AQUACELL TECHNOLOGIES INC
Form 10QSB
May 22, 2006

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

FORM 10-QSB

(Mark one)
_X_ Quarterly report under Section 13 or 15(d) of
the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2006.

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

Commission File Number 1-16165

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Common Stock, $.001 par value
27,909,408 shares outstanding as of May 19, 2006.

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

AQUACELL TECHNOLOGIES, INC.

FORM 10-QSB

FOR THE QUARTER ENDED MARCH 31, 2006

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PART I - FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
March 31, 2006
(Unaudited)

ASSETS	
Current assets:	
Cash	$ 9,000
Accounts receivable, net of allowance of $15,000	11,000
Inventories	22,000
Loan receivable- related party	515,000
Prepaid expenses and other current assets	5,000
Total current assets	562,000
Property, equipment, and billboard coolers, net	1,239,000
Other assets:	
Patents, net	38,000
Security deposits	8,000
Total other assets	46,000
	$ 1,847,000
LIABILITIES AND STOCKHOLDERS' DEFICIENCY	
Current liabilities:	
Accounts payable	$ 581,000
Accrued liabilities	986,000
Preferred stock dividend payable- Class A	1,000
Loan payable- related party	30,000
Current portion of deferred payable	22,000
Total current liabilities	1,620,000
Deferred payable- net of current portion	451,000
Total liabilities	2,071,000
Commitments and contingencies	
Stockholders' deficiency:	
Preferred stock - Class A, par value $.001; liquidity preference $45,000; 1,870,000 shares authorized; 70,000 shares issued and outstanding	-
Preferred stock - Class B, par value $.001; 4,000,000 shares authorized; no shares issued and outstanding	-
Preferred stock, par value $.001; 4,130,000 shares authorized; no shares issued and outstanding	-
Common stock, par value $.001; 75,000,000 shares authorized; 27,909,408 shares issued and outstanding	28,000
Additional paid-in capital	25,665,000
Accumulated deficit	(25,300,000)

	393,000
Unamortized deferred compensation	(617,000)
Total stockholders' deficiency	(224,000)
	$ 1,847,000

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,		Nine Mon Marc
	2006	2005	2006
Revenue:			
Net sales	$ 27,000	$ 36,000	$ 95,000
Advertising revenue	-	20,000	76,000
	27,000	56,000	171,000
Cost and expenses:			
Cost of sales	9,000	14,000	47,000
Salaries and wages	123,000	230,000	395,000
Legal, accounting and other professional expenses	42,000	70,000	146,000
Stock based compensation	356,000	262,000	767,000
Other	405,000	343,000	1,209,000
	935,000	919,000	2,564,000
Loss from operations	(908,000)	(863,000)	(2,393,000)
Other income (expense):			
Management fee income- related party	-	30,000	-
Interest income (expense)- related party	8,000	(2,000)	20,000
Interest expense	(41,000)	-	(77,000)
	(33,000)	28,000	(57,000)
Loss from continuing operations	(941,000)	(835,000)	(2,450,000)
Discontinued operations:			
Loss from discontinued operations of subsidiary	(133,000)	(37,000)	(651,000)
Loss from write off of goodwill attributable to discontinued operations	(750,000)	-	(750,000)
Loss from discontinued operations	(883,000)	(37,000)	(1,401,000)

Net loss	$(1,824,000)	$ (872,000)	$(3,851,000)
Weighted average shares outstanding- basic and diluted	26,244,000	17,906,000	23,106,000
Loss attributable to common stockholders:			
Net loss	$(1,824,000)	$ (872,000)	$(3,851,000)
Preferred stock dividends	1,000	1,000	3,000
Loss attributable to common stockholders	$(1,825,000)	$ (873,000)	$(3,854,000)
Loss from continuing operations	$ (.04)	$ (.05)	$ (.11)
Loss from discontinued operations	$ (.03)	$ (.00)	$ (.06)
Net loss per common share	$ (.07)	$ (.05)	$ (.17)

See notes to condensed consolidated financial statements.

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

	Nine Months Ended Ma	
	2006	
Cash flows from operating activities:		
Loss from continuing operations	$ (2,450,000)	$ (2,
Adjustment to reconcile loss from continuing operations to net cash used in operating activities:		
Stock based compensation	767,000	
Depreciation and amortization	130,000	
Bad debt provision	6,000	
Changes in:		
Accounts receivable	35,000	
Prepaid expenses and other current assets	35,000	
Inventories	(12,000)	
Security deposits	3,000	
Accounts payable	(141,000)	
Accrued liabilities	114,000	
Unearned income	-	
Customer deposits	-	
Net cash used in operating activities	(1,513,000)	(1,
Cash flows from investing activities:		
Payments on note issued for purchase of property and equipment	-	
Capital expenditures	(144,000)	(
Net cash used in investing activities	(144,000)	(

Cash flows from financing activities:		
Proceeds from private placements of common stock	620,000	
Expenses of offerings	(25,000)	
Proceeds from private placement of Class B preferred stock	68,000	
Preferred stock dividends paid- Class B	(37,000)	
Proceeds from subscriptions receivable	168,000	
Proceeds from exercise of common stock warrants	1,315,000	1,
Expense of warrant exercise	(72,000)	
Loans to related entities- net	(395,000)	(
Repayments of loans from related parties- net	(70,000)	
Net cash provided by financing activates	1,572,000	1,
Net cash provided from (used by) discontinued operations	2,000	
(Decrease) in cash	(83,000)	(
Cash, beginning of period	92,000	
Cash, end of period	$ 9,000	$

See notes to condensed consolidated financial statements.

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

	Nine Months Ended Ma	
	2006	
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ -	$
Supplemental schedule of non-cash investing and financing activities:		
Issuance of common stock and warrants for services to the company	$ -	$
Dividends payable on preferred stock- Class A	$ 1,000	$
Subscriptions receivable for exercise of warrants	$ -	$
Issuance of common stock in payment of dividends on preferred stock	$ 4,000	$
Issuance of common stock for legal fee in connection with stock offering	$ -	$
Expense of warrant exercise offset against subscription receivable	$ 57,000	$
Deemed dividends on preferred stock	$ 24,000	$
Expenses of equity raise recorded as accounts payable	$ 1,000	$
Conversion of 605,000 shares of Class A preferred stock into 605,000 shares of common stock	$ -	$
Conversion of 718,000 shares of Class B preferred stock into 718,000 shares of common stock	$ 1,000	$

See notes to condensed consolidated financial statements.

AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006 (Unaudited)

NOTE A - BASIS OF PRESENTATION

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the nine months ended March 31, 2006 are not necessarily indicative of the results to be expected for the full year. For further information, refer to the Company's annual report filed on Form 10-KSB for the year ended June 30, 2005.

The Company incurred net losses of $3,851,000 and $2,595,000 for the nine months ended March 31, 2006 and 2005, respectively. In addition, the Company had a working capital deficiency of $1,058,000 and a stockholders' deficiency of $224,000 at March 31, 2006. These factors continue to raise substantial doubt about the Company's ability to continue as a going concern.

There can be no assurance that sufficient funds will be generated during the next year or thereafter from operations or that funds will be available from external sources such as debt or equity financings or other potential sources. The lack of additional capital could force the Company to curtail or cease operations and would, therefore, have a material adverse effect on its business. Furthermore, there can be no assurance that any such required funds, if available, will be available on attractive terms or that they will not have a significant dilutive effect on the Company's stockholders.

The accompanying condensed consolidated financial statements do not include any adjustments related to the recoverability or classification of asset-carrying amounts or the amounts and classifications of liabilities that may result should the Company be unable to continue as a going concern.

Reclassifications:

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

New Accounting Pronouncements:

In December 2004, the FASB issued SFAS No. 123R, "Share Based Payment." This statement is a revision of SFAS No. 123 and supersedes APB 25 and its related implementation guidance. SFAS 123R addresses all forms of share based payment ("SBP") awards including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. Under SFAS 123R, SBP awards result in a cost that will be measured at fair value on the awards' grant date, based on the estimated number of awards that are expected to vest. This statement was adopted by the Company as of January 1, 2006.

AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006 (Unaudited)

NOTE B - INVENTORIES

Inventories consist of the following at March 31, 2006:

Raw materials	$ 22,000

NOTE C - LOAN RECEIVABLE- RELATED PARTY

At March 31, 2006 loan receivable from related party consisted of advances made to Aquacell Water, Inc., a former subsidiary. These advances bear interest at prime rate plus 1/2% and are payable on demand.

NOTE D - PROPERTY, EQUIPMENT, AND BILLBOARD COOLERS

Property, equipment, and billboard coolers is summarized as follows at March 31, 2006:

Billboard coolers - on location	$ 776,000
Billboard coolers - not on location	395,000
Billboard cooler parts - not on location	207,000
Furniture and fixtures	36,000
Equipment - office	43,000
Machinery and equipment	79,000
Leasehold improvements	12,000
Truck	11,000
	1,559,000
Less accumulated depreciation	320,000
	$ 1,239,000

Depreciation expense was $114,000 and $24,000 for the nine months ended March 31, 2006 and 2005 respectively.

NOTE E - ACCRUED LIABILITIES

At March 31, 2006 the accrued liabilities consisted of officers' salaries of $289,000, payroll taxes withheld of $295,000, accrued payroll taxes of $97,000, accrued penalties and interest on taxes payable of $128,000 and other accrued liabilities of $177,000. As of March 31, 2006 two tax liens have been filed, one Federal tax lien of approximately $76,000 and one state tax lien of approximately $26,000.

NOTE F - DEFERRED PAYABLE

At March 31, 2006, the deferred payable in the amount of $473,000 represented the balance due to a private company for the return and cancellation of all exclusive distribution and marketing rights previously held under a distribution agreement. This amount is payable solely from 5% of the future revenues to be generated by our Global Water-Aquacell subsidiary.

NOTE G - EQUITY TRANSACTIONS

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

During August 2005 the Company completed a private placement of 900,000 shares of its common stock. The offering consisted of one share of common stock at a price of $.30 per share and one-half common stock purchase warrant exercisable at $.60 per share. The Company received proceeds of $270,000 and there were no expenses incurred. The offering also consisted of one half common stock purchase warrant in the Company's Aquacell Water subsidiary exercisable at $5.00 per share.

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

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

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

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

AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006 (Unaudited)

NOTE G - EQUITY TRANSACTIONS - (continued)

During November 2005 the Company issued an aggregate of 277,845 shares of common stock in connection with the exercise of 277,845 common stock warrants. Warrants with an exercise price of $.70 were repriced to $.40. The Company realized gross proceeds of $111,000 and expenses were $11,000 in connection with the exercises. New common stock purchase warrants were issued for 277,845 shares of common stock exercisable at $.60 per share. In addition 277,845 common stock purchase warrants were issued in the Company's Aquacell Water subsidiary exercisable at $5.00 per share.

During December 2005 the Company issued an aggregate of 400,000 shares of common stock in connection with the exercise of 400,000 common stock warrants. Warrants with exercise prices of $.55 and $.50 were repriced to $.12. The Company realized gross proceeds of $48,000 and there were no expenses in connection with the exercise. New common stock purchase warrants were issued for 400,000 shares of common stock exercisable at $.20 per share.

During January 2006 the Company issued an aggregate of 11,828 common shares in payment of accrued dividends on the Class A Preferred Stock.

During January 2006 the Company issued an aggregate of 1,250,453 shares of common stock in connection with the exercise of 1,250,453 common stock warrants. Warrants with exercise prices ranging from $.50 to $4.00 were repriced to prices ranging between $.10 and $.125. The Company realized gross proceeds of $148,000 and expenses were $11,000 in connection with the exercises. New common stock purchase warrants were issued for 1,250,453 shares of common stock exercisable at $.35 per share.

During January 2006 the Company completed a private placement for 500,000 shares of its common stock. The offering consisted of 500,000 shares of common stock at a price of $.20 per share and 250,000 common stock purchase warrants exercisable at $.35 per share. The Company realized gross proceeds of $100,000 and there were no offering expenses.

During February 2006 the Company issued an aggregate of 223,473 shares of common stock in connection with the exercise of 223,473 common stock warrants. Warrants with exercise prices ranging from $.35 to $1.75 were repriced to $.20. The Company realized gross proceeds of $45,000 and expenses were $5,000 in connection with the exercises. New common stock purchase warrants were issued for 223,473 shares of common stock exercisable at $.40 per share.

During March 2006 the Company completed a private placement for 937,500 shares of its common stock. The offering consisted of 937,500 shares of common stock at a price of $.16 per share and 468,750 common stock purchase warrants exercisable at $.40 per share. The Company realized gross proceeds of $150,000 and expenses were $15,000 in connection with the placement.

AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006 (Unaudited)

NOTE G - EQUITY TRANSACTIONS - (continued)

During March 2006 the Company issued an aggregate of 751,666 shares of common stock in connection with the exercise of 751,666 common stock warrants. Warrants with exercise prices ranging from $.55 to $1.75 were repriced to $.20. The Company realized gross proceeds of $150,000 and expenses were $15,000 in connection with the exercises. New common stock purchase warrants were issued for 751,666 shares of common stock exercisable at $.40 per share.

Increase in Authorized Capitalization

On July 19, 2005 the Board of Directors approved an amendment to the Company's Certificate of Incorporation to permit the Company to issue up to 75,000,000 shares of common stock. This amendment was approved by the stockholders at the December 7, 2005 annual meeting.

Amendment to 1998 Incentive Stock Plan

On October 10, 2005 the Board of Directors approved an increase in the 1998 Incentive Stock Plan's shares reserved for issuance from 2,000,000 to 3,000,000. This amendment was approved by the stockholders at the December 7, 2005 annual meeting.

Conversion of Class B Preferred Stock

During the nine months ended March 31, 2006, 918,000 shares of Class B Preferred Stock were converted into common shares of the Company on a share for share basis. No shares of Class B Preferred stock were issued and outstanding at March 31, 2006.

Stock Based Compensation

Effective January 1, 2006, the Company adopted "SFAS 123(R)", which requires all share-based payment transactions with employees, including grants of employee stock options, to be recognized as compensation expense over the requisite service period based on their relative fair values. Prior to the adoption of SFAS 123(R), stock-based compensation expense related to employee stock options was not recognized in the Statement of Operations if the exercise price was at least equal to the market value of the common stock on the grant date, in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Prior to January 1, 2006, the Company followed the disclosure- only provisions under SFAS 123.

For the quarter ended March 31, 2006, stock based compensation included $158,000 attributable to fully vested employee stock options.

AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006 (Unaudited)

NOTE H - SPIN-OFF OF SUBSIDIARY

On July 19, 2005 the Board of Directors approved that management reincorporate its Water Science Technologies subsidiary in Delaware and change its name to Aquacell Water, Inc.

On November 8, 2005 the Company filed a Form 10 on behalf of its Aquacell Water subsidiary in connection with the spin-off.

This report has reclassified the assets, liabilities and operations of the Aquacell Water company to reflect discontinued operations based on the March 9, 2006 record date.

On March 13, 2006 the Form 10 of Aquacell Water that registered all 27,809,408 issued and outstanding shares of its common stock to be distributed to the AquaCell Technologies, Inc. common stockholders on a share for share basis was declared effective.

NOTE I - DISCONTINUED OPERATIONS

March 9, 2006 was established by the Company as the record date for the spin-off of the common stock of its Aquacell Water, Inc. subsidiary to the common stockholders of the Company on a share for share basis.

The Financial Accounting Standards Board's SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," addresses financial accounting and reporting for the disposal of a component of an entity that has been disposed of in a distribution to owners.

The Company has disposed of its Aquacell Water, Inc. subsidiary through a distribution of common shares to its stockholders. Consequently, the accompanying condensed consolidated financial statements reflect operations of Aquacell Water, Inc. as discontinued operations in accordance with SFAS No. 144. Results of operations and cash flows of Aquacell Water have been classified as "Loss from discontinued operations," and "Net cash provided by (used in) discontinued operations," respectively.

Summarized below are the results of discontinued operations:

	Nine Months Ended March 31, 2006	Nine Months Ended March 31, 2005
Net Sales	$ 555,000	$ 34,000
Discontinued Operations:		
Loss from discontinued operations of subsidiary	$ (651,000)	$ (277,000)
Write-off goodwill attributable to Company's investment in Aquacell Water, Inc.	(750,000)	-
Loss from discontinued operations	$(1,401,000)	$ (277,000)

AQUACELL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006 (Unaudited)

NOTE J - COMMITMENTS AND CONTINGENCIES

Employee Contracts

On November 1, 2005 the Company entered into five year employment agreements with three executives of the Company. These agreements provide for aggregate minimum annual salaries of $284,000. The agreements also provide for incentive bonuses based upon achievement of certain milestones.

NOTE K - OTHER COSTS AND EXPENSES

Other costs and expenses consisted of the following:

	Nine Months Ended March 31, 2006	Nine Months Ended March 31, 2005
Manufacturing expenses - billboard coolers.	$ 329,000	$ 389,000
Rent......................................	29,000	29,000
Telephone and utilities...................	43,000	25,000
Travel....................................	20,000	51,000
Business promotion........	49,000	77,000
Consulting, service fees, commissions and expenses..............	229,000	45,000
Insurance.................................	37,000	46,000
Vehicle expenses..........................	25,000	46,000
Listing fees..............................	-	28,000
Exchange fees, transfer agent fees and investor fees and expenses............	91,000	122,000
Office expenses, postage and supplies......	17,000	16,000
Depreciation and amortization.............	130,000	39,000
Supplies..................................	39,000	32,000
Other expenses............................	171,000	59,000
	$ 1,209,000	$ 1,004,000

NOTE L - INTEREST EXPENSE:

Included in interest expense is penalties and interest on delinquent payroll taxes payable in the amount of $42,000 for the nine months ended March 31, 2006 and $-0- for the nine months ended March 31, 2005.

NOTE M - SEGMENT DATA:

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

The following table presents information about the Company's business segments as of and for the nine months ended March 31, 2006 and 2005.

	Three Months Ended March 31, 2006			Nine Months Ended March 31, 2006	
	Water Related Products	Advertising	Total	Water Related Products	Adverti
Net revenue.....................$	95,000	$ 76,000	$ 171,000	$ 147,000	$ 20
Loss from continuing operations.$	(710,000)	$(1,740,000)	$(2,450,000)	$ (872,000)	$(1,446
Stock based compensation........$	28,000	$ 739,000	$ 767,000	$ 140,000	$ 605
Depreciation and amortization...$	1,000	$ 129,000	$ 130,000	$ 1,000	$ 38
Identifiable assets.............$	446,000	$ 1,401,000	$ 1,847,000	$ 224,000	$ 1,236

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

Forward-Looking Statements

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

Overview

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

The operations of AquaCell Technologies, Inc. are conducted through its AquaCell Media, Inc. subsidiary. AquaCell Media, Inc. is in the out-of-home segment of the advertising industry through the sale of advertising on our patented self-filling water cooler, the Aquacell Bottled Water Cooler System. This business model called "Coolertising" was launched in 2004, designed to provide us with an on-going revenue model in comparison to selling the coolers, as we had previously done. We install our "billboard" water coolers into retail and other strategic locations free of charge to these locations under five-year contracts, and retain ownership of the cooler. We currently have approximately 1400 coolers installed in Rite Aid and Duane Reade drug stores.

During the quarter ended March 31, 2006, we signed contracts with Winn-

Dixie supermarkets and CVS pharmacies for installation of our billboard water coolers, and will begin these installations in the next quarter. We continue to have a test program underway in Kmart/Sears.

Advertisers to date have been CBS Television and Unilever, who reported a 34% sales lift of its advertised Dove Cooler Moisture in stores carrying the cooler ads. CBS Television has used Coolertising to promote three new comedies, and has signed up for a new campaign for the late-summer/early fall 2006.

Coolertising has begun to gain recognition in advertising trade magazines, and during the quarter ended March 31, 2006 was included in an article in Business Week on out of home advertising.

Critical Accounting Policies

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

Income taxes:

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

New Accounting Pronouncements:

In December 2004, the FASB issued SFAS NO. 123R, "Share Based Payment." This statement is a revision of SFAS No. 123 and supersedes APB 25 and its related implementation guidance. SFAS 123R addresses all forms of share based payment ("SBP") awards including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. Under SFAS 123R, SBP awards result in a cost that will be measured at fair value on the awards' grant date, based on the estimated number of awards that are expected to vest. This statement was adopted by the Company effective January 1, 2006.

Results of Operations

During the quarter ended March 31, 2006 the spin-off of the Company's Aquacell Water subsidiary was declared effective and, in accordance with the Financial Accounting Standards Board's SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," its operations were required to be classified as discontinued operations since it was disposed of in a distribution to the owners of the Company's common stock. Accordingly, the statement of operations has been reclassified to reflect the loss from discontinued operation which, during the quarter ended March 31, 2006, included the write-off of goodwill, in the amount of $750,000, in connection with the Company's original acquisition of Aquacell Water.

Nine Months Ended March 31, 2006

Continuing Operations

During the nine months ended March 31, 2006 on a consolidated basis, revenues from continuing operations were $171,000 as compared to $167,000 for the similar period of the preceding year. Cost of sales was 50% of net sales for the nine months ended March 31, 2006 as compared to 46% of net sales for the same period of the prior year.

Loss from continuing operations on a consolidated basis, attributable to common stockholders, for the nine months ended March 31, 2006 increased to $2,450,000 as compared to $2,318,000 for the same period of the prior year resulting primarily from the amortization of vested stock options, in the amount of $158,000, in accordance with SFAS No. 123R that was adopted by the Company as of January 1, 2006.

Salaries and wages decreased by $212,000 for the nine months ended March 31, 2006 over the prior year resulting primarily from the new current year executive employment contracts reflecting lower base salaries. Legal, accounting and other professional expenses decreased by approximately $33,000 for the nine months ended March 31, 2006. Stock based compensation increased by $22,000 to $767,000 for the nine months ended March 31, 2006 resulting from a charge of $158,000 from the adoption of SFAS No. 123R offset by a reduction in warrant compensation attributable to a direct write-off of certain warrants at the end of the prior year. Other selling, general and administrative expenses, increased by approximately $205,000 to $1,209,000 for the nine months ended March 31, 2006. Current period expenses consisted primarily of manufacturing expenses, billboard coolers- $329,000, rent- $29,000, telephone and utilities- $43,000, travel- $20,000, business promotion- $49,000, consulting and service fees, commissions and expenses- $229,000, insurance- $37,000, and vehicle expenses- $25,000.

Discontinued Operations

Loss from discontinued operations increased by $1,124,000 for the nine months ended March 31, 2006. The record date for the distribution of Aquacell Water to the Company's common stockholders was established at March 9, 2006 and, in accordance with SFAS No. 144, the operations of Aquacell Water were reclassified to discontinued operations. In addition, the Company was required to write-off the balance of goodwill resulting from its investment in Aquacell Water resulting in a one-time charge of $750,000 and increasing the loss from discontinued operations for the nine month period ended March 31, 2006.

Three Months Ended March 31, 2006

Continuing Operations

During the three months ended March 31, 2006 on a consolidated basis the loss from continuing operations increased by $106,000 to $941,000 from the comparable period of the prior year resulting primarily from the $158,000 charge for vested stock options under SFAS No. 123R. The operating loss from discontinued operations, increased by $96,000 for the three months ended March 31, 2006 over the prior year and the loss was increased by the $750,000 one-time write-off of goodwill discussed above.

During the three months ended March 31, 2006, on a consolidated basis, revenues from continuing operations decreased by $29,000 over the three months ended March 31, 2005 resulting primarily from a decline in advertising revenues.

Salaries and wages decreased by $107,000 for the three months ended March 31, 2006 over the prior year resulting primarily from the current year allocation of a portion of executive and other salaries to Aquacell Water. These costs are reflected in the increased loss from discontinued operations. Legal, accounting and other professional expenses decreased by approximately $28,000 for the three months ended March 31, 2006. Stock based compensation increased by $94,000 to $356,000 for the three months ended March 31, 2006. Other selling, general and administrative expenses increased by approximately $62,000 to $405,000 for the three months ended March 31, 2006. Current period expenses consisted primarily of manufacturing expenses- billboard coolers- $138,000, consulting and service fees, commissions and expenses- $84,000, depreciation and amortization- $46,000, rent- $10,000 and business promotion- $29,000.

Discontinued Operations

Loss from discontinued operations for the three months ended March 31, 2006 consisted of an operating loss of $133,000 and a one-time write-off of goodwill in the amount of $750,000.

Liquidity and Capital Resources

The Company has developed a plan to address liquidity, in connection with its ability to continue as a going concern, in several ways. It intends to continue to raise capital through the sale or exercise of equity securities. Toward that end the Company raised net equity of approximately $1,906,000 through the exercise of warrants to purchase common shares and private placements of its common and preferred B shares during the nine months ended March 31, 2006. The Company has continued to pursue the placement of our water cooler billboards in various locations and the Company is seeking to increase its revenues through the sale of advertising on the band of the cooler's permanently attached five-gallon.

Cash used by continuing operations during the nine months ended March 31, 2006 amounted to $1,513,000. Net loss from continuing operations of $2,450,000 was reduced by non-cash stock based compensation in the amount of $767,000 depreciation and amortization of $130,000 and bad debt provision of $6,000. Cash used by operations was further increased by a decrease in accounts payable in the amount of $141,000. Net loss was further decreased by an increase in accrued liabilities of $114,000 and by net changes in prepaid expenses, accounts receivable, customer deposits, security deposits, and inventories aggregating $61,000.

Cash used by investing activities during the nine months ended March 31, 2006 represented capital expenditures in the amount of $144,000 primarily for billboard coolers.

Cash provided by financing activities was approximately $1,572,000. Proceeds from private placements of common and preferred B stock amounted to $688,000. Proceeds from exercise of common stock purchase warrants amounted to $1,315,000. Proceeds from subscriptions receivable were $168,000. Expenses of our equity raises amount to $97,000, Net loan repayments were made to related parties in the amount of $70,000 and dividends were paid on the Class B preferred stock in the amount of $37,000. Net loans to related company spun-off during the quarter ended March 31, 2006 amounted to $395,000.

Net cash provided from discontinued operations amounted to $2,000 for the nine months ended March 31, 2006.

We have granted warrants, subsequent to our initial public offering, in connection with private placements, consulting, marketing and financing agreements that remain outstanding at the date of this filing and may generate additional capital of up to approximately $10,448,000 if exercised. As of March 31, 2006 150,000 warrants generating $2,000 were in the money and 1,641,095 warrants generating $10,446,000 were out of the money. Historically, the Company has repriced out of the money warrants issued in connection with equity placements to generate additional capital. There is no assurance however, that any of the warrants will be exercised.

At March 31, 2006 there were two outstanding tax liens; a Federal tax lien against an inactive subsidiary in the amount of $76,000 and a state tax lien against an inactive subsidiary in the amount of $26,000. We are in negotiations to reach settlement agreements with the appropriate tax agencies. There are no assurances that these negotiations will result in successful agreements and the Company's assets could be subject to enforcement action.

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

PART II. OTHER INFORMATION

ITEM 2 (C). SALES OF UNREGISTERED SECURITIES

During the quarter ended March 2006 the Registrant sold 2,225,592 shares of common stock upon exercise of Common Stock Purchase Warrants to 11 accredited investors pursuant to the exemption provided by Regulation D, Rule 505, and Section 4(2) of the Securities Act of 1933, as amended. New Common Stock Purchase Warrants were issued to the investors at prices ranging from $.35 to $.40.

During the quarter ended March 2006 the Registrant sold 1,437,500 shares of common stock in connection with Private Placements to 3 accredited investors pursuant to the exemption provided by Regulation D, Rule 505 and section 4(2) of the Securities Act of 1933, as amended.

ITEM 3. CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this Report the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's chief executive officer and chief financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-14 adopted under the Securities Exchange Act of 1934. Based upon that evaluation, the chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

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

During the period covered by this Report on Form 10-QSB there were no matters submitted to a vote of security holders.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A. Exhibits.

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

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

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

B. Reports on Form 8-K.

During the period covered by this Form 10-QSB the following report of Form 8-K was filed:

March 3, 2006 - Agreement with CVS Pharmacy, Inc. to install water coolers into the pharmacy areas in CVS stores.

SIGNATURE

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

AquaCell Technologies, Inc.

Registrant

Date: May 22, 2006

/s/ Gary S. Wolff

Name: Gary S. Wolff

Title: Chief Financial Officer

INDEX TO EXHIBITS

Exhibit Number	Description
31.1	CEO's Certification Pursuant to Rule 13a-14(a)/ 15d-14(a)
31.2	CFO's Certification Pursuant to Rule 13a-14(a)/ 15d-14(a)
32.0	Certification Pursuant to 18 U.S.C. Section 1350