AQUACELL TECHNOLOGIES INC
Form 10QSB
November 14, 2005

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

FORM 10-QSB

(Mark one)
_X_ Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 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
22,916,488 shares outstanding as of November 14, 2005.

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

AQUACELL TECHNOLOGIES, INC.

FORM 10-QSB

FOR THE QUARTER ENDED SEPTEMBER 30, 2005

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1.	Financial Statements:	PAGE
	Condensed Consolidated Balance Sheet as of September 30, 2005......	1
	Condensed Consolidated Statements of Operations for the three-month periods ended September 30, 2005 and 2004..............	2
	Condensed Consolidated Statements of Cash Flow for the three-month periods ended September 30, 2005 and 2004..............	3
	Notes to Condensed Consolidated Financial Statements...............	4
Item 2.	Management's Discussion and Analysis..............................	10
	Forward-Looking Statements...	10
	Overview...	10
	Critical Accounting Policies.......................................	11
	Results of Operations..	12
	Liquidity and Capital Resources....................................	12
	PART II - OTHER INFORMATION	
Item 2(C).	Sales of Unregistered Securities..................................	14
Item 3.	Controls and Procedure..	14
Item 4.	Submission of Matters to a Vote of Security Holders...............	14
Item 6.	Exhibits and Reports on Form 8-K..................................	15
Signature...		15

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
September 30, 2005
(Unaudited)

ASSETS	
Current assets:	
Cash	$ 273,000
Subscription receivable	77,000
Accounts receivable, net of allowance of $17,000	55,000
Inventories	20,000
Prepaid expenses and other current assets	25,000
Total current assets	450,000
Property, equipment and billboard coolers, net	1,262,000
Other assets:	
Goodwill	750,000
Patents, net	49,000
Security deposits	16,000
Total other assets	815,000
	$ 2,527,000
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 594,000
Accrued liabilities	1,224,000
Preferred stock dividend payable- Class A	3,000
Customer deposits	19,000
Current portion of deferred payable	22,000
Total current liabilities	1,862,000
Deferred payable, net of current portion	451,000
Total liabilities	2,313,000
Commitments and contingencies	
Stockholders' Equity:	
Preferred stock - Class A, par value $.001; liquidation preference $47,000; 1,870,000 shares authorized; 70,000 shares issued and outstanding	-
Preferred stock - Class B, par value $.001; liquidation preference $367,000; 4,000,000 shares authorized; 918,000 shares issued and outstanding	1,000
Preferred stock, par value $.001; 8,130,000 shares authorized; no shares issued	-
Common stock, par value $.001; 40,000,000 shares authorized; 22,638,643 shares issued and outstanding	23,000
Additional paid-in capital	22,771,000
Accumulated deficit	(22,569,000)

	1,226,000
Unamortized deferred compensation	(1,012,000)
Total stockholders' equity	214,000
	$ 2,527,000

See notes to condensed consolidated financial statements.

1

AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,	
	2005	2004
Revenue:		
Net sales	$ 149,000	$ 199,000
Advertising revenue	20,000	-
	169,000	199,000
Cost and expenses:		
Cost of sales	128,000	124,000
Salaries and wages	385,000	288,000
Legal, accounting and other professional expenses	45,000	52,000
Stock based compensation	214,000	242,000
Other	486,000	360,000
	1,258,000	1,066,000
Loss from operations before other expense	(1,089,000)	(867,000)
Other expense:		
Interest expense	32,000	1,000
Net loss for the period	$(1,121,000)	$ (868,000)
Weighted average share outstanding- basic and diluted	19,929,000	14,576,000
Loss attributable to common stockholders:		
Net loss	$(1,121,000)	$ (868,000)
Preferred stock dividends	25,000	9,000
Loss attributable to common stockholders	$(1,146,000)	$ (877,000)
Net loss per common share	$ (0.06)	$ (0.06)

See notes to condensed consolidated financial statements.

2

AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months End September 30,	
	2005	2
Cash flows from operating activities:		
Net loss	$ (1,121,000)	$ (
Adjustment to reconcile net loss to net cash used in operating activities:		
Stock based compensation	214,000	
Depreciation and amortization	39,000	
Changes in:		
Accounts receivable	4,000	
Prepaid expenses and other current assets	15,000	
Inventories	(7,000)	
Accounts payable	(205,000)	(
Accrued liabilities	150,000	
Customer deposits	2,000	
Net cash used in operating activities	(909,000)	(
Cash flows from investing activities:		
Payments on note issued for purchase of property and equipment	-	
Capital expenditures	(85,000)	
Net cash used in investing activities	(85,000)	
Cash flows from financing activities:		
Proceeds from private placements of common stock	370,000	
Expenses of offerings	(10,000)	
Proceeds from private placements of Class B preferred stock	68,000	
Preferred stock dividends paid- Class B	(37,000)	
Repayment of loans from related parties	(100,000)	
Proceeds from subscriptions receivable	91,000	
Proceeds from exercise of common stock warrants	813,000	
Expense of warrant exercise	(20,000)	
Net cash provided by financing activates	1,175,000	
Increase (decrease) in cash	181,000	(
Cash, beginning of period	92,000	
Cash, end of period	$ 273,000	$
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ -	$
Supplemental schedule of non-cash investing and financing activities:		
Issuance of common stock warrants for services to the company	$ -	$
Subscription receivable for conversion of warrants	$ 20,000	$

Dividends payable on preferred stock- Class A............................$	1,000	$
Subscription receivable for private placement of common stock.............$	57,000	$
Deemed dividends on preferred stock.....................................$	24,000	$
Expenses of warrant exercises offset against subscription receivable.......$	57,000	$
Expenses of equity raise recorded as accounts payable.....................$	10,000	$

See notes to condensed consolidated financial statements.

3

AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005 (Unaudited)

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of AquaCell Technologies, Inc. and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the three months ended September 30, 2005 are not necessarily indicative of the results to be expected for the full year. For further information, refer to the Company's annual report filed on Form 10-KSB for the year ended June 30, 2005.

At September 30, 2005 the Company's ability to continue as a going concern, for the reasons outlined on the 10-KSB filed for the year ended June 30, 2005, still existed. During the quarter ended September 30, 2005 the Company successfully obtained external financing through exercise of warrants and plans to continue to raise capital through the sale or exercise of equity securities on a just in time basis.

Reclassifications:

Certain items in these financial statements have been reclassified to conform to the current period presentation. These reclassifications had no impact on our results of operations, stockholders' equity or cash flow.

New Accounting Pronouncements:

In December 2004, the FASB issued SFAS No. 123R, "Share Based Payment." This statement is a revision of SFAS No. 123 and supersedes APB 25 and its related implementation guidance. SFAS 123R addresses all forms of share based payment ("SBP") awards including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. Under SFAS 123R, SBP awards result in a cost that will be measured at fair value on the awards' grant date, based on the estimated number of awards that are expected to vest. This statement is effective for public entities that file as small business issuers - as of January 1, 2006. The adoption of this pronouncement is not expected to have a material effect on the Company's financial statements.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections--a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS 154"). This Statement replaces APB Opinion No. 20, "Accounting Changes," and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years

NOTE A - BASIS OF PRESENTATION-(continued)

beginning after December 15, 2005. Consequently, the Company will adopt the provisions of SFAS 154 for its fiscal year beginning July 1, 2006. Management currently believes that adoption of the provisions of SFAS No. 154 will not have a material impact on the Company's consolidated financial statements.

NOTE B - SUBSCRIPTIONS RECEIVABLE

At September 30, 2005 the subscriptions receivable consisted of $57,000 resulting from the sale of shares in a private placement of common stock and $20,000 from the exercise of common stock purchase warrants. All of the subscriptions receivable were paid prior to the issuance of the financial statements and, accordingly, are classified as current assets.

NOTE C - INVENTORIES

Inventories consist of the following at September 30, 2005:

Raw materials	$ 12,000
Work in progress	8,000
	$ 20,000

NOTE D - PROPERTY, EQUIPMENT AND BILLBOARD COOLERS

Property and equipment is summarized as follows at September 30, 2005:

Billboard coolers - on location	$ 737,000
Billboard coolers - not on location	414,000
Billboard cooler parts - not on location	166,000
Furniture and fixtures	36,000
Equipment- office	101,000
Machinery and equipment	133,000
Leasehold improvements	12,000
Truck	11,000
	1,610,000

Less accumulated depreciation	348,000
	$ 1,262,000

Depreciation expense was $34,000 and $6,000 for the three months ended September 30, 2005 and 2004 respectively.

NOTE E - ACCRUED LIABILITIES

At September 30, 2005 the accrued liabilities consisted of officers' salaries of $360,000, payroll taxes withheld of $428,000, accrued payroll taxes of $148,000, accrued penalties and interest on taxes payable of $207,000 and other accrued liabilities of $81,000. As of September 30, 2005 five tax liens have been filed; four Federal tax liens of approximately $292,000 and one state tax lien of approximately $26,000.

NOTE F - DEFERRED PAYABLE

At September 30, 2005, the deferred payable in the amount of $473,000 represented the balance due to a private company for the return and cancellation of all exclusive distribution and marketing rights previously held under a distribution agreement. This amount is payable solely from 5% of the future revenues to be generated by our Global Water-Aquacell subsidiary.

NOTE G - EQUITY TRANSACTIONS

During July 2005 the Company issued 533,333 shares of its common stock in connection with the exercise of 533,333 common stock warrants. Warrants with exercise price ranging from $.75 to $1.00 were repriced to $.30. The Company realized gross proceeds of $160,000 and expenses were $16,000 in connection with the exercise. New common stock purchase warrants were issued for 533,333 shares of common stock exercisable at $.50 per share.

During August 2005 the Company completed a private placement of 900,000 shares of its common stock. The offering consisted of one share of common stock at a price of $.30 per share and one-half common stock purchase warrant exercisable at $.60 per share. The Company received proceeds of $270,000 and there were no expenses incurred.

During August 2005 the Company completed a private placement of 200,000 shares of Series B Convertible Preferred Stock. The offering consisted of 200,000 shares of Class B convertible preferred stock exercisable at $.34 and 50,000 Class B common stock purchase warrants exercisable at $.50 per share. The first year annual dividend of $.08 per share was prepaid in full at the time of the placement. The Series B convertible preferred stock is convertible into he Company's common stock on a share for share basis. In connection with this offering the Company received net proceeds of $52,000 after dividends paid of $16,000. There were no expenses in connection with this offering.

During September 2005 the Company issued an aggregate of 1,841,512 shares of common stock in connection with the exercise of 1,841,512 common stock warrants. Warrants with exercise prices ranging from $.50 to $2.00 were repriced to prices ranging from $.30 to $.45. The Company realized gross proceeds of $653,000 and expenses were $65,000 in connection with the exercises. New common stock purchase warrants were issued for 524,512 shares of common stock exercisable at $.70 per share, 868,333 exercisable at $.50 per share, 365,000 exercisable at $.55 per share and 83,667 exercisable at $.65 per share.

6

AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005 (Unaudited)

NOTE G - EQUITY TRANSACTIONS-(continued)

During September 2005 the Company completed a private placement for 333,333 shares of its common stock. The offering consisted of one share of common stock at a price of $.30 per share and one common stock purchase warrants exercisable at $.50 per share. The Company realized gross proceeds of $100,000 and expenses of the offering amounted to $10,000. In addition the Company issued 13,333 common stock purchase warrants, exercisable at $.50 per share, to the placement agent.

During September 2005 the Company completed a private placement for 150,000 shares of its common stock. The offering consisted of one share of common stock at a price of $.38 per share and one common stock purchase warrant exercisable at $.75. The Company realized gross proceeds of $57,000 and there were no offering expenses.

Increase in Authorized Capitalization

On July 19, 2005 the Board of Directors approved an amendment to the Company's Certificate of Incorporation to permit the Company to issue up to 75,000,000 shares of common stock.

This amendment is subject to stockholder approval.

NOTE H - SPIN-OFF OF SUBSIDIARY

On July 19, 2005 the Board of Directors approved that management reincorporate its Water Science Technologies subsidiary in Delaware and change its name to Aquacell Water, Inc. Furthermore, this subsidiary will undertake to file a Form 10 registration statement with the possibility of spinning this company off to its common stockholders on a share for share basis. However, there is no assurance that this spin-off will occur.

7

AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005 (Unaudited)

NOTE I - OTHER COSTS AND EXPENSES:

Other costs and expenses consisted of the following:

Three Months Ended
September 30,

	2005	2004
Manufacturing expenses - billboard coolers.........	$ 121,000	$ 122,000
Rent..	31,000	30,000
Telephone and utilities..........................	17,000	14,000
Travel..	20,000	21,000
Business promotion.......	24,000	25,000
Consulting, service fees, commissions and expenses.	92,000	24,000
Insurance.......................................	27,000	24,000
Vehicle expenses................................	19,000	22,000
Listing fees....................................	-	28,000
Exchange fees, transfer agent fees and investor fees and expenses.............	39,000	10,000
Office expenses, postage and supplies.............	14,000	10,000
Depreciation and amortization.....................	38,000	6,000
Other expenses..................................	44,000	24,000
	$ 486,000	$ 360,000

NOTE J - INTEREST EXPENSE:

Included in interest expense is penalties and interest on delinquent payroll taxes payable in the amount of $17,000 for the three months ended September 30, 2005 and -0- for the three months ended September 30, 2004.

NOTE K - SEGMENT DATA:

The Company has two reportable segments; water systems and related products and advertising.

The following table presents information about the Company's business segments for the three months ended September 30, 2005:

	Water Systems and Related Products	Advertising	Total
Net revenue...................	$ 149,000	$ 20,000	$ 169,000
Loss from operations...........	$(297,000)	$ (792,000)	$(1,089,000)
Stock based compensation.......	$ 10,000	$ 204,000	$ 214,000
Depreciation and amortization..	$ -	$ 39,000	$ 39,000
Identifiable assets............	$ 804,000	$1,723,000	$ 2,527,000

Segment accounting was not in effect for the three months ended September 30, 2005.

NOTE L - SUBSEQUENT EVENTS

During November 2005 the Company issued an aggregate of 277,845 shares of common stock in connection with the exercise of 277,845 common stock warrants. Warrants with an exercise price of $.70 were repriced to $.40. The Company realized gross proceeds of $111,000 and expenses were $11,000 in connection with the exercises. New common stock purchase warrants were issued for 277,845 shares of common stock exercisable at $.60 per share.

Amendment to 1998 Incentive Stock Plan

On October 10, 2005 the Board of Directors approved an increase in the 1998 Incentive Stock Plan's shares reserved for issuance from 2,000,000 to 3,000,000.

The amendment is subject to stockholder approval.

Employment Contracts

On November 1, 2005 the Company entered into five year employment agreements with three executives of the Company. These agreements provide for aggregate minimum annual salaries of $284,000.

On November 1, 2005 a subsidiary of the company entered into five year employment agreements with these three executive which provide for aggregate minimum annual salaries of $366,000.

Filing of Form 10-SB

On November 8, 2005 the Company filed a Form 10-SB on behalf of its Aquacell Water subsidiary in connection with the proposed spin-off discussed in Note G. There is no assurance that the Form 10-SB will be declared effective or that the contemplated spin-off will be effectuated.

9

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

Forward-Looking Statements

When used in this Form 10-QSB and in future filings by the Company with the Commission, statements identified by the words "believe", "positioned", "estimate", "project", "target", "continue", "will", "intend", "expect", "future", "anticipates", and similar expressions express management's present belief, expectations or intentions regarding the Company's future performance within the meaning of the Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on any such forward-looking statements, each of which speaks only as of the date made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company has no obligations to publicly release the result of any revisions that may be made to any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements.

Overview

The following discussions and analysis should be read in conjunction with the Company's consolidated financial statements and the notes presented following the consolidated financial statements. The discussion of results, causes and trends should not be construed to imply any conclusion that such results or trends will necessarily continue in the future.

AquaCell Technologies, Inc. has two subsidiaries operating in two separate industries. Our AquaCell Media, Inc. subsidiary addresses the out-of-home segment of the advertising industry through the sale of advertising on our patented self-filling water cooler, the Aquacell Bottled Water Cooler System. This business model was launched in 2004, designed to provide us with an on-going revenue model in comparison to selling the coolers, as we had previously done. We install our "billboard" water coolers into retail and other strategic locations free of charge to these locations under five-year contracts, and retain ownership of the cooler. We currently have approximately 1400 coolers installed in Rite Aid and Duane Reade drug stores, and have test programs underway in CVS, Kmart/Sears and Winn Dixie. Advertisers to date have been CBS Television and Unilever, who reported a 34% sales lift of its advertised Dove Cooler Moisture in stores carrying the cooler ads.

Our Aquacell Water, Inc. subsidiary addresses the municipal, industrial, commercial and institutional sectors of the water treatment and purification industry. We design, manufacture, install and service customer designed turnkey systems that treat from hundreds to millions of gallons of water per day for a variety of applications, including treatment of process water for manufacturing, purification of water for bottling plants and food service, and removal of contaminants from municipal drinking water systems. Our customers range from manufacturers of micro-chips, textiles and food and beverage service, to health care providers, defense contractors and the military. The management team of our Aquacell Water subsidiary has over 50 years combined experience in the water treatment industry.

We have restructured our Aquacell Water subsidiary and brought in a new operational management team. As a result of focusing our efforts on the restructuring process, sales for the quarter declined; however, subsequent to the end of the quarter we have received orders and currently have a backlog, as discussed in the Liquidity and Capital Resources section of this discussion.

10

Critical Accounting Policies

The accompanying discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The preparation of these condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We base our estimates and judgments on historical experience and all available information. However, future events are subject to change, and the best estimates and judgments routinely require adjustment. US GAAP requires us to make estimates and judgments in several areas, including those related to recording various accruals, income taxes, the useful lives of long-lived assets, such as property and equipment and intangible assets, and potential losses from contingencies and litigation. We believe the policies discussed below are the most critical to our condensed consolidated financial statements because they are affected significantly by management's judgments, assumptions and estimates.

Goodwill:

Goodwill represents the excess of the purchase price over the fair value of net assets of a business acquired. The Company has adopted Statements of Financial Accounting Standards No. 142 (SFAS 142), "Goodwill and Other Intangible Assets". The Company operates as a single integrated business, and as such has one operating segment which is also the reportable unit. Fair value of the reporting unit is determined by comparing the fair value of the unit with its carrying value, including goodwill. Impairment tests are performed using discounted cash flow analysis and estimates of sales proceeds. The annual evaluation of goodwill is performed at June 30th, the end of the Company's fiscal year.

Income taxes:

The Company accounts for income taxes using the asset and liability method described on 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 at 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 no that some portion or all of the deferred tax assets will not be realized.

Long-lived assets:

The Company accounts for the impairment and disposition of long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets." In accordance with SFAS No. 144, long-lived assets to be held are reviewed whenever events or changes in circumstances indicate that their carrying value may not recoverable. The Company periodically reviews the carrying value of long-lived assets to determine whether or not an impairment to such value has occurred, and has determined that as of June 30, 2004 that impairment, where appropriate, was recorded in the financial statements.

New Accounting Pronouncements:

In December 2004, the FASB issued SFAS NO. 123R, "Share Based Payment." This statement is a revision of SFAS No. 123 and supersedes APB 25 and its related implementation guidance. SFAS 123R addresses all forms of share based payment ("SBP") awards including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. Under SFAS 123R, SBP awards result in a cost that will be measured at fair value on the awards' grant date, based on the estimated number of awards that are expected to vest. This statement is effective for public entities that file as small business issuers - as of January 1, 2006. The adoption of this pronouncement in not expected to have a material effect on the Company's financial statements.

Results of Operations

During the three months ended September 30, 2005 on a consolidated basis, revenues were $169,000 as compared to $199,000 for the similar period of the preceding year, and cost of sales was 76% for the three months ended September 30, 2005 as compared to 62% for the same period of the prior year. The decrease in sales is primarily attributable to the restructuring of our Aquacell Water subsidiary during the quarter, putting a new management team in place. The increase in cost of sales percentage resulted from spreading manufacturing cost over a decreased sales volume.

Net loss on a consolidated basis, attributable to common stockholders, for the three months ended September 30, 2005 increased to $1,146,000 as compared to $877,000 for the same period of the prior year.

Salaries and wages increased by $97,000 for the three months ended September 30, 2005 over the prior year resulting primarily from severance pay to a former executive of Aquacell Water in the amount of $25,000 and the increase in payroll resulting from hiring a new management team for the Aquacell Water subsidiary in the approximate amount of $65,000 for the three months ended September 30, 2005. Legal, accounting and other professional expenses decreased by approximately $7,000 for the three months ended September 30, 2005. Stock based compensation decreased by $28,000 to $214,000 for the three months ended September 30, 2005 resulting from a direct write-off of certain warrants at the end of the prior year. Other selling, general and administrative expenses, increased by approximately $126,000 to $486,000 for the three months ended September 30, 2005. Current period expenses consisted primarily of manufacturing expenses-billboard coolers- $121,000, rent- $31,000, telephone and utilities- $17,000, travel- $20,000, business promotion- $24,000, consulting and service fees, commissions and expenses- $92,000, insurance- $27,000, and vehicle expenses- $19,000.

Liquidity and Capital Resources

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 $1,221,000 through the exercise of warrants to purchase common shares and private placements of its common and preferred B shares during the three months ended September 30, 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. The Company has brought in new management to our Aquacell Water subsidiary and they are expanding the business with a current backlog of approximately $439,000.

Cash used by operations during the three months ended September 30, 2005 amounted to $909,000. Net loss of $1,121,000 was reduced by non-cash stock based compensation in the amount of $214,000 and depreciation and amortization of $39,000. Cash used by operations was further increased by a decrease in accounts payable in the amount of $205,000. Net loss was further decreased by an increase in accrued liabilities of $150,000 and by net changes in prepaid expenses, accounts receivable, customer deposits, and inventories aggregating $14,000.

Cash used by investing activities during the three months ended September 30, 2005 represented capital expenditures in the amount of $85,000 primarily for billboard coolers.

Cash provided by financing activities was approximately $1,175,000. Proceeds from private placements of common and preferred B stock amounted to $438,000. Proceeds from exercise of common stock purchase warrants amounted to $813,000. Proceeds from subscriptions receivable were $91,000. Expenses of our equity raises amount to $30,000, a loan was repaid to a related party in the amount of $100,000 and dividends were paid on the Class B preferred stock in the amount of $37,000.

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 $12,569,000 if exercised. As of September 30, 2005 424,000 warrants generating $613,000 were in the money and 7,768,000 warrants generating $11,956,000 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 September 30, 2005 five tax liens have been filed; two Federal tax liens against the Company in the amount of $98,000, a Federal tax lien against an inactive subsidiary in the amount of $76,000, a Federal tax against another subsidiary in the amount of $118,000 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 2 (C). SALES OF UNREGISTERED SECURITIES

During the quarter ended September 2005 the Registrant sold 900,000 shares of common stock in a Private Placement to 4 accredited investors pursuant to the exemption provided by Regulation D, Rule 505, and Section 4(2) of the Securities Act of 1933, as amended. Common Stock Purchase Warrants were issued to the investors at an exercise price of $.60. In addition the Registrant sold 333,333 shares of common stock in a private placement to 1 accredited investor pursuant to the exemption provided by Regulation D, Rule 505, and Section 4(2) of the Securities Act of 1933, as amended. Common Stock Purchase Warrants were issued to the investors at an exercise price of $.50 per share. In addition the Registrant sold 150,000 shares of common stock to 1 accredited investor pursuant to the exemption provided by Regulation D, Rule 505, and Section 4(2) of the Securities Act of 1933, as amended. Common Stock Purchase Warrants were issued to the investor at an exercise price of $.75. In addition the Registrant sold 200,000 shares of Class B Preferred stock in a Private Placement to 1 accredited investor pursuant to the exemption provided by Regulation D, Rule 505, and Section 4(2) of the Securities Act of 1933, as amended. Class B Common Stock Purchase Warrants were issued to the investor at an exercise price of $.50. In addition, the Registrant sold 2,374,845 shares of common stock upon exercise of Common Stock Purchase Warrants to 9 accredited investors pursuant to the exemption provided by Regulation D, Rule 505, and Section 4(2) of the Securities Act of 1933 as amended. New Common Stock Purchase Warrants were issued to the investors at exercise prices ranging from $.50 to $.70.

ITEM 3. CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this Report the Company carried out 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 Rule 13a-14 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 subsequent to the date of their evaluation.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

NONE.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A. Exhibits.

31.1 CEO's Certification Pursuant to Rule 13a-14(a)/ 15d-14(a)

31.2 CFO's Certification Pursuant to Rule 13a-14(a)/ 15d-14(a)

32.0 Certification Pursuant to 18 U.S.C. Section 1350

B. Reports on Form 8-K.

None.

SIGNATURE

In accordance with the requirements of the Exchange Act, the Registrant caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

AquaCell Technologies, Inc.

Registrant

Date: November 14, 2005

/s/ Gary S. Wolff

Name: Gary S. Wolff
Title: Chief Financial Officer