KONA GRILL INC
Form 8-K
May 03, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 8-K
CURRENT REPORT PURSUANT
TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
May 2, 2006
Date of Report (Date of earliest event reported)
KONA GRILL, INC.
(Exact Name of Registrant as Specified in Charter)

Delaware	**000-51491**	**20-0216690**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

7150 East Camelback Road, Suite 220
Scottsdale, Arizona 85251
(Address of Principal Executive Offices) (Zip Code)
(480) 922-8100
(Registrant s telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

KONA GRILL, INC.
FORM 8-K
CURRENT REPORT

Item 2.02. Results of Operations and Financial Condition.

On May 2, 2006, Kona Grill, Inc. issued a press release reporting financial results for the first quarter ended March 31, 2006. A copy of this press release, including information concerning forward looking statements and factors that may affect our future results, is attached hereto as Exhibit 99.1 and is hereby incorporated by reference in this Item 2.02.

The information in this Report on Form 8-K (including the exhibit) is furnished pursuant to Item 2.02 and shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section.

The registrant does not have, and expressly disclaims, any obligation to release publicly any updates or any changes in the registrant s expectations or any change in events, conditions, or circumstances on which any forward-looking statement is based.

Item 9.01. Financial Statements and Exhibits.

(a) *Financial Statements of Business Acquired.*

Not applicable.

(b) *Pro Forma Financial Information.*

Not applicable.

(c) *Exhibits.*

99.1 Press release from Kona Grill, Inc. dated May 2, 2006 entitled, Kona Grill Reports First Quarter Results

SIGNATURES

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

Date: May 3, 2006	KONA GRILL, INC.
	By: /s/ Mark S. Robinow
	Mark S. Robinow Executive Vice President, Chief Financial Officer, and Secretary

EXHIBIT INDEX

Exhibit Number	Description
99.1	Press Release from Kona Grill, Inc. dated May 2, 2006 entitled, Kona Grill Reports First Quarter Results

the selling securityholders, have employed an underwriter for the sale of common stock by the selling securityholders. The selling securityholders have advised us that they have not entered into any agreements, understandings or arrangements with any underwriters or broker-dealers regarding the sale of their securities, nor is there an underwriter or coordinating broker acting in connection with the proposed sale of the shares by the selling securityholders. We will not receive any proceeds from the subsequent sale of the shares of common stock. We will bear all expenses in connection with the preparation of this prospectus and registration of the shares. The selling securityholders will bear brokerage commissions and similar selling expenses associated with the sale of their common stock. If any shares of common stock being registered for resale in the accompanying registration statement are transferred from the selling stockholders listed in this prospectus and such transferees wish to rely on this prospectus to resell these shares, then a prospectus supplement or, if appropriate, a post-effective amendment to the registration statement of which this prospectus is a part, would need to be filed with the Securities and Exchange Commission naming these individuals as selling shareholders. The selling securityholders may offer their shares of common stock from time to time directly or through pledgees, donees, transferees or other successors in interest in one or more of the following transactions (which may include block transactions): o On any stock exchange or automated quotation system on which the shares of common stock may be listed at the time of sale; o In negotiated transactions; o In the over-the-counter market; o Put or call option transactions relating to the shares; o Short sales relating to the shares; or 19 o In a combination of any of the above transactions. The selling securityholders may offer their shares of common stock at any of the following prices, which may reflect discounts from the prevailing market prices at the time of sale: o Fixed prices that may be changed; o Market prices prevailing at the time of sale; o Prices related to such prevailing market prices; o At negotiated prices; or o Varying prices determined at the time of sale. The selling securityholders may effect such transactions by selling shares directly to purchasers or to or through broker-dealers, which may act as agents or principals. Such broker-dealers may receive compensation in the form of discounts, concessions, or commissions from the selling securityholders and/or the purchasers of shares of common stock for whom such broker-dealers may act as agents or to whom they sell as principals, or both (which compensation as to a particular broker-dealer might be in excess of customary commissions). Any broker-dealer acquiring common stock from the selling securityholders may sell the shares either directly, in its normal market-making activities, through or to other brokers on a principal or agency basis or to its customers. Any such sales may be at prices then prevailing on the OTCBB or at prices related to such prevailing market prices or at negotiated prices to its customers or a combination of such methods. The selling securityholders and any broker-dealers that act in connection with the sale of the common stock hereunder might be deemed to be "underwriters" within the meaning of Section 2(11) of the Securities Act of 1933, as amended; any commissions received by such broker-dealers and any profit on the resale of shares sold by them as principals might be deemed to be underwriting discounts and commissions under the Securities Act of 1933, as amended. The selling securityholders may agree to indemnify any agent, dealer or broker-dealer that participates in transactions involving sales of the shares against certain liabilities, including liabilities arising under the Securities Act of 1933, as amended. Because selling securityholders may be deemed to be "underwriters" within the meaning of Section 2(11) of the Securities Act of 1933, as amended, the selling securityholders will be subject to the prospectus delivery requirements of such Act. The selling securityholders also may resell all or a portion of the shares in open market transactions in reliance upon Rule 144 under the Securities Act of 1933, as amended, provided they meet the criteria and conform to the requirements of such Rule. If we are notified by a selling stockholder that any material arrangement has been entered into with a broker-dealer for the sale of the shares through a block trade, special offering, exchange distribution or secondary distribution or a purchase by a broker or dealer, we will file a post-effective amendment to the registration statement of which this prospectus is a part under the Securities Act of 1933, as amended, disclosing: o the name of each such selling stockholder and of the participating broker-dealer(s); o the number of shares involved; o the price at which such shares were sold; o the commissions paid or discounts or concessions allowed to such broker-dealer(s), where applicable; 20 o that such broker-dealer(s) did not conduct any investigation to verify the information set out or incorporated by reference in this prospectus; and o other facts material to the transaction. Except for Canaccord Capital Corporation, John J. Clark and Jeffrey R. Power, none of the selling securityholders is a broker-dealer or an affiliate of a broker-dealer. Mr. Clark is a principal of Baldwin & Clarke Capital Markets. Mr. Power is an employee of Detwiler Mitchell Felton & Graves, a Boston-based broker-dealer firm. There can be no assurance that the selling securityholders will sell any or all of the shares offered by them under this prospectus. BUSINESS THE COMPANY Water Chef designs and markets water purification equipment. Water coolers and filters were a substantial part of the Company's business from 1993 until the fourth quarter of 2001, at which time this business was sold so that Water Chef could concentrate on the further development, manufacturing, and marketing of their patented line of "PureSafe" water purification systems. The accompanying financial statements have been prepared assuming the Company will continue as a going concern. To date, the Company has shipped 21 PureSafe units. Revenue has been recognized on only 3 PureSafe units, as 18 units that were shipped to the Kingdom of Jordan have not met the criteria for revenue recognition due to no reasonable assurance of collectibility. BACKGROUND The Company was originally incorporated under Arizona law in 1985 and merged into a Delaware corporation in 1987. In 1993 the Company, then known as Auto Swap, U.S.A., entered into a reverse merger with Water Chef, Inc., a Nevada corporation, which manufactured and marketed water coolers and filters. PRODUCTS In 2001, the Company decided to concentrate its efforts on the further development, manufacturing and marketing of the PureSafe since Water Chef believed that its water dispensers and its wide variety of consumer oriented water filtration products met or exceeded the design, quality and performance of competitive products. Market considerations were such, however, as to limit opportunities for profit and growth. In 1998, searching for a "killer application," Water Chef management focused on the worldwide need for safe drinking water for populations who are not served by municipal water treatment facilities, or are served by municipal systems that have malfunctioned because of improper maintenance or faulty design. The result of that activity is the PureSafe Water Station, a turn-key unit that converts "gray," or bathing grade, water into EPA grade drinking water. The PureSafe eliminates all living pathogens that pollute non-processed water - bacteria, cysts, viruses, parasites, etc. - at an affordable cost for the emerging economies of the world. The PureSafe was tested by H2M Labs, Inc. which has been approved by Nassau and Suffolk counties in New York to perform drinking water testing for the various municipalities in those counties. The specific test performed was a total and fecal coliform bacteria test, wherein the source water storage tank which feeds the PureSafe was tested for the presence of total and fecal coliform bacteria. The source water tank was found to have 50 colonies of coliform bacteria present. The source water tank was then "spiked" with a three (3) liter concentration of laboratory grown and cultured bacteria and the storage tank was measured again with 80,000,000 colonies of bacteria detected. After being processed through the PureSafe system, the water was tested again, and "FEWER THAN 2 COLONIES" were detected. In addition to the laboratory test conducted for Water Chef by H2M Labs, the available scientific literature, in industry journals such as Water Technology and Water Conditioning and Purification International, supports the statement that an ozone system such as the one 21 utilized in the PureSafe effectively eliminates all living pathogens. Ozone was first used in municipal water treatment in Nice, France in 1904, and then in the Jerome Park Reservoir in the Bronx, New York in 1906. The PureSafe is a self-contained, six stage water purification center. It is housed in the equivalent of a small storage container - approximately four feet wide, seven feet long, and six and one-half feet high. The unit weighs approximately eleven hundred pounds (without water) and has been configured for portability, durability, and easy access to its essentially off-the-shelf components. It is constructed with weather and UV resistant fiberglass, aluminum and steel, and is equipped with internal and external lighting. The core version of the PureSafe can purify and dispense up to 15,000 gallons of water per day for an all-inclusive cost (labor, power, amortization of the capital cost, replacement filters, cartridges and media) of approximately one-half cent per gallon. The process wastes very little water, producing approximately one gallon of pure drinking water for every gallon processed. The unit can be moved with a single fork-lift and is transportable by truck or helicopter. Operating the PureSafe is simple and straightforward. Due to its turn-key design, minimum wage personnel can be trained to operate the unit. A system of fail-safes is built into the operation, and aside from easily installable spares such as filters and cartridges, a maintenance and oversight program established by Water Chef should maintain the operating efficiencies built into the system. Water Chef warrants each unit for a period of one year so long as the consumer adheres to required maintenance protocols, using Water Chef supplied parts, as prescribed in the maintenance manual. The Company also offers larger versions of the PureSafe to provide pure water in quantities up to 5,000 gallons per hour. To date, there have been no warranty claims for the PureSafe product operating in the field. Water Chef also plans to have periodic inspections of installed equipment by the Company's agents. MANUFACTURING In 2000, the Company entered into a subcontracting agreement with Davis Aircraft Products Inc, ("Davis") for the manufacture of the PureSafe. Based upon the experience and the resources of Davis, Water Chef's management believes that Davis can provide the production and manufacturing support services necessary to supply Water Chef's requirements over the foreseeable future at a price, and with the quality and performance standards necessary to meet, or exceed, the needs of the markets that the Company expects to serve. In addition, Davis supervises much of the Company's research and development activities. RAW MATERIALS The PureSafe has been designed to use, for the most part, readily available off-the-shelf components, sub-systems and equipment. Inasmuch as each of the components and sub-systems are available from multiple vendors, the Company does not believe that obtaining these for its sub-contractor, for itself, or for others if it chooses to manufacture elsewhere, will be a problem. COMPETITION Water Chef's modular, turn-key PureSafe Water Station directly addresses the drinking water needs of those environs which do not today, and are unlikely to, enjoy access to municipally treated water. The Company has produced a turnkey solution that produces pure water to meet U.S. EPA drinking water standards. This is a far different market than that addressed by the segment of the industry that has concentrated on the multi-billion dollar municipal water treatment sector, or the equally large residential sector. The municipal solution requires significant investment for infrastructure development (building plants and laying miles of distribution pipes), and products for residential markets do not offer the performance or features to meet the needs of the underdeveloped nations of the world. Management does recognize that its potential competitors have far more resources, and that being first to the marketplace is no assurance of success. It must be assumed that others are working on systems that, if successfully brought to market, could seriously impact the viability of the company. The Company currently has contracts to sell PureSafe units in Laos and Ecuador. In addition, the Company is actively marketing its products to potential customers in Bangladesh, China, El Salvador, Egypt and Honduras, and to agencies and departments of the U.S. Government. 22 MARKETING The potential market for the PureSafe is substantial and is both worldwide and domestic. According to studies performed by the World Health Organization (WHO) and the United Nations, major parts of Africa, the Middle East, Southeast Asia, the Indian sub-continent, Latin and South America, the Caribbean, and much of Eastern Europe is in need of adequate supplies of pure water. Parts of Florida, Georgia, and other regions in the United States have also reported fresh water deficits. In part, solving this problem has been a question of appropriate technology. Secondarily, but just as important, in a vast part of the world is the need to secure third party financing so that the local populace can enjoy the benefits of clean water. Water Chef believes that it has demonstrated that it possesses the technology. The Company also believes that financing is available for third world economies from a variety of sources. The challenge for the Company, a virtual unknown in the industry and with limited capital, is in getting its message in front of decision makers. To this end, Water Chef has enlisted the aid of some of the world's most outstanding experts in water purification, especially as it relates to the needs of underdeveloped countries. The Company's Scientific Advisory Board is chaired by Dr. Ronald Hart, former Director of The National Center for Toxicological Research and a U.S. Food and Drug Administration "Distinguished Scientist in Residence." The Board also includes Dr. Mohamed M. Salem, Professor of Occupational and Environmental Medicine, Cairo University; Dr. Richard Wilson, Mallinckrodt Research Professor of Physics, Harvard University; Dr. Mostafa K. Tolba, former Under-Secretary-General of the United Nations and Director of the U.N.'s Environmental Program; and Lord John Gilbert, former Minister of State for Defense for the United Kingdom under three Prime Ministers and Secretary/Treasurer of the Tri-Lateral Commission. Not only have the members of the Scientific Advisory Board provided valuable input and guidance to the Company with respect to system design, technological input, remediation approaches and a great deal of information relative to the unique water problems facing many areas of the world, but they have also been active in introducing Water Chef to commercial opportunities During 2004 Water Chef established a relationship with the International Multiracial Shared Cultural Organization (IMSCO), an NGO (non-governmental organization) specialized with the Economic and Social Council of the United Nations. As a result of this relationship Water Chef has received United Nations certification for its pure water humanitarian projects in Honduras and Bangladesh, and became eligible to apply for third party funding of these projects. As of year-end 2004, the Company has submitted these projects for funding approval, but has received no assurance of funding. With the recent funding of the Homeland Security Department budget, and a renewed focus on preparedness in the event of possible future terrorist attacks in the United States, programs have been initiated to ensure the protection and preservation of our water resources. Water Chef has been in discussion with political and government contacts to explore the applications for the PureSafe as a back-up drinking water system in case of damage to municipal systems. The Company has also initiated contact with senior government personnel to explore the use of our technology to safeguard water supplies at U.S. installations overseas. PATENTS The Company filed for patent protection on its PureSafe Water Station in October of 1998 and received formal notification that the patent had been issued on February 19, 2002. The Company feels that this patent upholds the claims that the PureSafe system is a unique product. In addition to its U.S. patent, the Company has filed for patent protection in the countries of the European Union, and in Canada, Mexico, China, Hong Kong, Korea and Japan. The patent application for the European Union (01-126 980.0) was filed on November 13, 2001; Canadian Application No. 2,362,107 was filed on November 3, 2001; Mexican Application No. PA/a/2001/12042 was filed on November 23, 2001;the Chinese Application No. 01136187.5 was filed on November 21, 2001, and was found to be in compliance on June 20, 2003; the Hong Kong Application No. 03107837.9 was filed on October 3, 2003; and the Korean Patent Application No. 10-2001-0070453 was filed on November 20, 2001. Each of the patent applications 23 has been accepted, Requests for Examination have been made, and the Company currently has patent protection in the requested venues. The name PureSafe Water Station and the stylized water droplet mark have been trademarked in the United States. Water Chef has also incorporated patented and proprietary technology in the PureSafe and is confident that it can protect this intellectual capital throughout the manufacturing and distribution cycle. There can be no assurance that any application of the Company's technologies will not infringe patent or proprietary rights of others, or that licenses which might be required for the Company's processes or products will be available on favorable terms. Furthermore, there can be no assurance that challenges will not be made against the validity of the Company's patent, or that defenses instituted to protect against patent violation will be successful. SEASONALITY The Company does not expect the Pure Safe to be influenced by seasonality. GOVERNMENT APPROVALS The Company's marketing efforts to date have been directed to Central and South America, the Asian sub-continent, and the Middle East. No specific government approvals are required, except for the possibility that export licenses will be required in specific instances. RESEARCH AND DEVELOPMENT Research and development takes place at the Company's office. Testing, modeling, simulation and prototype manufacturing are outsourced with much of the ongoing development taking place at the Company's contract manufacturing facilities under the supervision of Davis Water Products. The Company estimates to date that the design, prototyping, development and marketing of the PureSafe Water Station has cost in excess of $2 million. INSURANCE The Company maintains a $1,000,000 umbrella policy, in addition to a $2,000,000 general and product liability policy, which covers the manufacture and marketing of its products. The Company believes its insurance coverage to be adequate. EMPLOYEES As of March 31, 2005, the Company employed one executive officer and two administrative personnel in its headquarters. The Company believes there is a sufficient number of persons available at prevailing wage rates in or near our manufacturing locations that should expansion of its production require additional employees, they would be readily available. The Company has no collective bargaining agreement with any of its employees. DESCRIPTION OF PROPERTY The Company presently has no owned or leased manufacturing facilities, nor does the Company have a plan to acquire its own manufacturing facility. The PureSafe Water Station is manufactured for the Company under a contract by Davis Water Products. The Company maintains its principal place of business at 1007 Glen Cove Avenue, Suite 1, Glen Head, New York 11545. The company leases 1,100 square feet in such building at $2,475 per month on a month-to-month basis. 24 To the extent possible the Company intends to utilize leased space for its future needs. LEGAL PROCEEDINGS In May 2001, the Company entered into a distribution agreement with a company (the "Sub Distributor") based in Jordan. The Sub Distributor has agreed to purchase no fewer than 100 units of the Company's "Pure Safe Water Station" during 2001 and a minimum of 50 units in each of 2002 and 2003. To date, the Company has shipped 20 PureSafe units. Revenue has been recognized on only 2 PureSafe units as 18 units which were shipped to the Kingdom of Jordan have not met the criteria for revenue recognition due to no reasonable assurance of collectibility. The Company has recorded the cost of the inventory shipped as a loss contingency of $242,035 during the year ended December 31, 2001, since return of the items is uncertain. The Company has engaged legal counsel in Jordan, to pursue legal remedies and obtain payment for all units shipped. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS As of March

31, 2005, the Company's Directors, Executive Officers and Scientific Advisory Board Members are: Name Age Position(s) with the Company David A. Conway 63 Director, Chairman, President, Chief Executive Officer and Chief Financial Officer John J. Clarke ++ 63 Director Ronald W. Hart + 62 Chairman, Scientific Advisory Board Mohamed M. Salem + 53 Scientific Advisory Board Marshall S. Sterman++ 73 Director Richard Wilson + 79 Scientific Advisory Board Mostafa K. Tolba + 83 Scientific Advisory Board Lord John Gilbert + 79 Scientific Advisory Board + Members of the Scientific Advisory Board will receive an honorarium, in the form of cash or common stock, for their service at the discretion of the Board of Directors. ++ Member of Audit Committee and Compensation Committee. DAVID A. CONWAY Mr. Conway was elected to the Board in 1997 and joined the Company as President and Chief Executive Officer in 1998. Previously, he held the positions of 25 President and COO of a privately held public relations and marketing company; Director and VP Administration of KDI Corporation (NYSE); VP Administration Keene Corporation (NYSE) and earlier positions with CBS and Goldman Sachs & Co. Mr. Conway, who served as an infantry officer in the US Army, holds undergraduate and graduate degrees from Fordham University and is listed in Who's Who in America. JOHN J. CLARKE John J. Clarke rejoined the Water Chef Board of Directors in March 2004. Mr. Clarke had previously served as a member of the Company's Board of Directors from July 1997 to February 2000 when he resigned from the Board due to his heavy workload. Mr. Clarke is a Principal and co-founder of the Baldwin and Clarke Companies, a diversified financial services organization, and is a founding director of two New Hampshire commercial banks. Mr. Clarke currently serves as a Director of Centrix Bank. RONALD W. HART (PH.D.) Dr. Hart agreed to form the Board of Scientific Advisors in 2000 and became Chairman at that time. Dr. Hart is an internationally recognized scientist and scholar who was Director of the National Center for Toxicological Research and was named "Distinguished Scientist in Residence" by the US Food and Drug Administration in 1992. Recognized for his pioneering work on aging and his studies on nutrition and health, Dr. Hart has been appointed visiting professor at a number of universities, including Cairo University, Seoul National University and Gangzhou University. He received his doctorate in physiology and biophysics from the University of Illinois. MOHAMED M. SALEM (MD/PH.D.) Dr. Salem was appointed to the Scientific Advisory Board in early 2001. Dr. Salem is Professor of Occupational and Environmental Medicine at the Kasr El-Aini School of Cairo University. An internationally recognized expert on the health effects of environmental and water contaminants including pesticides, lead and other metals, Dr. Salem is credited with establishing infectious disease control programs at medical centers and other public entities throughout the Middle East. Dr. Salem is a principal of Salem Industries, an import and export company, which is one of the leading suppliers of chemicals and oil field equipment in the Middle East. Dr. Salem holds both an M.D. and Ph.D. from Cairo University. MARSHALL S. STERMAN Mr. Sherman was elected to the Board in 2000. Mr. Sterman is President of the Mayflower Group, a Massachusetts based merchant bank. He previously served as managing partner of Cheverie and Company and MS Sterman & Associates, merchant banking firms and principal of Sterman & Gowell Securities, an investment banking and securities firm. Mr. Sterman served as an officer in the US Navy and holds his BA from Brandeis University and his MBA from Harvard University. RICHARD WILSON (Ph.D.) Dr. Wilson was appointed to the Scientific Advisory Board in February 2001. Dr. Wilson is the Mallinckrodt Research Professor of Physics at Harvard University. Dr. Wilson is one of the foremost scientific authorities in the fields of water quality remediation and purification, and is currently Professor of the Energy Research Group at the University of California. Dr. Wilson is a member of the Advisory Board of the Atlantic Legal Foundation, and is one of the principal scientists studying the resolution of the water problems in Chernobyl and in Bangladesh where toxic levels of arsenic contaminate the water supply. Dr. Wilson holds his Ph.D. from Oxford University. MOSTAFA K. TOLBA (Ph.D.) Dr. Tolba joined the Scientific Advisory Board in June 2001. Dr. Tolba served as Under-Secretary-General of the United Nations, and Executive Director of the 26 United Nations Environmental Program from 1976 to 1992. Dr. Tolba is currently President of the International Center for Environment and Development headquartered in Geneva, Switzerland, and Emeritus Professor of Science at the Kasr El-Aini School of Medicine at Cairo University. He received his Ph.D. in Macrobiology from Imperial College, London, England. LORD JOHN GILBERT (Ph.D.) Lord John Gilbert joined the Scientific Advisory Board in 2001. Lord Gilbert served as Minister of State for Transportation, Minister of State for Finance, and as Minister of State for Defense in the United Kingdom under three Prime Ministers. Lord Gilbert is Secretary/Treasurer of the Tri-Lateral Commission and a member of the House of Lords. He was educated at Marchant Taylors' School and St. John's College, Oxford, and holds a Ph.D. in International Economics and Statistics from New York University. Marshall S. Sterman and John J. Clarke are the members of the Company's Audit Committee. The Board of Directors has determined that Mr. Sterman is an "audit committee financial expert" as defined in Item 401(h) of Regulation S-B. EXECUTIVE COMPENSATION SUMMARY COMPENSATION TABLE Name and Principal Long Term Position Annual Compensation Compensation -------------------- ------------------------------ --------------------------------- Securities Restricted Underlying All Other Annual Stock Options/ Other Salary Bonus Compensation Award(s) SARs Compensation Year ($) ($) ($) ($) (#) ($) ---- ------ ----- ----------- -------- -------- -------- David A. Conway 2004 $303,750 -- -- -- 5,000,000 -- President/CEO 2003 $165,000 -- -- -- -- -- 2002 $165,000 -- -- -- -- -- Option/SAR Grants in Last Fiscal Year The following table sets forth information regarding common stock appreciation rights made to the named executive officers and directors during fiscal 2004: Number of Securities Percent of Total SARs Underlying SARs Granted to Employees Exercise or Base Name Granted # In Fiscal Year Price ($/Sh) Expiration Date ------------------ --------- ------------- ----------- -------------- David A. Conway 5,000,000(1) 83% $0.25 January 31, 2009 Marshall S. Sterman 1,000,000(2) 17% $0.25 January 31, 2006 -------------------------- (1) These SARs were originally granted as stock options on January 1, 2004 and were converted to stock appreciation rights in November, 2004. These SARs vest 20% on each anniversary of such grant. 27 (2) These SARs were originally granted as stock options on January 1, 2004 and were converted to stock appreciation rights in November, 2004. These SARs vest 50% on each anniversary of such grant. The Company has no Long-Term Incentive Plans at this time. DIRECTORS' COMPENSATION Directors of the Company do not receive cash compensation for serving as members. They are reimbursed for their out of pocket expenses related to meetings and other Company related activity for which they are called upon. In the past certain directors have received common stock for service to the Company. Beginning on January 1, 2002, Mr. Sterman was compensated at the rate of $6,000 per month for consulting services performed for the Company. The Company may pay for these services in cash or stock, and may terminate these services at its option. The Company's directors have been paid success fees for helping the Company in various equity and debt financings in previous years. These payments have been both in cash and common stock, such payments being made based on industry-wide standards and arms-length transactions. EMPLOYMENT AGREEMENTS Mr. Conway entered into a five-year employment agreement in January 2004. The agreement provides for base salary of $350,000 per year, participation in the company's employee benefit programs and a life insurance policy in the amount of $5,000,000. In addition Mr. Conway was granted a stock appreciation right, vesting at 20% per year for five years, for 5,000,000 shares of Water Chef common stock at a strike price of $0.25 per share. Mr. Conway was originally granted stock options in January 2004, that were later converted to stock appreciation rights in November 2004. LIMITATION OF LIABILITY AND INDEMNIFICATION MATTERS The Company's amended and restated certificate of incorporation and bylaws eliminate, in certain circumstances, the liability of Directors for breach of their fiduciary duty. This provision does not eliminate the liability of a Director (i) for breach of the Director's duty of loyalty to the Company or its stockholders (ii) for acts of omissions by the director not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) for willful or negligent declaration of an unlawful dividend, stock purchase or redemption; (iv) for transactions from which the Director derived an improper personal benefit; or (v) for any act or omission occurring prior to the effective date of the amended and restated certificate of incorporation. The Company's amended and restated certificate of incorporation provides generally for indemnification of the Directors and Officers to the full extent permitted under Delaware law, and permits indemnification for all other persons whom the Company is empowered to indemnify. These provisions do not limit or eliminate our rights or those of any stockholder to seek non-monetary relief, such as an injunction or rescission, in the event of a breach of a Director's fiduciary duty. These provisions will not alter a Director's liability under federal securities laws. Our amended and restated bylaws also contain provisions indemnifying our directors and officers to the fullest extent permitted by the Delaware General Corporation Law. We believe that these provisions are necessary to attract and retain qualified individuals to serve as Directors and officers. Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") may be permitted to Directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. 28 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT Set forth below is information as of March 31, 2005, concerning stock ownership of all persons known by the Company to own beneficially 5% or more of the issued and outstanding common stock of the Company, all Directors, all Executive Officers, and all Directors and Executive Officers of the Company as a group based on the number of shares of common stock issued and outstanding as of March 31, 2005. For purposes of the Memorandum, beneficial ownership is defined in accordance with the Rules of the Securities and Exchange Commission and generally means the power to vote and/or dispose of the securities regardless of any economic interest. Series C Common Stock Series A Convertible Series D Series F Convertible Beneficially Owned(1) Preferred Stock Preferred Stock Preferred Stock Preferred Stock Beneficially Beneficially Beneficially Beneficially Owned(1) Owned(1) Owned(1) Owned(1) SHARES % SHARES % SHARES % SHARES % SHARES % ------ --- ------ --- ------ --- ------ --- ------ --- David A. Conway(2)(3) 25,110,782 15.8% -- -- -- -- -- -- -- -- Water Chef, Inc. 1007 Glen Cove Ave., Suite 1 Glen Head, NY 11545 Marshall S. Sterman 1,450,000 * -- -- -- -- -- -- -- -- 46 Neptune Street Beverly, MA 01915 John J. Clarke 1,500,000 * -- -- -- -- -- -- -- -- 116B S. River Rd. Bedford, NH 03110 Jerome Asher & -- -- 5,000 9.5% -- -- -- -- -- -- Anne Asher JTWROS 2701 N Ocean Blvd Apt E-202 Boca Raton, FL 33431 Robert D. Asher -- -- 5,000 9.5% -- -- -- -- -- -- 72 Old Farm Road Concord, MA 01742 John A. Borger -- -- -- -- -- -- 10,000 10.8% -- -- 806 E Avenida Pico Suite I PMB #262 San Clemente, CA 92673 29 Series C Common Stock Series A Convertible Series D Series F Convertible Beneficially Owned(1) Preferred Stock Preferred Stock Preferred Stock Preferred Stock Beneficially Beneficially Beneficially Beneficially Owned(1) Owned(1) Owned(1) Owned(1) SHARES % SHARES % SHARES % SHARES % SHARES % ------ --- ------ --- ------ --- ------ --- ------ --- Douglas Davis -- -- -- -- -- -- -- -- 25,000 7.7% Davis Aircraft Products 1150 Walnut Ave. Bohemia, NY 11716 Global Ocean -- -- -- -- 12,500 14.3% -- -- -- -- 4367 Windergate Dr. Jacksonville, FL 32257 Michael Manfredo -- -- -- -- -- -- -- -- 50,000 15.4% 4367 Windergate Dr. Jacksonville, FL 32257 Jeffrey R. Power -- -- -- -- -- -- -- -- 50,000 15.4% 74 Beach St Cohasset, MA 02025 Frazer Pennebaker -- -- -- -- 24,000 27.4% -- -- -- -- 202 W. 85th St. New York, NY 10024 (4) Deborah A. Power -- -- -- -- 18,000 20.6% -- -- -- -- 959 Concord St. Carlisle, MA 01741 (5) Jeffrey R. Power, Jr. -- -- -- -- 24,000 27.4% -- -- -- -- 18 Oldwood Road Wilbraham, MA 01095 (6) Pamela L. Power -- -- -- -- 24,000 27.4% -- -- -- -- 202 W. 85th St. New York, NY 10024 (7) Rosemarie Power -- -- -- -- 24,000 27.4% -- -- -- -- 18 Oldwood Road Wilbraham, MA 01095 (8) 30 Series C Common Stock Series A Convertible Series D Series F Convertible Beneficially Owned(1) Preferred Stock Preferred Stock Preferred Stock Preferred Stock Beneficially Beneficially Beneficially Beneficaily Owned(1) Owned(1) Owned(1) Owned(1) SHARES % SHARES % SHARES % SHARES % SHARES % ------ --- ------ --- ------ --- ------ --- ------ --- Arnold Fonseca Sep -- -- -- -- -- -- -- -- 19,231 5.9% c\o Integrated Financial Management Inc. 1831 E. Carson St. Pittsburgh, PA 15203 Eugene D. Trott -- -- -- -- -- -- -- -- 41,668 12.8% 459 12th St, Apt. 3B Brooklyn, NY 11215 Robert Swinton -- -- -- -- -- -- -- -- 18,750 5.8% 625 Derby Drive South Oceanside, NY 11572 Shirley M. Wan -- -- -- -- -- -- 6,000 6.5% -- -- 5455 Chelsen Wood Dr. Lawrence, NY 11559 All executive officers 28,060,782 17.7% -- -- -- -- -- -- -- -- and Directors as a Group (2)(9) * less than 1% 1. A person is deemed to be the beneficial owner of voting securities that can be acquired by such person within 60 days after the record date upon the exercise of options and warrants and the conversion of convertible securities. Each beneficial owner's percentage of ownership is determined by assuming that all options, warrants or convertible securities held by such person (but not those held by any other person) that are currently exercisable or convertible (i.e., that are exercisable or convertible within 60 days after the record date) have been exercised or converted. 2. Includes 10,495,067 shares held in an IRA Trust. 3. In March, 2002 Mr. Conway voluntarily surrendered the anti-dilution agreement that insured 32.6% ownership of the voting shares to Mr. Conway and his affiliates. 31 4. Includes 6,000 held directly by Frazer Pennebaker, 600 shares held as custodian for Mae Pennebaker UGMA NY, 6,000 shares held as custodian for Nathaniel Pennebaker UGMA NY and 6,000 shares held by Pamela L. Power, Frazer Pennebaker's wife. Frazer Pennebaker disclaims beneficial ownership of all shares held by Pamela L. Power. 5. Includes 6,000 shares held directly by Deborah A. Power, 6,000 shares held as custodian for Audrey D. Cooney UGMA MA and 6,000 shares as custodian for Olivia M. Cooney UGMA MA. 6. Includes 6,000 held directly by Jeffrey R. Power, Jr., 6,000 shares held as custodian for Jeffrey R. Power III Cooney UGMA MA, 6,000 shares held as custodian for Kerry E Power UGMA MA and 6,000 shares held by Rosemarie Power, Jeffrey R. Power, Jr.'s wife. Jeffrey R. Power, Jr. disclaims beneficial ownership of shares owned Rosemarie Power. 7. Includes 6,000 shares held directly by Pamela L. Power, 6,000 shares held directly by Frazer Pennebaker, Pamela L. Power's husband, 6,000 shares held by Frazer Pennebaker as custodian for Mae Pennebaker UGMA NY and 6,000 shares held by Frazer Pennebaker as custodian for Nathaniel Pennebaker UGMA NY. Pamela L. Power disclaims beneficial ownership of shares owned by Frazer Pennebaker. 8. Includes 6,000 shares held directly by Rosemarie Power, 6,000 shares held directly by Jeffrey R. Power, Jr., Rosemarie Power's husband, 6,000 shares held by Jeffrey R. Power, Jr. as custodian for Jeffrey R. Power III Cooney UGMA MA Y and 6,000 shares held by Jeffrey R. Power, Jr. as custodian for Kerry E Power UGMA MA. Rosemarie Power disclaims beneficial ownership of shares owned by Jeffrey R. Power, Jr. 9.

Does not include Officers or Directors of the Company who were not such as of the date of record. DESCRIPTION OF CAPITAL STOCK GENERAL Our authorized capital stock consists of 190,000,000 shares of common stock and 10,000,000 shares of preferred stock, of which 400,000 shares have been designated Series A Preferred Stock, $.001 par value per share, 400,000 shares have been designated Series C convertible preferred stock, $.001 par value per share, 400,000 shares have been designated Series D Preferred Stock, $.001 par value per share, and 1,000,000 shares have been designated Series F convertible preferred stock, $.001 par value per share. Except as to certain matters discussed below or as proscribed by applicable law, the holders of shares of all classes of the capital stock of the Company vote together as a single class. The holders of our capital stock do not have cumulative voting rights, which means that the holders of more than 50% of the outstanding shares, voting for the election of directors, can elect all of the directors to be elected, if they so choose, and, in that event, the holders of the remaining shares will not be able to elect any of our directors. The following description of our capital stock is based upon our restated certificate of incorporation, amended and restated bylaws and applicable provisions of law. We have summarized portions of our restated certificate of incorporation and amended and restated bylaws below. The summary is not complete. You should read our certificate of incorporation and amended and restated bylaws for the provisions that are important to you. DESCRIPTION OF THE COMMON STOCK As of March 31, 2005 there were 158,834,527 shares of common stock outstanding which were held of record by approximately 816 shareholders. 32 Prior to filing the Certificate of Amendment on March 22, 2002 increasing our authorized capital stock to 200,000,000, we were authorized to issue up to 100,000,000 shares of capital stock, consisting of up to 90,000,000 shares of common stock, par value $0.001 per share, and up to 10,000,000 shares of preferred stock. There are presently 158,834,527 shares of common stock outstanding. The Company is also obligated to issue 1,666,667 shares of common stock upon the exercise of warrants and 18,433,805 shares of common stock upon the conversion of other securities outstanding. VOTING Each holder of common stock is entitled to one vote for each share on all matters to be voted upon by the holders of common stock. RIGHTS AND PREFERENCES The holders of common stock: (i) have equal ratable rights to dividends from funds legally available if and when declared by our Board of Directors after all accrued but unpaid dividends have been paid to the holders of the outstanding capital stock ranking senior to the common stock as to dividends; (ii) are entitled to share ratably in all of our assets available for distribution to the holders of common stock upon liquidation, dissolution or winding up of our affairs; and (iii) do not have preemptive, subscription or conversion rights, and there are no redemption or sinking fund provisions or rights. Our common stock is admitted for trading on the OTCBB under the symbol "WTER.OB". The transfer agent and registrar for our common stock is Computershare Investor Services. DESCRIPTION OF WARRANTS The Company issued 1,666,667 Series D warrants in 1997 to purchase common stock that are exercisable at $0.15 per share. The warrants were originally to expire on March 27, 2002, but the exercise period was initially extended to March 27, 2004, and was extended again in March 2004 to the end of the twelve-month period immediately following the registration of the shares of common stock underlying the warrants pursuant to the court actions brought by certain 12% subordinated debenture holders. The warrants are subject to adjustment in certain circumstances, including stock splits, dividends, recapitalizations and issuances of common stock or securities convertible into common stock. The warrants do not confer upon the holder any voting or other rights of a stockholder. SERIES C CONVERTIBLE PREFERRED STOCK The Certificate of Designation for the Series C convertible preferred stock provides that no shares of Series C convertible preferred stock may be converted until the later of (a) shareholder approval of the proposed increase in the authorized common stock of the Company, and the availability of a sufficient number of authorized but unissued shares of common stock to allow for conversion, and (b) a date 120 days following the date of issuance thereof, following which later date such shares may be converted, at the option of the holder, into the Company's common stock at the conversion rate of one (1) share of Series C convertible preferred stock for 33.33 shares of the Company's common stock. These shares became convertible into shares of Water Chef's common stock in June 2004 when stockholders of the corporation approved an increase in the authorized capital stock of the corporation. All dividends on the Series C convertible preferred stock are cumulative and are payable in shares of the Company's common stock valued at the then-current market price per share, at the earlier maturity or conversion. The Series C convertible preferred stockholders have voting rights equal to the common stockholders. The Series C convertible preferred stock has no stated rights in the assets of the Company upon liquidation. RIGHT TO ACQUIRE COMMON STOCK Due to the price of our common stock at the time, certain purchasers of our Series C convertible preferred stock received, as an inducement to purchase such Series C convertible preferred stock, rights to acquire common stock that are only exercisable upon conversion of their shares of Series C 33 convertible preferred stock. These rights to acquire common stock have no additional voting rights other than the voting rights of underlying common stock upon exercise. The rights to acquire common stock have no stated rights in the assets of the Company upon liquidation. SERIES F CONVERTIBLE PREFERRED STOCK The Certificate of Designation for the Series F convertible preferred stock provides that no shares of Series F convertible preferred stock may be converted until the later of (a) shareholder approval of the proposed increase in the authorized common stock of the Company, and sufficient number of shares of authorized but unissued shares of common stock are available for conversion, or (b) a date 120 days following the date of issuance thereof, following which later date such shares may be converted, at the option of the holder, into the Company's common stock at the conversion rate of one (1) share of Series F convertible preferred stock for 40 shares of the Company's common stock. These shares became convertible into shares of Water Chef's common stock in June 2004 when stockholders of the corporation approved an increase in the authorized capital stock of the corporation. All dividends on the Series F convertible preferred stock are cumulative and are payable in shares of the Company's common stock valued at the then current market price per share, at the earlier of maturity or conversion. The Series F convertible preferred stockholders have voting rights equal to the common stockholders. The Series F convertible preferred stock has no stated rights in the assets of the company upon liquidation. DELAWARE ANTI-TAKEOVER LAW AND PROVISIONS OF OUR CERTIFICATE OF INCORPORATION AND BYLAWS DELAWARE ANTI-TAKEOVER LAW We are subject to Section 203 of the Delaware General Corporation Law. Section 203 generally prohibits a public Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless: o prior to the date of the transaction, the Board of Directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder; o the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (i) shares owned by persons who are directors and also officers and (ii) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or o on or subsequent to the date of the transaction, the business combination is approved by the board and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder. Section 203 defines a business combination to include: o any merger or consolidation involving the corporation and the interested stockholder; o any sale, transfer, pledge or other disposition involving the interested stockholder of 10% or more of the assets of the corporation; o subject to exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder; or o the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation. 34 In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with, or controlling, or controlled by, the entity or person. The term "owner" is broadly defined to include any person that, individually, with or through that person's affiliates or associates, among other things, beneficially owns the stock, or has the right to acquire the stock, whether or not the right is immediately exercisable, under any agreement or understanding or upon the exercise of warrants or options or otherwise or has the right to vote the stock under any agreement or understanding, or has an agreement or understanding with the beneficial owner of the stock for the purpose of acquiring, holding, voting or disposing of the stock. The restrictions in Section 203 do not apply to corporations that have elected, in the manner provided in Section 203, not to be subject to Section 203 of the Delaware General Corporation Law or, with certain exceptions, which do not have a class of voting stock that is listed on a national securities exchange or authorized for quotation on the Nasdaq Stock Market or held of record by more than 2,000 stockholders. Our certificate of incorporation and amended and restated bylaws do not opt out of Section 203. Section 203 could delay or prohibit mergers or other takeover or change in control attempts with respect to us and, accordingly, may discourage attempts to acquire us even though such a transaction may offer our stockholders the opportunity to sell their stock at a price above the prevailing market price. CERTIFICATE OF INCORPORATION AND BYLAWS Provisions of our certificate of incorporation and amended and restated bylaws may delay or discourage transactions involving an actual or potential change in our control or change in our management, including transactions in which stockholders might otherwise receive a premium for their shares, or transactions that our stockholders might otherwise deem to be in their best interests.

Therefore, these provisions could adversely affect the price of our common stock. Among other things, our restated certificate of incorporation and amended and restated bylaws: o provide that the authorized number of directors may be changed only by resolution of the board of directors; o provide that all vacancies, including newly created directorships, may, except as otherwise required by law, be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum; and o do not provide for cumulative voting rights (therefore allowing the holders of a majority of the shares of common stock entitled to vote in any election of directors to elect all of the directors standing for election, if they should so choose). LEGAL MATTERS The validity of the securities offered under this prospectus will be passed upon for us by Olshan Grundman Frome Rosenzweig & Wolosky LLP, New York, New York. EXPERTS Our financial statements as of December 31, 2004, and for the year ended December 31, 2004 included in this registration statement have been audited by Marcum & Kliegman LLP, an independent registered public accounting firm, as stated in its report, appearing in this registration statement and have been so included in reliance upon the report of such firm given upon its authority as experts in accounting and auditing. 35 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE Effective April 25, 2003, Water Chef dismissed Grassi & Co. CPAs P.C. ("Grassi") as the Company's independent accountants, which action was approved by the Audit Committee of the Company's Board of Directors on April 25, 2003. Feldman, Sherb & Co., P.C., a professional corporation of certified public accountants ("Feldman") was the independent accounting firm for Water Chef for the year ended December 31, 2001 and through the period April 17, 2002. Feldman was merged into Grassi on April 17, 2002 with Grassi as the successor firm. Except as described in the following sentence, the reports of Feldman and/or Grassi on the financial statements of Water Chef for either of the two fiscal years prior to the dismissal of Grassi did not contain any adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. The report of Feldman, prior to their merger into Grassi, on the financial statements of Water Chef for the fiscal year ended December 31, 2001 does, however, contain an expression of substantial doubt regarding Water Chef's ability to continue as a going concern. In addition, during Water Chef's two fiscal years and the interim period prior to the dismissal of Grassi, there was no disagreement with Feldman and/or Grassi on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure. On April 25, 2003, Marcum & Kliegman LLP ("MKLLP") was engaged as the Company's new independent accountants, commencing with the audit for the year ending December 31, 2002. During the two most recent fiscal years and the interim period preceding the engagement of MKLLP, Water Chef has not consulted with MKLLP regarding either: (i) the application of accounting principles to a specified transaction, either completed or proposed or the type of audit opinion that might be rendered on Water Chef's financial statements, and either a written report or oral advice was provided to the Company by MKLLP that MKLLP has concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing, or financial reporting issue; or (ii) any matter that was either the subject of a "disagreement" or event identified in response to paragraph (a)(1)(iv) of Item 304, as those terms are used in Item 304(a)(1)(iv) of Regulations S-B and S-K and the related instructions to Item 304 of Regulations S-B and S-K. WHERE YOU CAN FIND MORE INFORMATION We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document that we file at the Public Reference Room of the Securities and Exchange Commission at 450 Fifth Street NW Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. In addition, the Securities and Exchange Commission maintains an Internet site at http://www.sec.gov from which interested persons can access the reports, proxy and information statements and other information that we electronically file with the Securities and Exchange Commission. You may obtain a copy of these filings at no cost, by writing or telephoning us at the following: Water Chef, Inc. Attention: Investor Relations 1007 Glen Cove Avenue, Suite 1 Glen Head, New York 11545 Tel: (845) 794-4100 www.WaterChef.net 36 INDEX TO FINANCIAL STATEMENTS OF WATER CHEF, INC. F-1 REPORT OF INDEPENDENT

REGISTERED PUBLIC ACCOUNTING FIRM To the Board of Directors and Stockholders of Water Chef, Inc. Glen Head, New York We have audited the accompanying balance sheet of Water Chef, Inc., (a development stage company commencing January 1, 2002) as of December 31, 2004 and the related statements of operations, stockholders' deficiency and cash flows for the years ended December 31, 2004 and 2003. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Chef, Inc., (a development stage company commencing January 1, 2002) as of December 31, 2004 and the results of its operations and its cash flows for the years ended December 31, 2004 and 2003 in conformity with accounting principles generally accepted in the United States of America. The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2(a) to the financial statements, the Company has suffered recurring losses, and has working capital and stockholders' deficiencies, which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2(a). The financial statements do not include any adjustments that might result from the outcome of this uncertainty. /s/ Marcum & Kliegman LLP ---------------------------- Marcum & Kliegman LLP NEW YORK, NEW YORK MARCH 11, 2005 F-2 WATER CHEF INC. (A Development Stage Company Commencing January 1, 2002) BALANCE SHEET DECEMBER 31, 2004 ASSETS CURRENT ASSETS: Cash $ 81,732 Prepaid expenses 17,113 Subscriptions receivable 20,000 ------------ TOTAL CURRENT ASSETS 118,845 PATENTS AND TRADEMARKS (net of accumulated amortization of $6,944) 19,111 Other assets 3,162 ------------ TOTAL ASSETS $ 141,118 ============ LIABILITIES AND STOCKHOLDERS' DEFICIENCY CURRENT LIABILITIES: Accounts payable (including related party of $9,375) $ 222,066 Accrued expenses and other current liabilities 1,112,612 Notes payable (including accrued interest of $499,455) 1,182,677 Accrued dividends payable 81,034 Customer deposit 70,000 ------------ TOTAL CURRENT LIABILITIES 2,668,389 LONG-TERM LIABILITIES: Loans payable to stockholder (including accrued interest of $105,221) 478,002 ------------ TOTAL LIABILITIES 3,146,391 ------------ COMMITMENTS AND CONTINGENCIES STOCKHOLDERS' DEFICIENCY: Preferred stock, $.001 par value; 10,000,000 shares authorized; 614,413 shares issued and outstanding, (liquidation preference $1,516,000) 615 Common stock, $.001 par value; 190,000,000 shares authorized; 155,885,729 shares issued; 155,881,329 shares outstanding 155,886 Additional paid-in capital 20,258,617 Treasury stock, 4,400 common shares, at cost (5,768) Accumulated deficit through December 31, 2001 (14,531,596) Deficit accumulated during development stage (8,883,027) ------------ TOTAL STOCKHOLDERS' DEFICIENCY (3,005,273) ------------ TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY $ 141,118 ============ See notes to financial statements. F-3 WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002) STATEMENTS OF OPERATIONS For the Period Year Ended December 31, January 1, 2002 ------------------------------ to December 31, 2004 2003 2004 ------------- ------------- ------------- Sales $ 56,290 $ - $ 96,290 ------------- ------------- ------------- Costs and Expenses: Cost of sales 62,250 88,000 396,680 Selling, general and administrative 1,296,265 817,625 2,903,010 Non-dilution agreement termination costs (223,858) 2,477,376 2,462,453 Interest expense (including interest expense for related party of $23,868 in both years and $71,604 for the period January 1, 2002 to December 31, 2004) 150,228 152,478 481,817 Loss on settlement of debt 2,407,867 - 2,614,017 Stock appreciation rights 121,340 - 121,340 ------------- ------------- ------------- 3,814,092 3,535,479 8,979,317 ------------- ------------- ------------- Net loss (3,757,802) (3,535,479) (8,883,027) Deemed dividend on preferred stock (2,072,296) - (2,072,296) Preferred stock dividends (134,366) (152,876) (400,230) ------------- ------------- ------------- (2,206,662) (152,876) (2,472,526) Net loss applicable to common stock $(5,964,464) $(

3,688,355) $(11,355,553) ============ ============ ============ Basic and Diluted Loss Per Common Share: $ (0.05) $(0.04) ============ ============ Weighted Average Common Shares Outstanding - Basic and Diluted 121,549,857 89,559,886 ============ ============ See notes to financial statements. F-4 WATER CHEF, INC. (A Development Stage Company January 1, 2002) STATEMENT OF STOCKHOLDERS' DEFICIENCY Preferred Stock Common Stock Additional --------------------------- -------------------------- Paid-in Shares Amount Shares Amount Capital ------------ ----------- ----------- ------------ ----------- BALANCE - JANUARY 1, 2002 145,500 $ 146 86,614,286 $ 86,614 $ 12,339,469 Extension of life of warrants -- -- -- -- 111,000 Proceeds from sale preferred stock ($1.00 Per share) 125,000 125 -- -- 117,375 Proceeds from sale of common stock ($0.025 Per share) -- -- 2,500,000 2,500 97,500 Common stock issued for services ($0.08 Per share) -- -- 450,000 450 35,550 Collection of subscription receivable -- -- -- -- -- Net Loss -- -- -- -- -- ------------ ------------ ------------ ------------ ------------ BALANCE - DECEMBER 31, 2002 270,500 $ 271 89,564,286 $ 89,564 $ 12,700,894 Proceeds from sale of preferred stock March 31, 2003 ($1.00-$2.00 Per share) 62,500 63 -- -- 74,937 June 30, 2003 ($0.50 Per share) 75,000 75 -- -- 37,425 September 30, 2003 ($1.00-$2.40 per share) 163,281 163 -- 228,346 December 31, 2003 ($1.33-$2.80 Per share) 145,450 145 -- -- 258,717 Preferred stock issued for services March 31, 2003 ($1.00 Per share) 30,000 30 -- -- 29,970 June 30, 2003 ($1.00 Per share) 51,250 51 -- -- 51,199 September 30, 2003 ($1.00 per share) 67,035 67 -- 66,968 December 31, 2003 ($1.88-$4.00 Per share) 22,150 22 -- -- 65,378 Collection of subscription receivable -- -- -- -- -- Write-off of subscription receivable -- -- -- -- -- Net Loss -- -- -- -- -- ------------ ------------ ------------ ------------ ------------ BALANCE - DECEMBER 31, 2003 887,166 $ 887 89,564,286 $ 89,564 $ 13,513,834 Proceeds from sale of preferred stock March 31, 2004 ($2.40-$4.80 Per share) 130,077 130 -- -- 400,126 June 30, 2004 ($0.80 Per share) 15,625 16 -- -- 12,484 Preferred stock issued for services March 31, 2004 ($2.00-$4.80 Per share) 49,433 49 -- -- 158,483 Proceeds from sale of common stock September 30,2004 ($0.03-$0.15 per share) -- -- 2,541,595 2,541 205,059 December 31, 2004 ($0.05-$0.10 Per share) -- -- 2,487,500 2,488 187,512 Common stock issued for services March 31, 2004 ($0.05 Per share) -- -- 477,133 477 23,380 September 30,2004 ($0.05-$0.15 per share) -- -- 1,857,800 1,858 126,792 December 31, 2004 ($0.08-$0.10 Per share) -- -- 532,500 533 40,968 Preferred stock dividend -- -- -- -- (81,034) Common stock issued for satisfaction of liabilities June 30, 2004 ($0.15 Per share) -- -- 37,786,629 37,787 5,635,934 December 31, 2004 ($0.134 Per share) -- -- 411,100 411 54,839 Preferred stock converted to common stock June 30, 2004 (133,250) (133) 5,108,332 5,108 (4,975) September 30, 2004 (269,263) (269) 12,103,854 12,104 (11,835) December 31, 2004 (65,375) (65) 3,015,000 3,015 (2,950) Net loss -- -- -- -- -- ------------ ------------ ------------ ------------ ------------ BALANCE - DECEMBER 31, 2004 614,413 $ 615 155,885,729 $ 155,886 $ 20,258,617 =========== =========== =========== =========== =========== See notes to financial statements. F-5 WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002) STATEMENT OF STOCKHOLDERS' DEFICIENCY Accumulated Deficit Deficit Accumulated Stock Through During Total Subscription Treasury December Development Stockholders' Receivable Stock 31, 2001 Stage Deficiency -continued- ------------ ----------- ----------- ----------- ----------- BALANCE - JANUARY 1, 2002 (67,500) (5,768) (14,531,596) -- (2,178,635) Extension of life of warrants -- -- -- -- 111,000 Proceeds from sale preferred stock ($1.00 Per share) -- -- -- -- 117,500 Proceeds from sale of common stock ($0.025 Per share) -- -- -- -- 100,000 Common stock issued for services ($0.08 Per share) -- -- -- -- 36,000 Collection of subscription receivable 30,200 -- -- -- 30,200 Net Loss -- -- -- (1,589,746) (1,589,746) ------------ ------------ ------------ ------------ ------------ BALANCE - DECEMBER 31, 2002 (37,300) (5,768) (14,531,596) (1,589,746) (3,373,681) Proceeds from sale of preferred stock March 31, 2003 ($1.00-$2.00 Per share) -- -- -- -- 75,000 June 30, 2003 ($0.50 Per share) -- -- -- -- 37,500 September 30, 2003 ($1.00-$2.40 per share) -- -- -- -- 228,509 December 31, 2003 ($1.33-$2.80 Per share) -- -- -- -- 258,862 Preferred stock issued for services March 31, 2003 ($1.00 Per share) -- -- -- -- 30,000 June 30, 2003 ($1.00 Per share) -- -- -- -- 51,250 September 30, 2003 ($1.00 per share) -- -- -- 67,035 December 31, 2003 ($1.88-$4.00 Per share) -- -- -- -- 65,400 Collection of subscription receivable 15,500 -- -- -- 15,500 Write-off of subscription receivable 21,800 -- -- -- 21,800 Net Loss -- -- -- (3,535,479) (3,535,479) ------------ ------------ ------------ ------------ ------------ BALANCE - DECEMBER 31, 2003 -- (5,768) (14,531,596) (5,125,225) (6,058,304) Proceeds from sale of preferred stock March 31, 2004 ($2.40-$4.80 Per share) -- -- -- -- 400,256 June 30, 2004 ($0.80 Per share) -- -- -- -- 12,500 Preferred stock issued for services March 31, 2004 ($2.00-$4.80 Per share) -- -- -- -- 158,532 Proceeds from sale of common stock September 30,2004 ($0.03-$0.15 per share) -- -- -- -- 207,600 December 31, 2004 ($0.05-$0.10 Per share) -- -- -- -- 190,000 Common stock issued for services March 31, 2004 ($0.05 Per share) -- -- -- -- 23,857 September 30,2004 ($0.05-$0.15 per share) -- -- -- -- 128,650 December 31, 2004

($0.08-$0.10 Per share) -- -- -- -- 41,501 Preferred stock dividend -- -- -- -- (81,034) Common stock issued for satisfaction of liabilities June 30, 2004 ($0.15 Per share) -- -- -- -- 5,673,721 December 31, 2004 ($0.134 Per share) -- -- -- -- 55,250 Preferred stock converted to common stock June 30, 2004 -- -- -- -- -- September 30, 2004 -- -- -- -- -- December 31, 2004 -- -- -- -- -- Net loss -- -- -- (3,757,802) (3,757,802) ------------ ------------ ------------ ------------ ------------ BALANCE - DECEMBER 31, 2004 -- $ (5,768) $(14,531,596) $ (8,883,027) $ (3,005,273) ============ ============ ============ ============ ============ See notes to financial statements. F-6 WATER CHEF INC. (A Development Stage Company Commencing January 1, 2002) STATEMENTS OF CASH FLOWS For the period Years Ended December 31, January 1, 2002 -------------------------- to December 31, 2004 2003 2004 ----------- ----------- ----------- CASH FLOWS FROM OPERATING ACTIVITIES Net loss $(3,757,802) $(3,535,479) $(8,883,027) Adjustments to reconcile net loss to net cash used in operating activities Amortization of patents 1,855 1,854 5,562 Non-cash compensation 473,878 213,685 723,563 Loss on settlement of debt 2,407,867 -- 2,614,017 Non-dilution agreement termination cost (223,858) 2,477,376 2,462,453 Inventory reserve -- -- 159,250 Write-off of stock subscription receivable -- 21,800 21,800 Change in assets and liabilities Inventory 26,500 -- -- Prepaid expenses and other current assets (5,893) (11,220) 39,387 Accounts payable, accrued expenses, accrued dividends and customer deposits 265,998 296,686 1,049,789 ----------- ----------- ----------- NET CASH USED IN OPERATING ACTIVITIES (811,455) (535,298) (1,807,206) ----------- ----------- ----------- CASH FLOWS FROM FINANCING ACTIVITIES Reduction of stock subscription receivable -- 15,500 45,700 Proceeds from sale of preferred stock 412,756 599,871 1,130,127 Proceeds from sale of common stock 377,600 -- 477,600 Proceeds from sale of common stock to be issued -- -- 200,000 ----------- ----------- ----------- NET CASH PROVIDED BY FINANCING ACTIVITIES 790,356 615,371 1,853,427 ----------- ----------- ----------- NET(DECREASE)INCREASE IN CASH (21,099) 80,073 46,221 CASH AT BEGINNING OF YEAR 102,831 22,758 35,511 ----------- ----------- ----------- CASH AT END OF YEAR $ 81,732 $ 102,831 $ 81,732 =========== =========== =========== SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: Cash paid during the year for: Interest $ 20,000 $ 2,250 $ 20,250 =========== =========== =========== Income taxes $ -- $ -- $ -- =========== =========== =========== NON-CASH FINANCING ACTIVITIES COMPENSATION SATISFIED BY ISSUANCE OF COMMON STOCK $ 55,250 $ -- $ 55,250 =========== =========== =========== COMMON STOCK ISSUED IN SATISFACTION OF LIABILITIES $ 5,673,721 $ -- $ 5,673,721 =========== =========== =========== See notes to financial statements. F-7 WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002) NOTES TO FINANCIAL STATEMENTS 1. DESCRIPTION OF BUSINESS Water Chef, Inc. (the "Company"), is a Delaware Corporation currently engaged in the design, marketing and sale of water dispensers and purification equipment both in and outside the United States. 2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES a. Basis of Presentation The Company discontinued its water cooler and filtration operations in November 2001. As a result, the Company has refocused its efforts on raising capital and developing markets for its proprietary technology. Therefore, for financial purposes, the Company has determined that it has re-entered the development stage commencing January 1, 2002. The Company's statements of operations, stockholders' deficiency and cash flows for the year ended December 31, 2004 represent the cumulative, from inception information, required by Statement of Financial Accounting Standards ("SFAS") No. 7, "Development Stage Enterprises". The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company incurred losses from operations of $3,757,802 and $3,535,479 for the years ended December 31, 2004 and 2003, respectively. Additionally, the Company has working capital and stockholders' deficiencies of approximately $2,550,000 and $3,005,000 at December 31, 2004. 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 and raising additional capital through future issuances of stock and/or debt. The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern. b. Patents and Trademarks - Patents and trademarks are amortized ratably over 9 to 14 years. c. Stock-Based Compensation - In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The disclosure requirements apply to all companies for fiscal years ending after December 15, 2002. The Company will continue to account for stock-based compensation according to APB Opinion No. 25. The following table summarizes relevant information as to reported results under the Company's intrinsic value method of accounting for stock awards, with supplemental information as if the fair value recognition provision of FAS 123 had been applied for the following periods ended December 31, 2004 and 2003 as follows: F-8 Years ended December 31, 2004 2003 ------------ ------------ Net loss applicable to common stock $ (5,964,469) $ (3,535,479) Add: Stock -based employee compensation expense included in reported net loss 121,340 -- Less: Stock-based employee compensation cost, net of tax effect under fair value method (291,210) -- ------------ ------------ Pro-forma net loss under fair value accounting $ (6,134,339) $ (3,535,479) ============ ============ Loss per share - basic and diluted as reported $ (0.05) $ (0.04) ============ ============ Pro-forma loss per share - basic and diluted $ (0.05) $ (0.04) ============ ============ d. Revenue Recognition - Revenues are recognized when product is shipped, title passes and collectibility is reasonably assured. Allowances for estimated bad debts, sales allowance and discounts are provided when such sales are recorded. e. Income Taxes - Income taxes are accounted for under SFAS No. 109, "Accounting for Income Taxes", which is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Valuation allowances are established when necessary to reduce deferred assets to the amounts expected to be realized. f. Loss Per Share - 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 options, warrants and the conversion of preferred stock for the years ended December 31, 2004 and 2003, were 34,230,804 and 35,382,471, respectively. g. 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 disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates. F-9 WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002) NOTES TO FINANCIAL STATEMENTS h. Fair Value of Financial Instruments - The carrying amounts of the financial instruments reported in the balance sheet approximate their fair market value due to the short-term maturity of these instruments. i. Impairment of Long-Lived Assets - In the event that facts and circumstances indicate that the cost of an asset may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write-down to market value is required. j. Research and Development - Research and development cost consist of expenditures incurred during the course of planned research and investigation aimed at the discovery of new knowledge, which will be useful in developing new products or processes. The Company expenses all research and development costs as incurred. There were no research and development expenses incurred in year 2004 and 2003. k. Recent Accounting Pronouncements In January 2003, Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). This interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," provides guidance for identifying a controlling interest in a variable interest entity ("VIE") established by means other than voting interest. FIN 46 also required consolidation of a VIE by an enterprise that holds such controlling interest. In December 2003, the FASB completed its deliberations regarding the proposed modifications to FIN No., 46 and issued Interpretation Number 46R, "Consolidation of Variable Interest Entities - an Interpretation of ARB 51" ("FIN No. 46R"). The decisions reached included a deferral of the effective date and provisions for additional scope exceptions for certain types of variable interests. Application of FIN No. 46R is required in financial statements of public entities that have interests in VIEs, or potential VIEs, commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application by public small business issuers' entities is required in all interim and annual financial statements for periods ending after December 15, 2004. The adoption of this pronouncement did not have a material effect on the Company's financial statements. In December 2004, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 123R, "Share Based Payment." This statement is a revision of SFAS Statement No. 123, "Accounting for Stock-Based Compensation" and supersedes APB Opinion No.

25, Accounting for Stock Issued to Employees, 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 the beginning of the first interim or annual reporting period that begins after December 15, 2005. The adoption of this pronouncement is not expected to have a material effect on the Company's financial statements. F-10 WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002) NOTES TO FINANCIAL STATEMENTS In December 2004, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 153, "Exchanges of Nonmonetary Assets". This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of this Statement are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after December 16, 2004. The provisions of this Statement should be applied prospectively. The adoption of this pronouncement is not expected to have a material effect on the Company's financial statements. Emerging Issue Task Force (EITF) Issue 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share." The EITF reached a consensus that contingently convertible instruments, such as contingently convertible debt, contingently convertible preferred stock, and other such securities, should be included in diluted earnings per share (if dilutive) regardless of whether the market price trigger has been met. The consensus is effective for reporting periods ending after December 15, 2004. The adoption of this pronouncement did not have a material effect on the Company's financial statements. 3. NOTES PAYABLE Notes payable at December 31, 2004 consist of the following: (a) 166,756 (b) 750,533 (c) 265,388 -------------- Total $ 1,182,677 (a) Loans payable - other: These are unsecured notes bearing interest ranging from 10% to 15% per annum, with no specific due date for repayment. An amount due on these notes, inclusive of $83,535 in interest is $166,756, at December 31, 2004. No demands for repayment have been made by the note holder. (b) In April 2001, the Company issued a $400,000 promissory note at an interest rate of 2% per month. In consideration for the issuance of this note, 500,000 shares of the Company's common stock were issued to the note holder and a $74,000 debt discount was recorded and fully amortized in the year ended December 31, 2001. The principal balance and accrued interest were payable on September 1, 2001. The Company did not make such payment and was required to issue an additional 100,000 penalty shares of its common stock to the note holder. The Company recorded additional interest expense of $12,300 related to the issuance of these penalty shares. The amount due on this note, inclusive of $350,533 in interest, is $750,533 at December 31, 2004. No demands for repayment have been made by the note holder. (c) In November 2000, the Company entered into a Convertible Promissory Note agreement, whereby the Company may be advanced a maximum of $300,000. The Company was advanced the following: $100,000 in November 2000, $50,000 in December 2000 and $50,000 in January 2001. No further cash advances were made to the Company. The Convertible Promissory Note agreement also called for the payment of $100,000 of Company expenses. The advances bear interest at 10% per annum and were to have been repaid as of January 15, 2002. A maximum of 6,000,000 shares could have been issued upon conversion had the full $300,000 been advanced. As of December 31, 2004, the Company owed $265,388 on these advances, inclusive of $65,388 in interest. The Company and the note holder, by mutual consent, had agreed to extend the due date of the note to May 1, 2002 which has not been further extended. All other terms and provisions of the note are unchanged. In May 2003, these note holders entered a judgment against the Company for the principal sum of $200,000 plus interest. During 2004, the Company paid $20,000 of accrued interest on these notes. F-11 WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002) NOTES TO FINANCIAL STATEMENTS 4. LOANS PAYABLE - STOCKHOLDER At December 31, 2004, the Company is obligated to its Chief Executive Officer who is also a significant stockholder for loans and advances made to the Company totaling $372,781, plus accrued interest of $105,221. These advances have been accruing interest ranging from 6% to 12% per annum. The loans have no repayment terms and the stockholder has agreed not to demand payment until July 1, 2006 at the earliest. 5. COMMON STOCK ISSUED On June 4, 2004, the Company convened a special meeting of its common, Series A Preferred, Series C Preferred, Series D Preferred, Series F Preferred stockholders (together the "Stockholders"). The Stockholders, voting as a single class, voted and approved a proposal to amend the Certificate of Incorporation to increase the Company's authorized capital stock from 100,000,000 shares to 200,000,000 shares, consisting of 190,000,000 shares of common stock and 10,000,000 shares of preferred stock. During the year ended December 31, 2004, the Company recorded the following transactions: a. Cash and Subscriptions In 2002, The Company received $100,000 for 2,500,000 shares of its common stock. The Company also received $200,000 in 2002 for the issuance of 4,000,000 shares of its common stock. These shares were issued in June 2004 upon approval of the stockholders of the increase in the number of authorized common shares of the Company. During the year ended December 31, 2004, the Company received $377,600 for 4,229,095 shares of its common stock. During the year ended December 31, 2004, the Company also recorded a subscription for 400,000 shares of its common stock for $20,000. The $20,000 was received by the Company in January 2005. b. Non-Dilution Agreement Termination Cost In May 2002, the Company agreed to issue to the Company's President and Chief Executive Officer, and to related parties of such, an aggregate of 14,923,958 shares of its common stock in connection with the voluntary surrender of a non-dilution agreement that the President had entered into with the Company in 1997. Since the issuance of these shares is subject to stockholder approval, the measurement date for purposes of valuation is established when such stockholder approval has been obtained. Accordingly, the Company was utilizing variable accounting to determine the value of these shares. These shares were issued during June 2004 upon approval by the stockholders of the increase in the number of authorized common shares of the Company. F-12 WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002) NOTES TO FINANCIAL STATEMENTS c. Services During 2002, the Company agreed to issue to various parties an aggregate of 1,075,000 shares of its common stock for a value of $84,000 in connection with professional services. These shares were issued in June 2004 upon the approval by the stockholders of the increase in the number of authorized common shares of the Company. The Company also issued 450,000 shares of its common stock for services with a value of $36,000 in 2002. During 2004, the Company issued to various parties an aggregate of 2,867,433 shares of its common stock for a value of $194,000 in connection with professional services. d. Debenture Liabilities The Company was a defendant in an action brought by certain debenture holders (The "Bridge Loans") in New Hampshire Superior Court seeking repayment of $300,000 of debenture principal together with interest from 1997, and the issuance of penalty shares for non payment of principal and interest. In addition, the plaintiff's claim that they had suffered by the Company's failure to register the shares issued under the warrant agreement. The Company had interposed defenses and counterclaims. In June 1997, in connection with the debentures, the Company had issued 6,667 shares of common stock for every $1,000 of debt at a price of $0.15 per share. The Company claimed that it was owed the $300,000 consideration for such shares. In addition, the Company had issued warrants for the purchase of 2,500,000 shares of common stock at an exercise price of $0.15 per share exercisable until March 2002. Furthermore, the Company had issued another 100,000 shares of common stock to each debenture holder, or 1,300,000 shares, at a price of $0.15 per share. In 2002, the Company and the Bridge Lenders participating in the legal action, settled this dispute requiring the Company to: (i) Issue 3,000,000 shares of common stock valued at $497,500 in lieu of the principal and interest owed to the debenture holders who participated ("participants") in this legal action. The Company recorded the debentures at $300,000, plus accrued interest of $39,400, for a total of $339,400. The difference between the $497,500 settlement and the $339,400, or $158,100, was recorded as a loss on settlement of debt. (ii) Extend the warrants attached to the participants' debentures for another two years until March 2004, for which the Company has recorded a non cash expense charge of $111,000 (iii) In 2004, in connection with the issuance of the Bridge Lender shares, the Company further extended the term of the warrants for twelve months until March 2005 and recorded $94,151 as a loss on settlement of debt in connection with such warrant extension; and (iv) Issued additional shares since the product of the $497,500, as valued for the 3,000,000 shares above, divided by the average daily trading price for the 30 days subsequent to the settlement, was grater than the original 3,000,000 shares. Due to these requirements, the Company was obligated to issue an additional 14,037,671 shares. During June 2004, the Company issued the 3,000,000 shares and the additional 14,037,761 shares originally valued at $495,500. The Company recorded a loss on settlement of debt of $2,313,716 since the total value of the shares on the date of issuance was $2,811,216. The debenture holders that did not participate ("non-participating debentures") in the above legal action had total debentures of $75,000, plus accrued interest of $9,850 as of the settlement date, totaling $84,850. In conjunction with the above settlement, the Company settled these outstanding non-participating debentures, plus accrued interest, with the issuance of 750,000 shares of common stock valued at $0.0292 per share, or $21,900. During 2004, the 750,000 shares were issued. e. Conversion of preferred stock into common stock During year ended December 31, 2004, the Company agreed to issue various parties an aggregate of 20,227,186 shares of its common stock in connection with the conversion of preferred stock, The Company recorded the deferred contingent beneficial conversion adjustment of $2,072,296 as a deemed dividend since the contingency was resolved in June 2004. F-13 WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002) NOTES TO FINANCIAL STATEMENTS f. Payroll Liability Settlement During the year ended December 31, 2004, the Company agreed to issue 411,100 shares of its common stock in connection with a settlement of payroll liabilities of $55,250. 6. PREFERRED STOCK The Company is authorized to issue 10,000,000 shares of $.001 par value preferred stock, issuable in series with rights, preferences, privileges and restrictions as determined by the board of directors. At December 31, 2004, outstanding preferred shares were as follows: Liquidation Current Preference Annual Total Dividend (including Authorized Issued Par Dividend Dividend Arrearage dividend Shares Shares Value Requirement Arrearage Per Share arrearage) Series A 400,000 52,500 $ 53 $ 52,500 $ 517,600 $ 9.86 $1,042,600 Series C 400,000 120,500 121 -- -- -- Series D 2,000,000 93,000 93 55,800 473,400 5.09 473,400 Series F 1,000,000 348,413 348 26,066 82,162 .23 -- ---------- ---------- ---------- ---------- ---------- ---------- 614,413 $ 615 $ 134,366 $1,073,162 -- $1,516,000 ========== ========== ========== ========== ========== ========== Series A: The Series A preferred stock provides for a 10% cumulative dividend, based on the $10 per share purchase price, payable annually in the Company's common stock or cash, at the Company's option. The Series A preferred stock is not convertible, and is redeemable solely at the Company's option at a price of $11 per share plus accrued dividends. The Series A preferred stockholders have voting rights equal to common stockholders. In the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, holders of the Series A preferred stock are entitled to receive out of the assets of the Company the sum of $10.00 per share of Series A preferred stock then outstanding, plus a sum equal to all dividends (whether or not earned or declared) on such shares accrued and unpaid thereon to the date of final payment or distribution, before any payment or distribution upon dissolution, liquidation or winding up shall be made on any series or class of capital stock ranking junior to Series A preferred stock as to such payment or distribution. F-14 WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002) NOTES TO FINANCIAL STATEMENTS Series C: During the year ended December 31, 2002 the Company sold Series C 15% Convertible Preferred stock at $1.00 per share. These shares convert in one year. All dividends are cumulative and are payable in shares of the Company's common stock valued at the then-current market price per share, or upon conversion, whichever is earlier. The conversion rate for shares, and accrued dividends payable, is 33.33 shares of common for each $1.00 of preferred stock and dividends payable, or $0.03 for each share of common stock. The Series C Preferred stockholders have voting rights equal to the common stockholders. The Series C preferred stock has no stated rights in the assets of the Company upon liquidation. During 2002, the Company sold 125,000 shares of Series C preferred stock. For each share of preferred stock purchased, the buyers also receive the right to receive an additional 33.33 shares of common stock upon conversion as the market value of the stock was $0.015 at issuance. In connection with the maturity of the Series C Preferred Stock, the Company recorded accrued dividends of $39,119. Cash During 2003, the Company issued 12,500 shares of preferred stock and raised $25,000 through the sale of Series C Convertible Preferred stock. Services During 2003, the Company issued an aggregate of 81,250 shares of its Series C Convertible Preferred Stock for professional services totaling $81,250. F-15 WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002) NOTES TO FINANCIAL STATEMENTS SERIES D: The Series D preferred stock provides for a 12% cumulative dividend, based on the $5 per share purchase price, payable semi-annually in the Company's common stock or cash, at the Company's option. The Series D preferred stock is not convertible, and is redeemable solely at the Company's option at a price of $5.75 per share plus accrued dividends. The Series D Preferred stockholders have voting rights equal to the common stockholders. In the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, holders of the Series D preferred stock are entitled to receive out of the assets of the Company the sum all dividends (whether or not earned or declared) on such shares accrued and unpaid thereon to the date of final payment or distribution, before any payment or distribution upon dissolution, liquidation or winding up shall be made on any series or class of capital stock ranking junior to Series D preferred stock as to such payment or distribution. SERIES F: In April 2003, management authorized the Company to raise up to $550,000 through a private placement by issuing 10% two-year convertible preferred instruments. The preferred, designated as Series F, and providing for one million shares in total and can be convertible into shares of Water Chef's common stock at such time as the stockholders of the corporation approve an increase in the authorized capital stock of the corporation, which occurred on June 4, 2004. All dividends are cumulative and are payable in shares of the Company's common stock valued at the then current market price per share, at the time of maturity, or upon conversion, whichever is earlier. The conversion rate for shares and accrued dividends payable is 40 shares of common for each share of preferred stock. The Series F convertible preferred stockholders have voting rights equal to the common stockholders. The Series F convertible preferred stock has no stated rights in the assets of the company upon liquidation. Although there was a discount upon the issuance of all of the Series F preferred stock in accordance with Emerging Issue Task Force ("EITF") 98-5, a security is not yet convertible if certain contingencies exist which are dependent upon the occurrence of a future event outside the control of the security holder. In this case, the shares can only be converted into common stock after the stockholders of the Company approve an increase in the authorized capital stock of the corporation. In accordance with EITF 98-5, any beneficial conversion (discount) feature is measured at the commitment date, but will not be recognized as an adjustment to earnings until the contingency is resolved, (the date the increase in shares are approved). In June 2004, the Company voted and approved a proposal to amend the Certificate of Incorporation to increase the Company's authorized capital stock from 100,000,000 to 200,000,000 shares, consisting of 190,000,000 shares of common stock and 10,000,000 shares of preferred stock. During June 2004, the Company recorded the deferred contingent beneficial conversion adjustment of $2,072,296 as a deemed dividend since the contingency was resolved. In connection with Series F Preferred Stock conversions, the Company recorded accrued dividends of $41,915. CASH During 2003, the Company issued 433,731 shares of preferred stock and raised $574,872 through the sale of Series F Convertible Preferred stock. During 2004, the Company issued 145,702 shares and raised $412,756 through the sale of Series F Convertible Preferred Stock. SERVICES During 2003, the Company issued an aggregate of 89,185 shares of its Series F Preferred Stock for professional services totaling $132,435. During 2004, the Company issued an aggregate of 49,433 shares of its Series F Convertible Preferred Stock for professional services totaling $158,530. F-16 WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002) NOTES TO FINANCIAL STATEMENTS 7. STOCK OPTION, STOCK APPRECIATION RIGHTS AND WARRANT GRANT PLAN The Company's president and director were issued 6,000,000 options to purchase common stock of the Company in January 2004. The total options granted may be converted to common stock at an exercise price of $ .25 and expire in five years. Those options were converted to stock appreciation rights in November 2004. It consists of 5,000,000 stock appreciation rights granted to the President which vest over 5 years and 1,000,000 stock appreciation rights granted to the director which vest over 2 years. In March 1997, the Company, in connection with Bridge Loans for $375,000 issued warrants to purchase 2,500,001 shares of common stock at $.15 per share. These warrants had a life of five years and were to have expired in March 2002. In the year ended December 31, 2000, a total of 333,334 common shares were issued upon the exercise of a like number of warrants, for net proceeds of $50,000. Of the remaining 2,166,667 un-exercised warrants at March 2002, a total of 1,666,667 warrants had their lives extended for an additional two years until March 2004 and then later for another twelve months until March 2005. The remaining balance of 500,000 warrants was not extended, and accordingly they have expired. The extension of the exercise date was part of a settlement that the Company had reached with certain debenture holders that had brought a legal action against the Company. The fair value of each stock option, or warrant granted, is estimated on the date of grant using the Black-Scholes option-pricing model. The Company did not grant, nor issue, options or warrants in the year ended December 31, 2004. The following tables illustrate the Company's stock option and warrant issuances and balances outstanding as of, and during the years ended December 31, 2004 and 2003: Shares Underlying Weighted Average Warrants Exercise Price ----------------- --------------- Outstanding at December 31, 2002 2,166,667 $ 0.15 Granted - - Expired (500,000) 0.15 Exercised - - ----------------- --------------- Outstanding at December 31, 2003 1,666,667 $ 0.15 Granted - - Expired - - Exercised - - ----------------- --------------- Outstanding at December 31, 2004 1,666,667 $ 0.15 ================= ============== The following is additional information with respect to the Company's warrants as of December 31, 2004: WARRANTS OUTSTANDING WARRANTS EXERCISABLE --- ---------------------------- Weighted Average Weighted Number of Remaining Average Number of Weighted Exercise Outstanding Contractual Exercise Exercisable Average Price Warrants Life Price Warrants Exercise Price --------- ------------ ----------- ------- ------------ -------------- $ 0.15 1,666,667 3 Months $ 0.15 1,666,667 $ 0.15 ========= ============ =========== ======= ============ ============ F-17 WATER CHEF, INC. (A Development Stage Company Commencing January 1, 2002) NOTES TO FINANCIAL STATEMENTS 8. LEASES The Company's lease for its administrative facilities located in Glen Head, New York on a month to month basis. Rent expense, for the years ended December 31, 2004 and 2003 was $29,246 and $25,797, respectively. 9. INCOME

TAXES The Company accounts for income taxes under SFAS No. 109, Accounting for Income Taxes. SFAS No. 109 requires the recognition of deferred tax assets and liabilities for both the expected impact of differences between the financial statements and tax basis of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and tax credit carry forwards. SFAS No. 109 additionally requires the establishment of a valuation allowance to reflect the likelihood of realization of deferred tax assets. For the year ended December 31, 2004 and 2003, no provision for income taxes has been provided for, as a result of continued net operating losses. The Company is subject to certain state and local taxes based on capital. The Company has net operating loss carry-forwards for federal income tax purposes totaling approximately $18,000,000 at December 31, 2004. These carry-forwards expire between the years 2009 through 2024. Utilization of these loss carry-forwards may be limited under Internal Revenue Code Section 382. The deferred tax asset arising from the net operating loss carry-forwards has been offset by a corresponding valuation allowance. The valuation allowance primarily relates to the federal and state net operating losses for which utilization in future periods is uncertain. 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. Based on projections for future taxable income over the periods that the deferred tax assets are deductible, the Company believes it is more likely than not that the Company will not realize the benefits of these deductible differences in the near future and therefore a full valuation allowance of $6,900,000 is provided. The valuation allowance increased approximately $900,000 during 2004 related to increased net operating losses. 10. MAJOR CUSTOMERS During the year ended December 31, 2004 the Company's entire sales were to one customer. During the year December 31, 2003 the Company had no sales. 11. COMMITMENTS AND CONTINGENCIES In January 1, 2004, the Company entered into a 5 year employee agreement with its Chief Executive Officer ("Employee"). The Company agreed to pay to employee for the services to be rendered a base salary at an annual rate of three hundred and fifty thousand dollars. The Company granted to its employee a five-year option to 5,000,000 shares of the Company's outstanding common stock for an option price of $.25 per share. The Option will vest in fifty equal, consecutive monthly increments of 100,000 shares each on the first day of each month beginning with January of 2004 and ending with February of 2008. Those options were converted to stock appreciation rights in November 2004. In March 9, 2004, The Company extended for two additional years of the consulting agreement with a director. The Company agreed to increase his monthly payment to $10,000 per month. The Company also gave him the right to purchase one million shares of the Company's common stock at a price of $0.25 per share, such right to vest at the rate of 50% per year. Those options were converted to stock appreciation rights in November 2004. In May 2001, the Company entered into a distribution agreement with a company (the "Sub-distributor") based in the State of Jordan. The Sub- distributor has agreed to purchase no fewer than 100 units of the Company's "Pure Safe Water Station", in the calendar year commencing January 1, 2001. A minimum purchase of 50 units is required to be purchased in each of the subsequent years commencing January 1, 2002 and 2003, respectively. During the year ended December 31, 2001, 18 units had been shipped under this agreement. The sale will be recognized when the Company receives payments. The Company recorded the cost of the inventory shipped as a loss contingency of $242,035 during the year ended December 31, 2001, since return of the items is uncertain. F-18 PART II INFORMATION NOT REQUIRED IN PROSPECTUS ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS. Section 145 of the Delaware General Corporation Law provides that a corporation may indemnify directors and officers as well as other employees and individuals against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with any threatened, pending or completed actions, suits or proceedings in which such person is made a party by reason of such person being or having been a director, officer, employee or agent to the Registrant. The Delaware General Corporation Law provides that Section 145 is not exclusive of other rights to which those seeking indemnification may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise. Section 5.1 of the Registrant's amended and restated bylaws and Section 8 of our restated certificate of incorporation provide that the Registrant shall indemnify its directors and officers, and may indemnify its employees and other agents, to the fullest extent permitted by the Delaware General Corporation Law. Section 102(b)(7) of the Delaware General Corporation Law permits a corporation to provide in its certificate of incorporation that a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for unlawful payments of dividends or unlawful stock repurchases, redemptions or other distributions, or (iv) for any transaction from which the director derived an improper personal benefit. The Registrant's certificate of incorporation provides for such limitation of liability. The Registrant maintains standard policies of insurance under which coverage is provided (a) to its directors, officers, employees and other agents against loss rising from claims made by reason of breach of duty or other wrongful act, and (b) to the Registrant with respect to payments which may be made by the Registrant to such officers and directors pursuant to the above indemnification provision or otherwise as a matter of law. ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION. The following table sets forth the various expenses (other than selling commissions and other fees to be paid to the underwriters) which will be paid by the Registrant in connection with the issuance and distribution of the securities being registered. With the exception of the Securities and Exchange Commission ("SEC") registration fee, all amounts shown are estimates. SEC registration fee.................................... $ 2,427.34 Legal fees and expenses................................. 30,000.00 Accounting fees and expenses............................ 10,000.00 Miscellaneous expenses.................................. 2,572.66 ------------ Total................................. $ 45,000.00 ============ II-1 ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES. Price Per Date of # of Purchaser Share Purchase Amount Class Purchase Share --------- ----- -------------- ----- -------- ----- Marshall Sterman $0.10 Financial Consulting Common 04/19/2002 800,000 - $80,000 Ronald W. Hart $0.08 Compensation Common 04/19/2002 225,000 - $18,000 Richard Wilson $0.08 Compensation Common 04/19/2002 112,500 - $9,000 John Gilbert $0.08 Compensation Common 04/19/2002 112,500 - $9,000 Mohamed Salem $0.08 Compensation Common 04/19/2002 112,500 - $9,000 Mastafa Tolba $0.08 Compensation Common 04/19/2002 112,500 - $9,000 John Clarke $0.05 Commission Common 04/19/2002 100,000 - $5,000 Earl Roberts $0.05 Website Consultant Common 04/19/2002 50,000 - $2,500 Patrick Brady $0.05 $25,000 Common 04/19/2002 500,000 Peter Hall $0.05 $25,000 Common 04/19/2002 500,000 George Frank $0.05 $50,000 Common 04/19/2002 1,000,000 Barry Moscowitz $0.035 $100,000 Common 04/19/2002 2,857,133 David Conway IRA $0.05 Non-Dilution Common 04/19/2002 4,184,693 Agreement David & Rosanne Conway $0.05 Non-Dilution Common 04/19/2002 6,769,583 Agreement Jennifer Conway $0.05 Non-Dilution Common 04/19/2002 1,984,886 Agreement Caroline Conway $0.05 Non-Dilution Common 04/19/2002 1,984,886 Agreement Earl Ellis $0.05 $100,000 Common 04/25/2002 2,000,000 Ron Breeding $0.03 Mktg Services Common 06/04/2002 125,000 II-2 Price Per Date of # of Purchaser Share Purchase Amount Class Purchase Share --------- ----- -------------- ----- -------- ----- Domenic Strazzula $0.029 Settlement Common 06/20/2002 500,000 Felix Hertzka $0.029 Settlement Common 06/20/2002 250,000 Michael and Roberta Guadette $0.029 Settlement Common 06/20/2002 250,000 Claudette Gelfand $0.029 Settlement Common 06/20/2002 250,000 Catherine Griffin $0.029 Settlement Common 06/20/2002 250,000 Joseph Fichtl $0.029 Settlement Common 06/20/2002 500,000 KT and Callaway Decoster $0.029 Settlement Common 06/20/2002 300,000 Holly Harris $0.029 Settlement Common 06/20/2002 100,000 Alexander Harris $0.029 Settlement Common 06/20/2002 100,000 Michael and Diane Hayden $0.029 Settlement Common 06/20/2002 250,000 K. Thomas Decoster $0.029 Settlement Common 06/20/2002 250,000 John J. Clarke $0.029 Settlement Common 06/20/2002 500,000 Edward Brown $0.029 Settlement Common 06/20/2002 250,000 Jeffrey Power $1.00 $22,500 Series C 09/25/2002 25,000 Preferred William A. Cady Trust $1.00 $22,500 Series C 09/26/2002 25,000 Preferred Robert and Betsy Jordan $1.00 $9,000 Series C 10/09/2002 10,000 Preferred Francis L. Collins $1.00 $13,500 Series C 10/30/2002 15,000 Preferred Jeffrey Power $1.00 $45,000 Series C 12/30/2002 50,000 Preferred Robert Swinton $1.00 Comp. Marketing Series C 02/13/2003 15,000 Consult. - $15,000 Preferred Andrew Vito $1.00 Comp. Marketing Series C 02/13/2003 15,000 Consult. - $15,000 Preferred Daniel Negrila $1.00 $5,000 Series C 04/29/2003 5,000 Preferred II-3 Price Per Date of # of Purchaser Share Purchase Amount Class Purchase Share --------- ----- -------------- ----- -------- ----- Peter Gherasim $1.00 $7,500 Series C 04/29/2003 7,500 Preferred The Funding Group $1.00 Comp Loan Interest Series C 04/29/2003 6,750 - $11,250 Preferred Barry Moscowitz $1.00 $47,500 Series F 06/13/2003 47,500 Preferred Dwight Grader $1.00 $50,000 Series F 07/17/2003 50,000 Preferred Barry Moscowitz $1.00 $27,500 Series F 07/17/2003 27,500 Preferred Resnick & Company $1.00 Comp. - Accounting Series F 07/17/2003 26,500 Svcs. -$26,500 Preferred The Funding Group $1.00 Interest and Series F 07/17/2003 11,250 Late Fees - $14,000 Preferred Michael Manfredo $1.00 $25,000 Series F 08/04/2003 25,000 Preferred Jeffrey Power $1.00 $50,000 Series F 08/04/2003 50,000 Preferred Michael Manfredo $1.00 $25,000 Series F 08/22/2003 25,000 Preferred Patrick Brady $1.00 $15,000 Series F 08/22/2003 7,500 Preferred Peter Hall $1.00 $15,000 Series F 08/22/2003 7,500 Preferred Michael Davis $1.00 $30,000 Series F 08/22/2003 15,000 Preferred Richard Van Grouw $1.00 $20,000 Series F 08/22/2003 10,000

Preferred Barnett Fine $1.00 $20,000 Series F 08/22/2003 14,285 Preferred Alliance Trade $1.00 Fee for Design Series F 08/22/2003 1,000 Svc. - $1,000 Preferred Robert Swinton $1.00 Fee for Mktg Series F 08/22/2003 18,750 Svc. - $56,250 Preferred II-4 Price Per Date of # of Purchaser Share Purchase Amount Class Purchase Share --------- ----- -------------- ----- -------- ----- Douglas Davis $1.00 Fee for Series F 09/18/2003 25,000 Manufacturing Preferred /Engin. Svc. - $55,000 Raimond Irni $1.00 Commission Series F 09/18/2003 6,250 - $17,500 Preferred Nathan Lis $1.00 $20,000 Series F 09/18/2003 11,250 Preferred David Rappaport $1.00 $7,500 Series F 09/18/2003 3,125 Preferred David Van Der Velde $1.00 $1,500 Series F 09/18/2003 625 Preferred Abraham Hershkowitz $1.00 $1,500 Series F 09/18/2003 781 Preferred Harold Tishler $1.00 $3,000 Series F 09/18/2003 1,250 Preferred Leonard Fuchs $1.00 $15,000 Series F 09/18/2003 6,250 Preferred Mike Majerovic $1.00 Commission Series F 09/18/2003 1,750 - $1,750 Preferred WWD Trading Int'l $1.00 $100,000 Series F 10/17/2003 65,790 Preferred David Fried $1.00 $850 Series F 10/17/2003 625 Preferred David Schor $1.00 $2,075 Series F 10/17/2003 1,563 Preferred Peter Hoffman $1.00 $2,075 Series F 10/17/2003 1,563 Preferred Peter Tingus $1.00 Comp. Fee Series F 10/17/2003 390 Editing Svc. Preferred - $1,000 Nicholas Anagnastopoulos $1.00 $12,750 Series F 11/11/2003 7,500 Preferred Haralambos Kostopoulos $1.00 $4,250 Series F 11/11/2003 2,500 Preferred Jonathan McDermott $1.00 $4,000 Series F 11/11/2003 2,500 Preferred II-5 Price Per Date of # of Purchaser Share Purchase Amount Class Purchase Share --------- ----- -------------- ----- -------- ----- Robert Kaszovits $1.00 $20,000 Series F 12/10/2003 10,000 Preferred Seymour Yanovsky $1.00 $4,040 Series F 12/10/2003 2,188 Preferred Daniel Alkobi $1.00 $1,155 Series F 12/10/2003 625 Preferred Yacob Alcoby $1.00 $1,155 Series F 12/10/2003 625 Preferred Yair Matan $1.00 $3,465 Series F 12/10/2003 1,875 Preferred Abraham Hershkovitz $1.00 $1,735 Series F 12/10/2003 939 Preferred David Rappaport $1.00 $5,775 Series F 12/10/2003 3,125 Preferred Leonard Fuchs $1.00 $4,620 Series F 12/10/2003 2,500 Preferred Carlos Correas $1.00 $1,155 Series F 12/10/2003 625 Preferred Mike Liebhard $1.00 $575 Series F 12/10/2003 313 Preferred Mike Majerovic $1.00 $3,695 Series F 12/10/2003 2,000 Preferred Dror Magori $1.00 $865 Series F 12/10/2003 469 Preferred Chaim Majerovic $1.00 $230 Series F 12/10/2003 175 Preferred Eligio Majerovic $1.00 $8,000 Series F 12/10/2003 4,250 Preferred Marshall Sterman $1.00 Compensation Board Series F 12/10/2003 12,500 Svc. - $25,000 Preferred Olshan Grundman $1.00 Compensation Legal Series F 12/10/2003 5,000 Services - $16,000 Preferred II-6 Price Per Date of # of Purchaser Share Purchase Amount Class Purchase Share --------- ----- -------------- ----- -------- ----- Moneesh Bakshi $1.00 Translating Service Series F 12/10/2003 50 - $200 Preferred Mohammad Mamaun $1.00 Translating Service Series F 12/10/2003 50 - $200 Preferred Leonard Cohen $1.00 $50,000 Series F 12/30/2003 25,000 Preferred Kollel Metzioynim Lhoroah $1.00 $12,000 Series F 12/30/2003 5,000 Preferred Gregory Simonelli $1.00 $7,000 Series F 12/30/2003 2,500 Preferred Jaime Asaro $1.00 $7,000 Series F 12/30/2003 2,500 Preferred Jack Neiman $1.00 $3,500 Series F 12/30/2003 1,250 Preferred Harris Tunick $1.00 $3,500 Series F 12/30/2003 1,250 Preferred Gian Ciarniello $1.00 $1,400 Series F 12/30/2003 500 Preferred Barry Moscowitz $1.00 Commission Series F 12/30/2003 3,000 - $6,000 Preferred Barnett Fine $1.00 $7,000 Series F 01/06/2004 2,500 Preferred Howard Fine $1.00 $1,400 Series F 01/06/2004 500 Preferred Haichel Esther $1.00 $60,000 Series F 01/06/2004 30,000 Preferred The Resnick Group $1.00 Fee for annual Series F 01/06/2004 8,125 acctg. svc.-$26,000 Preferred Peter Hoffman $1.00 $3,750 Series F 01/15/2004 1,563 Preferred Rafael Moas $1.00 $3,750 Series F 01/15/2004 1,563 Preferred David Fried $1.00 $475 Series F 01/15/2004 195 Preferred II-7 Price Per Date of # of Purchaser Share Purchase Amount Class Purchase Share --------- ----- -------------- ----- -------- ----- Dror Magori $1.00 $475 Series F 01/15/2004 195 Preferred Florence Gut $1.00 $825 Series F 01/15/2004 344 Preferred Dror Magori $1.00 $1,850 Series F 02/05/2004 463 Preferred Meryl Hagler $1.00 $3,575 Series F 02/05/2004 893 Preferred David Fried $1.00 $3,575 Series F 02/05/2004 893 Preferred Ezra Moas $1.00 $1,000 Series F 02/05/2004 250 Preferred Morris Sabbach $1.00 $1,000 Series F 02/05/2004 250 Preferred Jac Steinberger $1.00 $3,075 Series F 02/05/2004 770 Preferred Abraham Rotban $1.00 $1,855 Series F 02/05/2004 465 Preferred Raimond Irni $1.00 Compensation Series F 02/05/2004 1,000 Commission - Preferred $4,000 Arnold Fonseca $1.00 $50,000 Series F 03/30/2004 19,231 Preferred Eliezer Ely $1.00 $2,480 Series F 03/30/2004 1,240 Preferred Moische Koffman $1.00 $2,325 Series F 03/30/2004 1,162 Preferred Harold Friedman $1.00 $775 Series F 03/30/2004 388 Preferred Aaron Groner $1.00 $310 Series F 03/30/2004 155 Preferred Abraham Kiplinsky $1.00 $775 Series F 03/30/2004 388 Preferred Annette Hunter $1.00 $50,000 Series F 03/30/2004 25,000 Preferred II-8 Price Per Date of # of Purchaser Share Purchase Amount Class Purchase Share --------- ----- -------------- ----- -------- ----- Eugenie Trott $1.00 $200,000 Series F 03/30/2004 41,668 Preferred Marshall Sterman $1.00 Compensation Series F 03/30/2004 6,250 - $20,000 Preferred John. J. Clarke $1.00 Compensation Series F 03/30/2004 6,250 - $20,000 Preferred C. Trade Inc.

$1.00 Compensation Series F 03/30/2004 9,375 - $40,000 Preferred A. Elizier $1.00 Comp. Web Series F 03/30/2004 1,765 design - $3,500 Preferred E. McInerney $1.00 Commission Series F 03/30/2004 4,168 - $20,000 Preferred T. Mendirotta $1.00 Commission Series F 03/30/2004 12,500 - $25,000 Preferred Haicel Esther $1.00 $12,500 Series F 05/20/04 15,625 Preferred Philip Koch $0.1475 $885 Common 08/04/2004 6,000 David Fried $0.1475 $5,530 Common 08/04/2004 37,500 Harold Tishler $0.1475 $3,685 Common 08/04/2004 25,000 David Rappaport $0.1475 $9,215 Common 08/04/2004 62,500 Harold Jacobowitz $0.1475 $1,685 Common 08/04/2004 11,428 Michael Majerovic $0.1475 $1,150 Common 08/04/2004 7,800 Segoes Trust LTD $0.08 $72,000 Common 08/06/2004 900,000 Richard Barsom $0.12 Comp. Marketing Common 08/06/2004 50,000 Svc. - $6,000 Marshall Sterman $0.12 Comp. Fin'l Common 08/06/2004 200,000 Consult. - $24,000 Max Ollech $0.08 $15,400 Common 08/20/2004 200,000 Rafael Moas $0.08 $5,800 Common 08/20/2004 72,500 Dror Magori $0.08 $800 Common 08/20/2004 10,000 II-9 Price Per Date of # of Purchaser Share Purchase Amount Class Purchase Share --------- ----- -------------- ----- -------- ----- Morris Sabbach $0.08 $800 Common 08/20/2004 10,000 Randy Chalom $0.08 $1,600 Common 08/20/2004 20,000 Ezra Moas $0.08 $800 Common 08/20/2004 10,000 Ezra Mossieri $0.08 $800 Common 08/20/2004 10,000 Kellel Metzioynim $0.08 $34,600 Common 08/20/2004 450,000 George Feinsod $0.10 Comp. Tax Prep Common 08/20/2004 100,000 Fees - $10,000 Samaritan Group Intl. $0.05 Fee for UN Common 09/08/2004 500,000 Admission - $25,000 IMSCO/ F. Weston $0.05 Fee for UN Common 09/08/2004 1,000,000 Admission - $50,000 Ellis International Trust $0.075 $50,000 Common 09/17/2004 666,667 Max Ollech $0.08 $4,000 Common 09/17/2004 50,000 WW Trading Int'l $0.075 Comp. Common 10/06/2004 200,000 Commissions - $15,000 Annette Hunter $0.075 Comp. Common 10/06/2004 100,000 Commissions - $7,500 Rudolf Schindler $0.10 Comp. Accrued Common 10/29/2004 311,100 Payroll - $31,110 WW Trading Int'l $0.08 $25,000 Common 10/29/2004 312,500 Raimind Irni $0.05 Commission Common 11/15/2004 20,000 - $1,000 Nachum Lis $0.05 $40,000 Common 11/16/2004 800,000 Lyons Capital Partners $0.08 $50,000 Common 11/16/2004 625,000 Jason Lyons $0.08 Commission Common 11/24/2004 62,500 - $5,000 Richard Barsom $0.08 Comp. Mktg Common 11/24/2004 150,000 Services - $12,000 Rudolf W. Schindler $0.155 Comp./Accrued Common 12/17/2004 100,000 Payroll - $15,500 Leonard Cohen $0.10 $35,000 Common 12/17/2004 350,000 II-10 Price Per Date of # of Purchaser Share Purchase Amount Class Purchase Share --------- ----- -------------- ----- -------- ----- Haichel Esther $0.10 $40,000 Common 12/17/2004 400,000 Lyons Capital Group LLC $0.05 Commission Common 3/21/2005 100,000 - $5,000 Leonard Cohen $0.05 $10,000 Common 3/21/2005 200,000 The Resnick Druckman Group LLC $0.10 Comp. for Common 3/21/2005 130,000 Accounting Fees - $13,000 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 27. EXHIBITS. (a) Exhibits: NUMBER DESCRIPTION OF EXHIBIT ------ --------------------- 3.1 Amended and Restated By-Laws of Water Chef, Inc. - Incorporated herein by reference to Exhibit 3(ii) to the Form 10-KSB/A filed November 17, 2003. 3.2* Amended and Restated Certificate of Incorporation of Water Chef, Inc. 3.3* Certificate of Amendment of Restated Certificate of Incorporation of Water Chef, Inc. dated August 2, 1993 3.4* Certificate of Amendment of Restated Certificate of Incorporation of Water Chef, Inc. dated August 2, 1992 3.5* Certificate for Renewal and Revival of Certificate of Incorporation 3.6* Certificate of Amendment of Restated Certificate of Incorporation of Water Chef, Inc. dated February 20, 2002 3.7* Certificate of Correction filed to correct a certain error in the Certificate of Amendment of the Restated Certificate of Incorporation of Water Chef, Inc. dated May 7, 2004 4.1 Certificate of Designation of Series A Preferred Stock of Water Chef, Inc. - Incorporated herein by reference to Exhibit 4.1 to the Form 10-KSB/A filed November 17, 2003. 4.2 Certificate of Designation of Series C convertible preferred stock of Water Chef, Inc. - Incorporated herein by reference to Exhibit 4.2 to the Form 10-KSB/A filed November 17, 2003. 4.3 Certificate of Designation of Series D Preferred Stock of Water Chef, Inc. - Incorporated herein by reference to Exhibit 4.3 to the Form 10-KSB/A filed November 17, 2003. 4.4* Certificate of Designation of Series F convertible preferred stock of Water Chef, Inc. 4.5 Series B Warrant to Purchase Common Stock and Allonge to and Amendment and Extension of Common Stock Purchase Warrant - Incorporated herein by reference to Exhibit 4.4 to the Form 10-KSB/A filed November 17, 2003. 4.6* Series B Second Allonge to and Amendment and Extension of Common Stock Purchase Warrant 4.7 Subordinated Debentures - Incorporated herein by reference to Exhibit 4.5 to the Form 10-KSB/A filed November 17, 2003. 5.1** Opinion of Olshan Grundman Frome Rosenzweig & Wolosky LLP 10.1 Mutual Settlement Agreement and General Release, dated June 20, 2002, by and between the Company; K. Thomas and Callaway Decoster, as husband and wife; K. Thomas Decoster, individually; Michael P. and Roberta S. Gaudette, as husband and wife; Dominic M. Strazzulla; the Felix A. Hertzka Estate; Claudette L. Gelfand and the Claudette L. Gelfand Revocable Trust; Catherine C. Griffin; Michael B. and Diane L. Hayden, as husband and wife; Alexander Harris; Holly O. Harris; and Joseph R. II-11 NUMBER DESCRIPTION OF EXHIBIT ------ --------------------- Fichtl and the Joseph R. Fichtl 1995 Trust - Incorporated herein by reference to Exhibit 10.1 to the Form 10-KSB/A filed April 15, 2004. 10.2 Addendum to Settlement Agreement, dated June 20, 2002, by and between the Company; K. Thomas and Callaway Decoster, as husband and wife; K. Thomas Decoster, individually; Michael P. and Roberta S. Gaudette, as husband and wife; Dominic M. Strazzulla; the Felix A. Hertzka Estate; Claudette L. Gelfand and the Claudette L. Gelfand Revocable Trust; Catherine C. Griffin; Michael B. and Diane L. Hayden, as husband and wife; Alexander Harris; Holly O. Harris; and Joseph R. Fichtl and the Joseph R. Fichtl 1995 Trust Trust - Incorporated herein by reference to Exhibit 10.2 to the Form 10-KSB/A filed April 15, 2004. 10.3 Subdistributorship Agreement dated May 18, 2001 between 4 Clean Waters LTD. and the Company - Incorporated herein by reference to Exhibit 10.2 to the Form 10-KSB/A filed November 17, 2003. 10.4 Convertible Promissory Note dated November 17, 2000 to 4 Clean - Lindh Joint Venture by the Company - Incorporated herein by reference to Exhibit 10.1 to the Form 10-KSB/A filed November 21, 2004. 10.5 Preliminary Agreement, dated September 8, 2004 by, and among, Water Chef, Inc., Samaritan Group International, and International Multiracial Shared Cultural Organization (IMSCO) - Incorporated herein by reference to Exhibit 10.1 to the Form 10-QSB filed November 17, 2004. 23.1** Consent of Marcum & Kliegman LLP 23.2** Consent of Olshan Grundman Frome Rosenzweig & Wolosky LLP (contained in Exhibit 5.1). 24.1* Powers of Attorney (included on the signature page of this Registration Statement). * previously filed ** filed herewith ITEM 28. UNDERTAKINGS. (a) The undersigned registrant hereby undertakes: (1) To file, during any period in which it offers or sells securities, a post-effective amendment to this registration statement: (i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933 (the "Securities Act"); (ii) To reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; (iii) To include any additional or changed material information; PROVIDED, HOWEVER, that paragraphs (a)(1)(i) and (a)(1)(ii) of this section do not apply if the registration statement is on Form S-3, Form S-8 or Form F-3, and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement. II-12 (2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering. (b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue. II-13 SIGNATURES In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and has authorized this registration statement to be signed on its behalf by the undersigned, in the City of New York, State of New York, on May 5, 2005. WATER CHEF, INC. By: /s/ David A. Conway -- David A. Conway Chairman of the Board, President, Chief Executive

Officer and Chief Financial Officer In accordance with the requirements of the Securities Act of 1933, this registration statement has been signed below by the following persons in the capacities and on the dates indicated. SIGNATURE TITLE DATE --------- ----- ---- /s/ David A. Conway Chairman of the Board, President, May 5, 2005 ------------------------------- Chief Executive Officer and Chief David A. Conway Financial Officer (Principal Executive Officer and Principal Financial and Accounting Officer) * ------------------------------- Director May 5, 2005 Marshall S. Sterman * ------------------------------- Director May 5, 2005 John J. Clarke, Jr. * By: /s/ David A. Conway ---------------------- David A. Conway Attorney-in-fact II-14