PureSafe Water Systems, Inc.
Form 10-K
October 23, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

X .

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

For the fiscal year ended December 31, 2013

.

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

Commission File Number: 0-30544

PureSafe Water Systems, Inc.
(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.)
35 East Mall, Plainview, New York (Address of principal executive offices)	**11803** (Zip Code)

Registrant s telephone number, including area code: **(516) 208-8250**

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

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, par value $.001 per share.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes . No X .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Yes . No X .

Indicate by check mark if the registrant has (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 X .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. .

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 X .

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	Smaller reporting company X .

. (Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes . No X .

The aggregate market value of the voting and non-voting common equity of the registrant held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter was $14,590,381.

As of October 23, 2014, 1,414,187,330 shares of the common stock of the registrant were issued and outstanding.

Table of Contents

Introductory Comment - Use of Terminology

Throughout this Annual Report on Form 10-K, the terms the Company, we, us and our refers to PureSafe W
Systems, Inc.

Note Regarding Forward - Looking Statements

This Annual Report on Form 10-K 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-K 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, pr
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 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 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-K and, from time to time, in our other filings with the Securities and Exchange Commission.

Readers of this Annual Report on Form 10-K 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-K. We do not undertake any obligation to publicly update or revise any forward-looking statements we may make in this Form 10-K or elsewhere, whether as a result of new information, future events or otherwise.

PART I

Item 1. Business.

Organizational Structure

Our company was incorporated in Delaware in 1987. Our business predecessor was incorporated in Arizona in 1985. In 1993, our business predecessor, then known as Auto Swap, U.S.A., Inc., merged with and into our company, although the business predecessor was treated as the surviving corporation for accounting purposes. Following the effectiveness of such merger, the surviving corporation changed its name to Water Chef, Inc. and began operating the businesses previously conducted by the business predecessor, the manufacture and marketing of water coolers and filters. 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. In 2007, new management commenced development of our PureSafe First Response Water System line of mobile water decontamination and purification systems (the PureSafe FRWS). In 2008, we changed our name to PureSafe Water Systems, Inc.

With the initial sales of the Puresafe FRWS in 2011 and 2012, for accounting purposes we are no longer deemed to be a development state enterprise. We are, however, an early stage commercial enterprise. The accompanying 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.

General

We have developed a PureSafe First Response Water System (PureSafe FRWS) that is mobile, self-contained and purifies essentially any type of raw water source or decontaminates any contaminated water, including seawater, for emergency water supply production at a first response emergency site.

Recent Developments Management Changes

Terry R. Lazar, former Chief Financial Officer of the Company and a director, resigned effective February 15, 2014 for personal reasons as Chief Financial Officer and from our Board of Directors, and on December 31, 2013, Gerard Stoehr s contract as Chief Operating Officer expired Mr. Stoehr agreed to stay on with the Company as an independent consultant.

Effective March 7, 2014, Theresa Bischoff and Dr. Stephen E. Flynn resigned as a directors of the Company for personal reasons, and on April 2, 2014, our Board of Directors elected Stephen M. Hicks, to our 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), which has financed the Company in the past and continues to own debt and equity securities of the Company. Our Board also on the same date elected Gilbert Steedley as a director of the Company, to fill a vacancy on the Board of Directors, and elected Henry Sargent as Vice President and Secretary of the Company. Mr. Sargent is the Chief Operating Officer and General Counsel of Southridge.

On June 13, 2014, the Company entered into a consulting agreement with Tarpon Bay Partners, LLC, a Florida limited liability company (Tarpon), for the period from the date of the consulting agreement through March 31, 2015. The Agreement requires Tarpon to provide general management and consulting services and advisory services to the Company, including assistance in connection with the restructuring of our outstanding debt and equity securities. Tarpon is a controlled company in the Southridge LLC group of companies. Stephen Hicks, President and a director of the Company, controls Southridge and is the manager of Tarpon. Pursuant to the terms of the consulting agreement, upon execution of the agreement, Tarpon received 17 shares of a newly authorized Series H Preferred Stock with a stated value of $425,000, and will receive additional shares of Series H Preferred Stock with a stated value of $75,000 monthly, continuing through the balance of the term of the consulting agreement. The execution and delivery of the Consulting Agreement was approved by the directors of the Company. Mr. Hicks did not participate in the vote on this matter.

On June 13, 2014, the Board of Directors of the Company (Mr. Hicks not participating) authorized the issuance to Mr. Hicks of all of the fifty-one (51) authorized shares of a new Series G Preferred Stock for a purchase price of $1 per share. As a result of the voting rights granted to the Series G Preferred Stock in the Certificate of Designations, Mr. Hicks, as the Series G stockholder, holds in the aggregate approximately 51% of the total voting power of all issued and outstanding voting capital of the Company. Pursuant to the terms of the Board resolution authorizing the issuance of the Series G Preferred Stock, and authorizing the issuance of the shares to Mr. Hicks, the Company has the right to redeem said Preferred Stock of the Company upon his resignation or the termination of his services as President of the Company. The Company believes that the issuance of the Series G Preferred Stock to Mr. Hicks will facilitate the Company s ability to manage its affairs.

On the corporate front, we are negotiating with creditors to lower the Company s significant debt load, including debt owed the secured creditor. We have reduced the Company s fixed costs through an ongoing vendor review. We are bringing in capital on an as needed basis.

Products

We have identified the need for providing potable drinking water during emergencies as a market segment that requires solutions we can provide. We believe that dramatic changes in weather patterns, global warming and failing water infrastructures, provide an additional opportunity for our company to exploit in the marketplace by providing rapidly deployable units to areas where populations require potable drinking water quickly. Populations that have little mobility because of infrastructure failures need drinking water immediately to sustain life. It is anticipated that our products would operate in areas where the populations are clustered so that potable drinking water in disinfected portable containers can be provided in an efficient manner.

We have developed a patent pending PureSafe First Response Water System that is self-contained and purifies most types of contaminated fresh or service water, including seawater that may be found at a first response emergency site. This system is uniquely mobile, by helicopter or transported by truck. The initial PureSafe FRWS prototype was developed using advanced Israeli water treatment technology. The original prototype was capable of producing 10,000 gallons of water per day, but could not desalinate sea water, and did not have a built in generator or water bagging capability. Adhering to the original treatment train and process, we have since built a 2nd prototype (FRWS unit). The FRWS unit can produce EPA compliant drinking from contaminated fresh or surface water at the rate of 30,000 gallons per day to provide drinking water to 45,000 people. The unit has a built in generator and water bagging capability at the rate of 30,000 ½ liter bags of water per day (16.9 ozs). This represents approximately 5,000 gallons of water. The unit also has a built-in Water Filling Station that can provide an additional 25,000 gallons of water that can be delivered in various formats. To prevent secondary contamination, the system has the capability of disinfecting contaminated containers by spraying the insides of the containers with ozonated water. The unit can be easily converted into a stationary unit to provide for daily needs of a population lacking safe drinking water. This system has received Gold Seal Certification from the Water Quality Association, which we believe is a significant accomplishment. In addition, the Nassau County Department of Health independently tested the PureSafe FRWS unit s water quality and the results exceeded all testing parameters.

The PureSafe FRWS utilizes our patent pending technology which is comprised of a water extraction boom that extracts water from the ocean, streams, ponds, pools of floodwater or a failed municipal distribution system. The extracted water is then treated by the application of advanced water treatment technologies which employ multiple stage filtration, multiple stage sanitation (including ozone, chlorine and ultraviolet purification techniques), reverse osmosis membranes, mineralization and final polishing to meet the standard drinking water requirements of the U.S. Environmental Protection Agency (the EPA). The system provides redundancy at the filtration and sanitation stations and the duel capability of on-site filling of containers, as well as an automatic water bag producing capability. The FRWS has obtained Water Quality Association (WQA) Gold Seal Certification. Water Quality Association is a not-for-profit, trade association and a world leader in standards development and product certification.

Marketing Plan

Our management understands that, to be successful, we will need to create an effective sales organization to promote our brand and product attributes through a variety of outlets and formats with clear branding messages. With this in mind, our marketing plan is based on the following key components:

.

Strategic Alliances . In January 2013 we entered into a strategic and exclusive agreement with Global Equipment Marketing, Inc. (GEM). GEM will sell and market our products utilizing as a dba PureSafe Water System Sales.

.

Direct Marketing and Sales The marketing and sales plan will initially focus on short term developed business opportunities where money is currently available. The sales effort will be by both direct sales, development of an international dealer distribution network, and through the assistance of sales consultants and respresentatives.

Referencing our goals, we are also redirecting the sales effort so that it will no longer predominantly rely on one sector of the economy. We will now aim to expand our product to the oil and gas sector, as well as many government and municipalities; agricultural, and industrial businesses. We are reviewing the entire approach to the product with an aim to deepen and diversify our distribution channels, lower our cost of production, improve the Company s profit margin on sales and maintain an inventory of units for immediate sale.

At present our demonstration unit is on the road in a much more organized and deliberate approach to achieve maximum exposure through the balance of this year. We will be updating our marketing materials and directing more resources to our sales and marketing efforts. The previously announced sale to the Mexican Tequila company is moving forward.

We are looking to employ a full time water technologist to assist our sales organization in analyzing prospective customer needs and researching new applications for product use.

Manufacturing

In September 2009, we formed PureSafe Manufacturing and Research Corporation, as a wholly owned subsidiary of PureSafe Water Systems, Inc. In January of 2013 we entered into an Engineering Package Agreement with ETG/Engineering Technologies, Group, Inc. The Company plans to have the ability to meet future market demands by having the capability to outsource production of our product

Components

The PureSafe FRWS system has been designed to utilize readily available off-the-shelf components and sub-systems. Sub-systems and components are available from multiple manufacturers. We do not believe that obtaining raw materials will be difficult, however some components require a twelve (12) week lead time for ordering.

Competition

We have identified the need for providing potable drinking water during emergencies as well as a permanent solution to populations that have little mobility because of infrastructure failures and need drinking water immediately to sustain life. It is anticipated that individual PureSafe FRWS units will be delivered by the owners to areas where the populations are clustered so that potable drinking water in disinfected portable containers can be provided in an efficient manner.

This is a far different market than that addressed by a large segment of the industry which has concentrated on the multi-billion dollar municipal water treatment sector, or the small end of the marketplace for inexpensive more personal water filtration needs.. The municipal solution requires significant investment for infrastructure development (*e.g* ., building plants and laying miles of distribution pipes). Products for residential or remote developing world markets do not offer the performance or features to meet the needs of the first response market or the needs of the underdeveloped nations of the world. In summary, although we face competition from numerous competitors, we believe the combined capability of water decontamination and delivery system of our PureSafe FRWS is unique to the market.

We have identified the following types of mobile water purification systems, and the companies that manufacture them, where the products are competitive with the PureSafe First Responder Mobile Water Purification System.

There are four categories of existing water purification units:

1.

The first are those which are essentially very large, not very mobile, almost fixed installation units used primarily for long term solutions with a significant amount of lead time. Manufacturers include: GE, Siemens, and Severn Trent, all of which manufacture large containerized systems.

2.

The second group includes those products that are smaller, cheaper, lighter in weight, but still unable to respond quickly because of their limited purification capabilities (the unit needs to be prepared in advance for the type of contamination it will face.) Manufacturers are: Ecospheres Technology, Lenntech, Testa/Viwa and Lifekeeper. None of these systems would fall in to the first responder category.

3.

The third group is the category made up of specialty units designed to be either much lower cost, use only green power (with the significant limitations caused by that), or meet a specialized and limited need. Manufacturers include Mobile MaxPure, Bi Pure Water and Rodi which, while they have a trailer mounted system, have no on board power source.

4.

The fourth group includes those companies which have similar claims and design characteristics as PureSafe System. These manufacturers include: Global Water Group which manufactures different size systems with options which include the trailer, generator, treatment, and salinity options; Nirosoft, which manufactures systems capable of processing different sources; LifeStream, which has a soft side trailer; and Aquapura Tempest, which has different types of units depending on the source.

6

In general, the markets in which we intend to operate are highly competitive with respect to performance, quality and price. We anticipate that we will directly compete with those competitors which we identified above, as well as with other local, regional and water treatment service and equipment providers. In the future, we also may face further competition from new market entrants and possible alliances between existing competitors. Most of our competitors have financial, marketing and other resources than we have. As a result, competitors may be able to respond more quickly to new or emerging trends and changes in technology, benefit from greater purchasing economies, offer more aggressive pricing to customers or devote greater resources to the promotion of their products than we are capable of accomplishing. In addition, our potential competitors in many cases already have customers to which they have sold water purification systems and these systems have an operating track record, in contrast to our FRWS which is a relatively new productin the market. There can be no assurance that we will be able to successfully compete in this market.

Markets Served

We have reviewed a study conducted by Frost & Sullivan examining the Mobile Water Treatment Market to aide us in identifying our target markets and our plan to penetrate those markets.

Definition of Mobile Water Treatment Systems (Frost & Sullivan Study)

.

Mobile Water Treatment Systems are trailer/skid mounted systems that offer quick, reliable and cost effective service to meet water crises. They provide various water treatment technologies such as reverse osmosis, filtration, demineralization, ion exchange, softening and deoxgenation.

.

Mobile Water Treatment Systems are innovative and immediate solutions to water crises in case of plant downtime, an industrial crisis, facility maintenance and emergency drinking water shortages. These systems can treat both surface and ground water requirements.

End Users/Target Market Segments

Mobile water treatment systems service end users and the market can be broken down into several treatment segments.

Municipal Treatment

Demand is driven by area water shortages where local governments or municipalities lease equipment for short or long term durations. Demand is increased by natural emergencies such as drought, floods earthquakes, etc.

Target Organizations:

- Federal/State and Local Offices of Emergency Management
- Federal/State Department of Homeland Security
- Department of Public Works
- Department of Public Safety
- Public Water Authority
- Federal, State and Local Correctional Institutions/Facilities

Quasi-Municipal Treatment

Key market driver is similar to municipal treatment but the affected population is unique to the organization s specific function or purpose. They can be publically or privately operated and funded.

Target Organizations:

.

Public (State) Universities

.

Private Universities

.

Private Hospitals

.

Nursing Homes/Assisted Living Facilities

.

Hotels and Resorts

.

Analytical Laboratories

.

Outpatient Treatment Centers

Industrial Treatment

Key market driver is cost related to plant downtime in case of unavailability of purified and processed water for process support or as an ingredient in the end product.

Target Industries:

- Power Generation
- Oil and Gas Exploration
- Petrochemicals and Refineries
- Chemical Processing
- Metals and Mining
- Electronics
- Food and Beverage Processing
- Pharmaceuticals

The International Market

The International Market encompasses the identified target markets as well as the need for drinking water for everyday use.

World Water Facts

- 884 million people lack access to safe drinking water.
- 3.575 million people die each year from water-related diseases.
- Every 20 seconds a child dies from a water related disease.
- In the developing world 24,000 children under the age of five die every day from preventable causes like diarrhea contracted from unclean water.
- In just one day 200 million hours of women s time is consumed for the most basic of human needs-collecting water for domestic use.
- Less than 1% of the world s fresh water is readily accessible for direct human use.
- More than 80% of sewage in developing countries is discharged untreated, polluting rivers, lakes and coastal areas.

Sources; Water.org, UN reports, WHO

Intellectual Property

On October 6, 2014, the Company received from the U.S. Patent & Trademark Office a Notice of Allowance (for issuance as a patent) and Fee(s) Due with respect to our application (No. 12/100,137) for versatile water purification systems and methods, which application was filed April 9, 2008.

Despite our efforts to protect our intellectual property rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. In addition, the laws of some foreign countries do not necessarily protect intellectual rights to as great an extent as do the laws of the United States. Monitoring and identifying unauthorized use of broadly disseminated products is difficult.

There can be no assurance that our means of protecting our intellectual property rights will be adequate or that our competitors will not independently develop similar technology or duplicate our products or design around our patents or other intellectual property rights. Further, there also can be no assurance that any issued patent will provide us with any competitive advantages.

We are not aware that the PureSafe FRWS materially infringes upon the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim such infringement by us. Any such claims, with or without merit, could be time consuming, result in costly litigation, cause product shipment delays or might require us to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us.

Litigation may be necessary to protect our proprietary technology. Our competitors and potential competitors may resort to litigation as a means of competition. Such litigation may be time consuming, costly and expose us to new claims that we may not have anticipated. Although patent and intellectual property disputes have often been settled through licensing, cross-licensing or similar arrangements, costs associated with such arrangements may be substantial, if they may be obtained at all. Any litigation involving us, whether as plaintiff or defendant, regardless of the outcome, may result in substantial costs and expenses to us and cause a significant diversion of effort by our technical and management personnel. In addition, there can be no assurance that litigation, instituted either by or against us, will not be necessary to resolve issues that may arise from time to time in the future with other competitors. Any such litigation could have a material adverse effect upon our business, operating results and financial condition. In the event of an adverse result in any such litigation, we could be required to expend significant resources to develop non-infringing technology, obtain licenses to the technology which is the subject of the litigation on terms not advantageous to us, pay damages, and/or cease the use of any infringing technology. There can be no assurance that we would have available funds sufficient to satisfy any cash awards.

Seasonality

We do not expect that the sales of the PureSafe FRWS will have some level of fluctuation due to seasonality of water trauma events such as hurricanes, tornados, tsunamis, storms, flooding or other natural or man-made disasters. Preparedness requires a readiness to address disasters prior to their occurrence. We do not view seasonality as an issue with respect to international markets.

Research and Development

We expect that continued research and development will be conducted by ETG/Engineering Technologies Group, Inc. going forward after they complete their initial task under the agreement in place.

Our expenditures for research and development activities in fiscal 2013 were $55,874, and in fiscal 2012 were $62,032.

Insurance

The Company maintains a $2 million general business liability policy. We believe such insurance coverage to be adequate for our current requirements. No assurance can be given that adequate insurance coverage, at reasonable cost or otherwise, will be available in the future.

Employees

As of October 23, 2014, the Company employed a Chief Executive Officer, a Field Supervisor and one full time administrative employee in our headquarters.

We have no collective bargaining agreement with any of our employees.

Item 1A. Risk Factors.

We will need additional capital to finance existing obligations and to fund our operations and growth and we may not be able to obtain additional capital at all, or to obtain capital under terms acceptable to us.

We are seeking to raise additional capital. Due to our strategic alliance with GEM and ETG our financial requirements have been reduced. We anticipate that this amount of capital, if fully raised, will satisfy our financial obligations for approximately 24 months. In addition, unanticipated events could cause our revenues to be lower and our costs to be higher than expected, therefore creating the need for additional capital. Historically, cash generated from operations has not been sufficient to fund our capital requirements, and we have relied upon sales of securities, and loans from our officers to fund our operations. We cannot assure you that we will have sufficient funds available to meet our working capital requirements, or that we will be able to obtain capital to finance operations on favorable terms or at all. If we do not have, or are otherwise unable to secure necessary working capital, we may be unable to fund the continued manufacture of PureSafe units, and we may have to delay or abandon some or all of our development and expansion plans or otherwise forego market opportunities, any of which could harm our business.

We have a history of losses and we may continue to incur losses in the future and/or we may never achieve or maintain profitability.

Our financial statements have been prepared assuming that we will continue as a going concern. At December 31, 2013, our stockholders deficiency was $5,535,503, as compared to $4,483,108 at December 31, 2012. Negative working capital was $5,628,425 at December 31, 2013, as compared to $4,610,445 at December 31, 2012.

We continue to suffer recurring losses from operations and have an accumulated deficit since inception (1987) through December 31, 2013 of approximately $48.3 million, and a loss from operations of approximately $3.2 million for the year ended December 31, 2013. These conditions raise substantial doubt about our ability to continue as a going concern.

Our independent registered public accountants have stated in their report that there is substantial doubt about our ability to continue as a going concern.

We have limited cash resources and have a working capital deficit. Our independent registered public accountants have stated in their report that they have a substantial doubt about our ability to continue as a going concern. By being categorized in this manner, we may find it more difficult in the short term to either locate financing for future projects or to identify lenders willing to provide loans at attractive rates, which may require us to use our cash reserves in order to expand. Should this occur, and unforeseen events also require greater cash expenditures than expected, we could be forced to cease all or a part of our operations.

Technological change and competition may render our potential products obsolete.

The water purification industry continues to undergo rapid change, competition is intense and we expect it to continually increase. Competitors may succeed in developing technologies and products that are more effective or affordable than any that we are developing or that would render our technology and products obsolete or noncompetitive. Many of our competitors have substantially greater experience, financial and technical resources and production and development capabilities than we do. Accordingly, some of our competitors may succeed in obtaining regulatory approval for products more rapidly or effectively than we can for technologies and products that are more effective and/or affordable than any that we are developing.

Product liability exposure may expose us to significant liability.

We face an inherent business risk of exposure to product liability and other claims and lawsuits in the event that the development or use of our technology or prospective products is alleged to have resulted in adverse effects. We may not be able to avoid significant liability exposure. We maintain a $2,000,000 general and product liability policy which covers the manufacture and marketing of our products. Although we believe our insurance coverage to be adequate, we may not have sufficient insurance coverage, and we may not be able to obtain sufficient coverage at a reasonable cost. An inability to obtain product liability insurance at acceptable cost or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of our products. A product liability claim could hurt our financial performance. Even if we avoid liability exposure, significant costs could be incurred that could hurt our financial performance and condition.

Our inability to protect our intellectual property rights may force us to incur unanticipated costs.

Our success will depend, in part, on our ability to obtain and maintain protection in the United States and other countries for certain intellectual property incorporated into our water purification systems and our proprietary methodologies. Our patent applications for our products are currently pending, and there is no guarantee that such patents will be granted, and if they are not, we may be unable to obtain patents relating to our technology. Even if issued, patents may be challenged, narrowed, invalidated or circumvented, which could limit our ability to prevent competitors from marketing similar solutions that limit the effectiveness of our patent protection and force us to incur unanticipated costs. In addition, existing laws of some countries in which we may provide services or solutions may offer only limited protection of our intellectual property rights.

Our products may infringe the intellectual property rights of third parties, and third parties may infringe our proprietary rights, either of which may result in lawsuits, distraction of management and the impairment of our business.

As the number of patents, copyrights, trademarks and other intellectual property rights in our industry increases, products based on our technology may increasingly become the subject of infringement claims. Third parties could assert infringement claims against us in the future. Infringement claims with or without merit could be time consuming, result in costly litigation, cause product shipment delays or require us to enter into royalty or licensing agreements. Royalty or licensing agreements, if required, might not be available on terms acceptable to us, or at all. We may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Litigation to determine the validity of any claims, whether or not the litigation is resolved in our favor, could result in significant expense to us and divert the efforts of our technical and management personnel from productive tasks. If there is an adverse ruling against us in any litigation, we may be required to pay substantial damages, discontinue the use and sale of infringing products, expend significant resources to develop non-infringing technology or obtain licenses to infringing technology. Our failure to develop or license a substitute technology could prevent us from selling our products.

We will face substantial competition in marketing our PureSafe FRWS.

We will experience competition from a large number of more established firms in the market for water purification systems. Many of these companies are much larger and have substantially greater financial resources than us. In addition, our potential competitors in many cases already have customers to which they have sold water purification systems and these systems have an operating track record, in contrast to our FRWS which is a relatively new production the market.

We do not anticipate paying cash dividends in the foreseeable future, which could adversely affect the price of our Common Stock.

We, by reason of our anticipated financial status and our contemplated financial requirements, do not contemplate or anticipate paying any dividends upon our Common Stock in the foreseeable future. Any payment of cash dividends in the future will be dependent upon the amount of funds legally available, the earnings, financial conditions, capital requirements and other factors that the board of directors may believe are relevant. Further, dividends on our common stock are subordinated to dividends and liquidation rights of the holders of our outstanding Series A and Series D preferred stock and the rights of the holders of our outstanding Series F convertible preferred stock.

Item 1B. Unresolved Staff Comments.

Disclosure under Item 1B is not required of smaller reporting companies.

Item 2. Properties.

The Company leases its offices at 35 East Mall, Plainview, NY, on a month-to-month basis, at a monthly rental of $1,050.

Item 3. 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 (Fairchild), 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, as of February 2014, requested in the amount of $475,930, which have been accrued for and included in accounts payable and accrued liabilities as of December 31, 2013. An inquest is set to begin on December 3, 2014 to determine the amount of money damages due on Fairchild s claim.

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 (Levin), 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. The warrant was originally issued contemporaneously with the issuance of a $20,000 promissory note to Levin. In June 2014 the Company entered into a settlement and has agreed to issue a convertible promissory note in the amount of $50,000 to the plaintiff. The convertible note matures on December 31, 2015 and accrues interest at 10% per annum. The holder may convert all or any portion of the outstanding principal and accrued and unpaid interest due and payable under the note into shares of the Company s common stock at a conversion price equal to 50% of the lowest closing bid price of the Company s common stock during the five trading days immediately prior to such applicable conversion date, in each case subject to the lender not being able to beneficially own more than 9.999% of our outstanding common stock upon any conversion. If the closing bid price for the common stock on the date in which the conversion shares are deposited into the holders brokerage account and the holder may execute trades of the conversion shares (the Clearing Date) then the conversion price shall be adjusted such that the discount be taken from the closing bid price on the Clearing Date. The original $20,000 note remains outstanding. As of December 31, 2013 the Company has accrued a $50,000 loss as a result of the settlement and is included in accounts payable and accrued liabilities.

The Company is in default under a May 30, 2012, Securities Purchase Agreement entered into with TCA Global Credit Master Fund, LP (TCA), providing for the issuance of $275,000 principal amount of senior secured redeemable and convertible debentures due November 30, 2012. On October 4, 2013, at the request of the lender due to default, the Company converted $303,499 of convertible notes and accrued interest into a new convertible note in the amount of $531,431. The increase in principal was due to amounts charged by the lender for penalties, interest, legal and other fees. The newly issued note bears interest at rates of 18% per annum and is due on demand. The lender may convert all or any portion of the outstanding principal, accrued and unpaid interest, and any other sums due and payable under the Note into shares of the Company s common stock at a conversion price equal to 85% of the lowest daily volume weighted average price of the Company s common stock during the five trading days immediately prior to such applicable conversion date, in each case subject to the lender not being able to beneficially own more than 4.99% of our outstanding common stock upon any conversion. The conversion price is subject to anti-dilution protection in the event that the Company issues additional equity securities at a price less than the conversion price. On March 10, 2014, TCA accelerated the outstanding principal balance, interest, calculated at the default rate of 18%, and all sums due under the original note and any amendments. In August 2014 a default final judgment was entered against the Company concluding that TCA is entitled to damages in the amount of $610,349, to foreclose upon the security interests, and to recover attorneys fees and costs incurred by TCA. In addition prejudgment interest shall be assessed at a rate of 18% per annum and post judgment interest shall be assessed at a rate of 4.75% per annum. As of December 31, 2013 the Company is reporting a liability of $554,814 related to the TCA claim and is included in convertible notes payable.

On November 27, 2013, the Company entered into a settlement agreement with Tarpon Bay Partners LLC (Tarpon), a related party. The manager of Tarpon is Stephen Hicks, the President of the Company. Tarpon previously purchase outstanding liabilities of the Company from TCA in the amount of $506,431 and Designs and Project Development Corporation (a former landlord) in the amount of $56,429. Per the terms of the settlement the Company was to issue Tarpon shares of common stock in one or more tranches as necessary, and subject to adjustment and ownership limitations, and a convertible promissory note in the principal amount of $75,000. The Company failed to issue shares to Tarpon and in the first quarter of 2014 TCA rescinded its liabilities purchase agreement with Tarpon. As of December 31, 2013 the Company is reporting a liability of $57,484 related to the Designs and Project Development

Corporation claim and is included in notes payable and the $506,431 related to TCA has been included in convertible promissory notes.

On January 31, 2014, in conjunction with the settlement agreement outlined above, the Company issued Tarpon a convertible promissory note in the principal amount of $75,000. The convertible note matures one year from the date of issuance with interest at 10% per annum. The convertible promissory note shall have no registration rights and shall be convertible into the common stock of the Company at any time at a conversion price equal to 75% of the low closing bid price for the twenty days prior to conversion.

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. As of October 2014 the restriction had not been lifted.

An eviction notice was issued on October 8 by the landlord for 160 Dupont Street, Five Towns Realty Associates, Inc (Five Towns Realty). There is currently an outstanding balance of $54,739 that is subject to a lawsuit and is included in accounts payable and accrued liabilities at December 31, 2013. The Company is currently in negotiations with Five Towns Realty to reach a settlement.

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 owned 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.

The matter proceeded to inquest and 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 Supreme Court of the state of New York. As of December 31, 2013 the Company is reporting a liability of $36,613 related to the judgment.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market

Our common stock is traded over-the-counter and has been available for quotation on the OTC Markets Group OTCQB platform under the trading symbol PSWS . The following table sets forth the range of high and low bid prices for our common stock for the periods indicated as derived from the Google Finance website. The information reflects inter-dealer prices, without retail mark-ups, mark-downs or commissions and may not necessarily represent actual transactions.

Quarter Ended	High Bid Price	Low Bid Price
March 31, 2011	$ 0.118	$ 0.110

June 30, 2011	0.067	0.046
September 30, 2011	0.104	0.096
December 31, 2011	0.062	0.058
March 31, 2012		
June 30, 2012	0.063	0.035
September 30, 2012	0.035	0.013
December 31, 2012	0.02	0.003
March 31, 2013	0.019	0.008
June 30, 2013	0.021	0.017
September 30, 2013	0.017	0.007
December 31, 2013	0.008	0.003
March 31, 2014	0.005	0.002
June 30, 2014	0.004	0.001
September 30, 2014	0.004	0.001

Holders

As of October 23, 2014, we had approximately 520 stockholders of record.

No dividends have been declared or paid on our common stock, and we do not anticipate that any dividends will be declared or paid in the foreseeable future. Dividends on our common stock are subordinated to dividends and liquidation rights of the holders of our outstanding Series A, Series D and Series H preferred stock and the rights of the holders of our outstanding Series F convertible preferred stock.

Securities Authorized for Issuance under Equity Compensation Plans

The following table shows information as of December 31, 2013 with respect to each equity compensation plan and individual compensation arrangements under which our equity securities are authorized for issuance to employees or non-employees.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (A)		Weighted-average exercise price of outstanding options, warrants and rights (B)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A)) (C)
Equity compensation plans approved by security holders	6,000,000	$	0.0410	24,000,000
Equity compensation plans not approved by security holders	101,040,778	$	0.0134	–
Total	107,040,778	$	0.015	

In November 2008, our stockholders approved the Company’s 2008 Equity Incentive Plan (the “2008 Plan”), pursuant to which 30,000,000 shares are reserved for issuance to officers, directors, key employees and consultants and advisors. The purposes of the 2008 Plan are (a) to enable us to attract and retain highly qualified personnel who will contribute to our success, and (b) to provide incentives to participants in the 2008 Plan that are linked directly to increases in stockholder value which will therefore inure to the benefit of all of our stockholders. The 2008 Plan provides for its administrator (i.e., our board of directors, or a committee of the board in which each member will be an independent director) to have full authority, in its discretion, to:

select the persons, to whom awards will be granted, grant awards, determine the number of shares to be covered by each award, determine the type, nature, amount, pricing, timing and other terms of each award, and interpret, construe and implement the provisions of the 2008 Plan, including the authority to adopt rules and regulations. Under the 2008 Plan, we are authorized to award: stock options, stock bonuses, restricted stock, stock appreciation rights, commonly referred to as SARs, performance grants and other types of awards.

Sales of Unregistered Securities

The following table sets forth the unreported sales of unregistered securities for the fiscal year ended December 31, 2013:

Date	Title and Amount(1)	Purchaser	Principal Underwriter	Total Offering Price / Underwriting Discounts
1/8/2013	10% Convertible promissory note in the principal amount of $25,000, due 2014, convertible at $0.03 per share, with 5-year warrants to purchase 1,666,667 shares of common stock at an exercise price of $.0036 per share.	Private investor.	NA	$ 25,000/NA
5/13/2013	10% Convertible promissory note in the principal amount of $29,895, due 2014, convertible pursuant to a market price formula at time of conversion.	Private investor.	NA	$ 29,895/NA
5/22/2013	12% loan agreement in the principal amount of $335,000, due 2014, convertible pursuant to a market price formula at time of conversion, with 5-year warrants.	Private Investor	NA	$ 335,000/NA
7/11/2013	Convertible promissory note in the principal amount of $25,000, due September 30, 2013, convertible pursuant to a market price formula at time of conversion.	Private Investor	NA	$ 25,000/NA

8/19/2013	10% Convertible promissory note in the principal amount of $25,000, due 2014, convertible at $0.015 per share, with 5-year warrants to purchase 8,333,333 shares of common stock at an exercise price of $.003 per share.	Private Investor	NA	$	25,000/NA
8/16/2013	10% Convertible promissory note in the principal amount of $35,000, due 2014, convertible at $0.005 per share, with 5-year warrants to purchase 5,833,333 shares of common stock at an exercise price of $.006 per share.	Private Investor	NA	$	35,000/NA
9/5/2013	10% Convertible promissory note in the principal amount of $5,000, due 2014, convertible at $0.005 per share, with 5-year warrants to purchase 200,000 shares of common stock at an exercise price of $.006 per share.	Private investor.	NA	$	5,000/NA
9/12/2013	10% Convertible promissory note in the principal amount of $100,000, due 2014, convertible at $0.0085 per share, with 5-year warrants to purchase 10,416,666 shares of common stock at an exercise price of $.0096 per share.	Private investor.	NA	$	5,000/NA
10/14/2013	2,078,972 reset shares of common stock from prior conversion.	Private Investor (ASC Recap)	NA	$	14,345/NA
10/22/2013	1,582,546 reset shares of common stock from prior conversion.	Private Investor (SGI)	NA	$	9,495/NA
10/31/2013	3,000,000 shares of common stock issued upon conversion of $7,500 of the principal amount of a convertible note.	Private Investor (Vista Capital)	NA	$	7,500/NA
11/12/2013	2,233,996 shares of common stock issued upon conversion of $5,000 of the principal amount of and $585 of accrued interest on a convertible note.	Private Investor (Sazer)	NA	$	5,585/NA
12/19/2013	22,109,375 shares of common stock issued upon conversion of $35,000 of the principal amount of a convertible note and legal fees of $375.	Private Investor (Southridge).	NA	$	35,375/NA

Item 6. Selected Financial Data.

Disclosure under Item 6 is not required of smaller reporting companies.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Overview and Recent Developments

We have developed a patent pending PureSafe First Response Water System (PureSafe FRWS) that is self-contained and purifies essentially any type of raw water source or decontaminate any contaminated water without prior knowledge of the contaminants, including seawater that may be found at a first response emergency site. This system is uniquely mobile, by helicopter or transported by truck. The initial PureSafe FRWS prototype was developed using advanced Israeli water treatment technology. The original prototype was capable of producing 10,000 gallons of water per day, but could not desalinate sea water, and did not have a built in generator or water bagging capability. Adhering to the original treatment train and process, we have since built a 2nd prototype (FRWS unit). The FRWS unit can produce EPA compliant drinking water at the rate of 30,000 gallons per day, to provide drinking water to 45,000 people. This system has received Gold Seal Certification from the Water Quality Association in September 2010, was re-certified in April 2011 and January 2013, a significant accomplishment. In addition, the Nassau County Department of Health independently tested the PureSafe unit s water quality and the results exceeded all testing parameters. The FRWS-30K unit was designed to meet the output, ease of operation, mobility and water quality requirements as described in the Operational Requirements Document issued by the U.S Department of Homeland Security (2009) for emergency water supplies.

Under our Exclusive Sales and Marketing Agreement with GEM present and future distributors and representatives will be integrated with GEM s existing worldwide distributor network. GEM has appointed a Product Manager for our technology.

We have sold three FRWS units, one being sold to an end user in the oil and gas exploration business in Texas (delivered in Dec 2011), the second sold to the Department of Military and Veterans Affairs for the State of Alaska (delivered in the first quarter of 2012) and the third sold to the State of Vera Cruz, Mexico in the fourth quarter of 2012. All of the sold units were manufactured in our production facility.

Over the past several years we have demonstrated our FRWS system at several emergency preparedness conferences in New York and California, and numerous times at our offices in New York.

Plan of Operations

Our plans for the next twelve months include:

In June 2014 we retained Tarpon Bay Partners LLC, a company that is part of the Southridge LLC group, as the Company s strategic financial advisor to provide general management and consulting services and advisory services to the Company, including assistance in connection with the restructuring of our outstanding debt and equity securities.

Our marketing plan is based on the following key components:

Strategic Alliances We entered into an Engineering Package Agreement in January 2013 with ETG/Engineering Technologies Group, Inc. ETG will re-engineer and value engineer the system so that production can be outsourced. This should allow for the Company to meet future demands for the product. We also entered into a second agreement, with Global Equipment Marketing, Inc. (GEM). GEM will sell and market our products utilizing as a dba PureSafe Water System Sales.

Direct Marketing and Sales The marketing and sales plan will initially focus on short term developed business opportunities where money is currently available. The sales effort will be by both direct sales, development of an international dealer distribution network, and through the assistance of sales consultants and representatives.

Referencing our goals, we are also redirecting the sales effort so that it will no longer predominantly rely on one sector of the economy. We will now aim to expand our product to the oil and gas sector, as well as many government and municipalities; and agricultural and industrial businesses. We are reviewing the entire approach to the product with an aim to deepen and diversify our distribution channels, lower our cost of production, improve the Company s profit margin on sales and maintain an inventory of units for immediate sale.

At present our demonstration unit is on the road in a much more organized and deliberate approach to achieve maximum exposure through the balance of this year. We will be updating our marketing materials and directing more resources to our sales and marketing efforts.

No assurance can be given that any of the above items will be completed during the next twelve months or at any time in the future. Further, completion of all of such items does not guaranty that we will generate any revenue or become profitable at any time in the future.

Results of Operations for the years ended December 31, 2013 and 2012

Revenues. We recognized $0 revenues for the year ended December 31, 2013 as compared with $495,000 for the year ended December 31, 2012.

Cost of goods sold for the year ended December 31, 2013 was $56,344 as compared with $669,535 for the year ended December 31, 2012. During the year ended December 31, 2013 inventory in the amount of $56,344 was abandoned.

Operating expenses for the year ended December 31, 2013 were $2,558,393 compared to $2,442,130 for the year ended December 31, 2012, a $116,263 or 5% increase**.**

The following is an analysis of operating expense fluctuations between 2013 and 2012.

Compensation and related benefits expenses, including directors fees for the year ended December 31, 2013 was $1,161,739 compared to $1,232,140 for the year ended December 31, 2012, a $70,401 or 6% decrease

Directors fees increased $31,200 from $108,000 for the year ended December 31, 2012 to $139,200 for the year ended December 31, 2013. The $31,200 or 29% 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, decreased from $742,702 for the year ended December 31, 2012 to $640,711 for the year ended December 31, 2013. The decrease was a result of the following approximate decreases; officer s salaries decreased $66,000, office and administrative salaries decreased $24,000 and deferred compensation decreased $60,000.

Stock Based Compensation, excluding directors fees, consulting fees and marketing expense, decreased $2,200 from $341,700 for the year ended December 31, 2012 to $339,500 for the year ended December 31, 2013. We issued 27,000,000 shares of common stock to our employees and contractors during the year ended December 31, 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 year ended December 31, 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 during 2013 in connection with such grant. On October 25, 2012, the Compensation Committee granted our Chief Executive Officer and Chief Financial Officer a total of 30,000,000 warrants to purchase 30,000,000 shares of common stock at an exercise price of $0.006 per share. We recorded $145,800 of stock-based compensation during 2012 in connection with such grant.

Insurance & medical benefits expense for the year ended December 31, 2013 was $82,553, compared to $83,557 for the year ended December 31, 2012, a $1,004 or 1% 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 expenses for the year ended December 31, 2013 were $55,874 compared to expenses during the year ended December 31, 2012 of $62,032, a $6,158 or 10% 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 year ended December 31, 2013 were $394,209, compared to $212,145 for the year ended December 31, 2012, a $182,064 or 86% increase. The main reason for the $182,064 increase is that, during the year ended December 31, 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. During the year ended December 31, 2012, we only issued 186,538 shares of common stock representing $10,900 of stock-based consulting fees. During 2012, we received a one-time adjustment bill from our auditor resulting in a higher than normal professional, legal and consulting fees for the year 2012 compared to 2013 which incurred no such adjustment.

Marketing expenses, including stock-based compensation, decreased $187,718 from $213,553 for the year ended December 31, 2012 to $25,835 for the year ended December 31, 2013. The primary reason for the decrease was 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 increased $212,906 from $263,116 for the year ended December 31, 2012 to $476,022 for the year ended December 31, 2013. A main factor for the $212,906 increase in occupancy related expenses was due to a charge of $229,234 recorded during the year ended December 31, 2013 related to the Fairchild litigation. The increase in occupancy related expenses in 2013 compared to the same period in 2012 was offset by small decreases in many different areas, such as reductions in cleaning services and repairs and maintenance. In addition in October 2013, the Company was evicted from its Dupont Street facilities and moved to a location with a lower monthly rental amount.

Loss on sale/abandonment of fixed assets - During the year ended December 31, 2013 we incurred a loss of $21,720 on the abandonment of fixed assets. In the 3rd quarter of 2013, after the Company moved to a new location, the Company decided to write-off all fixed assets that were associated with prior locations. During 2013 we sold our Ford truck and certain equipment and realized a $9,486 gain after writing-off the balance of the assets. In March 2012, we moved our headquarters to our 160 Dupont Street facility. As a result, we wrote-off $34,709 of leasehold improvements during the year ended December 31, 2012.

Other administrative and general expenses increased $9,049 from $340,878 for the year ended December 31, 2012 to $349,927 for the year ended December 31, 2013. A main factor in the increase in other administrative and general expenses was an increase in litigation related settlement charges of $161,613 during 2013 partially offset by a decrease in production related expenses and other expense not included in the above discussion. During the year ended December 31, 2012, we incurred $68,667 in expenses on production related activities which we did not incur any for the year ended December 31, 2013.

Other Income (Expenses)-net

We incurred $(622,309) in net non-operating expenses for the year ended December 31, 2013, compared to $(142,920) for the year ended December 31, 2012, a $479,389 or 335% increase.

The following is a detailed analysis for such increase:

Interest expense - non-debt discount related incurred during the years ended December 31, 2013 and 2012 was $830,142 and $365,528, respectively, a $464,614 or 127% increase.

The following factors primarily impacted interest expense non-debt discount for the year ended December 31, 2013: i) During the year ended December 31, 2013, we incurred approximately $125,000 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; ii) During the year ended December 31, 2013, we incurred approximately $228,000 in penalty interest expense as the result of defaulting on our loan with TCA; and iii) During the year ended December 31, 2013, we incurred approximately $245,000 in interest expense as the result of the fair value, on the date of issuance, of the conversion features and warrants issued with certain debt in excess of the face value of the debt.

The following factors primarily impacted interest expense non-debt discount for the year ended December 31, 2012: 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. iiii) During the year ended December 31, 2012, we incurred approximately $10,000 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.

Interest expense - debt discount incurred during the years ended December 31, 2013 and 2012 was $223,825 and $796,040, respectively, a $572,215 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 during the year ended December 31, 2013 compared to the year ended December 31, 2012.

Changes in fair value of warrants and embedded conversion options for years ended December 31, 2013 and 2012 were $393,000 and $998,300, 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 December 31, 2013, we maintained a cash balance of $2,199 as compared to $63,571 as of December 31, 2012.

Net cash used in operating activities during the year ended December 31, 2013 was $1,037,031, compared to $974,403 used during the year ended December 31, 2012, a $62,628 or 6% increase. The Company expects cash from operations to remain negative until we start to generate adequate revenues.

Net cash provided in investing activities for the years ended December 31, 2013 and 2012 was $14,742 and $0, respectively. We sold our Ford truck and certain equipment during the year ended December 31, 2013 and received cash proceeds of $22,200 cash. During the year ended December 31, 2013 we paid $7,458 for patent costs.

During the years ended December 31, 2013 and 2012, respectively, we received $635,314 and $412,270 through sales of our common stock and warrant exercises. We received $38,423 from two investors to exercise their warrants to purchase 3,483,567 shares of common stock at exercise prices between $0.0096 and $0.0144. As of December 31, 2013, we have not issued the shares in connections with such warrant exercises.

Funds received from officers and directors loans and convertible loans during the year ended December 31, 2013 and 2012 were $9,051 and $105,000, respectively; cash received from issuing convertible promissory notes was $376,500 and $768,500, respectively; and cash received from issuing promissory notes was $12,500 and $75,000, respectively. We paid $0 and $130,024 in financing costs associated with loans entered into during the years ended December 31, 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 $104,000, respectively; and cash used to repay notes payable was $29,871 and $207,000, respectively.

From the above activities, net cash provided by financing activities during the years ended December 31, 2013 and 2012 was $960,917 and $919,746, respectively.

Aggregating operating, investing and financing activities from above, net cash used for the years ended December 31, 2013 and 2012 was $61,372 and $54,657, respectively.

Going Concern

At December 31, 2013, we had a working capital deficit of approximately $5.6 million. We continue to suffer recurring losses from operations and have an accumulated deficit since inception of approximately $48.3 million. These conditions raise substantial doubt about our 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 has been 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.

Effective March 7, 2014, Theresa Bischoff and Dr. Stephen E. Flynn resigned as a directors of the Company for personal reasons, and on April 2, 2014, the Board of Directors elected Stephen M. Hicks as a director, to fill a vacancy on the Board, and as President of the Company. Mr. Hicks is the Chief Executive Officer of Southridge LLC (Southridge), which has financed the Company in the past and continues to own debt and equity securities of the Company. Our Board also on the same date elected Gilbert Steedley as a director of the Company, to fill a vacancy on the Board of Directors, and elected Henry Sargent as Vice President and Secretary of the Company. Mr. Sargent is the Chief Operating Officer and General Counsel of Southridge.

The Company s goal is to generate the sales of the Company's flagship mobile water purification product and to ultimately diversify its product line through ingenuity and/or acquisition. In order to accomplish these goals we are redirecting the sales effort so that the Company will no longer predominantly focus on the government sector, a target with historically long lead times. In addition the Company is reviewing the entire approach to the product with an aim to 1) deepen and diversify our distribution channels, 2) lower our cost of production, 3) improve the Company's profit margin on and 4) maintain an inventory of units for immediate sale.

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 audited consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

Subsequent to December 31, 2013, the Company has issued approximately $190,000 of notes payable and approximately $301,000 of convertible notes payable. From January 1, 2014 until October 23, 2014, the Company issued 414,812,709 shares of common stock for the settlement of $219,620 loan principal plus $24,850 accrued interest and fees.

Critical Accounting Policies and Estimates

Our 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. We are considered a development stage enterprise as defined in the Accounting standards Codification 915 Development Stage Entities. We are subject to a number of risks similar to those of other companies in an early stage of development.

The following is a list of what we believe are the most critical estimations that we make when preparing our financial statements.

Stock-Based Compensation

We report stock based compensation under 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.

We account for equity instruments issued to non-employees in accordance with the provisions of ASC 718, which require that such equity instruments 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. The expected volatility is estimated based on the most recent historical period of time equal to the weighted average life of the options granted.

The principal assumptions used in applying the Black-Scholes model along with the results from the model were as follows:

	Years Ended December 31,	
	2013	**2012**
Risk-free interest rate	0.3-1.6%	0.36%

Expected life, in years	3 to5 years	3 years
Expected volatility	125% to 175%	117%
Dividends	0%	0%

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.

Derivative Financial Instruments

In connection with the issuance of certain convertible promissory notes, the terms of the convertible notes included an embedded conversion feature which provided for a conversion of the convertible promissory notes into shares of our common stock at a rate which was determined to be variable. We 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 we record the conversion option and related warrants at their fair values as of the inception date of the convertible debenture agreements and at fair value as of each subsequent balance sheet date. As a result of entering into the convertible promissory notes, we were required to reclassify all other non-employee warrants and options as derivative liabilities and record them at their fair values at each balance sheet date. Any change in fair value was recorded as non-operating, non-cash income or expense for each reporting period at each balance sheet date. We reassess the classification of the instruments 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.

Effects of Recent Accounting Policies

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. Under this new guidance, companies must present this unrecognized tax benefit in the financial statements as a reduction to deferred tax assets created by net operating losses or other tax credits from prior periods that occur in the same taxing jurisdiction. If the unrecognized tax benefit exceeds such credits it should be presented in the financial statements as a liability. This update is effective for annual and interim reporting periods for fiscal years beginning after December 15, 2013. The adoption of this standard is not expected to have a material impact on the Company s financial position, results of operations or cash flows.

The U.S. Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU 2014-08) in April 2014. This new standard raises the threshold for disposals to qualify as discontinued operations, allows companies to have significant continuing involvement and continuing cash flows and provides for new and additional disclosures of discontinued operations and individually material disposal transactions. The Company anticipates adopting the new standard when it becomes effective in the first quarter of 2015. The Company does not expect the adoption of ASU 2014-08 to have a material effect on its consolidated financial statements.

The FASB has issued ASU No. 2014-12, Compensation Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. This ASU requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered.. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The Company is currently evaluating the effect of the ASU on its financial position, results of operations and cash flows.

The FASB has issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective on January 1, 2017 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. The Company is currently evaluating the effect of the ASU on its financial position, results of operations and cash flows.

In August 2014, the FASB issued a new accounting standard which requires management to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern for each annual and interim reporting period. If substantial doubt exists, additional disclosure is required. This new standard will be effective for the Company for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company expects to adopt this new standard for the fiscal year ending December 31, 2016 and the Company will continue to assess the impact on its consolidated financial statements.

The FASB and the SEC have issued certain other accounting standards updates and regulations that will become effective in subsequent periods; however, management of the Company does not believe that any of those updates would have significantly affected the Company s financial accounting measures or disclosures had they been in effect during 2014 or 2013, and does not believe that any of those pronouncements will have a significant impact on the Company s consolidated financial statements at the time they become effective.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Disclosure under Item 7A is not required of smaller reporting companies.

Item 8. Financial Statements and Supplementary Data.

We set forth below a list of our audited financial statements included in this Annual Report on Form 10-K and their location.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

of PureSafe Water Systems, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of PureSafe Water Systems, Inc. and Subsidiary (the Company) as of December 31, 2013 and 2012 and the related consolidated statements of operations, stockholders' deficiency and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PureSafe Water Systems, Inc. and Subsidiary as of December 31, 2013 and 2012 and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the consolidated financial statements, the Company has had recurring losses, and has a working capital and stockholders' deficiency as of December 31, 2013 and 2012. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Marcum LLP

Marcum LLP

New York, New York

October 23, 2014

PureSafe Water Systems, Inc. and Subsidiary

Consolidated Balance Sheets

		December 31, 2013	December 31, 2012
Assets			
Current Assets			
	Cash	$ 2,199	$ 63,571
	Inventories	141,636	322,718
	Prepaid expenses and other current assets	35,437	54,478
	Total Current Assets	179,272	440,767
	Property and equipment, net of accumulated depreciation of $179,290 and $164,710, respectively	-	49,014
	Patents and trademarks, net of accumulated amortization of $47,919 and $41,816, respectively	59,422	58,068
	Other assets	33,500	28,451
Total Assets		$ **272,194**	$ **576,300**
Liabilities and Stockholders' Deficiency			
Current Liabilities:			
	Accounts payable and accrued expenses	$ 1,209,319	$ 695,589
	Accrued compensation	1,267,382	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 $193,703 and $138,132, respectively)	827,254	811,132
	Convertible promissory note (including accrued interest of $154,528 and $141,564 and net of debt discount of $210,781 and $80,606, respectively)	1,238,838	1,111,110
	Promissory notes payable (including accrued interest of $240,807 and $220,295 respectively)	593,153	706,829
	Fair value of detachable warrants and conversion option	299,000	263,300
	Accrued dividends payable	190,328	190,328
	Common stock to be issued	38,423	-
	Total Current Liabilities	5,807,697	5,051,212

Long-Term Liabilities:		
Promissory notes payable, net of current portion	-	8,196
Total Long-Term Liabilities	-	8,196
Total Liabilities	5,807,697	5,059,408
Commitments and Contingencies	-	-

F-2

Stockholders' Deficiency:					
	Preferred stock par value $0.001 par value; 10,000,000 shares authorized; 184,144 and 184,195 shares issued and outstanding (liquidation preference $3,025,450 and $2,917,150, as of December 31, 2013 and 2012, respectively)		184		184
	Common stock par value $0.001: 2,000,000,000 shares authorized; 934,171,800 shares issued and 934,167,400 shares outstanding at December 31, 2013; 561,343,935 shares issued and 561,339,535 shares outstanding at December 31, 2012		934,171		561,343
	Additional paid in capital		41,804,413		40,423,615
	Treasury stock, at cost, 4,400 shares of common stock		(5,768)		(5,768)
	Subscriptions receivable - (including accrued interest of $0 and $93,825 respectively)		-		(431,025)
	Accumulated deficit		(48,268,503)		(45,031,457)
	Total Stockholders' Deficiency		(5,535,503)		(4,483,108)
Total Liabilities and Stockholders' Deficiency		$	**272,194**	$	**576,300**

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

PureSafe Water Systems, Inc. and Subsidiary

Consolidated Statements of Operations

	For the Years Ended December 31, 2013	For the Years Ended December 31, 2012
Sales	$ -	$ 495,000
Cost of Sales	56,344	669,535
Gross Profit (Loss)	(56,344)	(174,535)
Operating expenses:		
Compensation and related benefits, including stock-based compensation of $478,700 and $449,700 for the years ended December 31, 2013 and 2012, respectively	1,161,739	1,232,140
Insurance and medical benefits	82,553	83,557
Research and development	55,874	62,032
Professional, legal and consulting fees, including stock-based compensation of $257,000 and $4,500 for the years ended December 31, 2013 and 2012, respectively	394,209	212,145
Marketing, including stock-based compensation of $0 and $13,900 for the years ended December 31, 2013 and 2012, respectively	25,835	213,553
Occupancy	476,022	263,116
Loss on sale/abandonment of fixed assets	12,234	34,709
Other administrative and general	349,927	340,878
Total operating expenses	2,558,393	2,442,130
Loss from operations	(2,614,737)	(2,616,665)
Other income (expense):		
Interest income	15,131	20,349
Other income	23,538	-
Interest expense, including interest to related parties of $55,571 and $70,720 for the years ended December 31, 2013 and 2012, respectively	(1,053,978)	(1,161,569)
Change in fair value of derivative liabilities	393,000	998,300

Total Other Income (Expense)		(622,309)		(142,920)
Net Loss		(3,237,046)		(2,759,585)
Dividend on preferred stock		(108,300)		(108,300)
Net Loss Attributable to Common Stockholders	$	**(3,345,346)**	$	**(2,867,885)**
Net Loss Attributable to Common Stockholders Per Share basic and diluted	$	(0.00)	$	(0.01)
Weighted average number of shares outstanding		922,685,840		388,044,980

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

F-4

PureSafe Water Systems, Inc. and Subsidiary

Consolidated Statement of Stockholders' Deficiency

For the Years Ended December 31, 2013 and 2012

	Preferred Stock	Amount	Common Stock	Amount	Additional Paid-In Capital	Treasury Stock at Cost	Subscription Receivable	Accumulated Deficit	Total Stockholders' Deficiency
	Shares	($)	Shares	($)	($)	($)	($)	($)	
Balance, December 31, 2011	184,144	184	340,389,004	340,387	38,667,449	(5,768)	(410,738)	(42,271,872)	(3,680,358)
Sale of common stock for cash	-	-	51,227,383	51,227	361,043	-	-	-	412,270
Common stock issued for loan conversion	-	-	158,491,010	158,491	693,061	-	-	-	851,552
Common stock issued for services	-	-	2,674,038	2,675	165,225	-	-	-	167,900
Common stock issued in connection with debt	-	-	4,375,000	4,375	170,625	-	-	-	175,000
Common stock issued for settlement of customer deposits (includes $37,500 of stock based compensation)	-	-	4,187,500	4,188	163,312	-	-	-	167,500
Issuance of Series B Preferred Stock	51	-	-	-		-	-	-	-

Reclassification of derivative liability	-	-	-	-	(80,100)	-	-	-	(80,100)
Warrants granted for services	-	-	-	-	283,000	-	-	-	283,000
Accrued interest	-	-	-	-	-	-	(20,287)		(20,287)
Net loss		-		-				(2,759,585)	(2,759,585)
Balance, December 31, 2012	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 for settlement of convertible debt	-	-	121,376,671	121,377	369,494	-	-	-	490,871
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	-	-	9,044,556	9,044	32,890	-	-	-	41,934
Return of series B preferred stock for no consideration	(51)	-	-	-	-	-	-	-	-
Reclassification of derivative liability	-	-	-	-	175,000	-	-	-	175,000
Warrants granted for services	-	-	-	-	302,900	-	-	-	302,900
Accrued interest	-	-	-	-	-	-	(15,131)	-	(15,131)
Write-off subscription receivable and accrued interest	-	-	-	-	(446,156)	-	446,156	-	-
Net loss	-	-	-	-		-	-	(3,237,046)	(3,237,046)
Balance, December 31, 2013	**184,144**	**184**	**934,171,800**	**934,171**	**41,804,413**	**(5,768)**	**-**	**(48,268,503)**	**(5,535,503)**

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

PureSafe Water Systems, Inc. and Subsidiary

Consolidated Statements of Cash Flows

	For the Years Ended December 31, 2013	For the Years Ended December 31, 2012
Cash Flows From Operating Activities:		
Net loss	$ (3,237,046)	$ (2,759,585)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	14,580	52,997
Amortization of patents and trademarks	6,104	6,104
Net loss on sale/abandonment of fixed assets	12,234	34,707
Loss on abandonment of inventory	51,471	-
Interest expense - amortization of deferred financing	25,066	125,428
Interest expense - penalty interest	353,322	9,000
Interest expense - stock based compensation, derivative liabilities	4,500	-
Stock based compensation	731,200	505,600
Loss on conversion of convertible notes to notes payable	-	85,000
Deferred rent	(7,050)	(25,750)
Interest receivable	(15,131)	(20,287)
Accretion of debt discount	223,825	796,040
Interest expense - derivative liabilities	245,200	-
Change in fair value of warrants and embedded conversion option	(393,000)	(998,300)
Changes in assets and liabilities:		
Prepaid expenses and other current assets	19,041	2,196
Inventories	129,611	145,375
Other assets	465	34,705
Customer deposits	(149,588)	149,588
Accounts payable, accrued expenses, accrued interest, accrued dividends, accrued compensation, accrued consulting and director fees, and other current liabilities	948,165	882,779
Net Cash Used in Operating Activities	(1,037,031)	(974,403)
Cash Flows From Investing Activities:		
Patent costs	(7,458)	-
Proceeds from sale of property and equipment	22,200	-
Net Cash Provided by Investing Activities	14,742	-
Cash Flows From Financing Activities:		
Cash proceeds from sale of common stock	570,800	412,270

Cash proceeds from exercise of warrants	64,514	-
Cash proceeds from the exercise of warrants, common stock to be issued	38,423	-
Proceeds from convertible promissory notes	376,500	768,500
Repayment of convertible notes payable	(32,500)	-
Cash paid for loan costs	-	(130,024)
Cash proceeds from officers and directors convertible loans	-	105,000
Cash proceeds from promissory notes, officers and directors	9,051	-
Repayment of officers and directors loans	(48,500)	(104,000)
Cash proceeds from notes payable	12,500	75,000
Repayment of notes payable	(29,871)	(207,000)
Net Cash Provided by Financing Activities	960,917	919,746

Net decrease in cash		(61,372)		(54,657)
Cash at beginning of year		63,571		118,228
Cash at end of the year	$	**2,199**	$	**63,571**
<u>Supplemental disclosures of cash flow information:</u>				
Cash paid during the year for interest	$	29,717	$	28,837
<u>Non-Cash Investing and Financing Activities:</u>				
Common stock issued for the settlement of liabilities	$	616,334	$	851,552
Common stock issued in connection with debt	$	-	$	175,000
Common stock issued for the settlement of a customer deposit	$	-	$	130,000
Reclassification of derivative liabilities to equity	$	175,000	$	-
Reclassification of equity instrument to derivative liabilities	$	-	$	(80,100)
Conversion of convertible notes payable to notes payable	$	-	$	185,000
Debt discount recorded on convertible debt and warrants accounted for as derivative liabilities	$	354,000	$	-
Loan financing costs	$	22,000	$	-
Write-off subscription receivable and accrued interest	$	446,156	$	-
Conversion of notes payable to convertible notes payable	$	-	$	207,770

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

PureSafe Water Systems Inc. and Subsidiary

Notes to Consolidated Financial Statements

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 Plainview, New York.

NOTE 2 BASIS OF PRESENTATION AND ACCOUNTING POLICIES.

Basis of Presentation

The Company s consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Principles of Consolidation

The Company applies the guidance of Topic 810 Consolidation of the FASB Accounting Standards Codification to determine whether and how to consolidate another entity. Pursuant to ASC Paragraph 810-10-15-10 all majority-owned subsidiaries all entities in which a parent has a controlling financial interest shall be consolidated except (1) when control does not rest with the parent, the majority owner; (2) if the parent is a broker-dealer within the scope of Topic 940 and control is likely to be temporary; (3) consolidation by an investment company within the scope of Topic 946 of a non-investment-company investee. Pursuant to ASC Paragraph 810-10-15-8 the usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one reporting entity, directly or indirectly, of more than 50 percent of the outstanding voting shares of another entity is a condition pointing toward consolidation. The power to control may also exist with a lesser percentage of ownership, for example, by contract, lease, agreement with other stockholders, or by court decree. The Company consolidates all less-than-majority-owned subsidiaries, if any, in which the parent s power to control exists.

The Company's consolidated subsidiaries and/or entities are as follows:

Name of consolidated subsidiary or entity	State or other jurisdiction of incorporation or organization	Date of incorporation or formation(date of acquisition, if applicable)	Attributable interest
PureSafe Manufacturing and Research Corporation	Delaware	September 29, 2009	100%

The consolidated financial statements include all accounts of the Company and consolidated subsidiaries and/or entities as of December 31, 2013 and 2012 and for the years then ended.

All inter-company balances and transactions have been eliminated.

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.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with original maturity of three months or less when purchased to be cash equivalents. As of December 31, 2013 and 2012 the Company did not have any cash equivalents.

Patents and Trademarks

Patents and trademarks amortize ratably over nine to fourteen years. The Company assesses the carrying value of its patents for impairment each year. Based on its assessments, the Company did not incur any impairment charges for the years ended December 31, 2013 and 2012.

Property and Equipment

Property and equipment consists primarily of equipment and furniture and fixtures and is stated at cost. Depreciation and amortization are provided using the straight line method over the estimated useful lives (generally three to seven years) of the related assets. Leasehold improvements, once placed in service, are amortized over the shorter of the useful life or the remainder of the lease term. Expenditures for maintenance and repairs, which do not extent the economic useful life of the related assets, are charged to operations are incurred. Gains or losses on disposal of property and equipment are reflected in the statement of operations in the period of disposal.

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 years ended December 31, 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 December 31, 2013, the inventory has been written down to its net realizable value.

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 $25,000 and $125,000 for the years ended December 31, 2013 and 2012, respectively.

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 valued using a Black-Scholes Valuation Model. Variable conversion options 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 Black-Scholes Valuation Model 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 Valuation Model is used to estimate the fair value of the warrants and conversion option. 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 instrument granted.

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

	For the Years Ended December 31,	
	2013	**2012**
Assumptions:		
Risk-free interest rate	0.10 - 1.75%	0.37 - 1.18%
Expected life	3 - 5 years	1 month - 6 years
Expected volatility	125% - 175%	108%-171%
Dividends	0.0%	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.

For the years ended December 31, 2013 and 2012 the Company recorded stock based compensation of $731,200 and $505,600, respectively.

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 Years Ended December 31,	
	2013	**2012**
Assumptions:		
Risk-free interest rate	0.3 - 1.6%	.36%
Expected life	3 to 5 years	3 years
Expected volatility	125% - 175%	117%
Dividends	0.0%	0%

Fair Value of Financial Instruments

The Company s financial instruments consist principally of cash, accounts payable and accrued expenses and debt payable. The Company determines the estimated fair value of such financial instruments presented in these financial statements using available market information and appropriate methodologies. These financial instruments are stated at their respective historical carrying amounts, which approximate fair value due to their short term nature.

Advertising and Marketing

Advertising and marketing costs are expensed as incurred and are included in selling, general and administrative expenses. The Company incurred a charge of approximately $25,835 and $213,553 for the years ended December 31, 2013 and 2012, respectively.

Income Taxes

Income taxes are accounted for under ASC 740, "Income Taxes," which is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and net operating loss and tax credit carryovers. Valuation allowances are established when necessary to reduce deferred tax assets to amounts more likely than not to be realized.

Impairment of Long-Lived Assets

The Company assesses the recoverability of its long lived assets, including property and equipment when there are indications that the assets might be impaired. When evaluating assets for potential impairment, the Company first compares the carrying amount of the asset to the asset s estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows used in this analysis are less than the carrying amount of the asset, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset to the asset s estimated future cash flows (discounted and with interest charges). If the carrying amount exceeds the asset s estimated futures cash flows (discounted and with interest charges), the loss is allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts of those assets. Based on its assessments, the Company did not incur any impairment charges for the years ended December 31, 2013 and 2012.

Research and Development

Research and development costs consist of expenditures incurred during the course of planned research and investigation aimed at the discovery of new knowledge, which will be useful in developing new products or processes. The Company expenses all research and development costs as incurred. The Company incurred a charge of approximately $55,874 and $62,032 for the years ended December 31, 2013 and 2012, respectively.

Subsequent Events

The Company evaluates events that have occurred after the balance sheet date but before the financial statements are issued. Based upon the evaluation, the Company did not identify any recognized or non-recognized subsequent events that would require adjustment or disclosure in the consolidated financial statements.

NOTE 3 GOING CONCERN

The accompanying 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 $3,237,000 and $2,760,000 for each of the years ended December 31, 2013 and 2012 respectively. The Company has a working capital deficit of approximately $5.6 million and $4.6 million as of December 31, 2013 and 2012 respectively. The Company continues to incur recurring losses from operations and has an accumulated deficit since inception of approximately $48.3 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 2, 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 s goal is to generate the sales of the Company's flagship mobile water purification product and to ultimately diversify it s product line through ingenuity and/or acquisition. In order to accomplish these goals we are redirecting the sales effort so that the Company will no longer predominantly focus on the government sector, a target with historically long lead times. In addition the Company is reviewing the entire approach to the product with an aim to 1) deepen and diversify our distribution channels, 2) lower our cost of production, 3) improve the Company's profit margin on and 4) maintain an inventory of units for immediate sale.

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 audited consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

Subsequent to December 31, 2013, the Company has issued approximately $190,000 of notes payable and approximately $301,000 of convertible notes payable. From January 1, 2014 until October 23, 2014, the Company issued 414,812,709 shares of common stock for the settlement of $219,620 loan principal plus $24,850 accrued interest and fees.

NOTE 4 RECENT ACCOUNTING PRONOUNCEMENTS.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. Under this new guidance, companies must present this unrecognized tax benefit in the financial statements as a reduction to deferred tax assets created by net operating losses or other tax credits from prior periods that occur in the same taxing jurisdiction. If the unrecognized tax benefit exceeds such credits it should be presented in the financial statements as a liability. This update is effective for annual and interim reporting periods for fiscal years beginning after December 15, 2013. The adoption of this standard is not expected to have a material impact on the Company s financial position, results of operations or cash flows.

The U.S. Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU 2014-08) in April 2014. This new standard raises the threshold for disposals to qualify as discontinued operations, allows companies to have significant continuing involvement and continuing cash flows and provides for new and additional disclosures of discontinued operations and individually material disposal transactions. The Company anticipates adopting the new standard when it becomes effective in the first quarter of 2015. The Company does not expect the adoption of ASU 2014-08 to have a material effect on its consolidated financial statements.

The FASB has issued ASU No. 2014-12, Compensation Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. This ASU requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered.. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The Company is currently evaluating the effect of the ASU on its financial position, results of operations and cash flows.

The FASB has issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective on January 1, 2017 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. The Company is currently evaluating the effect of the ASU on its financial position, results of operations and cash flows.

In August 2014, the FASB issued a new accounting standard which requires management to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern for each annual and interim reporting period. If substantial doubt exists, additional disclosure is required. This new standard will be effective for the Company for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company expects to adopt this new standard for the fiscal year ending December 31, 2016 and the Company will continue to assess the impact on its consolidated financial statements.

The FASB and the SEC have issued certain other accounting standards updates and regulations that will become effective in subsequent periods; however, management of the Company does not believe that any of those updates would have significantly affected the Company s financial accounting measures or disclosures had they been in effect during 2014 or 2013, and does not believe that any of those pronouncements will have a significant impact on the Company s consolidated financial statements at the time they become effective.

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2013 and 2012:

		2013		2012
Leasehold improvement	$	74,945	$	74,945
Furniture and fixtures		31,987		49,265
Equipment		72,358		89,514
		179,290		213,724
Accumulated depreciation and amortization		(179,290)		(164,710)
Property and equipment, net	$	–	$	49,014

Depreciation and amortization expense was approximately $15,000 and $53,000 for the years ended December 31, 2013 and 2012, respectively.

On 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 2013. Accordingly the Company recorded a charge of $21,720 for the loss on abandonment of property.

During the year ended December 31, 2013 the Company sold property and equipment and recorded a gain of $9,486.

NOTE 6 PATENTS AND TRADEMARKS

Patents and trademarks as of December 31, 2013 and 2012 consist of the following:

		2013		2012
Patents	$	104,621	$	97,164
Trademarks		2,720		2,720
Total cost		107,341		99,884
Accumulated amortization		(47,919)		(41,816)
Patents and trademarks, net	$	59,422	$	58,068

Amortization expense for the years ended December 31, 2013 and 2012 was approximately $6,100.

The following table presents the Company's estimate for amortization expense for each of the five succeeding years and thereafter.

Year Ended December 31,		
2014	$	6,100
2015		6,100
2016		6,100
2017		6,100
2018		6,100
2019 and thereafter		28,922
	$	59,422

NOTE 7 INVENTORIES

Inventories consist of the following at December 31, 2013 and 2012,

		2013		**2012**
Raw materials	$	–	$	43,684
Finished Goods		141,636		279,034
Total	$	141,636	$	322,718

During the year ended December 31, 2013 inventory in the amount of $56,344 was abandoned as a result of moving to a new facility. Our abandonment charges related to inventory have been included in Cost of Goods Sold in our Statements of Operations.

NOTE 8 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 years ended December 31, 2013 and 2012 were as follows:

	December 31,	
	2013	**2012**
Warrants	176,574,286	85,652,403
Convertible promissory notes	492,877,340	187,297,345
Convertible preferred stock	1,545,760	1,545,760
Total	670,997,386	274,495,508

For the years ended December 31, 2013 and 2012, 101,547,890 and 7,101,783 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 December 31, 2013 and 2012 are as follows:

	Quoted Prices in Active Markets for Identical Liabilities	**Significant Other Observable Inputs**	**Significant Unobservable Inputs**	**Balance at**
	(Level 1)	**(Level 2)**	**(Level 3)**	**December 31,**
Embedded conversion feature	$	$	$ 224,000	$ 224,000
Warrant liability	$	$	$ 39,300	$ 39,300
Balance at December 31, 2012	$	$	$ 263,300	$ 263,300

Embedded conversion feature	$	$	$	206,500	$	206,500
Warrant liability	$	$	$	92,500	$	92,500
Balance at December 31, 2013	$	$	$	299,000	$	299,000

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 year ended December 31, 2013 and 2012.

				Conversion		
		Warrants		**Feature**		**Total**
Balance at - January 1, 2012	$	446,400	$	68,800	$	515,200
Change in fair value of derivative liability		(537,500)		(460,800)		(998,300)
Included in liabilities (debt discount)		28,100		621,000		649,100
Included in stock based compensation		17,200				17,200
Included in stockholder s equity		85,100		(5,000)		80,100
Balance at - December 31, 2012	$	39,300	$	224,000	$	263,300
Included in stock based compensation		4,500				4,500
Change in fair value of derivative liability		(297,100)		(95,900)		(393,000)
Included in liabilities (debt discount)		114,000		240,000		354,000
Included in liabilities (derivative expense)		209,800		35,400		245,200
Included in stockholder's equity		22,000		(197,000)		(175,000)
Transfers in and /or out of Level 3						
Balance at - December 31, 2013	$	92,500	$	206,500	$	299,000

NOTE 9 NOTES PAYABLE

Notes payable and accrued interest at December 31, 2013 and 2012 consist of the following:

	December 31, 2013		December 31, 2012	
	$	–(a)	$	15,221(a)
		75,000(b)		75,000(b)
		245,860(c)		237,006(c)
		175,841(d)		165,628(d)
		83,952(e)		222,170(e)
		–(f)		–(f)
		12,500(g)		–(g)
Notes payable and accrued interest		593,153		715,025
Less: Current maturities		(593,153)		(706,829)
Notes payable and accrued interest, net of Current maturities	$	–	$	8,196

(a)

In February, 2010, the Company acquired a vehicle for business use. Cost of the vehicle is approximately $30,000 and the Company financed the entire cost. The financing term is approximately $500 per month for sixty months based on an annual interest rate of 9%. During 2013 the loan was paid in full.

(b)

In April 2001, the Company issued a $400,000 promissory note bearing interest at the rate of 2% per month. In consideration for the issuance of this note, 500,000 shares of common stock were issued to the note holder and a $74,000 debt discount was recorded and fully amortized in the year ended December 31, 2001. The principal balance and accrued interest was payable on September 1, 2001. The Company did not make such payment and was required to issue an additional 100,000 shares to the note holder as a penalty. The Company recorded additional interest expense of $12,300 related to the issuance of these penalty shares.

In October 2007, the Company entered into a settlement agreement with this note holder. Under the settlement agreement, the Company became obligated to make payments of $75,000 each on or before December 31, 2007 and June 30, 2008. The June 20, 2008 payment remains unpaid. In addition, the Company was obligated to issue 2,500,000 shares of common stock to the note holder as settlement for the remaining balance due under the promissory note of $477,934. In January 2008, the Company issued 1,250,000 of the 2,500,000 shares.

(c)

These are unsecured notes bearing interest at rates ranging from 10% to 15% per annum, and have no specific due date for repayment. The outstanding amount of $245,860 and $237,006 include principal of $83,222 and accrued and unpaid interest of $162,638 and $153,784 as of December 31, 2013 and 2012, respectively. No demands for repayment have been made by the note holders. As of December 31, 2013, the Company is not compliant with the repayment terms of the notes and is in technical default.

(d)

In September 2009, the Company entered into agreements with three of the Company s consultants and vendors to defer a total in the aggregate of $236,624 in compensation owed to them. In return, the Company issued to the three vendors each a promissory note for the deferment. The notes matured in January 2011 and interest will be accrued at 10% per annum compounded monthly. As of December 31, 2009 the Company reclassified $236,624 from current liabilities to long term liabilities.

In February 2010, one of the above three vendors, requested to convert the note payable of $90,000 principal plus $5,781 accrued interest into the Company s common stock. The request was approved by Board of Directors on February 19, 2010 and the conversion price was set at $0.055 which was the closing price published on OTCBB.com on the date of the approval of such request. On March 2, 2010, 1,741,464 shares were issued for such conversion.

As of December 31, 2013 and 2012, the Company is reflecting a liability of $175,841 and $165,628 which includes accrued interest of $69,217 and $59,004, respectively. As of December 31, 2013 the Company is not compliant with the repayment terms of the notes and is in technical default.

(e)

In 2012, the Company raised $75,000 through issuing multiple promissory notes. These notes bear interest rate of 10% per annum and are due and payable between October 19 and October 26, 2012. As of December 31, 2012, the Company is reflecting $76,452 which includes $1,452 of accrued interest.

At the request of multiple lenders, the Company converted $207,770 of note payable and accrued interest to convertible notes payable in 2012.

In September, at the request of the lender, the Company converted $100,000 of convertible notes payable to $185,000 of notes payable. The newly issued notes payable bear interest at rates of 6% and have maturity dates in December 2012 through January 2013. The Company is required to repay the notes payable in 5 installments with the final payment of $65,000 in January 2013. As of December 31, 2012, the Company repaid $45,337 principal which consist $20,000 cash payment and $25,337 in issuing 8,774,761 shares of common stock.

During the year ended December 31, 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.

As of December 31, 2012 and 2011, the Company is reflecting a liability of $83,952 and $222,170 which includes accrued interest of $8,952 and $7,507, respectively. As of December 31, 2013 the Company is not compliant with the repayment terms of the notes and is in technical default.

(f)

On December 16, 2011, the Company issued a $140,000 promissory note bearing interest at the rate of 15% per annum. This note shall be payable in one monthly installment with the first such installment to be paid on the 15th day of March 2012. The Company may also, at its discretion, permit repayment to be made by assignment of its accounts receivable due from the State of Alaska.

As of December 31, 2011, the Company is reflecting a liability of $140,978 which includes accrued interest of $978.

On March 12, 2012, the Company repaid the Note Holder, principal and interest of total $145,794.

On September 17, 2013, the Company issued a $12,500 promissory note bearing interest at the rate of 5% per annum. This note matures on December 31, 2014. As of December 31, 2013 the outstanding principal balance on the note was $12,500.

(g)

As of December 31, 2013, the Company is in technical default with the repayment terms of the notes payable outstanding.

NOTE 10 CONVERTIBLE PROMISSORY NOTES PAYABLE

(a)

As of December 31, 2010, the Company has cumulative net liabilities of $428,475, net of $241,657 debt discount. The liability includes $645,000 unpaid convertible notes principal and $25,132 accrued interest for all the convertible notes the Company entered into prior to January 1, 2011. These notes mature in one year from the date issued and bear interest at 10% per annum and are convertible at the option of the holder in to shares of common stock. The conversion prices range from $0.044 to $0.07. As of January 1, 2011, the Company was not in compliance with the repayment terms of these notes.

In 2011, the Company raised $300,000 through debt financing from multiple lenders. The Company issued each lender a convertible promissory note in the principal amount of money lender loaned to the Company. The promissory note matures in one year and bears interest at 10% per annum and is convertible at the option of the holder in to shares of common stock. The conversion prices range from $0.067 to $0.157. In addition the Company granted 634,229 warrants to the note holders. The warrants have a life of 5 years and are fully vested on the date of the grant, the exercise price of the warrants ranges from $0.084 to $0.1884.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the warrants and the embedded conversion option of the convertible note are recorded as derivative liabilities at their fair market value and were marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of these note $300,000 was recorded net of a discount of $57,638. The debt discount consisted of approximately $13,719 related to the fair value of the embedded conversion option and approximately $43,919 related to the fair value of the warrants. The debt discount was being charged to interest expense ratably over the term of the convertible note.

During the year ended December 31, 2011, multiple lenders requested to convert total aggregated $125,000 principal plus accrued interest of $14,097 into the Company s common stock. The Company issued total aggregated 2,539,747 shares of common stock in connection with such conversions.

In 2012, the Company raised $768,500 through debt financing from multiple lenders. The Company issued each lender a convertible promissory note in the principal amount of money lender loaned to the Company. The Company issued the lender for each loan a convertible promissory note bearing interest at rates of 8% to 12% per annum with maturity dates of September 15, 2012 to November 16, 2013. The loans and accrued interest are to be paid on the maturity dates. Each loan is evidenced by the promissory note the Company issued to the lender which contains conversion clauses that allow the lenders the option to convert the loan amount plus all accrued and unpaid interest due under the note into common stock. Each of the notes contains variable conversion prices representing discount rate between 5% and 50% of market price. In addition, the Company also issued total 1,933,333 warrants to the lenders to purchase additional shares of common stock at exercise of $0.072 to $0.05. These warrants have term of 5 years. In addition a note-holder received 4,375,000 shares of common stock in consideration for entering into the note.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 Derivatives and Hedging . Accordingly, the warrants and the embedded conversion option of the convertible note are recorded as derivative liabilities at their fair market value and were marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of these notes were recorded net of a discount of $649,100. The debt discount was being charged to interest expense ratably over the term of the convertible note.

In addition, the Company incurred approximately $130,000 of financing cost related to these transactions which will be amortized over the term of the loans.

On October 4, 2013, at the request of the lender due to default, the Company converted $303,499 of convertible notes and accrued interest into a new convertible note in the amount of $531,431. The increase in principal was due to amounts charged by the lender for penalties, interest, legal and other fees. The newly issued note bears interest at rates of 18% per annum and is due on demand. The lender may convert all or any portion of the outstanding principal, accrued and unpaid interest, and any other sums due and payable under the Revolving Note into shares of the Company s common stock at a conversion price equal to 85% of the lowest daily volume weighted average price of the Company s common stock during the five trading days immediately prior to such applicable conversion date, in each case subject to the lender not being able to beneficially own more than 4.99% of our outstanding common stock upon any conversion. The conversion price is subject to anti-dilution protection in the event that the Company issues additional equity securities at a price less than the conversion price. On March 10, 2014, TCA accelerated the outstanding principal balance, interest, calculated at the default rate of 18%, and all sums due under the original note and any amendments. (see Note 13 Litigation)

During the year ended December 31, 2012, multiple lenders requested to convert total aggregated $664,576 principal plus accrued interest of $29,955 into the Company s common stock. The Company issued total aggregated 146,134,552 shares of common stock in connection with such conversions.

During the year ended December 31, 2013, multiple lenders requested to convert total aggregated $342,151 principal plus accrued interest of $57,519 into the Company s common stock. The Company issued total aggregated 84,053,707 shares of common stock in connection with such conversions.

During the year ended December 31, 2013, the Company repaid principal of $32,500.

As of December 31, 2013, the Company is reflecting liabilities of $1,055,272 including accrued interest of $148,843 and the Company is not in compliance with the repayment terms with certain notes and is currently in technical default.

(b)

On August 3, 2011, the Company borrowed $125,000 from a private investor and issued to the investor a secured convertible promissory note in the principal amount of $125,000. The note matures on December 1, 2011 and bears interest at a stated rate of 8% per annum and the note is convertible into shares of common stock of the Company at a 30% discount from the current market price (as defined in the Note). The Company has the right to redeem the Note at any time by paying the outstanding principal amount of the Note multiplied by a premium according to the following schedule, plus all accrued interest: 120% of the outstanding principal amount if redeemed within 90 days after the issuance date; 125% of the outstanding principal amount if redeemed within 180 days after the issuance date; 130% of the outstanding principal amount if redeemed after 180 days after the issuance date. The Note is further guaranteed by two officers of the Company and secured by stock pledge agreements with each officer, pursuant to which each of the officers has pledged 2,000,000 shares of the Company s common stock owned by them as collateral to secure payment of the Note. In connection with the issuance of the Note, the Company also issued to the investor a common stock purchase warrant, expiring August 3, 2018, to purchase 1,250,000 shares of common stock at an exercise price of $0.10 per share.

The Company accounted for the issuance of the convertible promissory notes in accordance with ASC 815 Derivatives and Hedging. Accordingly, the warrants and the embedded conversion option of the convertible note 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 of $125,000 was recorded net of a discount of $125,000. The debt discount consisted of $83,900 to the fair value of the warrants and $41,100 related to the fair value of the embedded conversion option. In addition to the $125,000 mentioned above, the Company recorded a charge in the amount of $15,900 which represents the fair value of conversion options in excess of the debt discount recorded. The debt discount will be charged to interest expense ratably over the term of the convertible notes.

In 2012, the lender requested to convert principal $125,000 plus accrued interest of $6,685 into the Company s common stock. The Company issued 3,581,697 shares of common stock in connection with such conversion.

(c)

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.

During the year ended December 31, 2013, the note holder requested to convert total aggregated $25,000 principal plus accrued interest of $167, into the Company s common stock. The Company issued total aggregated 8,388,890 shares of common stock in connection with such conversion.

(d)

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.

During the year the Company was charged interest and penalties by the note holder totaling $33,515.

During the year ended December 31, 2013, the note holder requested to convert total aggregated $29,895 principal plus accrued interest and penalties of $15,435, into the Company s common stock. The Company issued total aggregated 10,000,000 shares of common stock in connection with such conversion.

(e)

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, 2013 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.

On October 23, 2013, the Company drew down from the credit facility $55,000 and received net cash proceeds of $50,000 after the associated legal fees. The Company recorded $5,000 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 $55,000. The debt discount relates to fair value of the conversion option of the note. The debt discount is charged to interest expense ratably over the term of the convertible note. The fair value of the conversion option on the date of issuance in excess of the face amount of the note was recorded to interest expense on the date of issuance.

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.

During the year ended December 31, 2013, the note holder requested to convert total aggregated $25,470 principal plus accrued interest of $0, into the Company s common stock. The Company issued total aggregated 4,209,917 shares of common stock in connection with such conversion.

(f)

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.

(g)

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

(h)

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.

(i)

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 share. 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.

(j)

On December 10, 2013 the Company issued a convertible promissory note for $ 35,000. 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 share. In addition, 5,833,333 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 $35,000. The debt discount relates to fair value of the conversion option and the warrants attached to the notes. The debt discount is charged to interest expense ratably over the term of the convertible note. The fair value of the conversion option and warrants on the date of issuance in excess of the face amount of the note was recorded to interest expense on the date of issuance.

(k)

During the year ended December 31, 2013 the Company issued a total of 121,376,671 shares of common stock upon requests from note holders to convert loans with principal plus accrued interest totaling $57,686 based on the terms set forth in the loans.

As of December 31, 2013, the Company is in technical default with the repayment terms of the convertible notes payable.

Convertible promissory notes payable and accrued interest at December 31, 2013 and 2012 consists of the following:

	December 31,			
		2013		2012
Convertible notes payable	$	1,449,619	$	1,191,716
Discount on convertible notes		(210,781)		(80,606)
Convertible notes payable, net		1,238,838		1,111,110
Less current maturities		(1,238,838)		(1,111,110)
Long-Term Portion	$	–	$	–

NOTE 11 – CONVERTIBLE NOTES AND NOTES PAYABLE – OFFICERS & DIRECTOR

Convertible notes and notes payable Officers & Director and accrued interest at December 31, 2013 and 2012 consists of the following:

		2013		2012
	$	435,382(a)	$	406,682(a)
		222,322(b)		208,322(b)
		54,008(c)		57,260(c)
		39,113(d)		71,490(d)
		46,378(e)		42,378(e)
		25,000(f)		25,000(f)
		5,051(g)		–(g)
Total		827,254		811,132
Less: Current maturities		(827,254)		(811,132)
Convertible notes and notes payable – Officers & Director and accrued interest, net of Current maturities	$	–	$	–

(a)

In September 2009, the Company entered into agreements with the Chief Executive Officer and Chief Financial Officer together to defer a total of $287,000 in compensation owed to them as of September 30, 2009. In return, the

Company issued to the Chief Executive Officer and Chief Financial Officer each a promissory note for the deferment. The notes mature in January 2011 and interest will be accrued at 10% per annum compounded monthly.

As of December 31, 2013 and 2012, the Company is reflecting a liability of $435,382 and $406,682 which includes $148,382 and $119,682 of accrued interest, respectively and the Company is not compliant with the repayment terms.

(b)

On April 7, 2010, the Company s Chief Executive Officer, and the Company s former Chief Financial Officer each made loans of $100,000 to the Company. The loans accrue interest at the rate of 7% per annum. In addition, the Company issued warrants to each officer to purchase 431,034 shares of common stock at an exercise price of $0.059 per share. The loans are due and payable by or on October 7, 2010. The interests accrued on the loans are to be paid on the 7th day of each month until the loans mature and paid off. The loans were evidenced by the promissory notes the Company issued to the two officers which each contain a conversion clause that allow the officers at the officer s sole option to convert the loan amount plus all accrued and unpaid interest due under the note into common stock. The conversion price was set at $0.059 per share, which was the closing market price of the common stock as of the closing date of the loans.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 Derivatives and Hedging. Accordingly, the warrants and the embedded conversion option of the convertible note are recorded as derivative liabilities at their fair market value and were marked to market through earnings at the end of each reporting period. The gross proceeds from the sales of the notes of $200,000 were recorded net of a discount of $101,600. The debt discount consisted of $34,800 related to the fair value of the warrants and approximately $66,800 related to the fair value of the embedded conversion option. The debt discount will be charged to interest expense ratably over the term of the convertible note.

As of December 31, 2013, and 2012, the Company is reflecting a liability of $222,322 and $208,322 which includes $22,322 and $8,322 accrued interest, respectively and the Company is not compliant with the repayment terms.

(c)

On February 7, 2011, the Company s Chief Executive Officer and the Company s former Chief Financial Officer each made loans of $50,000 to the Company. The loans accrue interest at the rate of 10% per annum. In addition, the Company issued warrants to each officer to purchase 89,928 shares of common stock at an exercise price of $0.139 per share. The loans are due and payable by or on February 7, 2012. The loan is to be paid on the maturity date and the accrued interest is to be paid at the end of each month. The loans were evidenced by the promissory notes the Company issued to the two officers which each contain a conversion clause that allow the officers at the officer s sole option to convert the loan amount plus all accrued and unpaid interest due under the note into common stock. The conversion price was $0.139 per share, which was the closing market price of the common stock as of the closing date of the loans.

The Company accounted for the issuance of the notes in accordance with ASC 470 Debt and accordingly the gross proceeds of $100,000 from the sales of the notes were recorded net of a debt discount of $33,612. The debt discount related to the relative fair value of the warrants and was charged to interest expense ratably over the term of the loan.

In 2011, the Company paid repaid $40,000 principal and paid $6,189 accrued interest. In 2012, the Company repaid $6,000 principal and paid $3,050 accrued interest. In 2013, the Company paid repaid $8,000 in principal.

As of December 31, 2013, and 2012, the Company is reflecting a liability of $54,008 and $57,260 which includes $8,008 and $3,260 accrued interest, respectively and the Company is not compliant with the repayment terms.

(d)

On March 16, 2011, the Company s Chief Financial Officer made a loan of $85,000 to the Company. The loan accrues interest at the rate of 10% per annum. In addition, the Company issued warrants to purchase 174,180 shares of common stock at an exercise price of $0.122 per share. The loan is due and payable by or on March 16, 2012. The loan is to be paid on the maturity date and the accrued interest is to be paid at the end of each month. The loan is evidenced by the promissory note the Company issued to the officer which contains a conversion clause that allow the officer at the officer s sole option to convert the loan amount plus all accrued and unpaid interest due under the note into common stock. The conversion price was $0.122 per share, which was the closing market price of the common stock as of the closing date of the loans.

The Company accounted for the issuance of the note in accordance with ASC 470 Debt and accordingly the gross proceeds of $85,000 from the sales of the note was recorded net of a debt discount of $28,610. The debt discount related to the relative fair value of the warrants and is being charged to interest expense ratably over the term of the note.

In 2012, the Company repaid $18,000 in principal. In 2013, the Company repaid $36,500 in principal

As of December 31, 2013, and 2012, the Company is reflecting a liability of $39,113 and $71,490 which includes $8,613 and $4,490 accrued interest, respectively and the Company is not compliant with the repayment terms.

(e)

On March 28, 2011, the Company s Chief Financial Officer made a loan of $40,000 to the Company. The loan pays interest monthly at the rate of 10% per annum. In addition, the Company issued warrants to purchase 83,333 shares of common stock at an exercise price of $0.12 per share. The loan is due and payable by or on March 28, 2012. The loan is to be paid on the maturity date and the accrued interest is to be paid at the end of each month. The loan is evidenced by the promissory note the Company issued to the officer which contains a conversion clause that allow the officer at the officer s sole option to convert the loan amount plus all accrued and unpaid interest due under the note into common stock. The conversion price was $0.12 per share, which was the closing market price of the common stock as of the closing date of the loans.

The Company accounted for the issuance of the note in accordance with ASC 470 Debt and accordingly the gross proceeds of $40,000 from the sales of the note was recorded net of a debt discount of $13,472. The debt discount related to the relative fair value of the warrants and is being charged to interest expense ratably over the term of the note.

As of December 31, 2013 and 2012, the Company is reflecting a liability of $46,378 and $42,378 which includes $6,378 and $2,378 accrued interest, respectively. The Company is not compliant with the repayment terms.

(f)

On February 13, 2012 and on October 5, 2012, the Company s Chief Executive Officer each made a short term loan of $10,000 and $15,000 to the Company. These loans were intended to be repaid within 2 months. No documents were prepared nor interest accrued. As of December 31, 2013 and 2012, the Company is reflecting a liability of $25,000. The Company is not compliant with the repayment terms.

(g)

On January 3, 2013, the Company s Chief Executive Officer each made a short term loan of $9,051 to the Company. This loan was intended to be repaid within 2 months. No documents were prepared nor interest accrued. During 2013 $4,000 was repaid. As of December 31, 2013 the Company is reflecting a liability of $5,051. The Company is not compliant with the repayment terms.

F-24

NOTE 12 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 13 COMMITMENTS AND CONTINGENCIES

Operating Leases

25 Fairchild Ave

Effective as of July 1, 2008, the Company entered into a seven-year lease for 5,300 square feet of space in Plainview, New York. The facility is to serve as the Company s executive offices, sales office, showroom and an assembly area.

In March 2012 management exercised a Good Guy Clause in its lease and abandoned the space at 25 Fairchild Avenue. Accordingly the Company recorded a charge of $34,707 for the loss on abandonment of property. The Company continues to accrue rent and rent related expenses per the Lease agreement. 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, N.Y. 11803, with money damages, as of February 2014, requested in the amount of $ 475,930 which have been accrued for as of December 31, 2013. During 2013 the Company recorded rent and rent related expenses of $341,849 which includes a charge of $229,234 relating to the lawsuit.

160 Dupont Street

On May 24, 2010, effective July 1, 2010, the Company entered into a two-year lease in Plainview, New York. The facility is to serve as the Company s production facilities, as well as its headquarters. Under the terms of the lease the Company paid a deposit of approximate $12,000. The minimum monthly lease payments due under this lease are approximately $6,000 for the period July 1, 2010 through June 30, 2011 and approximately $10,700 for the period July 1, 2011 through June 30, 2012.

On 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.

485 Underhill Blvd.

In October 2013 the Company entered into an operating lease for its Syosset N.Y. office facility under a month-to-month agreement starting in October 2013. The Company will pay monthly rental payments of $3,500. The Company exited the space in July 2014 and moved to 35 East Mall, Plainview N.Y.

35 East Mall

In June 2014 the Company entered into an operating lease for its Plainview N.Y. office facility for a period of six months starting in July 2014. The Company will pay monthly rental payments of $1,050. The lease may be renewed in six month increments, with forty-five days notice and is subject to a 5% increase per annum.

Litigation

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment.

In assessing loss contingencies related to legal proceedings that are pending against the Company, or unasserted claims that may result in such proceedings, the Company evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company s financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability and an estimate of the range of possible losses, if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed, unless they involve guarantees, in which case the guarantees would be disclosed. There can be no assurance that such matters will not materially and adversely affect the Company s business, financial position, and results of operations or cash flows. As of December 31, 2013, the Company has the following litigation outstanding.

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 (Fairchild), 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, as of February 2014, requested in the amount of $475,930, which have been accrued for and included in accounts payable and accrued liabilities as of December 31, 2013. An inquest is set to begin on December 3, 2014 to determine the amount of money damages due on Fairchild s claim.

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 (Levin), 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. The warrant was originally issued contemporaneously with the issuance of a $20,000 promissory note to Levin. In June 2014 the Company entered into a settlement and has agreed to issue a convertible promissory note in the amount of $50,000 to the plaintiff. The convertible note matures on December 31, 2015 and accrues interest at 10% per annum. The holder may convert all or any portion of the outstanding principal and accrued and unpaid interest due and payable under the note into shares of the Company s common stock at a conversion price equal to 50% of the lowest closing bid price of the Company s common stock during the five trading days immediately prior to such applicable conversion date, in each case subject to the lender not being able to beneficially own more than 9.999% of our outstanding common stock upon any conversion. If the closing bid price for the common stock on the date in which the conversion shares are deposited into the holders brokerage account and the holder may execute trades of the conversion shares (the Clearing Date) then the conversion price shall be adjusted such that the discount be taken from the closing bid price on the Clearing Date. The original $20,000 note remains outstanding. As of December 31, 2013 the Company has accrued a $50,000 loss as a result of the settlement and is included in accounts payable and accrued liabilities.

The Company is in default under a May 30, 2012, Securities Purchase Agreement entered into with TCA Global Credit Master Fund, LP (TCA), providing for the issuance of $275,000 principal amount of senior secured redeemable and convertible debentures due November 30, 2012. On October 4, 2013, at the request of the lender due to default, the Company converted $303,499 of convertible notes and accrued interest into a new convertible note in the amount of $531,431. The increase in principal was due to amounts charged by the lender for penalties, interest, legal and other fees. The newly issued note bears interest at rates of 18% per annum and is due on demand. The lender may convert all or any portion of the outstanding principal, accrued and unpaid interest, and any other sums due and payable under the Note into shares of the Company s common stock at a conversion price equal to 85% of the lowest daily volume weighted average price of the Company s common stock during the five trading days immediately prior to such applicable conversion date, in each case subject to the lender not being able to beneficially own more than 4.99% of our outstanding common stock upon any conversion. The conversion price is subject to anti-dilution protection in the event that the Company issues additional equity securities at a price less than the conversion price. On March 10, 2014, TCA accelerated the outstanding principal balance, interest, calculated at the default rate of 18%, and all sums due under the original note and any amendments. In August 2014 a default final judgment was entered against the Company concluding that TCA is entitled to damages in the amount of $610,349, to foreclose upon the security interests, and to recover attorneys fees and costs incurred by TCA. In addition prejudgment interest shall be assessed at a rate of 18% per annum and post judgment interest shall be assessed at a rate of 4.75% per annum. As of December 31, 2013 the Company is reporting a liability of $554,814 related to the TCA claim and is included in convertible notes payable.

On November 27, 2013, the Company entered into a settlement agreement with Tarpon Bay Partners LLC (Tarpon), a related party. The manager of Tarpon is Stephen Hicks, the President of the Company. Tarpon previously purchase outstanding liabilities of the Company from TCA in the amount of $506,431 and Designs and Project Development Corporation (a former landlord) in the amount of $56,429. Per the terms of the settlement the Company was to issue Tarpon shares of common stock in one or more tranches as necessary, and subject to adjustment and ownership limitations, and a convertible promissory note in the principal amount of $75,000. The Company failed to issue shares to Tarpon and in the first quarter of 2014 TCA rescinded its liabilities purchase agreement with Tarpon. As of December 31, 2013 the Company is reporting a liability of $57,484 related to the Designs and Project Development

Corporation claim and is included in notes payable and the $506,431 related to TCA has been included in convertible promissory notes.

On January 31, 2014, in conjunction with the settlement agreement outlined above, the Company issued Tarpon a convertible promissory note in the principal amount of $75,000. The convertible note matures one year from the date of issuance with interest at 10% per annum. The convertible promissory note shall have no registration rights and shall be convertible into the common stock of the Company at any time at a conversion price equal to 75% of the low closing bid price for the twenty days prior to conversion.

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. As of October 2014 the restriction had not been lifted.

An eviction notice was issued on October 8 by the landlord for 160 Dupont Street, Five Towns Realty Associates, Inc (Five Towns Realty). There is currently an outstanding balance of $54,739 that is subject to a lawsuit and is included in accounts payable and accrued liabilities at December 31, 2013. The Company is currently in negotiations with Five Towns Realty to reach a settlement.

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 owned 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.

The matter proceeded to inquest and 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 Supreme Court of the state of New York. As of December 31, 2013 the Company is reporting a liability of $36,613 related to the judgment.

NOTE 14 STOCKHOLDERS' DEFICIENCY.

During the year ended December 31, 2013, the Company recorded the following transactions:

Debt

During the year ended December 31, 2013, the Company issued a total of 121,376,671 shares of common stock upon the requests from note holders to convert principal plus accrued interest totaling $490,871 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 year ended December 31, 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 $7,895 of interest expense for such issuance.

On October 14, 2013, the Company issued 2,078,972 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 $14,345 of interest expense for such issuance.

On October 22, 2013, the Company issued 1,582,546 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 $9,495 of interest expense for such issuance.

Cash

Through Equity Financing:

During the year ended December 31, 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 year ended December 31, 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 August 27, 2013 the Company received proceeds of $10,500 for the exercise of 1,093,750 warrants as of December 31, 2013 the shares have not been issued and accordingly the Company recorded the liability for the share issuance.

On July 9, 2013 the Company received proceeds of $27,923 for the exercise of 2,389,817 warrants as of December 31, 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.

During the year ended December 31, 2012, the Company recorded the following transactions:

Debt

During the year ended December 31, 2012, the Company issued a total of 158,491,010 shares of common stock upon the requests from multiple convertible note holders to convert their notes plus accrued interest totaling $851,552 into the Company s common stock based on the terms set forth in the loan. The conversion rates were from $0.0016 to $0.0443.

In May 2011 the Company entered into an agreement and received a deposit of $130,000 for the sale of one PSWS unit. Under the terms of the agreement the Company guaranteed the customer a minimum of $37,500 of rental income under the Company s rental pool. The Company was not able to provide the customer with delivery of the unit in a timely manner. Subsequently on July 2, 2012 the Company reached an agreement with the customer to refund the deposit of $130,000 and the $37,500 rental income by issuing 4,187,500 shares of common stock and three year warrants with an exercise price of $0.048. Accordingly the Company recorded a charge to operations for the guaranteed rental income of $37,500.

On July 2, 2012, the Company issued 4,375,000 shares of common stock to a note lender in connection with a debt financing transaction. The Company recorded $175,000 of debt discount in connection with such issuance. The debt discount will be amortized over the term of the loan.

In September, at the request of the lender, the Company converted $100,000 of convertible notes payable to $185,000 of notes payable. The newly issued notes payable bear interest at rates of 6% and have maturity dates in December 2012 through January 2013. The Company is required to repay the notes payable in 5 installments with the final payment of $65,000 in January 2013. As of December 31, 2012, the company repaid $45,337.11 principal which consist $20,000 cash payment and $25,337 in issuing 8,774,761 shares of common stock.

Cash

Through Equity Financing:

During the year ended December 31, 2012, for gross proceeds of $412,270 the Company sold an aggregate of 51,227,383 shares of common stock and warrants to purchase additional 13,853,721 shares of common stock at exercise prices from $0.00352 to $0.072. The warrants have a term of three years and were fully vested on the grant date.

Services

On January 23, 2012, the Company issued 1,000,000 shares of common stock to the Company s Chief Executive Officer per grant that was approved by the Company s Board of Directors on January 11, 2012. The shares were fully vested on the date of the grant and accordingly, the Company recorded $65,000 of stock-based compensation in connection with this issuance.

On January 23, 2012, the Company issued 1,000,000 shares of common stock to the Company s Chief Financial Officer per grant that was approved by the Company s Board of Directors on January 11, 2012. The shares were fully vested on the date of the grant and accordingly, the Company recorded $65,000 of stock-based compensation in connection with this issuance.

On January 24, 2012, the Company issued an aggregate 300,000 shares of common stock to multiple employee and contractors per grant that was approved by the Company s Board of Directors on January 11, 2012. The shares were fully vested on the date of the grant and accordingly, Company recorded $19,500 of stock-based compensation in connection with this issuance.

On February 7, 2012, the Company issued 86,538 shares of common stock as part of the retainer fee we paid to a consultant for their services rendered. The Company recorded a $4,500 consultant fee in connection with this issuance.

On March 2, 2012, the Company issued 100,000 shares of common stock as part of the consultant fee we paid to a consultant for services rendered. The Company recorded a $6,400 marketing fee in connection with this issuance.

On July 27, 2012, the Company issued 187,500 shares of common stock as part of the consultant fee we paid to a consultant for services rendered. The Company recorded a $7,500 marketing fee in connection with this issuance.

NOTE 15 PREFERRED STOCK

The Company is authorized to issue 10,000,000 shares of preferred stock, par value $0.001 per share, issuable in series with rights, preferences, privileges and restrictions as determined by the Company s board of directors.

At December 31, 2013, outstanding preferred stock consists of the following:

	Authorized Shares	Outstanding Shares	Par Value	Current Annual Dividend Requirement	Total Dividend Arrearage	Dividend Arrearage Per Share	Liquidation Preference (Including Dividend Arrearage)
Series A	400,000	52,500	$ 52	$ 52,500	$ 990,100	$ 17.86	$ 1,515,100
Series B	51	–	–	–	–	–	–
Series D	2,000,000	93,000	93	55,800	975,600	9.89	1,510,350
Series F	1,000,000	38,644	39	–	190,328	–	–
		184,144	$ 184	$ 108,300	$ 2,156,028		$ 3,025,450

At December 31, 2012 outstanding preferred stock consists of the following:

	Authorized Shares	Outstanding Shares	Par Value	Current Annual Dividend Requirement	Total Dividend Arrearage	Dividend Arrearage Per Share	Liquidation Preference (Including Dividend Arrearage)
Series A	400,000	52,500	$ 52	$ 52,500	$ 937,600	$ 17.86	$ 1,462,600
Series B	51	51	–	–	–	–	