SECURITIES AND EXCHANGE COMMISSION

FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **1999-09-10** | Period of Report: **1999-07-31**
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FILER

ELECTROPURE INC

CIK:**808015**| IRS No.: **330056212** | State of Incorp.:**CA** | Fiscal Year End: **1031**
Type: **10QSB** | Act: **34** | File No.: **000-16416** | Film No.: **99709226**
SIC: **6794** Patent owners & lessors

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SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended JULY 31, 1999 Commission file number 0-16416

ELECTROPURE, INC.
(Exact name of registrant as specified in its charter)

CALIFORNIA	33-0056212
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

23456 South Pointe Drive, Laguna Hills, California 93653
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (949) 770-9347

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $0.01 per share
(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 [ ].

At September 9, 1999, 7,788,925 shares of the Registrant's stock were outstanding.

ELECTROPURE, INC.

BALANCE SHEETS

<TABLE>
<CAPTION>

<S>	October 31, 1998 <C>	July 31, 1999 (Unaudited) <C>
ASSETS		
Current assets:		
Cash and equivalents	$ 57,440	$ 386,397
Receivables:		
Trade accounts receivable	161,225	115,103
Notes receivable - related party	70,627	--
	231,852	115,103
Inventory	320,532	185,152

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Other current assets	24,505	186,576
TOTAL CURRENT ASSETS	634,329	873,228
Property and equipment, at cost:		
Machinery and equipment	4,900	161,842
Furniture and fixtures	89,811	97,472
Automobiles	23,000	39,797
Leasehold improvements	28,443	46,917
	146,154	346,028
Less accumulated depreciation and amortization	12,109	44,268
Property and equipment, net	134,045	301,760
Intangible assets, net of accumulated amortization	528,192	141,945
Other assets	90,000	105,000
	$ 1,386,566	$ 1,421,933

</TABLE>

See accompanying notes to financial statements.

ELECTROPURE, INC.

BALANCE SHEETS

<TABLE>
<CAPTION>

<S>	October 31, 1998 <C>	July 31, 1999 (Unaudited) <C>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 126,843	$ 87,911
Note payable to officer	6,216	6,649
Customer deposit	100,000	170,160
Other current liabilities	116,313	103,582
TOTAL CURRENT LIABILITIES	349,372	368,302
Note payable to officer, net of current portion	12,315	7,273
Redeemable convertible preferred stock, $.01 assigned par value. Authorized 2,600,000 shares; issued and outstanding 2,600,000 shares in 1998 and 1999	26,000	26,000
Stockholders' equity:		
Series B preferred stock, $1.00 assigned par value, 1,000,000 shares authorized; none issued and outstanding in 1998; 1,000,000 shares issued and outstanding in 1999	--	1,000,000
Common stock, $.01 assigned par value. Authorized 20,000,000 shares; 8,618,925 and 7,788,925 shares issued and outstanding in 1998 and 1999	86,189	77,889
Class B common stock, $.01 assigned par value 83,983 shares authorized, issued and outstanding in 1998 and 1999	840	840
Additional paid-in capital	20,032,205	20,945,159
Accumulated deficit	(19,059,605)	(20,542,780)
Notes receivable on common stock	(60,750)	(460,750)
	998,879	1,020,358
Total Liabilities and Stockholders' Equity	$ 1,386,566	$ 1,421,933

</TABLE>

See accompanying notes to financial statements.

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ELECTROPURE, INC.

STATEMENTS OF OPERATIONS
(UNAUDITED)

<TABLE>
<CAPTION>

	Three months ended July 31, 1998	Three months ended July 31, 1999	Nine months ended July 31, 1998	Nine months ended July 31, 1999
<S>	<C>	<C>	<C>	<C>
Net sales	$ 326,835	$ 176,144	$ 501,200	$ 557,240
Cost of sales	317,447	591,170	507,381	1,142,600
Gross profit (loss)	9,388	(415,026)	(6,181)	(585,360)
Costs and expenses:				
Research and development	124,992	218,104	259,336	543,134
General and administrative	253,169	143,108	929,339	297,947
	378,161	361,212	1,188,675	841,081
Loss from operations	(368,773)	(776,238)	(1,194,856)	(1,426,441)
Interest income (expense), net	5,755	1,783	2,078	10,393
Bonus paid for membrane technology	--	(67,127)	--	(67,127)
	5,755	(65,344)	2,078	(56,734)
Loss before provision for income taxes	(363,018)	(841,582)	(1,192,778)	(1,483,175)
Provision for income tax	(800)	(800)	(800)	(800)
Net loss	$ (363,818)	$ (842,382)	$ (1,193,578)	$ (1,483,975)
NET LOSS PER SHARE, BASIC AND DILUTED	$ (0.06)	$ (0.10)	$ (0.20)	$ (0.18)
Weighted average common and common equivalent shares outstanding	6,087,807	8,128,998	6,087,807	8,128,998

</TABLE>

See accompanying notes to financial statements.

ELECTROPURE, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

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	Shares: Series B Convertible Preferred	Shares: Common	Shares: Class B Common	Stock: Series B Convertible Preferred	Stock: Common	Stock: Class B Common
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, October 31, 1998	--	8,618,925	83,983	--	86,189	840
Series B Convertible Preferred shares issued in private placement offering	1,000,000	--	--	1,000,000	--	--
Common shares and warrants issued in private placement offering	--	1,020,000	--	--	10,200	--
Common shares issued for legal services to be rendered	--	100,000	--	--	1,000	--

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Common shares cancelled upon settlement of lawsuit	--	(1,950,000)	--	--	(19,500)	--
Warrants granted on common stock to employees and consultants for services	--	--	--	--	--	--
Net loss	--	--	--	--	--	--
Balance, July 31, 1999	1,000,000	7,788,925	83,983	1,000,000	77,889	840

</TABLE>

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	Additional Paid-in Capital	Accumulated Deficit	Note Receivable Common Stock	Total
<S>	<C>	<C>	<C>	<C>
Balance, October 31, 1998	$ 20,032,205	$(19,059,605)	$ (60,750)	$ 998,879
Series B Convertible Preferred shares issued in private placement offering	--	--	--	1,000,000
Common shares and warrants issued in private placement offering	609,800	--	(400,000)	620,000
Common shares issued for legal services to be rendered	99,000	--	--	100,000
Common shares cancelled upon settlement of lawsuit	(273,000)	--	--	(292,500)
Warrants granted on common stock to employees and consultants for services	77,154	--	--	77,154
Net loss	--	(1,483,175)	--	(1,483,175)
Balance, July 31, 1999	$ 20,545,159	$(20,542,780)	$(460,750)	$ 1,020,358

</TABLE>

See accompanying notes to financial statements.

ELECTROPURE, INC.

STATEMENTS OF CASH FLOWS
(UNAUDITED)

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	Nine Months ended July 31, 1998	Nine Months ended July 31, 1999
<S>	<C>	<C>
Cash flows from operating activities:		
Net loss	$ (1,192,778)	$ (1,483,175)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	5,943	32,159
Amortization	85,045	386,247
Issuance of warrants for services	11,375	64,770
Issuance of common stock for services	32,217	100,000
Issuance of common stock for building	90,000	--
Interest expense arising from issuance of convertible debt	400,175	--
Increase (decrease) in assets:		
Trade accounts receivable	(7,710)	(46,122)

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Accounts receivable - related party	(19,500)	(70,627)
Inventories	(138,992)	(135,380)
Other current assets	(21,958)	47,071
Increase (decrease) in liabilities:		
Trade accounts payable	15,767	(38,932)
Customer deposit	--	70,160
Other current liabilities	10,187	(12,731)
CASH USED IN OPERATING ACTIVITIES	(730,229)	(1,086,560)
Cash flows used in investing activities:		
Purchase of property and equipment	(83,019)	(199,874)
Purchase of intangible assets	(200,000)	--
Increase in notes receivable, related parties	(200,000)	--
CASH USED IN INVESTING ACTIVITIES	(483,019)	(199,874)
Cash flows provided by (used in) financing activities:		
Principal payments on notes payable	(12,429)	(4,609)
Proceeds from issuance of Series B Convertible Preferred Stock	--	1,000,000
Proceeds from issuance of stock - private placement	550,000	620,000
Proceeds from notes payable to stockholders converted to equity	400,000	--
Proceeds from collection of receivables on common stock	25,000	--
CASH PROVIDED BY FINANCING ACTIVITIES	962,571	1,615,391
Net increase (decrease) in cash	(250,677)	328,957
CASH AT BEGINNING OF PERIOD	367,680	57,440
CASH AT END OF PERIOD	$ 117,003	$ 386,397

</TABLE>

See accompanying notes to financial statements.

(1) INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed financial statements include all adjustments which management believes are necessary for a fair presentation of the results of operations for the periods presented, except those which may be required to adjust assets and liabilities to the net realizable value should the Company not be able to continue operations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted.

The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year. It is suggested that the accompanying condensed financial statements be read in conjunction with the Company's audited financial statements and footnotes as of and for the year ended October 31, 1998, included in the Company's Annual Report on Form 10-KSB.

Certain reclassifications have been made to prior period financial statements to conform with the 1999 presentation.

(2) INVENTORY

Inventory, stated at the lower of cost (determined using the first in, first out method, or replacement market) consists of components for both water purification and ion exchange membrane products.

(3) EARNINGS PER COMMON SHARE

In 1997, the Financial Accounting Standards Board issued SFAS No. 128, "Earnings Per Share". This pronouncement replaced the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share ("EPS"), respectively. Earnings for the three and nine month periods ended July

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31, 1998 and 1999 have been calculated in accordance with this pronouncement.

Basic EPS is computed by dividing income or loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS is similar to Basic EPS except that the weighted average of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if potentially dilutive common shares had been issued.

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(4) CONCENTRATIONS OF RISK

During the nine months ended July 31, 1999, $239,582 of the Company's net sales of water and wastewater treatment products were from EDI products, and $317,658 was generated from the sale of ion membrane exchange products. The Company had $356,998 in sales of its EDI products and $144,202 in sales of its ion exchange membrane products during the nine months ended July 31, 1998.

Approximately 75% of the Company's sales of EDI products during the nine months ended July 31, 1999 were made to foreign customers. One such foreign customer accounts for 54% of EDI product sales. The Company makes all sales and receives all payments in U.S. dollars on all foreign sales. Management believes that trade accounts receivable, aggregating $115,103 for the period ended July 31, 1999, are fully collectable, and therefore no provision has been recorded for uncollectable trade accounts receivable.

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(5) SUBSEQUENT EVENTS

In August, 1999, the Board of Directors granted each of the five Directors of the Company 10,000 warrants with a ten year term to purchase common stock at $0.9375 per share. Of such warrants, 10,000 were issued to the President of the Company, and will be accounted for under APB No. 25. The issuance of these warrants for services will result in an aggregate expense of $4,800 in fiscal year 1999.

In August, 1999, the Company granted 10,000 warrants to purchase common stock at $0.9375 per share for consulting services. The warrants are exercisable in 5,000 annual increments commencing on the date of grant and expire on August 13, 2009.

In August, 1999, the Company entered into a five-month agreement for administrative and accounting services for which it paid $3,500 per month and also granted 100,000 warrants to purchase common stock at $0.625 per share. The warrants vest in 20,000 annual increments commencing on February 1, 2000 and will expire on February 1, 2005.

In September, 1999, the Company granted a total of 18,600 warrants to purchase common stock at $1.00 per share to two firms which assisted the Company in the design and fabrication of molds for its EDI module. The warrants expire on September 1, 2002. The fair value of the services provided was $9,300 and will be recorded as product design costs.

PART I

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

Certain of the statements contained herein (other than statements of historical fact) are forward-looking statements. Such forward-looking statements are based on current management expectations that involve substantial risks and uncertainties which could cause actual results to differ materially from the results expected by the Company. Potential risks and uncertainties that could affect the Company's future operating results include, without limitation, economic, competitive and legislative developments.

RESULTS OF OPERATIONS

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References to 1998 and 1999 are for the nine months ended July 31, 1998 and 1999, respectively.

Sales increased for fiscal 1999 by $56,040 as compared to fiscal 1998, due primarily to an increase in sales of the Company's ion exchange membrane products.

Costs of goods sold for fiscal 1999 increased by $635,219 as compared to 1998 although sales for the comparative period essentially remained level. The increase is due primarily to the allocation during 1999 of fixed overhead expenses to cost of goods sold as compared to no allocation of such expenses during the prior year period.

Research and development expenses for fiscal 1999 increased by $283,798 compared to fiscal 1998. These expenses arise from the program which the Company initiated in December, 1997 to develop the drinking water monitoring technology acquired from Wyatt Technology Corporation in late October, 1997. The increase in such expenses result, primarily, from the additional employees and consultants engaged by the Company to conduct such research program.

General and administrative expenses for fiscal 1999 decreased by $631,392 as compared to fiscal 1998. The decrease results primarily from a reduction in legal and accounting expenses during the current period and from a reduction in costs incurred in fiscal 1998 associated with the conversion of convertible notes payable and accrued interest totaling $409,847. The reduction also reflects the allocation of a portion of administrative expenses to both sales operations and the Company's research and development program.

Interest income and expense activity is reflected as a net figure and represents an increase of $8,315 in interest income for the fiscal period ended July 31, 1999 as compared to the prior year period. Interest income for fiscal 1999, in the sum of $11,507, arose from short-term investments.

In April, 1999, the Company issued a $65,000 bonus pursuant to the February, 1998 acquisition of proprietary ion membrane technology. An additional $2,127 was issued as a bonus in July, 1999 under such agreement. No such expense was incurred during the prior fiscal period.

The Company realized a net loss before income taxes of $1,483,175 for fiscal 1999, representing an increase of $290,397 from the prior year level. The increase was primarily due, as noted above, to increases in research and development expenses for the Company's ion exchange membranes and water monitoring technologies.

LIQUIDITY AND CAPITAL RESOURCES

At July 31, 1999, the Company had net working capital (total current assets less total current liabilities) of $504,926. The increase in working capital, compared to that reported at October 31, 1998, results primarily from the sale of securities during the current period. The Company accrued $170,000 pursuant to the prepayment in that amount by a customer for EDI products to be delivered at a later date.

Sales activities increased during fiscal 1999 as compared to the prior year period and although the Company incurred a loss from such operations for the current period, cost-cutting efforts and increased marketing activities are expected to generate higher sales revenues during the latter part of fiscal 1999. However, no assurances can be given as to future sales. During fiscal 1998, the Company primarily funded its working capital and other cash needs from the sale of securities. In January, 1999, the Company received net proceeds of $1,000,000 pursuant to a private placement sale of Series B Convertible Preferred shares to a major shareholder of the Company. The Company also sold 1,020,000 shares of Common Stock and 510,000 warrants to purchase Common Stock in a private placement offering between April and July, 1999 for net proceeds of $620,000 and a note receivable of $400,000. See Item 2 - "Changes in Securities."

PLAN OF OPERATION

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In the opinion of management, available funds will satisfy the Company's working capital requirements through January, 2000. The Company intends to fund its working capital requirements by establishing strategic alliances with potential joint venture partners for specific products under development or now being produced by the Company. The Company is currently in the preliminary stage of discussions with a potential strategic partner regarding further development and use of the membrane technology acquired by the Company from Hydro Components in February, 1998. The Company further believes that similar opportunities will become available for other potential products, i.e., the Laserpure monitoring technology, as successful development efforts are achieved. In an effort to conserve available working capital, the Company intends to also utilize leasing arrangements and/or debt financing where available in order to continue its development programs. This approach has permitted the Company to acquire capital equipment which will allow for lower production costs of various EDI module components, particularly, the

membranes utilized therein. The Company's management believes that, if necessary, the Company will be able to raise additional working capital by the private sale of its securities.

No assurances can be given that currently available funds will satisfy the working capital needs of the Company for the period estimated, or; that the Company can obtain additional working capital through the sale of Common Stock or other securities, the issuance of indebtedness or otherwise or on terms acceptable to the Company. Further, no assurances can be given that any such equity financing will not result in a further substantial dilution to the existing shareholders or will be on terms satisfactory to the Company.

The Company will be required to raise substantial amounts of new financing, in the form of additional equity investments, loan financing, or from strategic partnerships, in order to carry out its business objectives. There can be no assurance that the Company will be able to obtain such additional financing on terms that are acceptable to the Company and at the time required by the Company, or at all. Further, any such financing may cause dilution of the interests of the current shareholders in the Company. If the Company is unable to obtain such additional equity or loan financing, the Company's financial condition and results of operations will be materially adversely affected. Moreover, the Company's estimates of its cash requirements to carry out its current business objectives are based upon certain assumptions, including certain assumptions as to the Company's revenues, net income (loss) and other factors, and there can be no assurance that such assumptions will prove to be accurate or that unbudgeted costs will not be incurred. Future events, including the problems, delays, expenses and difficulties frequently encountered by similarly situated companies, as well as changes in economic, regulatory or competitive conditions, may lead to cost increases that could have a material adverse effect on the Company and its plans. If the Company is not successful in obtaining loans or equity financing for future developments, it is unlikely that the Company will have sufficient cash to continue to conduct operations, particularly research and development programs, as currently planned. The Company believes that in order to raise needed capital, it may be required to issue debt or equity securities that are significantly lower than the current market price of the Company's Common Stock.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In July, 1999, the Company entered into an agreement to settle the February, 1999 lawsuit it brought against Wyatt Technology Corporation ("Wyatt Technology") for breach of the October, 1997 Technology Transfer Agreement by which Electropure obtained a license to use and develop certain laser-based technology and patents held by Wyatt Technology. The lawsuit, brought in the Orange County Superior Court of California, Case No. 805529, alleged that Wyatt had failed and refused to provide the technical support indicated under the original agreement in an attempt to bring about a rescission of the license.

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The settlement provided that each party has the right to utilize the licensed technology as developed through Phase I of the Company's research program which proved, in principle, that the instrument under development can perform instantaneous microbe identification by measuring the light scattered by particles as they pass through a laser beam. The settlement also provided for the return by Wyatt Technology of 1.95 million of the 2.1 million common shares it received from the Company under the original license agreement. Warrants to purchase 10,000 shares of Common Stock at $1.38 per share issued to Clifford Wyatt, an officer of Wyatt Technology, were also cancelled pursuant to the settlement. Mr. Clifford Wyatt resigned as a director of the Company in April, 1999.

In August, 1999, a Cross Complaint for breach of contract, misrepresentation and negligence was filed against the Company and other unaffiliated defendants by Douglas B. Platt d/b/a East-West Technic Group ("Platt"), the defendant in a Los Angeles Superior Court action, Case No. GC 023410, brought by Starr Surgical Company, Inc. The cross-complaint charges Electropure with breach of contract, misrepresentation and negligence in connection with the sale to Platt of an EDI module subsequently provided by Platt to Starr Surgical. The cross-complaint seeks unspecified damages. The Company intends to vigorously defend this matter. The Company and its counsel believe that it will prevail on the merits if this matter should go to trial.

ITEM 2. CHANGES IN SECURITIES

In May, 1999, the Company granted an additional 235,000 warrants to four employees, exercisable at $1.00 per share. The warrants vest over a five year period commencing one year from the grant date. An additional 50,000 warrants, vesting over five years, were granted at $1.00 per share for future consulting services.

In May, 1999, the Company authorized the issuance of 100,000 shares of Common Stock, with a fair market value of $100,000, as a retainer against which fees and expenses for new patent related work are to be charged by its patent law firm.

Between April and July 1999, the Company received $620,000 in net proceeds and a note receivable in the sum of $400,000 on the sale of 1,020,000 shares of Common Stock and 510,000 three-year warrants to purchase Common Stock at $2.00 per share in a private placement offering. The warrants are redeemable by the Company, unless exercised, at $0.05 per warrant at any time that the Common Stock shall equal or exceed $4.00 per share for thirty consecutive trading days.

On July 19, 1999, pursuant to the terms of a lawsuit settlement, the Company cancelled 1,950,000 shares of Common Stock held by Wyatt Technology Corporation and fully depreciated the value of the intangible asset acquired from Wyatt in October, 1997. See Item 1 - "Legal Proceedings."

The issuance of securities was exempt from registration under the Securities Act of 1933, as amended (the "Act"), by virtue of Sections 3(b) and 4(2) of the Act, including Regulation D promulgated thereunder. The Company believes that the recipient acquired the securities for investment only and not with a view to the distribution thereof and legends were affixed to the stock certificates. Except as noted, no underwriters or brokers were involved in any transaction.

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

---

a. The Annual Meeting of the Shareholders of the Company was held on June 26, 1999 at the Company's offices located at 23456 South Pointe Drive, Laguna Hills, California 92653 at 10:00 A.M. pursuant to notice to the shareholders. The following matters were submitted to the vote of shareholders:

   Proposal 1. The election of five directors to hold office until the Annual Meeting of the Shareholders at which their term expires or until their successors have been duly elected.

   Proposal 2. A proposal to adopt the Company's 1999 Stock Option Plan.

   Proposal 3. A proposal to approve an Agreement with Harry

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O'Hare.

b. The following named persons received the number of votes set opposite their respective names for election to the Board of Directors:

DIRECTORS	VOTES FOR	VOTES AGAINST
William F. Farnam	8,405,510	123,704
Randall P. Frank	8,409,741	123,909
Randolph S. Heidmann	8,414,532	123,554
Arthur Lipper III	8,414,532	123,554
Floyd H. Panning	8,414,532	123,554

c. The following propositions received the number of votes set opposite its respective number:

	VOTES FOR	VOTES AGAINST	ABSTENTIONS
Proposal 2	7,853,408	143,039	20,091
Proposal 3	6,271,781	135,813	1,608,944

ITEMS 3 AND 5 OMITTED AS NOT APPLICABLE.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit Number	Description
27	Financial Data Schedule

(b) Report on Form 8-K.

None.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: September 9, 1999

ELECTROPURE, INC.

By /s/ CATHERINE PATTERSON

Catherine Patterson
(Secretary and Chief Financial Officer with responsibility to sign on behalf of Registrant as a duly authorized officer and principal financial officer)

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