

PureSafe Water Systems, Inc.
Form 10-Q
June 06, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

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

Commission File Number: **001-09478**

PureSafe Water Systems, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

86-0515678
(I.R.S. Employer Identification No.)

485 Underhill Boulevard,

Syosset, New York Suite 200
(Address of principal executive offices)

11791
(Zip Code)

(516) 208-8250

(Registrant's telephone number, including area code)

Edgar Filing: PureSafe Water Systems, Inc. - Form 10-Q

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 ☒ . No ☐ .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T(232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ . No ☐ .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer ☐ . Accelerated filer ☐ .
Non-accelerated filer ☐ . (Do not check if a smaller reportingSmaller reporting company ☒ .
company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ . No ☒ .

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
As of June 6, 2014, 979,018,260 shares of the common stock of the registrant were outstanding.

PURES SAFE WATER SYSTEMS, INC.

INDEX

	Page
Part I. Financial Information	3
Item 1. Financial Statements.	3
Condensed Consolidated Balance Sheets as of September 30, 2013 (unaudited) and December 31, 2012	4
Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2013 and 2012 (unaudited)	5
Condensed Consolidated Statement of Stockholders' Deficiency for the nine months ended September 30, 2013 (unaudited)	7
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012 (unaudited)	8
Notes to Unaudited Condensed Consolidated Financial Statements	10
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.	21
Item 3. Quantitative and Qualitative Disclosures About Market Risk.	26
Item 4. Controls and Procedures.	27
Part II. Other Information	
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.	30
Item 6. Exhibits.	35
Signatures	37

PART I FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS.

Certain information and footnote disclosures required under accounting principles generally accepted in the United States of America have been condensed or omitted from the following consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. The following unaudited consolidated financial statements should be read in conjunction with the year-end restated consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2012.

The results of operations for the three and nine months ended September 30, 2013 and 2012 are not necessarily indicative of the results for the entire fiscal year or for any other period.

PureSafe Water Systems Inc. and Subsidiary**Condensed Consolidated Balance Sheets**

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current Assets:		
Cash	\$ 36,051	\$ 63,571
Inventories	141,636	322,718
Prepaid expenses and other current assets	62,513	54,478
Total Current Assets	240,200	440,767
Property and equipment, net of accumulated depreciation of \$180,781 and \$164,710, respectively		49,014
Patents and trademarks, net of accumulated amortization of \$46,394 and \$41,816, respectively	60,948	58,068
Other assets	37,797	28,451
TOTAL ASSETS	\$ 338,945	\$ 576,300
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 949,877	\$ 695,589
Accrued compensation	1,229,882	972,286
Deferred rent payable		7,050
Accrued consulting and director fees	144,000	144,000
Customer deposits		149,588
Notes payable to officer and director (including accrued interest of \$190,816 and \$138,132, respectively)	824,367	811,132
Convertible promissory note (including accrued interest of \$139,290 and \$141,564 and net of debt discount of \$369,278 and \$80,606, respectively)	754,530	1,111,110
Promissory notes payable (including accrued interest of \$230,630 and \$220,295, respectively)	601,015	706,829
Fair value of detachable warrants and conversion option	399,700	263,300
Accrued dividends payable	190,328	190,328
Common stock to be issued	27,923	-
Total Current Liabilities	5,121,622	5,051,212
Long Term Liabilities:		
Promissory notes payable, net of current portion		8,196
Total Long Term Liabilities		8,196
TOTAL LIABILITIES	\$ 5,121,622	\$ 5,059,408
Commitments and Contingencies		
Stockholders' Deficiency:		
Preferred stock \$.001 par value; 10,000,000 shares authorized; 184,144 shares issued and outstanding	184	184

Edgar Filing: PureSafe Water Systems, Inc. - Form 10-Q

(liquidation preference \$2,998,375 and \$2,917,150, as of September 30, 2013 and December 31, 2012, respectively)
Common stock, \$.001 par value; 2,000,000,000 authorized; 903,166,911 shares issued and 903,162,511 shares outstanding at September 30, 2013; 561,343,935 shares issued

and 561,339,535 outstanding at December 31, 2012	903,166	561,343
Additional paid-in capital	42,112,866	40,423,615
Treasury Stock, at cost, 4,400 shares of common stock	(5,768)	(5,768)
Subscriptions receivable (including accrued interest of \$ 108,956 and \$93,825, respectively)	(446,156)	(431,025)
Accumulated deficit	(47,346,969)	(45,031,457)
Total Stockholders' Deficiency	(4,782,677)	(4,483,108)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	\$ 338,945	\$ 576,300

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

PureSafe Water Systems Inc. and Subsidiary**Consolidated Statements of Operations****(Unaudited)**

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Sales	\$	\$	\$	\$ 265,000
Cost of Sales	51,471	3,602	51,471	286,320
Gross Profit (Loss)	(51,471)	(3,602)	(51,471)	(21,320)
Operating Expenses:				
Compensation and related benefits, including stock-based compensation of \$57,000 and \$12,400 for the three months and \$478,700 and \$ 166,700 for the nine months ended September 30, 2013 and 2012, respectively	263,113	240,608	1,071,181	804,652
Insurance and medical benefits		18,689	33,723	62,538
Research and development	6,143		52,825	58,239
Professional, legal and consulting fees, including stock-based compensation of \$0 and \$ 0 for the three months and \$257,000 and \$4,500 for the nine months ended September 30, 2013 and 2012, respectively	30,759	73,140	309,777	138,238
Marketing, including stock-based compensation of \$0 and \$0 for the three months and \$0 and \$6,400 for the nine months ended September 30, 2013 and 2012, respectively		176,723	25,835	190,377
Occupancy	47,169	54,335	168,902	193,967
	21,720		14,580	34,708

Edgar Filing: PureSafe Water Systems, Inc. - Form 10-Q

Loss on sale/abandonment of fixed
asset

Other administrative and general	109,270	188,680	213,833	369,652
Total Operating Expenses	478,174	752,175	1,890,656	1,852,371
Loss from Operations	(529,645)	(755,777)	(1,942,127)	(1,873,691)
Other Income (Expense):				
Interest income	5,099	5,161	38,669	15,248
Interest expense, including interest to related parties of \$17,518 and \$17,676 for the three months and \$52,684 and \$52,901 for nine months ended September 30, 2013 and 2012, respectively	(439,135)	(662,021)	(665,554)	(958,654)

Change in fair value of derivative liability	803,600	392,700	253,500	790,600
Total Other Income (Expense)	369,564	(264,160)	(373,385)	(152,806)
Net Loss	(160,081)	(1,019,937)	(2,315,512)	(2,026,497)
Dividend on preferred stock	(27,075)	(27,075)	(81,225)	(81,225)
Net Loss Attributable to Common Stockholders	(187,156)	(1,047,012)	(2,396,737)	(2,107,722)
Net Loss Attributable to Common Stockholders Per Share basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Weighted average number of shares outstanding	988,961,818	369,164,922	882,231,634	353,956,221

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

PureSafe Water Systems, Inc. and Subsidiary
Condensed Consolidated Statement of Stockholders Deficiency
For the Nine months ended September 30, 2013
(Unaudited)

	Preferred Stock		Common Stock		Additional Treasury		Subscriptions	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Stock At Cost	Receivable	Deficit	Stockholders Deficiency
		\$		\$	\$	\$	\$	\$	\$
BALANCE									
January 1, 2013	184,195	184	561,343,935	561,343	40,423,615	(5,768)	(431,025)	(45,031,457)	(4,483,108)
Sale of common stock for cash:			106,066,743	106,067	464,733				570,800
Common stock issued for warrant exercise			11,609,661	11,610	52,904				64,514
Common stock issued for settlement of notes payable			23,021,012	23,021	102,442				125,463
Common stock issued in for settlement of convertible debt			94,033,300	94,033	334,339				428,372
Common stock issued for service			74,509,222	74,509	182,491				257,000
Common stock issued for employee compensation			27,200,000	27,200	144,100				171,300
Common stock issued for penalty shares			5,383,038	5,383	5,342				10,725

Returned for no consideration	(51)								
Reclassification of derivative liability				100,000					100,000
Warrants granted for services				302,900					302,900
Accrued interest						(15,131)			(15,131)
Net loss							(2,315,512)		(2,315,512)
BALANCE-SEPTEMBER 30, 2013	184,144	184,903,166,911	903,166,42,112,866	(5,768)	(446,156)	(47,346,969)			(4,782,677)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

PureSafe Water Systems Inc. and Subsidiary

Consolidated Statements of Cash Flows

(Unaudited)

	September 30, 2013	September 30, 2012
Cash Flows from Operating Activities:		
Net loss	\$ (2,315,512)	\$ (2,026,497)
Adjustments to reconcile net loss to net cash used in operating activities		
Abandonment of property and equipment	21,866	34,707
Gain on sale of property and equipment	(7,286)	
Loss on abandonment of inventory	51,471	
Depreciation and amortization	14,434	16,153
Amortization of patents and trademarks	4,577	4,578
Interest expense amortization of deferred financing	16,095	87,493
Interest expense penalty interest	10,725	
Interest expense stock based compensation, derivative liabilities	4,500	
Stock based compensation	731,200	310,200
Loss on conversion of convertible notes to notes payable		85,000
Interest receivable	(15,131)	(15,187)
Deferred rent	(7,050)	(25,750)
Accretion of debt discount	196,728	660,090
Change in fair value of warrants and embedded conversion option	(253,500)	(790,600)
Change in assets and liabilities		
Prepaid expenses and other current assets	(8,035)	30,196
Inventories	129,611	53,828
Customer deposits	(149,588)	271,768
Other assets	(13,942)	27,830
Accounts payable, accrued expenses, accrued dividends, accrued compensation, accrued consulting and director fees, and other current liabilities	676,685	573,760
Net Cash Used in Operating Activities	(912,152)	(702,431)
Cash Flows from Investing Activities:		
Patent costs	(7,456)	
Proceeds from sale of property and equipment	20,000	
Net Cash Provided by Investing Activities	12,544	
Cash Flows from Financing Activities:		
Cash proceeds from sale of common stock	570,800	200,000
Cash proceeds from the exercise of warrants	64,514	
	27,923	

Edgar Filing: PureSafe Water Systems, Inc. - Form 10-Q

Cash proceeds from the exercise of warrants, common stock to be issued		
Cash proceeds from promissory notes, officers and directors	9,051	80,000
Repayment of promissory notes, officers and directors	(48,500)	(16,000)
Proceeds from convertible promissory note	285,000	656,000
Cash paid for loan costs		(120,649)
Cash proceeds from notes payables	10,000	
Repayment of convertible notes payable	(32,500)	
Repayment of notes payable	(14,200)	(140,000)
Net Cash Provided by Financing Activities	872,088	659,351
Net decrease in cash	(27,520)	(43,080)
Cash at beginning of period	63,571	118,228
Cash at end of period	\$ 36,051	\$ 75,148

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for interest	11,939	23,337
Cash paid for income taxes		

Non-Cash Investing and Financing Activities:

Common stock issued for the settlement of liabilities	553,835	500,641
Common stock issued for the settlement of a customer deposit		130,000
Common stock issued in connection with debt		175,000
Reclassification of derivative liabilities to equity	100,000	
Reclassification of equity instrument to derivative liabilities		(43,000)
Conversion of convertible notes payable to notes payable		185,000
Conversion of notes payable to convertible notes payable	39,500	247,771

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

PureSafe Water Systems Inc. and Subsidiary

Notes to Condensed Consolidated Financial Statements

(Unaudited)

NOTE 1: DESCRIPTION OF BUSINESS.

PureSafe Water Systems, Inc. (the "Company") is a Delaware corporation engaged in the design, development, manufacturing and sales of the PureSafe™ First Response Water System (the "FRWS"), both within and outside of the United States. The Company's corporate headquarters are located in Syosset, New York.

NOTE 2: BASIS OF PRESENTATION AND ACCOUNTING POLICIES.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, these interim financial statements do not include all of the information and footnotes required for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary to make the financial statements not misleading have been included.

The operating results for the three and nine month period ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. These financial statements should be read in conjunction with the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on April 16, 2013.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. The most significant estimates, among other

things, are used in accounting for allowances for deferred income taxes, expected realizable values for long-lived assets (primarily intangible assets and property and equipment), contingencies, as well as the recording and presentation of its common stock and other securities. Estimates and assumptions are periodically reviewed and the effects of any material revisions are reflected in the consolidated financial statements in the period that they are determined to be necessary. Actual results could differ from those estimates and assumptions.

Principles of Consolidation

The consolidated financial statements of PureSafe Water Systems, Inc. include the accounts of the Company and its wholly-owned subsidiary, PureSafe Manufacturing and Research Corporation. Intercompany transactions and balances are eliminated in consolidation.

Revenue Recognition

The Company generally recognizes revenues under Staff Accounting Bulletin No. 104 when the following criteria are met, persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable, and collectibility is reasonably assured. In addition the Company may enter into agreements that include multiple elements (i.e., products and services/training). Revenue under multiple element arrangements is recognized in accordance with FASB ASC 605-25 Multiple-Element Arrangements (ASC 605). When vendor specific objective evidence or third party evidence of selling price for deliverables in an arrangement cannot be determined, the Company develops a best estimate of the selling price to separate deliverables and allocates arrangement consideration using the relative selling price method. Additionally, this guidance eliminates the residual method of allocation. If an arrangement includes undelivered elements that are not essential to the functionality of the delivered elements, we defer the fair value of the undelivered elements with the residual revenue allocated to the delivered elements. Fair value is determined based upon the price charged when the element is sold separately. If there is not sufficient evidence of the fair value of the undelivered elements, no revenue is allocated to the delivered elements and the total consideration received is deferred until delivery of those elements for which objective and reliable evidence of the fair value is not available. For the nine months ended September 30, 2013 and 2012, the Company did not have any multiple deliverable elements.

Inventories

Inventory consisting primarily of finished goods and raw materials is stated at the lower of cost or market utilizing the first-in, first-out method. The Company continually analyzes its slow-moving, excess and obsolete inventories. Based on historical and projected sales volumes and anticipated selling prices, the Company establishes reserves. If the Company does not meet its sales expectations, these reserves are increased. Products that are determined to be obsolete are written down to net realizable value. As of September 30, 2013, the inventory has been written down to its net realizable value which consisted of one unit.

Deferred Financing Costs

Cost incurred in conjunction with the debt financing has been capitalized and will be amortized to interest expense using the straight line method, which approximates the interest rate method over the term of the debt and is included as a component of other assets. Amortization of deferred financing cost was approximately \$16,100 for the nine months ended September 30, 2013

Derivative Liabilities

In connection with the issuance of certain convertible promissory notes, the terms of the convertible notes included an embedded conversion feature; which provided for the settlement of certain convertible promissory notes into shares of common stock at a rate which was determined to be variable. The Company determined that the conversion feature was an embedded derivative instrument pursuant to ASC 815 Derivatives and Hedging

The accounting treatment of derivative financial instruments requires that the Company record the conversion option and related warrants at their fair values as of the inception date of the agreements and at fair value as of each subsequent balance sheet date. As a result of entering into the convertible promissory notes, the Company is required to classify all other non-employee warrants as derivative liabilities and record them at their fair values at each balance sheet date. Any change in fair value was recorded as a change in the fair value of derivative liabilities for each reporting period at each balance sheet date. The Company reassesses the classification at each balance sheet date. If the classification changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification.

The fair value of conversion options that are convertible at a fixed number of shares or at a fixed conversion price are recorded using the intrinsic value method and conversion options at variable rates are deemed to be a down-round protection and therefore, do not meet the scope exception for treatment as a derivative under ASC 815. Since, down-round protection is not an input into the calculation of the fair value of the conversion option and cannot be considered indexed to the Company's own stock which is a requirement for the scope exception as outlined under ASC

815. The Company determined the fair value of the Binomial Lattice Model and the Intrinsic Value Method to be materially the same. Warrants that have been reclassified to derivative liability that did not contain down-round protection were valued using the black-scholes model. The Company's outstanding warrants did not contain any down round protection.

The Black-Scholes option valuation model is used to estimate the fair value of the warrants or options granted. The model includes subjective input assumptions that can materially affect the fair value estimates. The model was developed for use in estimating the fair value of traded options or warrants. The expected volatility is estimated based on the most recent historical period of time equal to the weighted average life of the warrants or options granted

The principal assumptions used in applying the Black-Scholes model were as follows:

	For the nine months ended September 30, 2013
Assumptions:	
Risk-free interest rate	0.36-2.02%
Expected life	3
Expected volatility	125%-175%
Dividends	0.0%

Stock-Based Compensation

The Company reports stock-based compensation under Accounting Standard Codification (ASC) 718 Compensation Stock Compensation . ASC 718 requires all share-based payments to employees, including grants of employee stock options, to be recognized in the consolidated financial statements based on their fair values.

The Company accounts for equity instruments issued to non-employees as compensation in accordance with the provisions of ASC 718, which require that each such equity instrument is recorded at its fair value on the measurement date, which is typically the date the services are performed.

The Black-Scholes option valuation model is used to estimate the fair values of options. The model includes subjective input assumptions that can materially affect the fair value estimates. The model was developed for use in estimating the fair value of traded options or warrants. The expected volatility is estimated based on the most recent historical period of time equal to the weighted average life of the subject options or warrants.

The principal assumptions used in applying the Black-Scholes model were as follows:

	For the nine months ended September 30, 2013
Assumptions:	
Risk-free interest rate	0.3 1.6%
Expected life	3 to 5 years
Expected volatility	125% - 175%
Dividends	0.0%

NOTE 3: GOING CONCERN

The accompanying unaudited condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred a net loss of approximately \$2,316,000 and \$ 2,026,000 for the nine months ended September 30, 2013 and 2012. The Company has a working capital deficit of approximately \$4.9 million and \$4.6 million as of September 30, 2013 and December 31, 2012. The Company continues to incur recurring losses from operations and has an accumulated deficit since inception of approximately \$47.3 million. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The Company's continuation as a going concern is dependent upon its ability to bring the Company's products to market and generate revenues, control costs, and obtain additional financing, as required and on reasonable terms. The Company's plans with respect to these matters include restructuring its existing debt and raising additional financing through issuance of preferred stock, common stock and/or debt. On January 23, 2013, The Company signed an Engineering Package Agreement (ETG Agreement) with Engineering Technologies Group, Inc. (ETG), Hopkinton, Massachusetts. Under the engineering agreement, ETG will provide detailed electronic engineering drawings and purchase specifications for the Company's water purification and filtration product and to facilitate the outsourcing of the assembly, sub-assembly and manufacturing. On January 25, 2013, the Company entered into an Exclusive Sales and Marketing Agreement (the Distribution Agreement) with Global Equipment Marketing, Inc. (GEM), Hopkinton, Massachusetts, a distribution and marketing company. Under the Distribution Agreement, on an exclusive basis, GEM is responsible for promoting and selling the Company's products at their cost and expense. In exchange, GEM will receive a discount from the list prices of PureSafe products in connection with sales to its dealers, distributors, representatives and resellers. The Company remains responsible for the design and manufacturing of the products. The Company was evicted from its facilities at 160 Dupont Street, Plainview, NY 11803. The Company plans to outsource production of the product in the future. Any remaining inventory was moved to ETG's facilities in Hopkinton, Mass. On April 2nd 2014, The Company announced that Stephen Hicks and Gilbert Steedley were appointed to the Board of Directors and that Stephen Hicks was appointed President of the Company. Henry Sargent was appointed Vice President and Secretary.

The Company requires immediate capital to remain viable. The Company can give no assurance that such financing will be available on terms advantageous to the Company, or at all. Should the Company not be successful in obtaining the necessary financing to fund its operations, the Company would need to curtail certain or all of its operational activities. The accompanying unaudited condensed consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

On February 28, 2013, the Company increased the authorized Common Shares of the Company from 800,000,000 to 2,000,000,000. The Company filed a Schedule 14C Information Statement with SEC in connection with such increase.

NOTE 4: RECENT ACCOUNTING PRONOUNCEMENTS.

Recent accounting pronouncements issued by the FASB and the SEC did not have, or are not believed by management to have, a material impact on the Company's present or future consolidated financial statements.

NOTE 5: INVENTORIES

Inventories consist of the following at September 30, 2013,

Finished Goods \$141,636

NOTE 6: NET LOSS PER SHARE OF COMMON STOCK.

Basic loss per share was computed using the weighted average number of outstanding common shares. Diluted loss per share includes the effect of dilutive common stock equivalents from the assumed exercise of options, warrants, convertible preferred stock and convertible notes. Common stock equivalents were excluded in the computation of diluted loss per share since their inclusion would be anti-dilutive.

Total shares issuable upon the exercise of warrants and conversion of preferred stock and convertible promissory notes for the nine months ended September 30, 2013 and 2012 were as follows:

	September 30,	
	2013	2012
Warrants	172,317,850	34,474,018
Convertible promissory notes	86,967,298	88,273,045
Convertible preferred stock	1,545,760	1,545,760
Total	260,830,908	124,292,823

For the three and nine months ended September 30, 2013, 107,143,531 and 92,645,445 warrants were included in loss per share as their exercise price was determined to be nominal.

Fair Value

ASC 820 Fair Value Measurements and Disclosures defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Standard clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date and emphasizes that fair value is a market-based measurement and not an entity-specific measurement.

ASC 820 establishes the following hierarchy used in fair value measurements and expands the required disclosures of assets and liabilities measured at fair value:

.

Level 1 Inputs use quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

.

Level 2 Inputs use other inputs that are observable, either directly or indirectly. These inputs include quoted prices for similar assets and liabilities in active markets as well as other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

.

Level 3 Inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair measurements requires judgment and considers factors specific to each asset or liability.

Liabilities measured at fair value on a recurring basis at September 30, 2013 are as follows:

	Quoted Prices in Active Markets for Identical Liabilities	Significant Other Observable Inputs	Significant Unobservable Inputs	Balance at September, 2013
	(Level 1)	(Level 2)	(Level 3)	
Embedded conversion feature	\$	\$	\$ 109,000	\$ 109,000
Warrant liability			290,700	290,700
Balance at September 30, 2013	\$	\$	\$ 399,700	\$ 399,700

Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. The Company's Level 3 liabilities consist of derivative liabilities associated with convertible debt that contains an indeterminable conversion share price and the tainted warrants as the Company cannot determine if it will have sufficient authorized common stock to settle such arrangements.

The following table provides a summary of the changes in fair value, including net transfers in and/or out, of all financial assets measured at fair value on a recurring basis using significant unobservable inputs during the nine months ended September 30, 2013.

	Conversion		
	Warrants	Feature	Total
Balance at - January 1, 2013	\$ 39,300	\$ 224,000	\$ 263,300
Included in stock based compensation	4,500		4,500
Change in fair value of derivative liability	(72,500)	(181,000)	(253,500)
Included in liabilities (debt discount)	297,400	188,000	485,400
Included in stockholder's equity	22,000	(122,000)	(100,000)
Transfers in and /or out of Level 3			
Balance at - September 30, 2013	\$ 290,700	\$ 109,000	\$ 399,700

NOTE 7: STOCKHOLDERS' DEFICIENCY.

Debt

During the nine months ended September 30, 2013, the Company issued a total of 94,033,300 shares of common stock upon the requests from note holders to convert principal plus accrued interest totaling \$428,372 into the Company's common stock based on the terms set forth in the loans. The conversion rates were from \$0.0009 to \$0.014 per share

During the nine months ended September 30, 2013, the Company issued a total of 23,021,012 shares of common stock to settle notes payable and accrued interest of \$125,463.

On February 4, 2013, the Company issued 4,856,726 shares of common stock to a note lender as penalty shares for failing to issue shares timely upon receipt of the conversion notice from the lender. The Company recorded \$10,199 of interest expense for such issuance.

On July 15, 2013, the Company issued 526,312 shares of common stock to a note lender as penalty shares for failing to issue shares timely upon receipt of the conversion notice from the lender. The Company recorded \$526 of interest expense for such issuance.

Cash

Through Equity Financing:

During the nine months ended September 30, 2013, for cash proceeds of \$570,800 the Company sold 106,066,743 shares of common stock and warrants to purchase additional 26,516,687 shares of common stock at exercise prices of \$0.0039 to \$0.017 per share. The warrants have a term of three years and are fully vested on the date of issuance.

During the nine months ended September 30, 2013, for gross proceeds of \$64,514, the Company issued 11,609,661 shares of common stock to multiple investors who exercised their warrants to purchase shares of common stock. The exercises prices ranged from \$0.0035 to \$0.0184.

On July 9, 2013 the Company received proceeds of \$27,823 for the exercise of 2,389,817 warrants as of September 30, 2013 the shares have not been issued and accordingly the Company recorded the liability for the share issuance.

Services

On March 18, 2013, the Company issued to its Chief Executive Officer 15,000,000 shares of common stock and warrants to purchase additional 15,000,000 shares of common stock at the exercise price of \$0.0033 per share. The issuance was approved by the Company's Compensation Committee on February 11, 2013. The warrants have a term of five years. Both shares and warrants are fully vested on the date of grant. The Company recorded \$188,700 of stock-based compensation which includes \$97,500 for the shares issuance and \$91,200 for the warrants granted.

On March 18, 2013, the Company issued to its former Chief Financial Officer 10,000,000 shares of common stock and warrants to purchase additional 10,000,000 shares of common stock at the exercise price of \$0.0033 per share. The issuance was approved by the Company's Compensation Committee on February 11, 2013. The warrants have a term of five years. Both shares and warrants are fully vested on the date of grant. The Company recorded \$125,800 of stock-based compensation which includes \$65,000 for the shares issuance and \$60,800 for the warrants granted.

On March 25, 2013, the Company issued 950,000 shares of common stock to its employees. The issuance was approved by the Board of Directors on January 7, 2013 and the shares are fully vested on the date of grant. The Company recorded \$3,800 stock-based compensation in connection with such issuance.

On March 25, 2013, the Company issued 1,250,000 shares of common stock to multiple consultants. The issuance was approved by the Board of Directors on January 7, 2013 and the shares are fully vested on the date of grant. The Company recorded \$5,000 of stock-based compensation in connection with such issuance.

On March 14, 2013 and June 25, 2013, per the terms of an agreement entered into on January 24, 2013, the Company issued total 50,000,000 shares of common stock to Engineering Technologies Group, Inc. (ETG). The shares were fully vested on the date of issuance. The Company recorded a stock-based compensation charge of \$150,000 for the fair value of the shares included in connection with such issuance.

On March 19, 2013, the Company issued 3,000,000 shares of common stock to a consultant for services received. The shares are fully vested on the date of issuance. The Company recorded \$27,000 of consultant fees in connection with such issuance.

On April 5, 2013, the Company issued 21,509,222 shares of common stock to an investment banker for services received. The shares are fully vested on the date of issuance. The Company recorded \$80,000 of consultant fees in connection with such issuance.

NOTE 8: NOTES PAYABLE

During the nine months ended September 30, 2013, at the request of a lender the Company repaid \$139,663 of debt and accrued interest for \$14,200 in cash and the issuance of 23,021,012 shares of common stock for the settlement of \$125,463 of the remaining balance.

During the nine months ended September 30, 2013, the Company received a loan of \$10,000. The Company issued the lender a Promissory Note with mature date of December 31, 2014 with annual interest rate of 6%.

As of September 30, 2013, the Company is in technical default with the repayment terms of the notes payable outstanding.

NOTE 9: CONVERTIBLE PROMISSORY NOTES PAYABLE

(a)

On January 8, 2013 for gross proceeds of \$25,000 the Company issued a convertible promissory note bearing interest at the rate of 10% per annum with a maturity date of January 8, 2014. The loan and accrued interest are to be paid on the maturity date. The promissory note contains conversion clauses that allow the lender the option to convert the loan amount plus all accrued and unpaid interest due under the note into common stock at a conversion rate of \$0.03 per share. In addition, the Company also issued 1,666,667 warrants to the lender to purchase additional shares of common stock at an exercise price of \$0.0036 per share. These warrants are fully vested and have a term of 5 years.

The Company accounted for the issuance of the convertible promissory note and the warrants attached to the note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the warrants and the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$13,600. The debt discount relates to the beneficial conversion feature embedded in the conversion option and the fair value of the warrants attached to the notes. The debt discount is charged to interest expense ratably over the term of the convertible note.

(b)

On May 16, 2013, the Company in conjunction with an existing note holder entered into a new loan agreement with a new lender for the sale and transfer of a \$20,000 note plus \$4,895 accrued interest this note matured and was in technical default with the repayment provisions of the terms of the agreement. The Company cancelled the original note and issued the new lender a convertible promissory note for \$29,895 bearing interest rate of 10% per annum with a maturity date of January 1, 2014. The loan and accrued interest are to be paid on the maturity date. The promissory note contains conversion clauses that allow the lender the option to convert the loan amount plus all accrued and unpaid interest due under the note into common stock at a conversion rate of the lesser of a.) 60% of the low traded price of the Company's common stock for the twenty trading day period immediately preceding the date at the which Holder, by written notice gives notice to the Company of its election to convert or b.) \$0.01 per share. The Company recorded \$5,000 loan cost in connection with the increase of the principal included in deferred financing costs. The loan cost will be amortized over the life of the loan.

The Company accounted for the issuance of the convertible promissory note and the warrants attached to the note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the warrants and the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$19,930. The debt discount relates to the beneficial conversion feature embedded in the conversion option. The debt discount is charged to interest expense ratably over the term of the convertible note.

(c)

On May 22, 2013, the Company entered into a loan agreement (credit facility) for the principal sum of \$335,000 less any fees. The components of the credit facility are \$300,000 proceeds of the loan plus \$35,000 original issue discount. The maturity date is one year from the effective date of each draw made by the Company. The loan and accrued interest are to be paid on the maturity date. In addition after 90 days that the amount drawn is outstanding a one-time interest charge of 12% will be charged and added to the principal sum. The promissory note contains conversion clauses that allow the lender, at any time from 180 days after the Effective Date, the option to convert the amount payable plus all accrued and unpaid interest due under the agreement into common stock at a conversion price per share of the lesser of \$0.018 or 60% of the lowest trade price in the 25 trading days preceding the conversion.

The Company received net cash proceeds of \$65,000 upon entering the agreement on May 22, 2013 and recorded \$6,500 loan cost in connection with this transaction. The loan costs have been included in deferred financing costs and will be amortized through the maturity date of the loan.

The Company accounted for the issuance of the convertible promissory note and the warrants attached to the note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the warrants and the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$41,000. The debt discount relates to the beneficial conversion feature embedded in the conversion option. The debt discount is charged to interest expense ratably over the term of the convertible note. On August 20, 2013, the Company recorded a \$8,580 one-time interest expense and added such amount to the principal of the May 22, 2013 draw when the Company failed to repay the loan within 90 days.

On August 22, the Company drew down from the credit facility \$35,500 and received net cash proceeds of \$30,000 after the associated legal fees. The Company recorded \$5,500 loan cost in connection with this transaction and the loan cost will be amortized through the maturity date of the loan. The gross proceeds from the sale of the note are recorded net of a debt discount of \$29,000. The debt discount relates to the beneficial conversion feature embedded in the conversion option. The debt discount is charged to interest expense ratably over the term of the convertible note.

(d)

On July 11, 2013, the Company in conjunction with an existing note holder entered into a new loan agreement with a new lender for the sale and transfer of a \$20,000 promissory note plus \$5,095 accrued interest this note matured and was in technical default with the repayment provisions of the terms of the agreement. The Company cancelled the original promissory note and issued the new lender a convertible promissory note for \$25,000 with a maturity date of September 30, 2013. The convertible promissory note contains conversion clauses that allow the lender the option to convert the loan amount plus all accrued and unpaid interest due under the note into common stock at a conversion rate of the lesser of (a.) \$0.015 or (b) 50% of the lowest closing bid price for the Company's common stock during the twenty (20) trading day period immediately preceding the date at the which Holder, by written notice gives notice to the Company of its election to convert. The Company recorded \$33,000 debt discount and the excess fair value of 8,000 was charged to interest expense upon the consummation of the arrangement..

(e)

(e) A convertible promissory note was issued on August 19, 2013 in the amount of \$ 25,000 to a lender. The note matures on August 19, 2014 with interest at 10%. The note is convertible into the Company's common stock at a conversion price of \$0.015 per shares. In addition, 8,333,333 Warrants were issued at a price of \$. 003 per share. The warrants are fully vested and have a life of five years from date of issuance.

The Company accounted for the issuance of the convertible promissory note and the warrants attached to the note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the warrants and the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$121,400. The debt discount relates to the beneficial conversion feature embedded in the conversion option and the fair value of the warrants attached to the notes. The excess fair value of \$96,400 was charged to interest expense on the date of the agreement and the debt discount is charged to interest expense ratably over the term of the convertible note.

(f)

On July 25, 2013, the Company was advanced \$10,000 from a lender and subsequently on August 16, 2013, the lender funded another \$25,000. The Company issued a convertible promissory note for the total amount of \$35,000 to the lender. The note matures in one year from the issuance date with interest at 10%. The note is convertible into the Company's common stock at a conversion price of \$0.005 per shares. In addition, 5,833,333 warrants were issued with an exercise price of \$. 006 per share. The warrants are fully vested and have a life of 5 years from date of issuance.

The Company accounted for the issuance of the convertible promissory note and the warrants attached to the note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the warrants and the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a

discount of \$159,300. The debt discount relates to the beneficial conversion feature embedded in the conversion option and the fair value of the warrants attached to the notes. The excess fair value of \$124,300 was charged to interest expense on the date of the agreement and the debt discount is charged to interest expense ratably over the term of the convertible note

(g)

On September 5, 2013 the Company issued a convertible promissory note for \$ 5,000. The note matures in one year from the issuance date with the stated interest rate at 10%. The note is convertible into the Company's common stock at a conversion price of \$0.005 per shares. In addition, 200,000 Warrants were issued with an exercise price of \$0.006 per share. The warrants are fully vested and have a life of 5 years from date of issuance.

The Company accounted for the issuance of the convertible promissory note and the warrants attached to the note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the warrants and the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$5,700. The debt discount relates to the beneficial conversion feature embedded in the conversion option and the fair value of the warrants attached to the notes. The excess fair value of \$700 was charged to interest expense on the date of the agreement and the debt discount is charged to interest expense ratably over the term of the convertible note. The debt discount is charged to interest expense ratably over the term of the convertible note.

(h)

On September 12, 2013 the Company issued a convertible promissory note for \$ 100,000. The note matures in one year from the issuance date with the stated interest rate at 10%. The note is convertible into the Company's common stock at a conversion price of \$0.0085 per shares. In addition, 10,416,666 warrants were issued with an exercise price of \$0.0096 per share. The warrants are fully vested and have a life of 5 years from date of issuance.

The Company accounted for the issuance of the convertible promissory note and the warrants attached to the note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the warrants and the embedded conversion option of the convertible notes are recorded as derivative liabilities at their fair market value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note are recorded net of a discount of \$82,400. The debt discount relates to fair value of the warrants attached to the notes. The debt discount is charged to interest expense ratably over the term of the convertible note.

(i)

During the nine months ended September 30, 2013 the Company issued a total of 94,033,300 shares of common stock upon requests from note holders to convert loans with principal plus accrued interest totaling \$428,372 based on the terms set forth in the loans.

As of September 30, 2013, the Company is in technical default with the repayment terms of the convertible notes payable.

NOTE 10: RELATED PARTY TRANSACTIONS.

(a)

On January 2, 2013, the Company issued a total of 12,820,512 warrants to purchase common stock to its four directors, including warrants issued to its Chief Executive Officer and former Chief Financial Officer, each of which received 3,205,128 warrants for their first quarter of 2013 director fees. The issuance is part of the annual compensation that was authorized by the Company's Board of Directors on December 6, 2011, when the Board approved replacing directors' annual compensation of \$50,000 with three year warrants payable quarterly. The warrants have a term of three years and are fully vested on the date of issuance. The Company recorded \$70,800 of stock-based compensation in connection with this issuance.

(b)

On March 18, 2013, the Company issued to its Chief Executive Officer 15,000,000 shares of common stock and warrants to purchase an additional 15,000,000 shares of common stock at the exercise price of \$0.0033 per share. The issuance was approved by the Company's Compensation Committee on February 11, 2013. The warrants have a term of five years. The shares and warrants are fully vested on the date of grant. The Company recorded \$188,700 of stock-based compensation which includes \$97,500 for the share issuance and \$91,200 for the warrants granted.

(c)

On March 18, 2013, the Company issued to its former Chief Financial Officer 10,000,000 shares of common stock and warrants to purchase an additional 10,000,000 shares of common stock at the exercise price of \$0.0033 per share. The issuance was approved by the Company's Compensation Committee on February 11, 2013. The warrants have a term of five years. The shares and warrants are fully vested on the date of grant. The Company recorded \$125,800 of stock-based compensation which includes \$65,000 for the share issuance and \$60,800 for the warrants granted.

(d)

On April 5, 2013, the Company issued a total of 3,846,152 warrants to purchase common stock to its four directors, including warrants issued to its Chief Executive Officer and Chief Financial Officer, each of which received 961,538 warrants for their second quarter of 2013 director fees. The issuance is part of the annual compensation that was authorized by the Company's Board of Directors on December 6, 2011, when the Board approved replacing directors annual compensation of \$50,000 with three year warrants payable quarterly. The warrants have a term of three years and are fully vested on the date of issuance. The Company recorded \$27,600 of stock-based compensation in connection with this issuance.

(e)

On July 1, 2013, the Company issued a total of 2,702,704 warrants to purchase common stock to its four directors, including warrants issued to its Chief Executive Officer and Chief Financial Officer, each of which received 675,676 warrants for their third quarter of 2013 director fees. The issuance is part of the annual compensation that was authorized by the Company's Board of Directors on December 6, 2011, when the Board approved replacing directors annual compensation of \$50,000 with three year warrants payable quarterly. The warrants have a term of three years and are fully vested on the date of issuance. The Company recorded \$40,800 of stock-based compensation in connection with this issuance.

(f)

On July 7, 2013, the Company issued a total of 650,000 warrants to purchase common stock to its employees. The warrants have a term of three years and are fully vested on the date of issuance. The Company recorded \$11,700 of stock-based compensation in connection with this issuance.

(g)

On June 26, 2012 the Board of Directors of the Company designated and authorized the Series B Preferred Stock ("Series B") as set forth in a Certificate of Designation that was filed with the Secretary of State of the State of Delaware. The Series B has a par value of \$0.001 per share, no rights to dividends but provides for liquidation rights which entitle the holder to a pro-rata share of net assets. The Series B carried no conversion provisions. Subsequent to March 31, 2013 all outstanding shares of Series B were returned by the holder for no consideration to the Company, and the Company's Board of Directors authorized cancellation of the Series B. The Certificate of Amendment cancelling the Series B Preferred Stock was filed with the State of Delaware on April 16, 2013.

NOTE 11: COMMITMENTS AND CONTINGENCIES

Litigation

The Company is a defendant in a suit in the Supreme Court of the State of New York, County of Nassau, filed by Fairchild Warehouse Associates, LLC, as plaintiff, for recovery of past rental payments for the Company's former office space at 25 Fairchild Avenue, Plainview, New York 11803, with money damages requested in the amount of \$ 141,721, which have been accrued for as of September 30, 2013.

The Company on April 4, 2013, was served with a summons and complaint, filed with the Supreme Court of the State of New York, County of New York, Levin Consulting Group, LLC, as plaintiff, where the plaintiff is claiming that additional shares of the Company's Common Stock are issuable by the Company to plaintiff in connection with the exercise by plaintiff of a common stock purchase warrant issued by the Company. As of September 30, 2013 the Company has accrued \$100,000 loss for the plaintiff's claim.

The Company is in default under a May 30, 2012, Securities Purchase Agreement entered into with TCA Global Credit Master Fund, LP, providing for the issuance of \$275,000 principal amount of senior secured redeemable and convertible debentures due November 30, 2012. The Company has received a notice of default and is currently in discussions with the Plaintiff to settle the matter. TCA is claiming the Company now owes them in excess of \$ 550,000 including penalties and interest. As of Sept 30, 2013 the Company has accrued for the principal and accrued interest of \$ 283,250. The Company accrued an additional amount of approximately \$267,000 for this contingency.

The Company was notified by an April 22, 2013 letter from The Depository Trust Company (DTC) that DTC had determined to impose a restriction on physical deposit and on Deposit/Withdrawal At Custodian (DWAC) electronic deposit transactions (referred to as a deposit chill) on the Company's common stock. The effect of the deposit chill was that, for the period April 22, 2013 through August 6, 2013, when the deposit chill was lifted following submissions by the Company, no new shares of the Company's common stock were accepted for deposit with DTC for electronic transfer.

An eviction notice was issued on October 8 by the landlord for 160 Dupont Street, Five Towns Realty Associates, Inc. There is currently an outstanding balance of \$ 48,459 that is subject to a lawsuit. The Company abandoned the space on October 11 and immediately moved to 485 Underhill Boulevard, Syosset N.Y. The monthly rental at 485 Underhill Boulevard is \$ 3,500 per month on a month to month tenancy.

An action was commenced on March 22, 2012, in the Supreme Court of the New York for the County of Nassau, by Lazar, Sanders Thaler & Associates, LLP, a dissolved accounting firm of which Terry R. Lazar, the Company's former CFO was a member. Among the parties named as defendants were Mr. Lazar and the Company. The claim was made that the Company owed fees to the plaintiff and/or that such fees were paid to Terry Lazar who never forwarded them to the plaintiff. Mr. Lazar undertook the defense of the action on his behalf and on behalf of the Company. Since no bills were sent to the Company for an work other than an invoice for \$5,900, which was paid by the Company, and since Mr. Lazar never collected any fees from the Company, an assessment was made by Mr. Lazar that the Company did not have any financial exposure and that it was not necessary to disclose the details of the litigation.

The matter proceeded to inquest and, despite the fact that the plaintiff failed to produce any evidence that (a) any services were rendered to the Company, (b) that any bills were sent to the Company, and (c) that any funds were due from the Company, the court awarded judgment to the plaintiff against the Company in the sum of \$25,000. Adding interests and costs to the awarded amount, judgment has been entered against the Company in the total sum of \$36,613. An appeal has been taken from the judgment. The appeal has been perfected by the filing of the record and brief. In the opinion of counsel for the Company there was no lawful basis for the entry of judgment against the Company and counsel believes that the judgment will be reversed and vacated as against the Company.

This matter has not previously been disclosed in the Company's Exchange Act filings. Mr. Lazar disclosed the existence of the litigation to management, but not the details, and assured management that he would be responsible for the litigation and that the Company would not have any liability. Management other than Mr. Lazar had no information concerning the litigation with which to evaluate the materiality of the litigation and relied on Mr. Lazar's representation that the litigation was not material and that the Company had no exposure by reason of its being a defendant in the litigation.

NOTE 12: SUBSEQUENT EVENTS

On December 31, 2013 Gerard Stoehr's contract as Chief Operating Officer expired and was not renewed by the Company. The Company owes Mr. Stoehr \$ 60,000 which has been accrued for as of September 30, 2013.

A Promissory Note was issued for a loan of \$15,000 on January 15, 2014 with a maturity date of January 15, 2015. The note was issued without interest. The note was secured with a UCC financing statement filing on the System in use at the Landfill.

On January 15, 2014 a Promissory Note was issued to a lender in the amount of \$ 15,000. The Note bears no interest and matures on January 15, 2015. A UCC financing statement was filed on the system operating at the Landfill as security for the Note.

On January 23, 2014 a Promissory Note was issued to a lender in the amount of \$ 15,000. The Note bears no interest and matures on January 23, 2015. A UCC financing statement was filed on the system operating at the Landfill as security for the Note.

On January 23, 2014 a Promissory Note was issued to a lender in the amount of \$ 15,000. The Note bears no interest and matures on January 23, 2015. A UCC was issued on the system operating at the Landfill as security for the Note.

On February 4, 2014 a Promissory Note was issued to a lender in the amount of \$ 15,000. The Note bears no interest and matures on February 4, 2015. A UCC financing statement was filed on the system operating at the Landfill as security for the Note.

On February 20, 2014 a Promissory Note was issued to a lender in the amount of \$ 15,000. The Note bears no interest and matures on February 20, 2015. A UCC financing statement was filed on the system operating at the Landfill as security for the Note.

On February 20, 2014 a Promissory Note was issued to a lender in the amount of \$ 7,500. The Note bears no interest and matures on February 20, 2015. A UCC financing statement was filed on the system operating at the Landfill as security for the Note.

Edgar Filing: PureSafe Water Systems, Inc. - Form 10-Q

On February 20, 2014 a Promissory Note was issued to a lender in the amount of \$ 7,500. The Note bears no interest and matures on February 20, 2015. A UCC financing statement was filed on the system operating at the Landfill as security for the Note.

Terry R. Lazar, Chief Financial Officer of the Company and a Director resigned on February 14, 2014 as Chief Financial Officer and from the Company's Board of Directors.

Effective March 7, 2014, Theresa Bischoff resigned as a Director of the Company.

Effective March 7, 2014 Dr. Stephen E. Flynn resigned as a Director of the Company.

On April 2, 2014, the Company Board of Directors elected Stephen M. Hicks to the Board of Directors, to fill a vacancy on the Board, and as President of the Company. Mr. Hicks is the Chief Executive Officer of Southridge LLC (Southridge.) Southridge and its affiliates have financed the Company in the past and continue to own debt and equity securities of the Company. New directors, who are not officers, are paid \$12,500 per year in cash or stock.

On April 2, 2014, the Company Board of Directors elected Mr. Gilbert Steedley to the Board to fill a vacancy on the Board. Mr. Steedley is currently interim Chief Executive Officer and Director of Accelpath, New York, N.Y. Compensation is as indicated above for Mr. Hicks.

On April 2, 2014, the Company elected Henry Sargent as Vice President and Secretary of the Company. Mr. Sargent is Chief Operating Officer and General Counsel of Southridge.

October 8, 2013 an eviction notice was issued by the landlord for the Company's facilities at 160 Dupont Street. The Company abandoned the space on October 11 and immediately moved to 485 Underhill Boulevard, Syosset N.Y. The monthly rental at 485 Underhill Boulevard is \$ 3,500 per month on a month to month tenancy.

From October 1, 2013 until May 28, 2014, the Company converted a total \$180,095 loan principal plus \$3,398 accrued interest into 75,325,034 shares of common stock.

On March 13, 2014, a warrant holder exercised 625,000 warrants at exercise price of \$0.0025. The holder elected their cash-less exercise provision. Accordingly, the Company issued 526,315 shares of common stock in connection with such exercise.

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

Introductory Comment

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our financial statements and related notes contained elsewhere in this Quarterly Report on Form 10-Q, as well as our audited financial statements and related notes contained in our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission (the "SEC") on April 16, 2013.

Note Regarding Forward-Looking Statements

This quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). To the extent that any statements made in this Form 10-Q contain information that is not historical, these statements are essentially forward-looking. Forward-looking statements can be identified by the use of words such as anticipate, believe, continue, could, estimate expect, hope, intend, may, plan, potential, would and variations of such words. Forward-looking statements are subject to risks and uncertainties that cannot be predicted or quantified and, consequently, actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, without limitation:

.

our ability to raise capital to finance our research and development and operations, when needed and on terms advantageous to us;

.

our ability to manage growth, profitability and marketability of our products;

.

general economic and business conditions;

.

the effect on our business of recent credit-tightening throughout the United States and the world, especially with respect to federal, state, local and foreign government procurement agencies, as well as quasi-public, charitable and private emergency response organizations;

.

the effect on our business of recently reported losses within the financial, banking and other industries and the effect of such losses on the income and financial condition of our potential clients;

.

the impact of developments and competition within the industries in which we intend to compete

.

adverse results of any legal proceedings;

.

the impact of current, pending or future legislation and regulation on water safety, including, but not limited to, changes in zoning and environmental laws and regulations within our target areas of operations;

.

our ability to maintain and enter into relationships with suppliers, vendors and contractors of acceptable quality of goods and services on terms advantageous to us;

.

the volatility of our operating results and financial condition;

.

our ability to attract and retain qualified senior management personnel; and

.

the other risks and uncertainties detailed in this Form 10-Q and, from time to time, in our other filings with the Securities and Exchange Commission.

Readers of this Report on Form 10-Q should carefully consider such risks, uncertainties and other information, disclosures and discussions which contain cautionary statements identifying important factors that could cause our actual results to differ materially from those provided in forward-looking statements. Readers should not place undue reliance on forward-looking statements contained in this Form 10-Q. We do not undertake any obligation to publicly update or revise any forward-looking statements we may make in this Form 10-Q or elsewhere, whether as a result of new information, future events or otherwise.

General

PureSafe Water Systems, Inc. (herein referred to as the Company, Puresafe, we, us or our) was incorporated in Delaware in 1987. The manufacture and marketing of water coolers and filters constituted a substantial part of our business from 1993 until the fourth quarter of 2001, at which time such operations were sold and we began concentrating on the further development, manufacturing and marketing of a patented line of water purification systems (FRWS). Between January 2002 and November 2012, we have generated nominal revenues and were deemed for accounting purposes to be a development stage enterprise.

We have generated our first sale of the FRWS in December of 2012 followed by our second sale in the first quarter of 2012 and the third sale in November 2012. Accordingly, we are no longer deemed to be a development stage enterprise. We are, however, an early stage commercial enterprise. The accompanying unaudited consolidated financial statements have been prepared assuming our company will continue as a going concern. The PureSafe FRWS is the product line by which we have generated our first significant sales since 2001.

Comparison of Results of Operations for the Three Months ended September 30, 2013 and 2012

Revenues. We recognized \$0 revenues for the three month period ended September 30, 2013 as compared with \$0 for the same period in 2012.

Cost of goods sold. Cost of goods sold for the three month period ended September 30, 2013 was \$51,471 as compared with \$3,602 for the same period in 2012. The decrease of \$47,869 or a 1,329% represents inventory written down to our net realizable value.

Selling, general and administrative. Selling, general and administrative expenses for the three month period ended September 30, 2013 was \$478,174 compared to \$752,175 for the same period in 2012, a \$274,001 or a 36% decrease.

The following is an analysis of Selling, general and administrative expenses fluctuations between 2013 and 2012.

Compensation and related benefits expenses for the three month period ended September 30, 2013 was \$263,113, compared to \$240,608 for the same period in 2012, a \$22,505 or 9% decrease.

Insurance & medical benefits expense for the three month period ended September 30, 2013 was \$0. The insurance & medical benefits expense for the same period in 2012 was \$18,689.

Research and development. Research and development expenses for the three month period ended September 30, 2013 were \$6,143 compared to \$0 in the same period of 2012, a small increase. In 2012 we were focused on production of our PSWS units, and this year, based on this experience, we are making some changes on our existing units to improve the design and enhance the performance. We understand the vital importance of research and development for our overall success. We are committed to continue to conduct research and development activities to ensure PureSafe FRWS has the most advanced technology within the water filtration equipment industry.

Professional, legal and consulting fees expenses for the three month period ended September 30, 2013 were \$30,759, compared to \$73,140 for the same period in 2012, a \$42,381 or 58% decrease. In 2012, we received one-time adjustment bill from our auditor resulting in a higher than normal professional, legal and consulting fees for the period compared to 2013 which incurred no such adjustment.

Marketing expenses. Due to operating cash shortfalls, we did not incur any marketing expenses, including stock-based fees, for the three month period ended September 30, 2013. The same expense for the same period of 2012 is \$176,723. We made a one-time adjustment to accrue \$169,444 in marketing consulting fees that we owed to a consultant.

Occupancy related expenses remained constant compared with same period of 2012. The occupancy related expenses for the three month period ended September 30, 2013 were \$47,170, decreased \$7,165 from \$54,335 for same period in 2012. The decrease in occupancy related expenses in 2013 compared to the same period in 2012 is the result of small decreases in many different areas, such as a reduction in cleaning services and repairs and maintenance, etc.

Loss on Abandonment of fixed asset We incurred \$21,720 expense on abandonment of fixed asset for the three month period ended September 30, 2013, compared to \$0 for the same period in 2012, a \$21,720 change. In the 3rd quarter of 2013, after the Company moved to current location, the Company decided to write-off all fixed assets that are associated with prior locations.

Other administrative and general expenses decreased \$79,410 from \$188,680 for the three month period ended September 30, 2012 to \$109,270 or 42% for the same period in 2013. The decrease is the result of a combination of reductions of other expenses that were not included in the above discussed sections. Two main factors for such a large reduction in other administrative and general expenses are production related expenses. In 2012, we incurred \$68,667 of expenses on production related activities which we did not incur any for the same period of 2013. For the three month period ended September 30, 2013, we incurred \$2,613 in loan cost related amortization expense, a \$70,278 or 96% reduction as compared to the same period in 2012, where the loan cost related amortization expense was \$72,891.

Other Income (Expenses)

We generated \$369,564 of non-operating income for the three months ended September 30, 2013 and we incurred \$264,160 of non-operating expenses for the same period in 2012.

The following is a detailed comparison for both periods:

Interest expense - non-debt discount related interest expense in the three month periods ended September 30, 2012 and 2013 was \$65,001 and \$63,782, respectively, a \$1,219 or 2% increase. In the third quarter of 2012, we made two one-time entries; i) On July 3, 2012, a customer requested to convert \$130,000 customer deposit into common stock. Base on the terms of the original sales/rental agreement, upon the issuance of 4,187,500 shares of common stock, we recorded \$37,500 interest expense to fulfill the Company's obligation, ii) in September, 2012, the Company recorded \$85,000 interest expense resulted from an agreement the Company entered into with a lender to amend certain convertible notes issued by the Company to the lender, dated as of March 27, 2012 and April 25, 2012 in the aggregate principal amount of \$100,000. The lender agreed to forgo the right to convert those notes into common stock and, in exchange, the Company agreed to add an additional \$85,000 principal onto the original \$100,000 note.

Interest expense - debt discount incurred in the three month period ended September 30, 2013 and 2012 was \$107,384 and \$480,064, respectively, a \$372,680 or a 78% decrease. The main reason for the decrease in debt-discount related interest expense is that we fully amortized the debt discount of most of our loans that we entered in 2011 and 2012, and we entered into fewer loan agreements in the third quarter of 2013 compared to the same period of 2012.

Changes in fair value of warrants and embedded conversion options for the three months ended September 30, 2013 and 2012 were \$803,600 and \$392,700, respectively.

The change in fair value of warrants and embedded conversion options for any period is always primarily the result of the following factors. The first factor is the fair value we recorded as the result of new issuances of warrants and the embedded conversion value. The second factor is the reduction of outstanding options or warrants at the end of each period due to warrant/options exercise or warrants/options expired during the same period. The third factor is the fluctuation of the Company's stock price.

Comparison of Results of Operations for the Nine months ended September 30, 2013 and 2012

Revenues. We recognized \$0 revenues for the nine month period ended September 30, 2013 as compared with \$265,000 for the same period in 2012.

Cost of goods sold. Cost of goods sold for the nine month period ended September 30, 2013 was \$51,471 as compared with \$286,320 for the same period in 2012.

Selling, general and administrative. Selling, general and administrative expenses for the nine month period ended September 30, 2013 was \$1,890,656 compared to \$1,852,371 for the same period in 2012, a \$38,285 or 2% increase.

The following is an analysis of Selling, general and administrative expenses fluctuations between 2013 and 2012.

Compensation and related benefits expenses, including directors fees for the nine month period ended September 30, 2013 was \$1,071,181 compared to \$804,652 for the same period in 2012, a \$266,529 or 33% increase

Directors fees increased \$51,600 from \$87,600 for the nine month period ended September 30, 2012 to \$139,200 for the same period in 2013. The \$51,600 or 59% increase for the directors fees is the result of the market price fluctuation between the fair value of the market price on the date of warrant issuance and the warrant exercise.

Salaries expenses, excluding Stock-based compensation, remained relatively constant from \$550,352 for the nine month period ended September 30, 2012 to \$550,855 for the same period in 2013.

Stock Based Compensation, excluding directors fees, consulting fees and marketing expense, increased \$172,800 from \$166,700 for the nine month period ended in September 30, 2012 to \$339,500 for the same period in 2013. We issued 27,000,000 shares of common stock to our employees and contractors in the nine months ended September 30, 2013 and recorded \$171,300 stock-based compensation for such issuance. This is in comparison to 2,300,000 shares of common stock issued and \$149,500 of stock-based compensation recorded in the same period of 2012, an increase of 24,700,000 shares and \$21,800. In addition, on February 11, 2013, the Compensation Committee granted our Chief Executive Officer and Chief Financial Officer a total of 25,000,000 warrants to purchase 25,000,000 shares of common stock at an exercise price of \$0.0033 per share. We recorded \$152,000 of stock-based compensation in connection with such grant.

Insurance & medical benefits expense for the nine month period ended September 30, 2013 was \$33,723, compared to \$62,538 for the same period in 2012, a \$28,816 or 46% decrease. The decrease in total insurance premium is the net result of the reduction in our workers compensation insurance premium due to the reduction of production staff in 2013 and the increase the general liability premium in the same period.

Research and development. The research and development expenses for the nine month period ended September 30, 2013, were \$52,825 compared to expenses in the same period in 2012 of \$58,239, a \$5,414 or 9% decrease. In the past two years, due to cash restrictions, we have curtailed the expenses on research and development and have focused our resources on production. However, we understand the vital importance of research and development for our overall success. We are committed to continue to conduct research and development activities to ensure PureSafe FRWS has the most advanced technology within the water filtration equipment industry.

Professional, legal and consulting fees expenses for the nine month period ended September 30, 2013 were \$309,777, compared to \$138,238 for the same period in 2012, \$171,539 or 124% increase. The main reason for the \$171,539 increase is that, in the nine month period ending September 30, 2013, we recorded \$257,000 of stock-based consulting fees represented by 74,509,222 shares of our common stock being issued to two consultants and one investment banker for services we received. In the same period of 2012, we only issued 186,538 shares of common stock representing \$10,900 of stock-based consulting fees. In 2012, we received one-time adjustment bill from our auditor resulting in a higher than normal professional, legal and consulting fees for the period compared to 2013 which incurred no such adjustment.

Marketing expenses, including stock-based compensation, decreased \$164,542 from \$190,377 for the nine month period ended September 30, 2012 to \$25,835 for the same period in 2013. As previous discussed, the main reason for such decrease, we made a non-recurring adjustment to accrue \$169,444 in marketing consulting fees that we owed to a consultant in the 3rd quarter of 2012.

Occupancy related expenses decreased \$25,065 from \$193,967 for the nine month period ended September 30, 2012 to \$168,902 for the same period in 2013. The decrease in occupancy related expenses in 2013 compared to the same period in 2012 is the result of small decreases in many different areas, such as reductions in cleaning services and repairs and maintenance.

Gain on disposal of equipment We incurred total \$14,434 loss on abandonment of fixed asset. We sold our Ford truck in the second quarter of 2013 and realized a \$7,286 gain after writing-off the balance of the asset. In March 2012, we moved our headquarters to our 160 Dupont Street facility. As a result, we wrote-off \$34,707 of leasehold improvements, recorded as loss on disposal of equipment. In the 3rd quarter of 2013, after the Company moved to current location, the Company decided to write-off all fixed assets that are associated with prior locations.

Other administrative and general expenses decreased \$155,819 from \$369,652 for the nine month period ended September 30, 2012 to \$213,833 for the same period in 2013. The \$213,833 or 42% decrease is a combination of reductions of other expenses that were not included in the above discussion. Two main factors in other administrative and general expenses are production related expenses. In 2012, we incurred \$68,667 in expenses on production related activities which we did not incur any for the same period of 2013.

Other Income (Expenses)

We incurred \$373,385 in non-operating expenses for the nine months ended September 30, 2013, compared to \$152,806 for the same period in 2012, a \$220,579 or 144% increase in spending.

The following is a detailed analysis for such increase:

In the 3rd quarter of 2013, the Company decided that most of raw materials have become obsolete after the Company reengineered the unit. As a result, the Company wrote off \$51,471 worth of inventory.

Interest expense - non-debt discount related incurred in the nine month period ended September 30, 2013 and 2012 was \$215,676 and \$298,564, respectively, a \$82,888 or 28% decrease. This \$82,888 or 28% decrease is the result of the following factors. i.) In the third quarter of 2012, we made two one-time entries; ii) On July 3, 2012, a customer requested to convert \$130,000 customer deposit into common stock. Based on the terms of the original sales/rental agreement, upon the issuance of 4,187,500 shares of common stock, we recorded \$37,500 of interest expense to fulfill the Company's obligation; iii) In September, 2012, the Company recorded \$85,000 of interest expense resulted from an agreement the Company entered into with a lender to amend certain convertible notes issued by the Company to the lender, dated as of March 27, 2012 and April 25, 2012 in the aggregate principal amount of \$100,000. The lender agreed to forgo the right to convert those notes into common stock and in exchange, the Company agreed to add an additional \$85,000 to the original principal amount of \$100,000 of the note. In the first six months of 2013, we incurred approximately \$27,000 in interest expense as the result of failing to issue conversion shares in a timely manner that was dictated by the terms of outstanding notes, where such expense was immaterial in the same period of 2012.

Interest expense - debt discount incurred in the nine month period ended September 30, 2013 and 2012 was \$183,128 and \$660,090, respectively, a \$476,962 or 72% decrease. The main reason for the decrease in debt-discount related interest expense is that we fully amortized the debt discount of most of our loans that we entered in 2011 and 2012, and we entered into fewer loan agreements in the second quarter of 2013 compared to the same period of 2012.

Changes in fair value of warrants and embedded conversion options for nine months ended September 30, 2013 and 2012 were \$253,500 and \$790,600, respectively.

The change in fair value of warrants and embedded conversion options for any period is always primarily the result of the following factors. The first factor is the fair value we recorded as the result of new issuances of warrants and the embedded conversion value. The second factor is the reduction of outstanding options or warrants at the end of each period due to warrant/options exercise or warrants/options expired during the same period. The third factor is the fluctuation of the Company's stock price.

Liquidity and Capital Resources

As of September 30, 2013, we maintained a cash balance of \$36,051 as compared to \$63,571 as of December 31, 2012.

Net cash used in the operating activities in the nine months ended September 30, 2013 was \$912,152, compared to \$702,431 used in the same period of 2012, a \$222,720 or 32% increase. The main factor for the increase of net cash used in operating activities is that we did not receive any cash from operating activities, such as sales, in 2013, compared to approximately \$265,000 received through sales and other operating activities in the same period of 2012.

Net cash received in investing activities in the nine month period ended September 30, 2013 and 2012 was \$12,544 and \$0, respectively. We sold our Ford truck in the second quarter of 2013 and received \$20,000 cash, wrote-off the asset and recorded a \$7,286 non-cash gain in connection with the sale. We paid \$7,456 cash for a patent related activity and capitalized such transaction.

In the nine months ended September 30, 2013 and 2012, respectively, we received \$635,314 and \$200,000 through sales of our common stock and warrant exercises. We received \$27,923 from an investor to exercise his warrants to purchase 1,296,067 shares of common stock at exercise prices between \$0.0128 and \$0.0144. As of September 30, 2013, we have not issued the shares in connections with such warrant exercises yet.

Funds received from officers and directors convertible loans in the nine months ended September 30, 2013 and 2012 were \$9,051 and \$80,000, respectively; cash received from issuing convertible promissory notes was \$285,000 and \$656,000, respectively; and cash received from issuing promissory notes was \$10,000, and \$0, respectively. We paid \$0 and \$120,649 in financing costs associated with loans created in the nine month periods ended September 30, 2013 and 2012, respectively; cash used to repay convertible notes payable was \$32,500 and \$0, respectively; cash used to repay officers and directors notes was \$48,500 and \$16,000, respectively; and cash used to repay notes payable was \$14,200 and \$140,000, respectively.

From the above activities, net cash provided by financing activities in the nine months ended September 30, 2013 and 2012 was \$872,088 and \$659,351, respectively.

From all the above activities, net cash used for the nine month periods ended September 30, 2013 and 2012 was \$27,520 and \$43,080, respectively.

At September 30, 2013, we had a working capital deficit of approximately \$4.8 million. We continue to suffer recurring losses from operations and have an accumulated deficit since inception of approximately \$47.3 million. These conditions raise substantial doubt about our ability to continue as a going concern.

Our continuation as a going concern is dependent upon its ability to bring our products to market and generate revenues, control costs, and obtain additional financing, as required and on reasonable terms. Our plans with respect to these matters include restructuring our existing debt and raising additional financing through issuance of convertible preferred stock, common stock and/or debt. On January 23, 2013, we signed an Engineering Package Agreement (ETG Agreement) with ETG/Engineering Technologies Group, Inc. (ETG), Hopkinton, Massachusetts. Under the engineering agreement, ETG will provide detailed electronic engineering drawings and purchase specifications for our water purification and filtration product and to facilitate the outsourcing of the assembly, sub-assembly and manufacturing of our product. On January 25, 2013, we entered into an Exclusive Sales and Marketing Agreement (the Distribution Agreement) with Global Equipment Marketing, Inc. (GEM), Hopkinton, Massachusetts, a distribution and marketing company. Under the Distribution Agreement, GEM is responsible, on an exclusive basis, for promoting and selling our products at their cost and expense. In exchange, GEM will receive a discount from the list prices of PureSafe products in connection with sales to its dealers, distributors, representatives and resellers. We remain responsible for the design and manufacturing of our products. On April 2nd 2014, The Company announced that Stephen Hicks and Gilbert Steedley were appointed to the Board of Directors and that Stephen Hicks was appointed President of the Company. Henry Sargent was appointed Vice President and Secretary.

The Company requires immediate capital to remain viable. We can give no assurance that such financing will be available on terms advantageous to us, or at all. Should we not be successful in obtaining the necessary financing to fund our operations, we would need to curtail certain or all of our operational activities. The accompanying unaudited condensed consolidated financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern.

Recent Accounting Pronouncements

Recent accounting pronouncements issued by the FASB and the SEC did not have, or are not believed by management to have, a material impact on the Company's present or future consolidated financial statements.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of the statements in accordance with these principles requires that we make estimates, using available data and our judgment, for such things as valuing assets, accruing liabilities and estimating expenses. The following is a list of what we believe are the most critical estimations that we make when preparing our consolidated financial statements.

Stock-Based Compensation

We reports stock-based compensation under ASC 718. ASC 718 requires all share-based payments to employees, including grants of employee stock options, to be recognized in the consolidated financial statements based on their fair values.

We account for equity instruments issued to non-employees as compensation in accordance with the provisions of ASC 718 and 505, which require that each such equity instrument is recorded at its fair value on the measurement date, which is typically the date the services are performed.

The Black-Scholes option valuation model is used to estimate the fair value of the options or their equivalent granted. The model includes subjective input assumptions that can materially affect the fair value estimates.

The model was developed for use in estimating the fair value of traded options or warrants that have no vesting restrictions and that are fully transferable. The expected volatility is estimated based on the most recent historical period of time equal to the weighted average life of the options granted.

We have issued equity instruments in the past to raise capital and as a means of compensation to employees and for the settlement of debt.

Income taxes

We account for income taxes under guidance provided by ASC 740 *Income Taxes* which prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. Differences between tax positions taken or expected to be taken in a tax return and the benefit recognized and measured pursuant to the interpretation are referred to as unrecognized benefits. A liability is recognized (or amount of net operating loss carry forward or amount of tax refundable is reduced) for an unrecognized tax benefit because it represents an enterprise's potential future obligation to the taxing authority for a tax position that was not recognized as a result of applying the provisions of ASC 740.

In accordance with ASC 740, interest costs related to unrecognized tax benefits are required to be calculated (if applicable) and would be classified as *Interest expense, net* in the consolidated statements of operations. Penalties would be recognized as a component of *General and administrative expenses*.

Our uncertain tax positions are related to tax years that remain subject to examination by relevant tax authorities. We file income tax returns in the United States (federal) and in various state and local jurisdictions. We are no longer subject to federal, state and local income tax examinations by tax authorities for years prior to 2008.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

This Item is not applicable to smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Disclosure Controls and Procedures We carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were not effective, as of September 30, 2013, in ensuring that material information that we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Our management identified the following material weaknesses as of September 30, 2013.

Entity Level. We recognize the need to provide leadership and guidance to our employees regarding the maintenance and preparation of financial matters. There is a weakness due to the fact that there are not documented policies and procedures in place for certain procedures. In addition we have not established an independent audit committee and the board of directors have assumed this responsibility.

Financial Reporting. There needs to be a more structured mechanism for evidence of review in the financial reporting process. The following procedures have been implemented since the beginning of 2009, (a) CFO signs and date all financial documents upon the completion of reviewing such documents, (b) all approval or permission will be evidenced by either email or in writing. No oral approval or permission is allowed, (c) General Journal is recorded only after CFO approves (in writing) such entry and (d) monthly bank reconciliations must complete within 15 days after month ends and reviewed by CFO 5 days after the completion of bank reconciliation. Due to our limited personnel and resources we are not always in compliance with these procedures.

.

Complex Accounting Transactions: Due to our limited resources and personnel management has concluded that, as of September 30, 2013, a material weakness exists because the Company does not currently employ a sufficient number

of qualified accounting personnel to ensure proper and timely evaluation of complex accounting, tax, and disclosure issues that may arise during the course of the Company's business.

Confidential Reporting Mechanism: We recognize that we need to provide leadership and guidance to our employees, clients and vendors regarding business ethics and professional conduct. A confidential reporting mechanism must be in place for anonymous reporting of a breach to these ethics that will enable prompt and thorough investigation. In January 2009, we implemented a whistleblower program. A toll-free number, as well as an email address, were posted on the homepage of our website to encourage our employee, contractors, sub-contractors, vendors to report any unethical or illegal behavior they suspect. Due to our limited personnel and resources we do not have an independent audit committee overseeing this process.

Segregation of Duties: Our administrative staff consists of three officers, one Controller and one receptionist and segregation of duties conflicts exist with our day to day operations. Therefore, we have relied heavily on entity or management review controls to lessen the issue of segregation of duties.

Management intends to address these material weakness by reviewing the Company's accounting and finance processes to identify any improvements thereto that might enhance the Company's internal control over financial reporting and determine the feasibility of implementing such improvements and by seeking qualified employees and/or outside consultants who possess the knowledge needed to eliminate this weakness with our available resources. To mediate the material weaknesses management has increased its level of monitoring activities and has prepared additional analyses of key financial accounts. In addition the Company hires an outside consultant to assist management with its annual and quarterly SEC reporting. The Company's ability to remediate these weaknesses, however, has been delayed or limited by resource constraints. Upon receiving adequate financing the Company plans to increase its controls in these areas by hiring more experienced employees in financial reporting, establishing an audit committee and formally documenting the controls the Company has in place.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of any system of controls is also based in part on certain assumptions regarding the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Given these and other inherent limitations of control systems, there is only reasonable assurance that our controls will succeed in achieving their stated goals under all potential future conditions.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the third quarter of our 2013 fiscal year that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Terry R. Lazar, Chief Financial Officer of the Company and a Director resigned on February 14, 2014 as Chief Financial Officer and from the Company's Board of Directors for personal reasons. Our Chief Executive Officer has assumed these responsibilities.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The Company is a defendant in a suit in the Supreme Court of the State of New York, County of Nassau, filed by Fairchild Warehouse Associates, LLC, as plaintiff, for recovery of past rental payments for the Company's former office space at 25 Fairchild Avenue, Plainview, New York 11803, with money damages requested in the amount of \$ 141,721 which has not been accrued as of September 30, 2013 for the outcome or amount of this action cannot reasonably be determined

The Company on April 4, 2013, was served with a summons and complaint, filed with the Supreme Court of the State of New York, County of New York, Levin Consulting Group, LLC, as plaintiff, where the plaintiff is claiming that additional shares of the Company's Common Stock are issuable by the Company to plaintiff in connection with the exercise by plaintiff of a common stock purchase warrant issued by the Company. As of September 30, 2013 the Company accrued \$100,000 loss for the plaintiff's claim.

The Company is in default under a May 30, 2012, Securities Purchase Agreement entered into with TCA Global Credit Master Fund, LP, providing for the issuance of \$275,000 principal amount of senior secured redeemable and convertible debentures due November 30, 2012. The Company has received a notice of default and is currently in discussions with the plaintiff to settle the matter. TCA is claiming the Company now owes them in excess of \$ 550,000 including penalties and interest. As of Sept 30, 2013 the Company has accounted for the principal and accrued interest of \$ 283,250. The Company accrued additional \$266,750 for this contingency.

The Company was notified by an April 22, 2013 letter from The Depository Trust Company (DTC) that DTC had determined to impose a restriction on physical deposit and on Deposit/Withdrawal At Custodian (DWAC) electronic deposit transactions (referred to as a "deposit chill") on our common stock. The effect of the deposit chill was that, for the period April 22, 2013 through August 6, 2013, when the deposit chill was lifted following submissions by the Company, no new shares of our common stock were accepted for deposit with DTC for electronic transfer.

An eviction notice was issued on October 8 by the landlord for 160 Dupont Street, Five Towns Realty Associates, Inc. There is currently an outstanding balance of \$ 48,459 that is subject to a lawsuit. The Company abandoned the space on October 11 and immediately moved to 485 Underhill Boulevard, Syosset N.Y. The monthly rental at 485 Underhill Boulevard is \$ 1,500 per month on a month to month tenancy.

An action was commenced on March 22, 2012 , in the Supreme Court of the New York for the County of Nassau, by Lazar, Sanders Thaler & Associates, LLP, a dissolved accounting firm of which Terry R. Lazar, the Company's former

CFO was a member. Among the parties named as defendants were Mr. Lazar and the Company. The claim was made that the Company owed fees to the plaintiff and/or that such fees were paid to Terry Lazar who never forwarded them to the plaintiff. Mr. Lazar undertook the defense of the action on his behalf and on behalf of the Company. Since no bills were sent to the Company for an work other than an invoice for \$ 5,900, which was paid by the Company, and since Mr. Lazar never collected any fees from the Company, an assessment was made by Mr. Lazar that the Company did not have any financial exposure and that it was not necessary to disclose the details of the litigation.

The matter proceeded to inquest and, despite the fact that the plaintiff failed to produce any evidence that (a) any services were rendered to the Company, (b) that any bills were sent to the Company, and (c) that any funds were due from the Company, the court awarded judgment to the plaintiff against the Company in the sum of \$25,000.00. Adding interests and costs to the awarded amount, judgment has been entered against the Company in the total sum of \$ 36,612.91. An appeal has been taken from the judgment. The appeal has been perfected by the filing of the record and brief. In the opinion of counsel for the Company there was no lawful basis for the entry of judgment against the Company and counsel believes that the judgment will be reversed and vacated as against the Company.

ITEM 1A. RISK FACTORS.

This Item is not applicable to smaller reporting companies.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

The following table sets forth the sales of unregistered securities by the Company in the quarterly period ended Sept 30, 2013.

			Total Offering Price/	
Date	Title and Amount(1)	Purchaser	Principal Underwriter	Underwriting Discounts
February 13, 2013	42,424,242 shares of common stock and three year warrants to purchase 10,606,061 shares of common stock at exercise price \$0.0039 through 2012 Private Placement.	Private investor	NA	\$0.0033/NA
March 4, 2013	15,151,515 shares of common stock and three year warrants to purchase 3,787,879 shares of common stock at exercise price \$0.0039 through 2012 Private Placement.	Private investor	NA	\$0.0033/NA
March 4, 2013	15,151,515 shares of common stock and three year warrants to purchase 3,787,879 shares of common stock at exercise price \$0.0039 through 2012 Private Placement.	Private investor	NA	\$0.0033/NA
March 4, 2013	3,205,128 shares of common stock and three year warrants to purchase 801,282 shares of common stock at exercise price \$0.0094 through 2012 Private Placement.	Private investor	NA	\$0.0078/NA
March 14, 2013	3,048,780 shares of common stock and three year warrants to purchase 762,195 shares of common stock at exercise price \$0.0098 through 2012 Private Placement.	Private investor	NA	\$0.0082/NA
January 16, 2013	4,000,000 shares of common stock issued through loan conversion.	Private investor	NA	\$0.00156/NA
January 22, 2013	8,823,529 shares of common stock issued through loan conversion.	Private investor	NA	\$0.0017/NA
January 22, 2013	8,012,228 shares of common stock issued through loan conversion.	Private investor	NA	\$0.0027/NA
January 28, 2013	10,000,000 shares of common stock issued through loan conversion.	Private investor	NA	\$0.0012/NA
January 31, 2013	7,000,000 shares of common stock issued through loan conversion.	Private investor	NA	\$0.00108/NA
February 4, 2013		Private investor	NA	\$0.0012/NA

Edgar Filing: PureSafe Water Systems, Inc. - Form 10-Q

	5,666,667 shares of common stock issued through loan conversion.			
February 4, 2013	8,388,890 shares of common stock issued through loan conversion.	Private investor	NA	\$0.003/NA

Edgar Filing: PureSafe Water Systems, Inc. - Form 10-Q

March 5, 2013	2,443,333 shares of common stock issued through loan conversion.	Private investor	NA	\$0.0009/NA
March 26, 2013	6,000,000 shares of common stock issued through loan conversion.	Private investor	NA	\$0.00102/NA
January 18, 2013	8,774,761 shares of common stock issued to settle debt	Private investor	NA	\$0.00156/NA
February 14, 2013	6,597,799 shares of common stock issued to settle debt	Private investor	NA	\$0.006426/NA
March 14, 2013	6,748,452 shares of common stock issued to settle debt	Private investor	NA	\$0.008336/NA
March 19, 2013	3,000,000 shares of common stock issued for service	Consultant	NA	\$0.009/NA
March 19, 2013	25,000,000 shares of common stock issued for service	Consultant	NA	\$0.006/NA
March 18, 2013	15,000,000 shares of common stock issued for compensation	CEO	NA	\$0.0065/NA
March 18, 2013	10,000,000 shares of common stock issued for compensation	CFO	NA	\$0.0065/NA
March 25, 2013	950,000 shares of common stock issued for compensation	Employee	NA	\$0.004/NA
March 25, 2013	1,250,000 shares of common stock issued for service	Consultant	NA	\$0.004/NA
January 8, 2013	Five-year warrants to purchase 1,666,667 shares of common stock at an exercise price of \$0.0036 per share issued in connection with loan issuance	Private investor	NA	\$-0-/NA
January 17, 2013	Five-year warrants to purchase 12,820,512 shares of common stock at an exercise price of \$0.0039 per share issued for director fees for 1st quarter of 2013	Board of directors	NA	\$-0-/NA
February 11, 2013	Five-year warrants to purchase 15,000,000 shares of common stock at an exercise price of \$0.0033 per share issued for compensation	CEO	NA	\$-0-/NA
April 3, 2013	5,000,000 shares of common stock and three year warrants to purchase 1,250,000 shares of common stock at exercise price \$0.012 through 2012 Private Placement.	Private investor	NA	\$0.01/NA
April 11, 2013	1,760,563 shares of common stock and three year warrants to purchase 440,141 shares of common stock at exercise price \$0.017 through 2012 Private Placement.	Private investor	NA	\$0.0142/NA

April 16, 2013	7,200,000 shares of common stock and three year warrants to purchase 1,800,000 shares of common stock at exercise price \$0.0168 through 2012 Private Placement.	Private investor	NA	\$0.014/NA
April 1, 2013	Three-year warrants to purchase 3,846,152 shares of common stock at an exercise price of \$0.013 per share issued for director fees for 2nd quarter of 2013	Board of directors	NA	\$-0-/NA
May 24, 2013	2,083,333 shares of common stock issued through loan conversion.	Private investor	NA	\$0.0096/NA
May 28, 2013	1,000,000 shares of common stock issued through loan conversion.	Private investor	NA	\$0.00948/NA
June 6, 2013	2,547,368 shares of common stock issued through loan conversion.	Private investor	NA	\$0.0095/NA
June 20, 2013	1,500,000 shares of common stock issued through loan conversion.	Private investor	NA	\$0.0079/NA
June 21, 2013	900,000 shares of common stock issued to settle debt	Private investor	NA	\$0.0145/NA
June 25, 2013	25,000,000 shares of common stock issued for service	Consultant	NA	\$-0-/NA
July 11, 2013	801,282 shares of common stock issued through warrant exercise	Private investor	NA	\$0.0094/NA
July 11, 2013	1,093,750 shares of common stock issued through warrant exercise	Private investor	NA	\$0.0096/NA
July 22, 2013	833,333 shares of common stock issued through warrant exercise	Private investor	NA	\$0.0072/NA

July 22, 2013	1,666,667 shares of common stock issued through warrant exercise	Private investor	NA	\$0.0036/NA
July 18, 2013	762,195 shares of common stock issued through warrant exercise	Private investor	NA	\$0.0098/NA
July 18, 2013	4,261,848 shares of common stock issued through warrant exercise	Private investor	NA	\$0.00352/NA
July 23, 2013	245,098 shares of common stock issued through warrant exercise	Private investor	NA	\$0.0184/NA
September 16, 2013	1,052,631 shares of common stock issued through warrant exercise	Private investor	NA	\$0.-0-/NA
August 12, 2013	1,500,000 shares of common stock issued through loan conversion.	Private investor	NA	\$0.006/NA
August 26, 2013	10,894,412 shares of common stock issued through loan conversion.	Private investor	NA	\$0.014/NA
August 26, 2013	1,815,078 shares of common stock issued through loan conversion.	Private investor	NA	\$0.014/NA
August 26, 2013	1,815,078 shares of common stock issued through loan conversion.	Private investor	NA	\$0.014/NA
August 26, 2013	1,815,078 shares of common stock issued through loan conversion.	Private investor	NA	\$0.014/NA
September 3, 2013	34,209,917 shares of common stock issued through loan conversion.	Private investor	NA	\$0.00605/NA

September 16, 2013	1,518,389 shares of common stock issued through loan conversion.	Private investor	NA	\$0.00355/NA
September 18, 2013	3,000,000 shares of common stock issued through loan conversion.	Private investor	NA	\$0.0025/NA
July 15, 2013	526,312 shares of common stock issued as penalty for failing to issue shares on time	Private investor	NA	\$-0-/NA
July 7, 2013	Three-year warrants to purchase 650,000 shares of common stock at an exercise price of \$0.0033 per share issued for employee award	Employee	NA	\$-0-/NA
July 1, 2013	Three-year warrants to purchase 2,702,704 shares of common stock at an exercise price of \$0.0185 per share issued for director fees for 3rd quarter of 2013	Board of directors	NA	\$-0-/NA

(1)

The issuances to executives, employees, lenders, consultants and investors are viewed by the Company as exempt from registration under the Securities Act of 1933, as amended (Securities Act), alternatively, as transactions either not involving any public offering, or as exempt under the provisions of Regulation D promulgated by the SEC under the Securities Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

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

None.

ITEM 5. OTHER INFORMATION.

The Company is in default under a May 30, 2012, Securities Purchase Agreement entered into with TCA Global Credit Master Fund, LP, providing for the issuance of \$275,000 principal amount of senior secured redeemable and convertible debentures due November 30, 2012. The Company has not received a notice of default and is negotiating a forbearance agreement with the lender.

ITEM 6. EXHIBITS.

The following exhibits are being filed as part of this Quarterly Report on Form 10-Q.

Exhibit Number	Description
31*	Certification of Chief Executive Officer and Principal Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
32**	Certification of Chief Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

** Furnished herewith

Copies of the following documents are included as exhibits to this report pursuant to Item 601 of Regulation S-K.

SEC Ref.

No.	Title of Document
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

The XBRL related information in Exhibits 101 to this Quarterly Report on Form 10-Q shall not be deemed filed or a part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, and is not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of those sections.

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 thereunto duly authorized.

PureSafe Water Systems, Inc.

Dated: June 6, 2014

By: */s/ Leslie J. Kessler*
Leslie J. Kessler
Chief Executive Officer and
Principal Financial Officer