issued and 180,840,670 shares outstanding	180,847
Additional paid-in capital	24,386,902
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	(12,521,584)
TOTAL STOCKHOLDERS' DEFICIENCY	(2,491,013)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$ 67,521

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 March 31,		For the Per January 1,200 March 31, 2
	2007	2006	
Sales	$ --	$ 115,000	$ 471,2
Costs and Expenses (Income)			
COST OF SALES	15,000	51,000	567,68
SELLING, GENERAL AND ADMINISTRATIVE - Including stock based compensation of $0 and $15,000 for the three months ended March 31, 2007 and 2006, respectively and $1,545,089 for the period January 1, 2002 to March 31, 2007, respectively	162,537	284,971	5,819,
NON-DILUTION AGREEMENT TERMINATION COSTS	--	--	2,462,
INTEREST EXPENSE - including interest expense to a related party of $397 and $5,967 for the three months ended March 31, 2007 and 2006, respectively and $119,737 for the period January 1, 2002 through March 31, 2007	107,275	155,800	1,213,8
FINANCING COSTS - EXTENSION OF WARRANTS	--	--	74,7
LOSS ON SETTLEMENT OF DEBT	--	--	2,614,0

CHANGE IN FAIR VALUE OF WARRANTS AND EMBEDDED CONVERSION OPTION	112,500	114,200	240,6
	397,312	605,971	12,992,8
NET LOSS	(397,312)	(490,971)	(12,521,5
DEEMED DIVIDEND ON PREFERRED STOCK	--	--	(2,072,2
PREFERRED STOCK DIVIDENDS	(139)	--	(509,2
	(139)	--	(2,581,5
NET LOSS APPLICABLE TO COMMON STOCKHOLDERS	$ (397,451)	$ (490,971)	$ (15,103,0
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.00)	$ (0.00)	
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED	189,766,250	182,431,046	

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 THREE MONTHS ENDED MARCH 31, 2007			
BALANCE - JANUARY 1, 2007	188,917	$ 189	198,977,497
Common stock issued in repayment of debt			
($0.132 per share) February 26, 2007	--	--	195,212
($0.111 per share) March 8, 2007	--	--	234,165
($0.107 per share) March 14, 2007	--	--	256,643
($0.099 per share) March 19, 2007	--	--	262,650
($0.097 per share) March 23, 2007	--	--	806,583
Preferred stock converted to common stock			

during the quarter ended March 31, 2007	(2,848)	(3)	113,920
Cancellation of debt for no consideration	--	--	--
Surrender and cancellation of commons stock	--	--	(20,000,000)
Reclassification of derivative liability to equity upon conversion of debt	--	--	--
Reclassification of derivative liability to equity upon conversion of preferred stock	--	--	--
Preferred stock dividend	--	--	--
Net loss	--	--	--
BALANCE - March 31, 2007	186,069	$ 186	180,846,670

See notes to condensed financial statements.

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 THREE MONTHS ENDED March 31, 2007				
BALANCE - JANUARY 1, 2007	$ (5,768)	$(14,531,596)	$(12,124,272)	$
Common stock issued in repayment of debt				
($0.132 per share) February 26, 2007	--	--	--	
($0.111 per share) March 8, 2007	--	--	--	
($0.107 per share) March 14, 2007	--	--	--	
($0.099 per share) March 19, 2007	--	--	--	
($0.097 per share) March 23, 2007	--	--	--	
Preferred stock converted to common stock during the quarter ended March 31, 2007	--	--	--	

Cancellation of debt for no consideration	--	--	--	
Surrender and cancellation of commons stock	--	--	--	
Reclassification of derivative liability to equity upon conversion of debt	--	--	--	
Reclassification of derivative liability to equity upon conversion of preferred stock	--	--	--	
Preferred stock dividend	--	--	--	
Net loss	--	--	(397,312)	
BALANCE - March 31, 2007	$ (5,768)	$(14,531,596)	$(12,521,584)	$

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 Three Months Ended March 31, 2007	For the Three Months Ended March 31, 2006	For the Period January 1, 2002 (Inception) to March 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (397,312)	$ (490,971)	$(12,521,584)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of patents	463	463	9,733
Interest expense - deferred financing	4,687	4,687	15,000
Stock-based compensation	--	15,000	1,545,089
Accretion of debt discount	69,800	112,800	362,320
Change in fair value of warrants and embedded conversion option	112,500	114,200	240,600
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
Changes in assets and liabilities:			
Prepaid expenses	12,449	(5,705)	49,667
Security deposits	(3,198)	--	(3,198)

Inventory	--	30,000	--
Accounts payable, accrued expenses, accrued dividends, accrued compensation, accrued Consulting and director fees, and other current liabilities	40,283	(69,546)	1,438,274
NET CASH USED IN OPERATING ACTIVITIES	(160,328)	(289,072)	(3,531,879)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Reduction in stock subscription receivable	--	--	65,700
Proceeds from sale of preferred stock	--	--	1,130,127
Proceeds from sale of common stock	--	250,000	1,540,560
Proceeds from sale of common stock to be issued	--	--	200,000
Deferred financing costs	--	--	(15,000)
Proceeds from convertible promissory note	--	--	550,000
Proceeds from officers and director loans	100,000	--	100,000
Repayment of notes payable	--	(8,602)	(35,631)
NET CASH PROVIDED BY FINANCING ACTIVITIES	100,000	241,398	3,535,756
NET (DECREASE) INCREASE IN CASH	(60,328)	(47,674)	3,877
CASH AT BEGINNING OF PERIOD	99,716	244,595	35,511
CASH AT END OF PERIOD	$ 39,388	$ 196,921	$ 39,388
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:			
Compensation satisfied by issuance of common stock	$ --	$ --	$ 55,250
Common stock issued in satisfaction of liabilities	$ 181,013	$ 48,485	$ 6,545,297
Reclassification of derivative liabilities upon conversion of debt	$ 20,900	$ --	$ 389,700
Reclassification of derivative liabilities upon conversion of preferred stock	$ 3,000	$ --	$ 3,000
Cancellation of debt for no consideration	$ 1,327,321	$ --	$ 1,327,321

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 Melville, 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 three-month period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. 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 30, 2007, for the year ended December 31, 2006.

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
Effective January 1, 2006, the Company adopted SFAS 123R which replaces SFAS 123, "Accounting for Stock-Based Compensation" and supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Pro forma disclosure is no longer an alternative to financial statement recognition.

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 $27,053,000 and has a working capital deficiency of approximately $2,512,000 at March 31, 2007. 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 condensed 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 FASB issued SFAS 155, "Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140" ("SFAS 155"). SFAS 155 resolves issues addressed in SFAS 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets." The requirements in SFAS 155 are effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006.
The adoption of this pronouncement did not have an impact on the Company's financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the U.S., and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, with earlier application encouraged. Any cumulative effect will be recorded as an adjustment to the opening accumulated deficit balance, or other appropriate component of equity. The adoption of this pronouncement did not have an impact on the Company's financial position, results of operations or cash flows.

In September 2006, the SEC staff issued Staff Accounting Bulleting ("SAB") No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements ("SAB 108"). SAB 108 was issued in order to reduce the diversity in practice in how public companies quantify misstatements of financial statements, including misstatements that were not material to prior years' financial statements. SAB 108 is effective for fiscal year 2007. The adoption of this pronouncement did not have an impact on the Company's financial position, results of operations, or cash flows.

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

NOTE 4 - RECENT ACCOUNTING STANDARDS (continued)

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for

Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. Generally accepted accounting principles have required different measurement attributes for different assets and liabilities that can create artificial volatility in earnings. The FASB has indicated it believes that SFAS 159 helps to mitigate this type of accounting-induced volatility by enabling companies to report related assets and liabilities at fair value, which would likely reduce the need for companies to comply with detailed rules for hedge accounting. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities.

SFAS 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS 157 and SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." SFAS 159 is effective for the Company as of the beginning of fiscal year 2009 The adoption of this pronouncement is not expected to have an impact on the Company's financial position, results of operations or cash flows.

In December 2006, the FASB approved FASB Staff Position (FSP) No. EITF 00-19-2, "Accounting for Registration Payment Arrangements" ("FSP EITF 00-19-2"), which specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with SFAS No. 5, "Accounting for Contingencies". FSP EITF 00-19-2 also requires additional disclosure regarding the nature of any registration payment arrangements, alternative settlement methods, the maximum potential amount of consideration and the current carrying amount of the liability, if any. The guidance in FSP EITF 00-19-2 amends FASB Statements No. 133, "Accounting for Derivative Instruments and Hedging Activities", and No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", and FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", to include scope exceptions for registration payment arrangements.

FSP EITF 00-19-2 is effective immediately for registration payment arrangements and the financial instruments subject to those arrangements that are entered into or modified subsequent to the issuance date of this FSP, or for financial statements issued for fiscal years beginning after December 15, 2006, and interim periods within those fiscal years, for registration payment arrangements entered into prior to the issuance date of this FSP. The adoption of this pronouncement did not have an impact on the Company's financial position, results of operations or cash flows.

Effective January 1, 2007, the company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. Differences between tax positions taken or expected to be taken in a tax return and the benefit recognized and measured pursuant to the interpretation are referred to as "unrecognized benefits". A liability is recognized (or amount of net operating loss carry forward or amount of tax refundable is reduced) for an unrecognized tax benefit because it represents an enterprise's potential future obligation to the taxing authority for a tax position that was not recognized as

a result of applying the provisions of FIN 48.

In accordance with FIN 48, interest costs related to unrecognized tax benefits are required to be calculated (if applicable) and would be classified as "Interest expense, net" in the consolidated statements of operations. Penalties would be recognized as a component of "General and administrative expenses".

In many cases the company's uncertain tax positions are related to tax years that remain subject to examination by relevant tax authorities. The Company files income tax returns in the United States (federal) and in various state and local jurisdictions. In most instances, the Company is no longer subject to federal, state and local income tax examinations by tax authorities for years prior to 2003.

NOTE 4 - RECENT ACCOUNTING STANDARDS (continued)

The adoption of the provisions of FIN 48 did not have a material impact on the Company's financial position and results of operations. As of March 31, 2007, no liability for unrecognized tax benefits was required to be recorded.

The Company recognized a deferred tax asset of approximately $8 million as of March 31, 2007, primarily relating to net operating loss carryforwards of approximately $24 million, available to offset future taxable income through 2026.

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers projected future taxable income and tax planning strategies in making this assessment. At present, the Company does not have a sufficient history of income to conclude that it is more likely than not that the Company will be able to realize all of its tax benefits in the near future and therefore a valuation allowance was established in the full value of the deferred tax asset.

A valuation allowance will be maintained until sufficient positive evidence exists to support the reversal of any portion or all of the valuation allowance net of appropriate reserves.

NOTE 5 - CONVERTIBLE PROMISSORY NOTES

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 matured 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 warrant has a cashless exercise provision. The note and accrued interest are convertible at any time after the maturity date into shares of the Company's common stock at a conversion price equal to the current market price multiplied by eighty-five percent. After the maturity date, the lender converted $175,000 of principal and $5,923 of interest to 1,755,253 shares of common stock

in the first quarter.

The Convertible Promissory Note agreement required the Company to file a registration statement no later than thirty business days from the date of the agreement for 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 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 the 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 accounted 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 there is an embedded conversion option of the warrants and derivative liabilities. Accordingly, the warrants and the embedded conversion option are recorded at fair market value and marked to market through earnings at the end of each reporting period.

The gross proceeds of $300,000 were recorded net of a discount of $174,200. The debt discount consisted of $12,800 related to the warrants and $161,400 related to the embedded conversion option. During the quarter ended March 31, 2007 the Company charged to interest expense $69,800 for the accretion of the debt discount.

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.

NOTE 5 - CONVERTIBLE PROMISSORY NOTES (Continued)

Accordingly, the warrants and the embedded conversion option were marked to market through earnings at the end of each reporting period. The Company determined that the value of the registration rights was deemed to be de minimis and the related registration statement became effective in January 2007. The warrants and the conversion option are valued using the Black-Scholes valuation model.

The Convertible Promissory Note was secured by 4,000,000 shares of the Company's common stock held by an officer of the Company.

Under the terms of the note, as of March 31, 2007, the Company is in default. During the three months ended March 31, 2007, the Company issued 1,755,253 shares of common stock for the settlement of $175,000 of principal and $5,923 of accrued interest.

Under accounting guidance provide by EITF 00-19, the conversion price of the convertible promissory note did not have a determinable number of shares the note could be settled in. As a result, previously granted warrants as well as the embedded conversion option of the Series F Convertible Preferred Stock were required to be reclassified from equity and presented as a derivative liability. Accordingly, the warrants, options and conversion option will be marked to market through earnings at the end of each reporting period.

For the quarter ended March 31, 2007, the Company reflected a charge of $112,500 representing the change in the fair value of the warrants and the embedded conversion options.

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 three months ended March 31, 2007 and 2006 were 10,476,819 and 11,270,107, respectively.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Leases

During April 2007, the Company moved its administrative offices to Melville, New York subject to a month-to-month lease.

NOTE 8 - COMMON STOCK ISSUED

Debt

During the three months ended March 31, 2007, the Company issued 1,755,253 shares of common stock for $175,000 of debt principal and $5,923 of accrued interest.

Conversion of preferred stock into common stock

During the three months ended March 31, 2007, the Company issued 113,920 shares of common stock in connection with the conversion of 2,848 shares of preferred stock.

Relinquishment of common stock

Effective with his resignation as President and Chief Executive Officer, on January 29, 2007 David Conway returned to the Company 20,000,000 shares of common stock owned by him and his affiliates. The return of the shares was recorded as a retirement and cancellation of the common stock.

NOTE 9 - RELATED PARTY TRANSACTIONS

On January 29, 2007, the Company's President and Chief Executive Officer resigned and surrendered his stock appreciation rights, any severance under his employment agreement, returned 20,000,000 shares of common stock, forgave $525,738 of notes payable and accrued interest, and relinquished his rights to $471,583 of unpaid and accrued salary.

The Company reclassified the accrued compensation, notes payable and accrued interest to equity. The return of the shares was recorded as a retirement and cancellation of the common stock. The cancellation of the stock appreciation rights did not have an accounting impact.

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

NOTE 9 - RELATED PARTY TRANSACTIONS (continued)

On February 12, 2007, Marshall S. Sterman resigned from the Board of Directors and waived his rights to any accrued consulting and director fees owed to him by the Company. The Company reclassified the debt of $330,000 during the first quarter ended March 31, 2007 to equity.

In January 2007, Leslie J. Kessler was appointed as President of the Company. In connection with her employment, she is to receive a salary of $9,000 per month. In addition, Ms. Kessler will be issued 2,000,000 shares of the Company's common stock and a warrant to purchase 2,000,000 shares of the Company's common stock. The warrants are exercisable at $0.11 per share, have a life of three years and vest over two years. In addition, the employment agreement provides for certain performance-based cash incentives.

Subsequent to March 31, 2007, the Company issued the 2,000,000 shares of common stock at a value of $204,000 and granted the warrants at a value of $113,000. The warrants were valued using the Black Scholes option valuation model.

In March 2007, the Chief Executive Officer and a Director each made bridge loans of $50,000 to the Company. The loans pay simple interest at the rate of 10% per annum and are due and payable in 120 days. Failure to repay the loans on a timely basis will entitle the lenders to convert their debt to common stock at a price equal to 50% of the average closing price of the Company's common stock over the three previous business days before demand for conversion is made.

NOTE 10 - MAJOR CUSTOMERS / CREDIT RISK

During the three months ended March 31, 2007, the Company had no sales. During the three months ended March 31, 2006, the Company sold two units to one customer and recognized revenues of $115,000.

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 11 - 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 12 - SUBSEQUENT EVENTS

In April 2007, the Company issued 1,455,746 shares of common stock for conversion of the remaining $125,000 of principal and $5,156 of accrued interest for the Convertible Promissory Note dated October 17, 2006. The repayment of the Note has been fully satisfied.

In April 2007, the Company entered into an employment agreement with Richard Ayotte as Vice President of sales and marketing. The executive will be compensated at an annual salary of $84,000 and eligible for a performance based incentive bonus up to 50% of the employee's most recent base salary. In addition, the Company will issue in the aggregate 1,500,000 shares of common stock of which 500,000 will vest immediately and the remaining 1,000,000 shares will vest over three years. The Company also granted a warrant to purchase 2,000,000 shares of common stock at an exercise price of $0.11 per share. The warrants will have a life of three years and vest equally over two years.

Subsequent to March 31, 2007, the Company issued 500,000 shares of common stock to the Vice President valued at $51,000 and granted warrants for 2,000,000 shares of common stock. The warrants were valued at $105,800 using the Black Scholes option valuation model and will be charged to operations over the vesting term of two years.

ITEM 2 - MANAGEMENT'S 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 three months ended March 31, 2007 and 2006 were $0 and $115,000, respectively. During the three months ended March 31, 2006, the Company recognized the sale of two PureSafe Water Station Systems

Cost of sales for the three month period ended March 31, 2007 and 2006 were $15,000 and $51,000, respectively. An analysis of the components of cost of sales in the 2007 and 2006 periods follows:

Cost of Sales Period	Product CGS	Rent and Overhead Payments to Manufacturer	Total
For the three months ended March 31, 2007	$ --	$ 15,000	$ 15,000
For the three months ended March 31, 2006	$ 30,000	$ 21,000	$ 51,000

Selling, general and administrative expenses for the three months ended March 31, 2007 were $162,537, compared to $284,971 for the three months ended March 31, 2006, a decrease of 43%

The net loss for the three months ended March 31, 2007 was $397,312 compared to $490,971 in the same period ended March 31, 2006.

Liquidity and Capital Resources

At March 31, 2007, the Company had a working capital deficiency of approximately $2,512,000. In addition, the Company continues to suffer recurring losses from operations and has an accumulated deficit since inception of approximately $27,053,000. 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.

In March 2007. the Chief Executive Officer and a Director each made bridge loans of $50,000 to the Company. The loans pay simple interest at the rate of 10% per annum and are due and payable in 120 days. Failure to repay the loans on a timely basis will entitle the lenders to convert their debt to common stock at a price equal to 50% of the average closing price of the Company common over the three previous business days before demand for conversion is made.

Recent Accounting Standards

In February 2006, the FASB issued SFAS 155, "Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140" ("SFAS 155"). SFAS 155 resolves issues addressed in SFAS 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets." The requirements in SFAS 155 are effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of this pronouncement did not have an impact on the Company's financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the U.S., and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, with earlier application encouraged. Any cumulative effect will be recorded as an adjustment to the opening accumulated deficit balance, or other appropriate component of equity. The adoption of this pronouncement did not have an impact on the Company's financial position, results of operations, or cash flows.

In September 2006, the SEC staff issued Staff Accounting Bulleting ("SAB") No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements ("SAB 108"). SAB 108 was issued in order to reduce the diversity in practice in how public companies quantify misstatements of financial statements, including misstatements that were not material to prior years' financial statements. SAB 108 is effective for fiscal year 2007. The adoption of this pronouncement did not have an impact on the Company's financial position, results of operations, or cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. Generally accepted accounting principles have required different measurement attributes for different assets and liabilities that can create artificial volatility in earnings. The FASB has indicated it believes that SFAS 159 helps to mitigate this type of accounting-induced volatility by enabling companies to report related assets and liabilities at fair value, which would likely reduce the need for companies to comply with detailed rules for hedge accounting. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons

between companies that choose different measurement attributes for similar types of assets and liabilities.

SFAS 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS 157 and SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." SFAS 159 is effective for the Company as of the beginning of fiscal year 2009 The adoption of this pronouncement is not expected to have an impact on the Company's financial position, results of operations or cash flows.

In December 2006, the FASB approved FASB Staff Position (FSP) No. EITF 00-19-2, "Accounting for Registration Payment Arrangements" ("FSP EITF 00-19-2"), which specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with SFAS No. 5, "Accounting for Contingencies". FSP EITF 00-19-2 also requires additional disclosure regarding the nature of any registration payment arrangements, alternative settlement methods, the maximum potential amount of

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consideration and the current carrying amount of the liability, if any. The guidance in FSP EITF 00-19-2 amends FASB Statements No. 133, "Accounting for Derivative Instruments and Hedging Activities", and No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", and FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", to include scope exceptions for registration payment arrangements.

FSP EITF 00-19-2 is effective immediately for registration payment arrangements and the financial instruments subject to those arrangements that are entered into or modified subsequent to the issuance date of this FSP, or for financial statements issued for fiscal years beginning after December 15, 2006, and interim periods within those fiscal years, for registration payment arrangements entered into prior to the issuance date of this FSP. The adoption of this pronouncement did not have an impact on the Company's financial position, results of operations or cash flows.

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.

The second reportable condition identified is in our inability to ensure that the accounting for our debt and equity-based transactions is accurate and complete. This condition is considered a material weakness. In recent years we have consummated a series of complex debt and equity transactions involving the application oh highly specialized accounting principles. Although we believe these events are unique to our Company, we are evaluating certain corrective measures we may take including the possibility of hiring an outside consultant to provide us with the guidance we need at such times that we may engage in these complex transactions.

Changes in Internal Controls

Management has evaluated the effectiveness of the disclosure controls and procedures as of March 31, 2007. 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 March 31, 2007 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 three months ended March 31, 2007, the Company issued 1,755,253 shares of common stock for the settlement of $180,923 of debt and accrued

interest.

During the three months ended March 31, 2007, the Company issued 113,920 shares of common stock in connection with the conversion of 2,848 shares of preferred stock.

Effective with his resignation as President and Chief Executive Officer on January 29, 2007, Mr. Conway has returned to the Company 20,000,000 shares of common stock owned by him and his affiliates.

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 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/ Leslie J. Kessler

Date May 14, 2007

Leslie J. Kessler
President, Chief Executive
Officer, and Chief Financial

Officer
(Principal Operating Officer)