

PureSafe Water Systems, Inc.
Form 10-K
April 16, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2012

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.)

160 Dupont Street, 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

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

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

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.

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

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

| | | | |
|-------------------------|-----------------------|---------------------------|----------------------------------|
| Large accelerated filer | <input type="radio"/> | Accelerated filer | <input type="radio"/> |
| Non-accelerated filer | <input type="radio"/> | Smaller reporting company | <input checked="" type="radio"/> |

(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

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 \$ 21,474,577.

As of April 5, 2013, 809,346,722 shares of the common stock of the registrant were issued and outstanding.

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Introductory Comment - Use of Terminology

Throughout this Annual Report on Form 10-K, the terms the “Company,” “we,” “us” and “our” refers to PureSafe Water 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,” “product,” “would” and variations of such words. Forward-looking statements are subject to risks and uncertainties that cannot be predicted or quantified and, consequently, actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, without limitation:

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

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

general economic and business conditions;

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

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

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

adverse results of any legal proceedings;

the impact of current, pending or future legislation and regulation on water safety, including, but not limited to,

changes in zoning and environmental laws and regulations within our target areas of operations;

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

the volatility of our operating results and financial condition;

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

the other risks and uncertainties detailed in this Form 10-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.”

We have generated our first sale of the FRWS in December of 2011, and our second and third sales in the last quarter of 2012. Accordingly, 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.

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” (“PureSafe FRWS”) 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 liters 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, 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.

Recent Developments

We have recently entered into two agreements with regard to the engineering and distribution and sale of our PureSafe™ First Response Water System” line of mobile water decontamination and purification systems. On January 24, 2013, we signed an Engineering Package Agreement (“ETG Agreement”) with ETG/Engineering Technologies Group, Inc. (“ETG”), Hopkinton, Massachusetts, for ETG to provide detailed electronic engineering drawings and purchase specifications for our water purification and filtration product, an engineering package to facilitate the outsourcing of the assembly, sub-assembly and manufacturing of our product. On January 25, 2013, we entered into an Exclusive Sales and Marketing Agreement (the “Distribution Agreement”) with Global Equipment Marketing, Inc. (“GEM”), Hopkinton, Massachusetts, a distribution and marketing company. Under the Distribution Agreement GEM is, on an exclusive basis, responsible for promoting and selling our products at their cost and expense. GEM will sell and market the products under a dba entitled PureSafe Water Systems Sales, and all products will be sold under our brand name. GEM will sell and market our products to end users worldwide and will receive a discount from the list prices of our products in connection with sales to its dealers, distributors, representatives and resellers. Under the Distribution Agreement, we remain responsible for the design and manufacturing of our products. The initial term of the Distribution Agreement is five years, renewable for subsequent one year terms if neither party gives notice of termination.

Products

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 dual 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.

Manufacturing

In September 2009, we formed PureSafe Manufacturing and Research Corporation, as a wholly owned subsidiary of PureSafe Water Systems, Inc. In May of 2010, we signed a lease for a manufacturing facility of 15,000 sq ft in Plainview, New York, in close proximity to our headquarters. We moved our headquarters into the manufacturing facility in March 2012. 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 companies which manufacture mobile water purification systems, but may or may not have similarities to 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. They 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.) These 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. This list includes 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 but have shortfalls in their application to the first responder market. These companies 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. We believe that none of these companies stocks units ready to deploy, none has distribution/packaging capability, none has built in redundant systems, and few have the capability of field service training and support.

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. Some of our competitors have, or may have, greater 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. There can be no assurance that we will be able to successfully compete in the future with such competitors. The failure to successfully compete could have an adverse effect on our operating results.

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 deoxygenation.

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

Market Penetration and 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 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.

Intellectual Property

The Company filed for a U.S. continuation patent for the PureSafe FRWS on October 15, 2009 and this patent application is currently pending.

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 2012 were \$62,032, and in fiscal 2011 were \$199,617.

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 March 20, 2013, the Company employed a Chief Executive Officer, a Chief Financial Officer, a Chief Operating Officer, a Controller, one full time administrative employee in our headquarters and two full time staff in the production facility.

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 up to \$2.5 million 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. We have incurred losses from operations, an accumulated deficit since - inception in 1987 of approximately \$45 million and \$2.8 million for the year ended December 31, 2012 and have a working capital deficiency of approximately \$4.6 million as of December 31, 2012. 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 product in 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.

Until March 2012, we maintained our principal place of business at 25 Fairchild Avenue - Suite 250, Plainview, NY 11803 under a 7-year lease expiring in April 2015. The lease calls for a monthly base rent of \$5,502 through June 2012 with annual increases in the monthly base rent. We are required to pay for all applicable utilities, maintenance costs and real estate taxes, which averaged approximately \$3,200 per month during the period in 2011. The facility has 5,300 square feet in space and served as our headquarters, executive offices, and showroom.

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

landlord Fairchild Warehouse Assoc., LLC is claiming damages on the abandonment of the space.

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 \$21,400. 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 June 28, 2012, the Company signed a lease renewal agreement to extend our lease at 160 Dupont Street for another three years with minimum annual lease payments due under this lease are \$134,160 for 2013, \$138,185 for 2014 and \$70,114 for 2015.

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, as plaintiff, for recovery of past rental payments for the Company's former office space at 25 Fairchild Avenue, Plainview, New York 11803, with money damages requested in the amount of \$141,721.

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, by Levin Consulting Group LLC, as plaintiff, where the plaintiff is claiming that additional shares of the Company's Common Stock are issuable by the Company to plaintiff in connection with the exercise by plaintiff of a common stock purchase warrant issued by the Company.

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 Bulletin Board (the “OTC BB”) under the trading symbol “PSWS.OB”. 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 Yahoo 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 | 0.066 | 0.04 |
| June 30, 2012 | 0.062 | 0.02 |
| September 30, 2012 | 0.018 | 0.01 |
| December 31, 2012 | 0.02 | 0.003 |
| March 31, 2013 | 0.019 | 0.008 |

Holders

As of April 5, 2013, we had approximately 565 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 and Series D 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, 2012 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, | Weighted-average exercise price of outstanding options, warrants and rights (B) | Number of securities remaining available for future issuance under equity |
|---------------|---|---|---|
|---------------|---|---|---|

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| | warrants and rights (A) | | | compensation plans (excluding securities reflected in column (A)) (C) |
|--|-------------------------------|-----------|---------------|---|
| Equity compensation plans approved by security holders | 6,500,000 | \$ | 0.0410 | 18,500,000 |
| Equity compensation plans not approved by security holders | 12,295,000 | \$ | 0.0578 | 0 |
| Total | 18,795,000 | \$ | 0.0520 | 18,500,000 |

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As of December 31, 2011, we have granted warrants and other rights to purchase a total of 18,795,000 shares of our common stock with average exercise price of \$0.052. These warrants and other rights were granted to multiple individuals with various reasons such as rewards for consulting services, incentive to retain highly desired staff and employee performance rewards. The grant of each of such warrants and other rights were approved by our board of directors. Our board of directors approved all the warrants/options granted in the above schedule but only 6,500,000 warrants/options which were granted under 2008 Equity Compensation Plan that was approved by our security holders in our 2008 annual shareholders' meeting.

We have set forth below additional information concerning the material features of each grant of warrants and other rights under a plan not approved by our security holders. For purposes of this disclosure, the term "Plan" includes all individual agreements that provide for equity compensation and include all individual option agreements, warrants and other contract rights payable in equity.

| Date of Grant/Issuance | Number of Warrants Granted | Exercise Price | Expiration Date | Name of Holder, if a Director or Executive Officer |
|------------------------|----------------------------|----------------|-----------------|--|
| 04/17/09 | 4,000,000 | 0.0410 | 04/17/14 | CEO |
| 09/28/09 | 250,000 | 0.0480 | 09/27/14 | |
| 02/01/10 | 25,000 | 0.0510 | 01/31/15 | |
| 03/08/10 | 2,000,000 | 0.0520 | 03/07/15 | CEO |
| 03/08/10 | 2,000,000 | 0.0520 | 03/07/15 | V.P. of International Markets |
| 04/21/10 | 423,729 | 0.0590 | 04/20/15 | |
| 06/21/10 | 70,622 | 0.0590 | 06/21/15 | |
| 06/21/10 | 70,622 | 0.0590 | 06/20/15 | |
| 07/29/10 | 70,622 | 0.0590 | 07/28/15 | |
| 08/05/10 | 75,000 | 0.0960 | 08/04/13 | |
| 08/31/10 | 70,622 | 0.0590 | 08/30/15 | |
| 09/30/10 | 70,622 | 0.0590 | 09/29/15 | |
| 10/29/10 | 70,622 | 0.0590 | 10/28/15 | |
| 12/29/10 | 50,000 | 0.1000 | 12/28/13 | |
| 03/21/11 | 500,000 | 0.1350 | 03/20/14 | |
| 11/1/11 | 500,000 | 0.0800 | 10/31/14 | COO |
| 11/18/11 | 250,000 | 0.0850 | 11/17/14 | |
| 11/28/11 | 2,000,000 | 0.0700 | 11/28/16 | CFO |
| 01/01/12 | 215,517 | 0.0580 | 01/01/15 | CEO |
| 01/01/12 | 215,517 | 0.0580 | 01/01/15 | CFO |
| 01/01/12 | 215,517 | 0.0580 | 01/01/15 | Director |
| 01/01/12 | 215,517 | 0.0580 | 01/01/15 | Director |
| 01/01/12 | 215,517 | 0.0580 | 01/01/15 | Director |
| 04/02/12 | 260,417 | 0.0480 | 04/02/15 | CEO |
| 04/02/12 | 260,417 | 0.0480 | 04/02/15 | CFO |
| 04/02/12 | 260,417 | 0.0480 | 04/02/15 | Director |
| 04/02/12 | 260,417 | 0.0480 | 04/02/15 | Director |
| 04/02/12 | 260,417 | 0.0480 | 04/02/15 | Director |
| 06/04/12 | 30,000 | 0.0430 | 06/07/15 | |
| 06/07/12 | 20,000 | 0.0430 | 06/07/15 | |
| 07/02/12 | 367,647 | 0.0340 | 07/02/15 | CEO |
| 07/02/12 | 367,647 | 0.0340 | 07/02/15 | CFO |

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| | | | | |
|----------|------------|--------|----------|----------|
| 07/02/12 | 367,647 | 0.0340 | 07/02/15 | Director |
| 07/02/12 | 367,647 | 0.0340 | 07/02/15 | Director |
| 10/25/12 | 15,000,000 | 0.0060 | 10/25/17 | CEO |
| 10/25/12 | 15,000,000 | 0.0060 | 10/25/17 | CFO |
| 10/25/12 | 3,000,000 | 0.0060 | 10/25/17 | COO |
| 10/25/12 | 1,500,000 | 0.0060 | 10/25/17 | Director |
| 10/25/12 | 1,500,000 | 0.0060 | 10/25/17 | Director |
| 11/05/12 | 961,538 | 0.0130 | 11/05/15 | CEO |
| 11/05/12 | 961,538 | 0.0130 | 11/05/15 | CFO |
| 11/05/12 | 961,538 | 0.0130 | 11/05/15 | Director |
| 11/05/12 | 961,538 | 0.0130 | 11/05/15 | Director |

In November 2008, our stockholders approved the Company's 2008 Equity Incentive Plan (the "2008 Plan"). 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.

Participation in the 2008 Plan is limited to our:

- employees, including officers,
- directors,
- consultants and
- advisors.

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.

The total number of shares of our common stock reserved and available for grant and issuance pursuant to the 2008 Plan is 30 million. As of December 31, 2012 and through March 31, 2013, no options, warrants, and rights were awarded under 2008 Plan.

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 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.

Theresa Bischoff joined the Board of Directors on January 7, 2013 and John Gibb resigned from the Board as he had a conflict with a new appointed position in Mass.

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.

In March 2012 we participated in the Long Island Capital Alliance/Homeland Security Conference and presented PureSafe to an investment community audience.

In May 2012 we demonstrated our system at the LI/NYC Emergency Responder Conference in Uniondale, NY. This is a statewide conference focusing on Emergency Response issues.

Plan of Operations

Our plans for the next twelve months include;

Raising \$2.5 million in capital in two tranches, \$1.0 million within the first six months of 2013 and an additional \$1.5 million if needed in the fourth quarter of 2013.

With our new strategic alliance with Global Equipment Marketing, Inc. (GEM) we anticipate additional sales volume to commence in the second quarter of 2013.

The engineering package is expected to be completed by ETG/Engineering Technologies Group, Inc. by the second quarter of 2013.

Identify strategic outsourced facilities to assemble our product in conformity with our detailed engineering drawings for standardization.

GEM will identify marketing opportunities both domestically and internationally.

Filing of all required foreign patent applications for the PureSafe FRWS. We will identify all the potential markets in which we need patent protection.

Continued participation in water industry conferences relating to target markets.

Restructuring the liability side of the Balance Sheet to clean up outstanding debt

Examining options in recapitulation of the Company

Creating a strong investor relations program to expand our shareholder base and to disseminate information about our Company

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.

Going Concern

At December 31, 2012, our stockholders' deficiency was \$4,483,108 as compared to \$3,680,358 at December 31, 2011. Negative working capital was \$4,610,445 at December 31, 2012 as compared to \$3,924,608 at December 31,

2011.

We continue to suffer recurring losses from operations and have an accumulated deficit since inception (1987) of approximately \$45 million. These conditions raise substantial doubt about our ability to continue as a going concern. The accompanying financial statements have been prepared assuming that we will continue as a going concern and do not include any adjustments that might be necessary should we be unable to continue as a going concern. The Independent Registered Public Accounting Firm's report on our financial statements included elsewhere herein contains an explanatory paragraph about conditions that raise substantial doubt about our ability to continue as a going concern. Our continuation as a going concern is dependent upon our ability to bring our products to market and generate revenues, control costs, operate profitably and obtain additional financing, as required and on reasonable terms. Our plans with respect to these matters include restructuring our existing debt and raising additional capital through future issuances of stock and/or debt. We plan to raise an additional \$2.5 million in the next twelve months. This reduced funding requirement takes into consideration a reduction in our burn rate and the alliance with GEM and ETG.

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We believe that based on the new dynamics with our strategic relationship, the Company can be cash positive with the sale of 12 FRWS units.

We have no assurance that such financing will be available on terms advantageous to us, or at all. However, should we not be successful in obtaining the necessary financing to fund our operations, we would need to curtail certain of our operational activities.

Results of Operations

Revenues. We recognized \$495,000 revenues for the year ended December 31, 2012 and \$287,215 for the year ended 2011, respectively.

Cost of goods sold. Cost of goods sold for the year ended December 31, 2012 was \$669,535 and 2011 was \$399,350.

Selling, general and administrative. Selling, general and administrative expenses for the year ended December 31, 2012 was \$2,442,130, compared to \$2,984,959 for the 2011 fiscal year, a \$542,829 or 18% decrease.

The 18%, or \$542,829, decreased was the result of management decision to utilize limited funds on vital activities and scaled back on activities that the management deemed not urgent at this time.

The followings are analysis into some other categories that also have significant fluctuations between 2012 and 2011. Consulting fees decreased \$27,250 from \$45,500 in 2011 to \$18,250 in 2012. Insurance increased \$10,320 from \$73,237 to \$83,557 in 2012. The increase was mainly from the increase of workers' compensation insurance premium. Total auto expense decreased \$26,906 from \$44,148 in 2011 to \$17,242 in 2012. Directors' fees decreased \$117,000 from \$225,000 in 2011 to \$108,000 in 2012. The warrants were valued at fair value, using black-scholes model on the date the warrants were awarded. Although general marketing related expenses decreased \$59,449, from \$72,158 in 2011 to \$12,709 in 2012, because of a one-time adjustment we made to accrue \$161,111 consulting fee to a consultant in 2012, total marketing expense increased \$77,895 from \$135,658 in 2011 to \$213,553 in 2012. Stock-based compensation decreased \$1,353,611 from \$1,821,711 in 2011 to \$449,700 in 2012. The 1,353,611 or 74% decrease in Stock-based compensation are the combination of two factors: 1.) we have awarded approximately 4 million less of shares of common stock in 2012 than in 2011 for service, compensation, etc.; 2.) the market price of our share in 2012 is much lower than in 2011, thus the fair value of the stock-based compensation were lower. Amortization expense increased \$123,054 from \$8,479 in 2011 to \$131,532 in 2012 was largely due to the high financing cost in connection with our financing activities in 2012.

Research and development. Research and development expenses in 2012 were \$62,032, compared to \$199,617 in 2011, a decrease of \$137,585 or 69%. In 2011, we spent approximately \$200,000 in Research & development making modifications and reengineering based on the first FRWS prototype we built in 2010. In 2012, we focused most of our resources on production activities and scaled back the funds available to research and development. 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.

Interest expense - non-debt discount related incurred in 2012 and 2011 was \$365,529 and \$258,389, respectively. The \$107,140 or 41% increase was primarily from i) accrued interest from the outstanding promissory notes that we issued over the years to multiple lenders which include our Chief Executive Officer and Chief Financial Officer.

Interest expense - debt discount related Debt discount related interest expense incurred in 2012 and 2011 was \$796,040 and \$462,843, respectively, a \$333,197 or 72% increase. Most debt discount related interest expense

incurred in 2012 is related to an aggregate total of \$1,084,361 convertible loans we received in 2012.

Change in fair value of warrants and embedded conversion options. Changes in fair value of warrants and embedded conversion options for year ended December 31, 2012 and 2011 were \$998,300 and \$362,800 respectively.

The accounting treatment, pursuant to ASC 815 “Derivatives and Hedging”, 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.

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 in the convertible loans incurred in 2012 and 2011. 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 at the end of each period. The third factor is the fluctuation of the Company's stock price. The closing price per share for the Company's common stock on December 31, 2012 was \$0.004 which was significantly lower compared with \$0.058, the closing price per share for prior period.

Liquidity and Capital Resources

As of December 31, 2012, we maintained a cash balance of \$63,571 as compared to \$118,228 at December 31, 2011 a decrease in the cash balances of \$54,657.

Net cash used in the operating activities was \$974,400 and \$1,646,860 in 2012 and 2011, respectively.

Net cash used in capital expenditures in 2012 and 2011 was \$0 and \$7,400 respectively.

We raised \$412,270 and \$442,000 through sales of our common stock, in 2012 and 2011 respectively. We received \$0 from investors who exercised their warrants to purchase common stock in 2012 and \$236,420 raised through the exercise of warrants in 2011. We raised \$768,500 and \$425,000 through debt financing in 2012 and 2011 respectively. Proceeds received from officers and directors' loans were \$105,000 and \$225,000 in 2011 and 2010 respectively. Cash Paid for loan costs were \$130,024 and \$14,250 in 2012 and 2011 respectively. We repaid \$104,000 and \$40,000 loan principal in 2012 and 2011 plus accrued interest to our Chief Executive Officer and Chief Financial Officer.

From all the above activities, net cash provided by financing activities was \$919,740 and \$1,605,730, in 2012 and 2011, respectively.

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, | |
|-------------------------|--------------------------|---------|
| | 2012 | 2011 |
| Risk-free interest rate | 0.36% | 0.36% |
| Expected life, in years | 3 years | 3 years |
| Expected volatility | 117% | 112% |
| 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

The FASB, the Emerging Issues Task Force and the SEC have issued certain other accounting standards updates and regulations as of December 31, 2011 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 2012 or 2011, and it 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.

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| | |
|---|----|
| Consolidated Balance Sheets as of December 31, 2012 and 2011 | 18 |
| Consolidated Statements of Operations for the Years Ended December 31, 2012 and 2011 | 19 |
| Consolidated Statements of Changes in Stockholders' Deficiency for the Years Ended December 31, 2012 and 2011 | 20 |
| Consolidated Statements of Cash Flows for the Years Ended December 31, 2011 and 2011 | 21 |
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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, 2012 and 2011 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 audit.

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 audit 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, 2012 and 2011 and the consolidated results of their operations and 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 2 to the consolidated financial statements, the Company has had recurring losses, and has a working capital and stockholders' deficiency as of December 31, 2012 and 2011. 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 2. 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
April 16, 2013

PureSafe Water Systems, Inc. and Subsidiary
Consolidated Balance Sheets

| | December 31, 2012 | December 31, 2011 |
|---|-------------------------|-------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 63,571 | \$ 118,228 |
| Inventories | 322,718 | 498,093 |
| Prepaid expenses and other current assets | 54,478 | 56,674 |
| Total Current Assets | 440,767 | 642,995 |
| Property and equipment, net of accumulated depreciation of \$164,710 and \$151,760, respectively | 49,014 | 136,718 |
| Patents and trademarks, net of accumulated amortization of \$41,816 and \$35,712, respectively | 58,068 | 64,1726 |
| Other assets | 28,451 | 58,560 |
| TOTAL ASSETS | \$ 576,300 | \$ 902,445 |
| LIABILITIES AND STOCKHOLDERS' DEFICIENCY | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | \$ 695,589 | \$ 582,446 |
| Accrued compensation | 972,286 | 402,249 |
| Deferred Rent Payable | 7,050 | 32,800 |
| Accrued consulting and director fees | 144,000 | 144,000 |
| Customer deposits | 149,588 | 130,000 |
| Convertible notes payable to officers and directors (including accrued interest of \$138,132 and \$83,932 and net of debt discount of \$0 and \$12,623, respectively) | 811,132 | 743,309 |
| Convertible promissory notes (including accrued interest of \$141,564 and \$83,929 and net of debt discount of \$80,606 and \$39,923 respectively) | 1,111,110 | 989,006 |
| Promissory notes payable (including accrued interest of \$220,295 and \$190,521, respectively) | 706,829 | 838,265 |
| Fair value of detachable warrants and conversion option | 263,300 | 515,200 |
| Accrued dividends payable | 190,328 | 190,328 |
| Total Current Liabilities | 5,051,212 | 4,567,603 |
| Long Term Liabilities: | | |
| Notes Payable | 8,196 | 15,200 |
| Total Long Term Liabilities | 8,196 | 15,200 |
| TOTAL LIABILITIES | 5,059,408 | 4,582,803 |
| Commitments and Contingencies | | |
| Stockholders' Deficiency: | | |
| Preferred stock \$.001 par value; 10,000,000 shares authorized; 184,195 and 184,144 shares issued and outstanding as of December 31, 2012 and 2011, respectively. (liquidation preference \$2,917,150 and \$2,808,850, as of December 31, | 184 | 184 |

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2012 and December 31, 2011, respectively)

| | | |
|---|-------------------|-------------------|
| Common stock, \$.001 par value; 800,000,000 authorized; 561,343,935 shares issued and 561,339,535 shares outstanding at December 31, 2012; 340,389,004 shares issued and 340,384,604 outstanding at December 31, 2011 | 561,343 | 340,388 |
| Additional paid-in capital | 40,423,615 | 38,667,448 |
| Treasury Stock, at cost, 4,400 shares of common stock | (5,768) | (5,768) |
| Subscriptions receivable - (including accrued interest of \$93,825 and \$73,538, respectively) | (431,025) | (410,738) |
| Accumulated deficit | (45,031,457) | (42,271,872) |
| Total Stockholders' Deficiency | (4,483,108) | (3,680,358) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY | \$ 576,300 | \$ 902,445 |

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

PureSafe Water Systems, Inc. and Subsidiary
Consolidated Statements of Operations

| | Years Ended December 31, | |
|---|--------------------------|-------------|
| | 2012 | 2011 |
| Sales | \$ 495,000 | \$ 287,215 |
| Cost of Sales | 669,535 | 399,350 |
| Gross Profit (Loss) | (174,535) | (112,135) |
| Operating Expenses: | | |
| Compensation and related benefits, including stock-based compensation of \$449,700 and \$1,175,225 for the years ended December 31, 2012 and 2011, respectively | 1,232,140 | 1,821,711 |
| Insurance and medical benefits | 83,557 | 73,237 |
| Research and development | 62,032 | 199,617 |
| Professional, legal and consulting fees | 212,145 | 201,007 |
| Marketing | 213,553 | 135,658 |
| Occupancy | 263,116 | 267,969 |
| Loss on abandonment of property | 34,709 | -- |
| Other administrative and general | 340,879 | 285,760 |
| Total Operating Expenses | 2,442,130 | 2,984,959 |
| Loss from Operations | (2,616,665) | (3,097,094) |
| Other Income (Expense): | | |
| Other income | 20,349 | 20,379 |
| Interest expense, including interest to related parties of \$70,720 and \$65,731 for the years ended December 31, 2011 and 2010, respectively | (1,161,569) | (721,233) |
| Change in fair value of warrants and embedded conversion options | 998,300 | 362,800 |
| Total Other Income (Expense) | (142,920) | (338,054) |
| Net Loss | (2,759,585) | (3,435,148) |
| Dividend on preferred stock | (108,300) | (108,300) |

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| | | |
|--|----------------|----------------|
| Net Loss Attributable to Common Stockholders' | \$ (2,867,885) | \$ (3,543,448) |
| Net Loss Attributable to Common Stockholders Per Share basic and diluted | \$ (0.00) | \$ (0.01) |
| Weighted average number of shares outstanding | 380,943,197 | 331,986,316 |

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

PureSafe Water Systems, Inc. and Subsidiary
Condensed Consolidated Statement of Stockholders' Deficiency
For the Year ended December 31, 2012

| | Preferred Stock | | Common Stock | | Additional | Treasury | Subscription | Accumulated | Total |
|--|-----------------|--------|--------------|-----------|--------------------|------------------|--------------|----------------|-----------------------------|
| | Shares | Amount | Shares | Amount | Paid-In Capital | Stock At Cost | Receivable | Deficit | Stockholders' Deficiency |
| BALANCE – January 1, 2011 | 184,144 | \$184 | 319,026,726 | \$319,026 | \$37,203,196 | \$(5,768) | \$(390,508) | \$(38,836,724) | \$(1,710,594) |
| Proceeds from Sale of Common Stock | -- | -- | 5,119,065 | 5,119 | 436,881 | -- | -- | -- | 442,000 |
| Proceeds from exercise of warrants | -- | -- | 4,966,244 | 4,965 | 231,455 | -- | -- | -- | 236,420 |
| Common stock issued for loan conversion | -- | -- | 2,539,747 | 2,540 | 136,557 | -- | -- | -- | 139,097 |
| Common stock issued for repayment of debt | -- | -- | 86,670 | 87 | 11,353 | -- | -- | -- | 11,440 |
| Common stock issued for services | -- | -- | 8,650,552 | 8,651 | 938,874 | -- | -- | -- | 947,525 |
| Warrant issued for stock-based compensation | -- | -- | -- | -- | 154,800 | -- | -- | -- | 154,800 |
| Accrued interest | -- | -- | -- | -- | -- | -- | (20,230) | -- | (20,230) |
| Reclassification of equity instruments to derivate liabilities | -- | -- | -- | -- | (693,900) | -- | -- | -- | (693,900) |
| Warrants granted in connection with debt | -- | -- | -- | -- | 103,132 | -- | -- | -- | 103,132 |

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| | | | | | | | | | |
|---|---------|-------|-------------|-----------|--------------|-----------|-------------|----------------|---------------|
| Financing cost extension of warrants | -- | -- | -- | -- | 85,700 | -- | -- | -- | 85,700 |
| Amortization of warrants and options for employees and non-employees | -- | -- | -- | -- | 59,400 | -- | -- | -- | 59,400 |
| Net loss | -- | --- | -- | -- | -- | -- | -- | (3,435,148) | (3,435,148) |
| BALANCE – December 31, 2011 | 184,144 | \$184 | 340,389,004 | \$340,388 | \$38,667,448 | \$(5,768) | \$(410,738) | \$(42,271,872) | \$(3,680,358) |
| Proceeds from sale of common stock: | -- | -- | 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) |

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| | | | | | | | | | |
|------------------------------|---------|-------|-------------|-----------|--------------|-----------|-------------|----------------|---------------|
| Warrants issued 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) |

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

PureSafe Water Systems, Inc. and Subsidiary
Consolidated Statements of Cash Flows

| | Years Ended December | |
|--|----------------------|----------------|
| | 31, | |
| | 2012 | 2011 |
| Cash Flows from Operating Activities: | | |
| Net loss | \$ (2,759,585) | \$ (3,435,148) |
| Adjustments to reconcile net loss to net cash used in operating activities - | | |
| Depreciation and amortization | 52,997 | 83,313 |
| Amortization of patents and trademarks | 6,104 | 6,104 |
| Loss on abandonment of property | 34,707 | -- |
| Financing cost, warrant extension | -- | 85,700 |
| Interest expense – amortization of deferred financing cost | 125,428 | 2,375 |
| Interest expense – Penalty interest | 9,000 | -- |
| Stock based compensation | 505,600 | 1,175,225 |
| Loss on conversion of convertible notes to notes payable | 85,000 | -- |
| Deferred rent | (25,750) | 32,800 |
| Interest receivable | (20,287) | (20,232) |
| Accretion of debt discount | 796,040 | 462,843 |
| Change in fair value of warrants and embedded conversion option | (998,300) | (362,800) |
| Change in assets and liabilities - | | |
| Prepaid expenses and other current assets | 2,196 | 25,023 |
| Inventories | 145,375 | (25,278) |
| Other assets | 34,705 | (9,405) |
| Customer deposits | 149,588 | 130,000 |
| Accounts payable, accrued expenses, accrued dividends, accrued compensation, accrued consulting and director fees, and other current liabilities | 882,779 | 202,618 |
| Net Cash Used in Operating Activities | (974,403) | (1,646,860) |
| Cash Flows from Investing Activities: | | |
| Patent costs | -- | (7,400) |
| Net Cash Used in Investing Activities | -- | (7,400) |
| Cash Flows from Financing Activities: | | |
| Proceeds from sale of common stock | 412,270 | 442,000 |
| Proceeds from exercise of warrants | -- | 236,420 |
| Proceeds from convertible promissory note | 768,500 | 425,000 |
| Cash paid for loan costs | (130,024) | (14,250) |
| Proceeds from officers and directors convertible loans | 105,000 | 225,000 |
| Repayment of officers and directors loans | (104,000) | (40,000) |
| Proceeds from notes payable | 75,000 | 337,092 |
| Repayment of notes payable | (207,000) | (5,532) |
| Net Cash Provided by Financing Activities | 919,746 | 1,605,730 |
| Net (decrease) increase in cash | (54,657) | (48,530) |

| | | |
|---|-------------|------------|
| Cash at beginning of year | 118,228 | 166,758 |
| Cash at end of year | \$ 63,571 | \$ 118,228 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid during the year for interest | \$ 28,837 | \$ 32,939 |
| Non-Cash Investing Activities: | | |
| Purchase of Equipment through long term financing | \$ -- | \$ -- |
| Non-Cash Financing Activities: | | |
| Compensation satisfied by issuance of common stock | \$ -- | \$ -- |
| Common stock issued in satisfaction of liabilities | \$ 851,552 | \$ 150,537 |
| Common stock issued in connection with debt | \$ 175,000 | -- |
| Common stock issued for the settlement of a customer deposit | \$ 130,000 | -- |
| Reclassification of equity instrument to derivative liabilities | \$ (80,100) | \$ 685,600 |
| Conversion of convertible notes payable to notes payable | \$ 185,000 | \$ -- |
| Conversion of notes payable and interest to convertible notes payable | \$ 207,770 | \$ -- |
| Warrants granted in connection with debt | \$ -- | 103,132 |

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 currently engaged in the design and development of its technology to be used in the manufacture and sale of water purification systems both in and outside the United States. The Company's corporate headquarters is in Plainview, New York.

As of December 31, 2011, the Company has emerged from the development stage during the fourth quarter of 2011 due to its sales as well as receipts of additional sales orders.

NOTE 2 - BASIS OF PRESENTATION AND CONTINUED OPERATIONS

Principle of Consolidation

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

Going Concern

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“US GAAP”), which contemplate continuation of the Company as a going concern and the realization of assets and the satisfaction of liabilities in the normal course of business. The Company incurred a net loss of approximately \$2.9 million and \$3.4 million for each of the years ended December 31, 2012 and 2011, respectively. The Company has a working capital deficit of approximately \$4.6 million and \$3.9 million, and a stockholders’ deficiency of approximately \$4.5 million and \$3.7 million at December 31, 2012 and 2011, respectively.

The Company continues to incur recurring losses from operations and has an accumulated deficit since inception (1987) of approximately \$45 million. These conditions raise substantial doubt about the Company’s ability to continue as a going concern. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might be necessary should the Company be unable to continue as a going concern. The Company’s continuation as a going concern is dependent upon the Company’s ability to bring products to market and generate revenues, control costs, operate profitably and obtain additional financing, as required and on reasonable terms. The Company plans with respect to these matters include restructuring our existing debt and raising additional capital through future issuances of stock and/or debt. The Company’s plans to raise an additional financing in the next twelve months.

The Company can provide no assurance that such financing will provide available on terms advantageous to the Company, or at all. However, should the Company not be successful in obtaining the necessary financing to fund its operations, the Company would need to curtail certain of its operational activities.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported

amounts of assets, 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 related warrants issuances. 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.

PureSafe Water Systems, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Cash and Cash Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less when purchased to be cash equivalents. As of December 31, 2012 and 2011 the Company did not have any cash equivalents.

Inventories

Inventories are stated at the lower of cost, determined by the first-in, first-out (“FIFO”) method, or market.

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.

Patents and Trademarks

Patents and trademarks are amortized 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, 2012 and 2011.

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 extend the economic useful life of the related assets, are charged to operations as incurred. Gains or losses on disposal of property and equipment are reflected in the statement of operations in the period of disposal.

Stock-Based Compensation

The Company reports stock-based compensation under ASC 718 “Compensation – Stock Compensation”. ASC 718 requires all share-based payments to employees, including grants of employee stock options, warrants 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 be 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 warrants or options granted. The model includes subjective input assumptions that can materially affect the fair value estimates. The model was developed for use in estimating the fair value of traded options or warrants. The expected volatility is estimated based on the most recent historical period of time equal to the weighted average life of the warrants or options granted

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

Years Ended

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| | December 31, 2012 | 2011 |
|-------------------------|----------------------|---------|
| Assumptions: | | |
| Risk-free interest rate | 0.36% | 0.36% |
| Expected life | 3 years | 3 years |
| Expected volatility | 117% | 112% |
| Dividends | 0% | 0% |

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 \$213,553 and \$135,658 for the years ended December 31, 2012 and 2011, respectively.

PureSafe Water Systems, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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 statements carrying amounts of existing assets and liabilities and their respective tax bases, and net operating loss and tax credit carry overs. Valuation allowances are established when necessary to reduce deferred assets to amounts more likely than not to be realized.

Loss Per Share

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

Total shares issuable upon the exercise of warrants and the conversion of preferred stock and convertible debt for the years ended December 31, 2012 and 2011, were comprised as follows:

| | As of December 31, | |
|--------------------------------|--------------------|------------|
| | 2012 | 2011 |
| Warrants | 85,652,403 | 27,520,997 |
| Convertible debt | 187,297,345 | 19,564,618 |
| Series F preferred stock | 1,545,760 | 1,545,760 |
| Total common stock equivalents | 274,495,508 | 48,631,375 |

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.

PureSafe Water Systems, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Liabilities measured at fair value on a recurring basis at December 31, 2012 and 2011, respectively are as follows:

| | Quoted Prices in Active Markets for Identical Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance at December 31, |
|------------------------------|--|---|--|----------------------------|
| Embedded conversion feature | \$ -- | \$ -- | \$ 68,800 | \$ 68,800 |
| Warrant and option liability | \$ -- | \$ -- | \$ 446,400 | \$ 446,400 |
| December 31, 2011 | \$ -- | \$ -- | \$ 515,200 | \$ 515,200 |
| Embedded conversion feature | \$ -- | \$ -- | \$ 224,000 | \$ 224,000 |
| Warrant and option liability | \$ -- | \$ -- | \$ 39,300 | \$ 39,300 |
| December 31, 2012 | \$ -- | \$ -- | \$ 263,300 | \$ 263,300 |

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 the 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 years ended December 31, 2012 and 2011.

| | Warrant Liability | Embedded Conversion Feature | Total |
|--------------------------------------|----------------------|-----------------------------------|------------|
| Balance January, 1, 2011 | \$ -- | \$ -- | \$ -- |
| Included in (income) expense | (252,800) | (110,000) | (362,800) |
| Included in liabilities | 129,500 | 41,100 | 170,600 |
| Included in stock based compensation | 13,500 | -- | 13,500 |
| Included in stockholder's equity | 556,200 | 137,700 | 693,930 |
| Balance December 31, 2011 | 446,400 | 68,800 | 515,200 |
| Included in (income) expense | (537,700) | (460,600) | (998,300) |
| Included in liabilities | 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 December 31, 2012 | \$ 39,100 | \$ 224,200 | \$ 263,300 |

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, 2012 and 2011.

PureSafe Water Systems, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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.

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 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 convertible debenture agreements and at fair value as of each subsequent balance sheet date. As a result of entering into the convertible promissory notes, the Company was required to classify 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. 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.

Reclassifications certain accounts in the prior year’s financial statements have been reclassified for comparative purposes to conform with the presentation in the current year’s financial statements. These reclassifications have no effect on previously reported earnings.

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.

Recent Accounting Pronouncements

The FASB, the Emerging Issues Task Force and the SEC have issued certain accounting standards updates and regulations as of December 31, 2012 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 2012 or 2011 , and it 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 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2012 and 2011:

| | 2012 | 2011 |
|-----------------------|-----------|------------|
| Leasehold improvement | \$ 74,945 | \$ 149,700 |

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| | | |
|---|-----------|------------|
| Furniture and fixtures | 49,265 | 49,265 |
| Equipment | 89,514 | 89,513 |
| | 213,724 | 288,478 |
| Accumulated depreciation and amortization | (164,710) | (151,760) |
| Property and equipment, net | \$ 49,014 | \$ 136,718 |

Depreciation and amortization expense was approximately \$53,000 and \$83,300 for the years ended December 31, 2012 and 2011, respectively.

PureSafe Water Systems, Inc. and Subsidiary
Notes to Consolidated Financial Statements

NOTE 5 - PATENTS AND TRADEMARKS

Patents and trademarks as of December 31, 2012 and 2011 consist of the following:

| | 2012 | 2011 |
|-----------------------------|-----------|-----------|
| Patents | \$ 97,164 | \$ 97,164 |
| Trademarks | 2,720 | 2,720 |
| Total cost | 99,884 | 99,884 |
| Accumulated amortization | (41,816) | (35,712) |
| Patents and trademarks, net | \$ 58,068 | \$ 64,712 |

Amortization expense for the years ended December 31, 2012 and 2011 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, | |
|-------------------------|-----------|
| 2013 | \$ 6,100 |
| 2014 | 6,100 |
| 2015 | 6,100 |
| 2016 | 6,100 |
| 2017 | 6,100 |
| 2018 and thereafter | 27,568 |
| | \$ 58,068 |

NOTE 6 – INVENTORIES

Inventories consist of the following at December 31, 2012 and 2011,

| | 2012 | 2011 |
|----------------|------------|------------|
| Raw materials | \$ 43,684 | \$ 347,183 |
| WIP | -- | 120,910 |
| Finished Goods | 279,034 | -- |
| Total | \$ 322,718 | \$ 468,093 |

The allowance for technological obsolescence was \$0 at December 31, 2012 and 2011, respectively.

NOTE 7 – CONVERTIBLE NOTES AND NOTES PAYABLE – Officers & Director

Convertible notes and notes payable – Officers & Director and accrued interest at December 31, 2012 and 2011 consists of the following:

| | December 31, 2012 | 2011 |
|--|----------------------|------------|
| | 406,682 (a) | 368,134(a) |
| | 208,322 (b) | 201,206(b) |
| | 57,260 (c) | 60,517(c) |

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| | | |
|------------------------|------------|------------|
| | 71,490 (d) | 85,732(x) |
| | 42,378 (e) | 40,344(x) |
| | 25,000 (f) | |
| | | |
| Total | 811,132 | 755,933 |
| Less long-term portion | -- | -- |
| Less debt discount | | (12,623) |
| Current Portion | \$ 811,132 | \$ 743,310 |

PureSafe Water Systems, Inc. and Subsidiary

Notes to Consolidated Financial Statements

- (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, 2012 and 2011, the Company is reflecting a liability of \$406,682 and 368,134 which includes \$119,682 and \$81,134 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 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, 2012, and 2011, the Company is reflecting a liability of \$208,322 and \$201,206 which includes \$8,322 and \$1,206 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 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.

As of December 31, 2012, and 2011, the Company is reflecting a liability of \$57,260 and \$60,517 which includes \$3,260 and \$517 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 principal. As of December 31, 2012, and 2011, the Company is reflecting a liability of \$71,490 and \$85,732 which includes \$4,490 and \$517 accrued interest, respectively and the Company is not compliant with the repayment terms.

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- (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, 2012 and 2011, the Company is reflecting a liability of \$42,378 and \$40,344 which includes \$2,378 and \$344 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, 2012, the Company is reflecting a liability of \$25,000. The Company is not compliant with the repayment terms.

NOTE 8 – PROMISSORY NOTES PAYABLE

Notes payable and accrued interest at December 31, 2012 and 2011 consists of the following:

| | December 31, | |
|------------------------|----------------|----------------|
| | 2012 | 2011 |
| | \$ 15,221(a) | \$ 21,007(a) |
| | 75,000(b) | 75,000(b) |
| | 237,006(c) | 228,152(c) |
| | 165,628(d) | 188,064(d) |
| | 222,170(e) | 200,264(e) |
| | --(f) | 140,978(f) |
| Total | 715,025 | 853,465 |
| Less long-term portion | (8,196) | (15,200) |
| Current Portion | 706,829 | 838,265 |

- (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%. As of December 31, 2012, the Company is reflecting \$15,221, as the unpaid principal.

The maturities of this note over the next three years are as follows:

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For the Years Ending December 31,

| | | |
|-------|----|--------|
| 2013 | \$ | 6,370 |
| 2014 | | 6,968 |
| 2015 | | 1,883 |
| Total | \$ | 15,221 |

- (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.

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Under the advice of then outside counsel, the Company sent inquiries to various parties claiming an interest in the note and shares. The Company has not received a response from any of the parties contacted. In December 2009, the Company issued the remaining 1,250,000 shares to the note holder and recognized a gain on settlement of debt of approximately \$203,000. The shares are currently held in an outside attorney's escrow account for the benefit of the legal owner of the note. At December 31, 2012 and 2011, the Company is reflecting a liability of \$75,000, which represents the unpaid settlement payment.

- (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 \$237,006 and \$228,152 include principal of \$83,222 and accrued and unpaid interest of \$153,784 and \$144,930 as of December 31, 2012 and 2011, respectively. No demands for repayment have been made by the note holders. As of December 31, 2012, 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, 2012 and 2011, the Company is reflecting a liability of \$165,628 and \$188,064 which includes accrued interest of \$59,004 and \$41,440, respectively. As of December 31, 2012 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 \$45,337.11 principal which consist \$20,000 cash payment and \$25,337 in issuing 8,774,761 shares of common stock.

As of December 31, 2012 and 2011, the Company is reflecting a liability of \$222,170 and \$200,264 which includes accrued interest of \$7,507 and \$3,174, respectively. As of December 31, 2012 the Company is not compliant with the repayment term of one 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.

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NOTE 9 - CONVERTIBLE PROMISSORY NOTES PAYABLE

Convertible promissory notes payable and accrued interest at December 31, 2012 and 2011 consists of the following:

| | December 31, | |
|------------------------|------------------|-------------------|
| | 2012 | 2011 |
| | \$ 1,191,716(a) | 899,819(a) |
| | | -(b) 129,110(b) |
| Total | 1,191,716 | 1,028,929 |
| Less Debt discount | (80,606) | (39,923) |
| Current Portion | 1,111,110 | \$ 989,006 |

- (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 is 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% to 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 noteholder 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.

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.

As of December 31, 2012, the Company is reflecting liabilities of \$1,111,110 including accrued interest of \$141,564 and the Company is not in compliance with the repayment terms with certain notes and is currently in technical default.

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(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.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Operating Leases

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 requested in the amount of \$ 141,721.

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

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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 June 28, 2012, the Company signed a lease renewal agreement to extend our lease at 160 Dupont Street for another three years. The minimum annual lease payments due under this lease are as follows:

| Year ending | Amount |
|-------------|------------|
| 2013 | \$ 134,160 |
| 2014 | 138,184 |
| 2015 | 70,114 |
| | \$ 342,458 |

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Rent and rent related expenses, excluding repair and maintenance, during the years ended December 31, 2012 and 2011 was approximately \$263,116 and \$267,971 which includes repair and maintenance expenses of \$8,426 and \$11,062, respectively.

Litigation

The Company is a defendant in a suit in the Supreme Court of the State of New York, County of Nassau, filed by Fairchild Warehouse Associates, LLC, as plaintiff, for recovery of past rental payments for the Company's former office space at 25 Fairchild Avenue, Plainview, N.Y. 11803, with money damages requested in the amount of \$ 141,721. As of December 31, 2012 the Company has accrued \$141,721 for this contingency.

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, by Levin Consulting Group LLC, as plaintiff, where the plaintiff is claiming that additional shares of the Company's common stock are issuable by the Company to plaintiff in connection with the exercise by plaintiff of a common stock purchase warrant issued by the Company. As of December 31, 2012. The Company has not accrued any amount for this contingency as it cannot predict the outcome or amounts for this contingency.

In addition to the above, the Company may be involved in legal proceedings in the ordinary course of business. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance.

NOTE 11 - COMMON STOCK ISSUED

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.

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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.

During the year ended December 31, 2011, the Company recorded the following transactions:

Debt

During the year ended December 31, 2011, the Company issued a total of 2,539,747 shares of common stock upon the requests from multiple convertible note holders to convert their notes plus accrued interest totaling \$139,097 into the Company's common stock based on the terms set forth in the loan. The conversion rates were from \$0.053 to \$0.056.

On January 25, 2011, the Company issued 86,670 shares of common stock to a former consultant in settlement of accrued compensation of \$11,440 pursuant to the settlement agreement the Company entered with the consultant on December 29, 2010.

Cash

Through Equity Financing:

During the year ended December 31, 2011, for gross proceeds of \$442,000 the Company sold an aggregate of 5,119,065 shares of common stock and warrants to purchase additional 1,244,336 shares of common stock at exercise prices from \$0.06 to \$0.1740. The warrants have a term of three years and were fully vested on the grant date.

Through Warrant Exercise:

During the year ended December 31, 2011, the Company received gross proceeds of \$236,420 through warrant exercise. The Company issued an aggregate of 4,966,244 shares of common stock in connection with the warrant exercises.

Services

On January 13, 2011, the Company issued a total of 452,900 shares of common stock to its five directors, including shares issued to the Chief Executive Officer and Chief Financial Officer, each of which received 90,580 shares for their first quarter of 2011 director fees. The issuance is part of the annual compensation that was authorized by the Company's Board of Directors on May 26, 2010, when the Board approved the annual director fees to be \$50,000, paid in shares of common stock. The Company incurred stock-based compensation of \$62,500 in connection with the January 2011 issuance.

On January 27, 2011, the Company issued an aggregate of 325,000 shares of common stock to multiple employee and contractors per grant that was approved by the Company's Board of Directors on January 24, 2011. The shares were fully vested on the date of the grant and accordingly, Company recorded \$44,525 of stock-based compensation in connection with this issuance.

On March 9, 2011, the Company issued 2,000,000 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 21, 2011. The shares were fully vested on the date of the grant and accordingly, the Company recorded \$270,000 of stock-based compensation in connection with this issuance.

On March 21, 2011, the Company issued 2,000,000 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 21, 2011. The shares were fully vested on the date of the grant and accordingly, the Company recorded \$270,000 of stock-based compensation in connection with this issuance.

On April 28, 2011, the Company issued a total of 558,035 shares of common stock to its five directors, including shares issued to the Chief Executive Officer and Chief Financial Officer, each of which received 111,607 shares for their second quarter of 2011 director fees. The issuance is part of the annual compensation that was authorized by the Company's Board of Directors on May 26, 2010, when the Board approved the annual director fees to be \$50,000, paid in shares of common stock. The Company incurred stock-based compensation of \$62,500 in connection with the April 2011 issuance.

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On July 11, 2011, the Company issued a total of 946,970 shares of common stock to its five directors, including shares issued to the Chief Executive Officer and Chief Financial Officer, each of which received 189,394 shares for their third quarter of 2011 director fees. The issuance is part of the annual compensation that was authorized by the Company's Board of Directors on May 26, 2010, when the Board approved the annual director fees to be \$50,000, paid in shares of common stock. The Company incurred stock-based compensation of \$62,500 in connection with the July 2011 issuance.

On August 23, 2011, the Company issued 2,000,000 shares of common stock, 1,000,000 shares each to the Company's Chief Executive Officer and Chief Financial Officer per grant that was approved by the Company's Board of Directors on January 21, 2011. The shares were fully vested on the date of the grant and accordingly, the Company recorded \$138,000 of stock-based compensation in connection with this issuance.

On October 10, 2011, the Company issued a total of 367,647 shares of common stock to its three directors, including shares issued to the Chief Executive Officer and Chief Financial Officer, each of which received 122,549 shares for their fourth quarter of 2011 director fees. The issuance is part of the annual compensation that was authorized by the Company's Board of Directors on May 26, 2010, when the Board approved the annual director fees to be \$50,000, paid in shares of common stock. The Company incurred stock-based compensation of \$37,500 in connection with the October 2011 issuance.

Warrant Modification

During the nine months ended September 30, 2011 the Company extended the life of 2,588,478 of warrants to purchase common stock. Accordingly, the Company accounted for the transaction as a modification of a stock based compensation award under ASC 718. The Company recorded a charge of \$85,700 for stock based compensation with respect to the modification of the original award.

NOTE 12 – 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, 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 | \$ 53 | \$ 52,500 | \$ 937,600 | \$ 17.86 | \$ 1,462,600 |
| Series B | 51 | 51 | -- | -- | -- | -- | -- |
| Series D | 2,000,000 | 93,000 | 93 | 55,800 | 919,800 | 9.89 | 1,454,550 |
| Series F | 1,000,000 | 38,644 | 39 | -- | 190,328 | -- | -- |
| | | 184,195 | \$ 185 | \$ 108,300 | \$ 2,047,728 | | \$ 2,917,150 |

At December 31, 2011 outstanding preferred stock consists of the following:

| Authorized | Outstanding | Par | Dividend |
|------------|-------------|-----|----------|
|------------|-------------|-----|----------|

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| | Shares | Shares | Value | Current Annual Dividend Requirement | Total Dividend Arrearage | Arrearage Per Share | Liquidation Preference (Including Dividend Arrearage) |
|----------|-----------|---------|--------|--|--------------------------------|------------------------|---|
| Series A | 400,000 | 52,500 | \$ 53 | \$ 52,500 | \$ 885,100 | \$ 16.86 | \$ 1,410,100 |
| Series D | 2,000,000 | 93,000 | 93 | 55,800 | 864,000 | 9.29 | 1,398,750 |
| Series F | 1,000,000 | 38,644 | 39 | -- | 190,328 | -- | -- |
| | | 184,144 | \$ 185 | \$ 108,300 | \$ 1,939,428 | | \$ 2,808,850 |

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Series A

The Series A preferred stock provides for a 10% cumulative dividend, based on the \$10.00 per share purchase price, payable annually in common stock or cash, at the Company's option. The Series A preferred stock is not convertible, and is redeemable solely at the Company's option at a price of \$11.00 per share plus accrued dividends. The Series A preferred stockholders have voting rights equal to common stockholders. In the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, holders of the Series A preferred stock are entitled to receive out of the assets of the Company the sum of \$10.00 per share of Series A preferred stock then outstanding, plus a sum equal to all dividends (whether or not earned or declared) on such shares accrued and unpaid thereon to the date of final payment or distribution, before any payment or distribution upon dissolution, liquidation or winding up shall be made on any series or class of capital stock ranking junior to Series A preferred stock as to such payment or distribution.

Series B

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 carries no conversion provisions.

Each share of Series B Preferred has voting rights equal to (x) 0.019607 multiplied by the total issued and outstanding Common Stock eligible to vote at the time of the respective vote (the "Numerator"), divided by (y) 0.49, minus (z) the Numerator entitling the holder to an aggregate 51% voting control. The Company issued 51 shares of the Series B to the Chief Executive Officer. The fair value of the shares on the date of issuance was determined to be de minimus. Subsequent to December 31, 2012 the shares were returned by the holder to the Company for no consideration and the Board of Directors approved the filing of a certificate with the State of Delaware cancelling the Series B Preferred Stock.

Series D

The Series D preferred stock provides for a 12% cumulative dividend, based on the \$5.00 per share purchase price, payable semi-annually in common stock or cash, at the Company's option. The Series D preferred stock is not convertible, and is redeemable solely at the Company's option at a price of \$5.75 per share plus accrued dividends. The Series D Preferred stockholders have voting rights equal to the common stockholders. In the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, holders of the Series D preferred stock are entitled to receive out of the assets of the Company the sum of all dividends (whether or not earned or declared) on such shares accrued and unpaid thereon to the date of final payment or distribution, before any payment or distribution upon dissolution, liquidation or winding up shall be made on any series or class of capital stock ranking junior to Series D preferred stock as to such payment or distribution.

Series F

The Series F 10% convertible preferred stock is a two-year convertible preferred instrument. All dividends are cumulative and are payable in shares of common stock valued at the then current market price per share, at the time of maturity, or upon conversion, whichever is earlier. The conversion rate for shares and accrued dividends payable is 40 shares of common stock for each share of preferred stock. The Series F convertible preferred stockholders have voting rights equal to the common stockholders. The Series F convertible preferred stock has no stated rights in the assets of

the Company upon liquidation. In connection with Series F Preferred Stock conversions, the Company recorded dividends of \$0 and \$0 for each of the years ended December 31, 2012 and 2011, respectively.

NOTE 13 – STOCK WARRANTS

The following warrants were issued by the Company in connection with Convertible Promissory Notes:

| | |
|----------------------------------|-----------|
| The year ended December 31, 2011 | 3,128,496 |
| The year ended December 31, 2012 | 1,933,333 |

The following warrants were issued by the Company in connection with various employment and compensation agreements:

| | |
|----------------------------------|------------|
| The year ended December 31, 2011 | 3,600,000 |
| The year ended December 31, 2012 | 43,746,410 |

PureSafe Water Systems, Inc. and Subsidiary

Notes to Consolidated Financial Statements

The following warrants were issued by the Company in connection with equity private placements:

| | |
|----------------------------------|------------|
| The year ended December 31, 2011 | 1,244,336 |
| The year ended December 31, 2012 | 13,853,721 |

The following warrants were exercised:

| | |
|----------------------------------|-----------|
| The year ended December 31, 2011 | 4,966,244 |
| The year ended December 31, 2012 | - |

The following warrants were expired:

| | |
|----------------------------------|-----------|
| The year ended December 31, 2011 | 2,446,573 |
| The year ended December 31, 2012 | 1,402,058 |

The following tables sets forth information concerning the Company's warrant issuances and warrant balances outstanding as of, and during the years ended December 31, 2012 and 2011:

| | Shares Underlying Warrants | Weighted Average Exercise Price | Intrinsic Value |
|----------------------------------|----------------------------------|--|--------------------|
| Outstanding at December 31, 2010 | 26,960,982 | \$ 0.09 | \$ -- |
| Granted | 7,972,832 | 0.10 | -- |
| Expired | (2,446,573) | 0.08 | -- |
| Exercised | (4,966,244) | 0.06 | -- |
| Outstanding at December 31, 2011 | 27,520,997 | 0.06 | -- |
| Granted | 59,533,464 | 0.01 | -- |
| Expired | (1,402,058) | 0.05 | -- |
| Exercised | -- | -- | -- |
| Outstanding at December 31, 2012 | 85,652,453 | \$ 0.03 | -- |

The following is additional information with respect to the Company's warrants as of December 31, 2012:

| Number of Options | Range of Exercise Price | Weighted Average Remaining Contractual Life (In Years) | Average Exercise Price | Currently Exercisable |
|----------------------|-------------------------|---|------------------------------|--------------------------|
| 45,360,037 | \$0.00352-\$0.0084 | 4.47 | \$ 0.0057 | 45,360,037 |
| 36,147,521 | \$0.0108-\$0.0964 | 2.2 | \$ 0.0426 | 36,147,521 |
| 3,904,375 | \$0.1-\$0.186 | 3.15 | \$ 0.12 | 3,904,375 |
| 240,470 | \$0.2388-\$0.84 | 1.04 | \$ 0.4204 | 240,470 |

85,652,403

85,652,453

NOTE 14 - RELATED PARTY TRANSACTIONS

- (a) In each of 2012 and 2011, a firm in which the Company's Chief Financial Officer held fifty percent equity position was retained to prepare the Company's income tax and other returns. During the years ended December 31, 2012 and 2011, the Company incurred fees totaling \$5,306 and \$9,373, respectively, with respect to such services rendered.
- (b) On January 13, 2011, the Company issued a total of 452,900 shares of common stock to its five directors, including shares issued to the Chief Executive Officer and Chief Financial Officer, each of which received 90,580 shares for their first quarter of 2011 director fees. The issuance is part of the annual compensation that was authorized by the Company's Board of Directors on May 26, 2010, when the Board approved the annual director fees to be \$50,000, paid in shares of common stock. The Company incurred stock-based compensation of \$62,500 in connection with the January 2011 issuance.

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- (c) On March 9, 2011, the Company issued 2,000,000 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 21, 2011. The shares were fully vested on the date of the grant and accordingly, the Company recorded \$270,000 of stock-based compensation in connection with this issuance.
- (d) On March 21, 2011, the Company issued 2,000,000 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 21, 2011. The shares were fully vested on the date of the grant and accordingly, the Company recorded \$270,000 of stock-based compensation in connection with this issuance.
- (f) On February 7, 2011, the Company's Chief Executive Officer and the Company's 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.

As of December 31, 2012, and 2011, the Company is reflecting a liability of \$57,260 (principal balance) and \$60,517 (principal balance) which includes \$3,260 and \$517 accrued interest, respectively and the Company is not compliant with the repayment terms.

- (g) 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 principal. As of December 31, 2012, and 2011, the Company is reflecting a liability of \$71,490 (principal balance) and \$60,517 (principal balance) which includes \$4,490 and \$517 accrued interest, respectively and the Company is not compliant with the repayment terms.

- (h) 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.

Total principal payable including accrued interests as of December 31, 2012 was \$42,378.

- (i) On January 1, 2012, the Company issued a total of 1,077,585 warrants to purchase common stock to its five directors, including warrants issued to the Chief Executive Officer and Chief Financial Officer, each of which received 215,517 warrants for their first quarter of 2012 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 to replace directors annual compensation of \$50,000 with three year warrants payable quarterly. The Company recorded \$42,000 stock-based compensation in connection with this issuance.

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- (j) On January 23, 2012, the Company issued 1,000,000 shares of common stock to each of the Company's Chief Executive Officer and Chief Financial Officer per grants that were approved by the Company's Board of directors on January 11, 2012. The shares were fully vested on the date of the grants and accordingly, the Company recorded \$130,000 of stock-based compensation in connection with this issuance.
- (k) On April 2, 2012, the Company issued a total of 1,302,085 warrants to purchase common stock to its five directors, including warrants issued to the Chief Executive Officer and Chief Financial Officer, each of which received 260,417 warrants for their second quarter of 2012 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 to replace directors annual compensation of \$50,000 with three year warrants payable quarterly. The Company recorded \$33,200 stock-based compensation in connection with this issuance.
- (l) On June 21, 2012, the Company repaid \$3,000 principal to Company's Chief Executive Officer for loans payable to her.
- (m) In 2012, the Company repaid \$21,000 principal to Company's Chief Financial officer for loans payable to him.
- (n) On July 2, 2012, the Company issued a total of 1,470,588 warrants to purchase common stock to its four directors, including warrants issued to the Chief Executive Officer and Chief Financial Officer, each of which received 367,647 warrants for their third quarter of 2012 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 to replace directors annual compensation of \$50,000 with three year warrants payable quarterly. The Company recorded \$12,400 stock-based compensation in connection with this issuance.
- (o) On August 7, 2012 the Company issued, by unanimous Board consent, 51 shares of Series B Preferred stock to the Company's Chief Executive Officer. Each share of Series B Preferred Shares has voting rights equal to (x) 0.019607 multiplied by the total issued and outstanding Common Stock eligible to vote at the time of the respective vote (the "Numerator") divided by (y) 0.49, minus (z) the Numerator. On August 14, 2012 a Schedule 14C Information Statement was filed with the SEC reflecting increase the authorized Common Shares of the Company from 450,000,000 to 800,000,000 authorized by the Company's Chief Executive Officer who exercised her voting right as the Company's Series B shareholder. Subsequent to December 31, 2012 the shares were returned by the holder to the Company for no consideration, and the Board of Directors approved the filing of a certificate with the State of Delaware cancelling the Series B Preferred Stock.
- (p) On October 25, 2012, the Board of Directors of the Company approved the awards to grant warrants to the following:
- i.) 15,000,000 warrants to the Chief Executive Officer at the exercise price of \$0.006. The warrants contain cash-less clause and have term of 5 years,
 - ii.) 15,000,000 warrants to the Chief Financial Officer at the exercise price of \$0.006. The warrants contain cash-less clause and have term of 5 years,
 - iii.) 3,000,000 warrants to the Chief Operating Officer at the exercise price of \$0.006. The warrants contain cash-less clause and have term of 5 years,
 - iv.) 1,500,000 warrants to each of the two independent directors at the exercise price of \$0.006. The warrants contain cash-less clause and have term of 5 years.

The Company recorded \$175,000 stock-based compensation in connection with this issuance.

- (q) On November 5, 2012, 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 fourth quarter of 2012 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 to replace directors annual compensation of \$50,000 with three year warrants payable quarterly. The Company recorded \$20,400 stock-based compensation in connection with this issuance.

PureSafe Water Systems, Inc. and Subsidiary
Notes to Consolidated Financial Statements

NOTE 15 - INCOME TAXES

The income tax provision (benefit) consists of the following:

| | December 31, 2012 | 2011 |
|--------------------------------|----------------------|-----------|
| Federal | | |
| Current | - | - |
| Deferred | (1,009,700) | 539,500 |
| State and local | | |
| Current | | |
| Deferred | (260,300) | (90,500) |
| Change in valuation allowance | 1,270,000 | (630,000) |
| Income tax provision (benefit) | - | - |

The reconciliation between the statutory federal income tax rate (34%) and the Company's effective rate for the year ended December 31, 2012 and 2011 is as follows:

| | 2012 | 2011 |
|---|---------|---------|
| U.S. Federal statutory rate | (34.0)% | (34.0)% |
| State tax benefit, net of federal tax | (5.7) | (5.7) |
| Non-deductible Stock based compensation | -- | 13.6 |
| Other permanent differences | 1.5 | (1.3) |
| Deferred tax asset adjustment | (7.8) | 45.7 |
| Change in valuation allowance | 46.0 | (18.3) |
| Income tax provision (Benefit) | 0.0% | 0.0% |

As of December 31, 2012 and 2011 the deferred tax asset consisted of the following:

| | 2012 | 2011 |
|--|---------------|---------------|
| Deferred Tax Asset | | |
| Net operating loss carryovers | \$ 10,393,700 | \$ 11,174,000 |
| Stock-based compensation | 1,230,500 | -- |
| Derivative liability | 32,000 | -- |
| Convertible debt | (32,000) | -- |
| Fixed asset depreciation | 57,800 | -- |
| Contributions carryover | 100 | -- |
| Accrued compensation | 309,100 | 83,000 |
| Deferred rent | 2,800 | 13,000 |
| Total deferred tax asset | 12,540,000 | 11,270,000 |
| Valuation allowance | (12,540,000) | (11,270,000) |
| Deferred tax asset, net of valuation allowance | -- | -- |

As of December 31, 2012 and 2011, the Company had approximately \$27.6 million and \$26.1 million, respectively, of U.S. federal and state net operating loss carryovers available to offset future taxable income. These net operating losses which, if not utilized, begin expiring between the years 2013 through 2032. In accordance with Section 382 of the Internal Revenue Code, deductibility of the Company's net operating loss carry over may be subject to an annual

limitation in the event of a change of control. The Company performed a preliminary evaluation as to whether a change of control, as defined under the regulations has taken place, and concluded that no change of control has occurred to date.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences representing net future deductible amounts become deductible. ASC 740 - "Income Taxes" requires that a valuation allowance be established when it is "more likely than not" that all, or a portion of, deferred tax assets will not be realized. A review of all available positive and negative evidence needs to be considered, including a company's performance, the market environment in which the company operates the length of carryback and carryforward periods, and expectations of future profits, etc. Management believes that significant uncertainty exists with respect to future realization of the deferred tax assets and has therefore established a full valuation allowance as of December 31, 2012 and December 31, 2011. For the year ended December 31, 2012 and 2011 the change in deferred tax asset valuation allowance was \$1,270,000 and \$(630,000), respectively.

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

Interest costs related to unrecognized tax benefits are required to be calculated (if applicable) and would be classified as "Interest expense, net" in the statements of operation. Penalties would be recognized as a component of "General and administrative expenses."

No interest or penalties were recorded during the years ended December 31, 2012 and December 31, 2011 respectively. As of December 31, 2012 and December 31, 2011 no liability for unrecognized tax benefits was required to be reported. The Company does not expect any significant changes in its unrecognized tax benefits in the next year.

The Company files tax returns in U.S. federal and various state jurisdictions and are subject to audit by tax authorities beginning with the year ended December 31, 2009. The Company is subject to certain state and local taxes based on capital. The state and local taxes based on capital were immaterial for each of the years ended December 31, 2012 and 2011.

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Notes to Consolidated Financial Statements

NOTE 16 – SUBSCRIPTIONS RECEIVABLE

In April 2008, a consultant for the Company, entered into Stock Purchase, Loan and Security Agreements with the Company. Under the agreements, the Company loaned the individual \$337,200. The obligations to repay the loans were evidenced by non-recourse promissory note. The note called for interest at a rate of 6% per annum and matured on April 16, 2011, at which time there was a three year extension granted. The loaned funds were to be used exclusively for the purchase of 4 million shares of the the Company's Common Stock. The stock is being held as collateral for the repayment of the loan. The purchase price of the stock was based on the average closing price of the Common Stock during the 30 trading days immediately preceding the date of the April 2008 agreements which equaled \$0.0843.

NOTE 17 - CREDIT RISK

The Company maintains its checking and money market accounts in banks. Accounts at each bank are insured by the Federal Deposit Insurance Corporation ("FDIC"). At times, cash and cash equivalents may be uninsured or in deposit accounts that exceed the FDIC insurance limit.

Periodically, the Company evaluates the credit worthiness of the financial institutions and has determined the credit exposure to be negligible.

NOTE 18 – SUBSEQUENT EVENTS

(a) On January 24, 2013, the Company signed an Engineering Package Agreement ("ETG Agreement") with ETG/Engineering Technologies Group, Inc. ("ETG"), Hopkinton, Massachusetts, for ETG to provide detailed electronic engineering drawings and purchase specifications for the Company's water purification and filtration product, an engineering package to facilitate the outsourcing of the assembly, sub-assembly and manufacturing of our product.

On March 14, 2013, per the terms of such agreement, the Company issued 25,000,000 shares of common stock to a consultant. The Company recorded \$150,000 consultant fee in connection with such issuance.

(b) 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 GEM is, on an exclusive basis, responsible for promoting and selling the Company's products at their cost and expense. GEM will sell and market the products under a dba entitled PureSafe Water Systems Sales, and all products will be sold under the Company's brand name. GEM will sell and market our products to end users worldwide and will receive a discount from the list prices of the Company's products in connection with sales to its dealers, distributors, representatives and resellers. Under the Distribution Agreement, the Company remains responsible for the design and manufacturing of the Company's products. The initial term of the Distribution Agreement is five years, renewable for subsequent one year terms if neither party gives notice of termination.

(c) On April 4, 2013, the Company was served with a summons and complaint, filed with the Supreme Court of the State of New York, County of New York, by Levin Consulting Group LLC, as plaintiff, where the plaintiff is claiming that additional shares of the Company's Common Stock are issuable by the Company to plaintiff in connection with the exercise by plaintiff of a common stock purchase warrant issued by the Company.

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- (d) April 4, 2013, Shaul Kochan, Director of International Markets served notice of termination of his position with the Company.
- (e) From January 1, 2013 through April 11, 2013, for gross proceeds of \$403,240 the Company sold 90,116,743 shares of common stock and warrants to purchase an additional 61,767,144 shares of common stock at exercise price of \$0.0039 to \$0.017. The warrants have a term of three years.
- (f) 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 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 to replace directors annual compensation of \$50,000 with three year warrants payable quarterly. The Company recorded \$70,800 stock-based compensation in connection with this issuance.
- (g) On April 1, 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 to replace directors annual compensation of \$50,000 with three year warrants payable quarterly. The Company recorded \$27,600 stock-based compensation in connection with this issuance.
- (h) From January 1, 2013 through April 11, 2013, the Company raised \$25,000 through debt financing. The Company issued the 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 \$0.003. In addition the Company granted 1,666,667 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 \$0.0036.

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 proceed from the sale of this note was recorded net of a discount of \$13,600. The debt discount consisted of approximately \$8,000 related to the fair value of the embedded conversion option and approximately \$5,600 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.

On January 16, 2013, the lender requested to convert \$25,000 plus accrued interest into the Company's common stock. On February 4, 2013 the Company issued 13,245,616 shares in connection with such conversion.

- (i) On January 8, 2013, the Company received \$100,800 proceeds from an investor to purchase 7,200,000 shares of common stock and right to purchase additional 1,800,000 shares of common stock at an exercise price of \$0.0168 per share. As of January 12, the Company has not issue stock in connection with this investment and recorded the proceeds as stock receivable.
- (j) From January 1, 2013 through April 11, 2013, the Company issued additional 22,121,012 shares to the lender to repay \$112,397 debt.

(k) From January 1, 2013 through April 11, 2013, the Company issued a total of 51,945,757 shares of common stock upon the requests from note holders to convert partial principal plus accrued interest totaling \$69,980 into the Company's common stock based on the terms set forth in the loans. The conversion rates were from \$0.0009 to \$0.0027.

* Include Increase in Authorized Shares.

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- (l) On March 18, 2013, the Company issued to its Chief Executive Officer 15,000,000 shares of common stock and rights to purchase additional 15,000,000 shares of common stock at the exercise price of \$0.0033 per shares. The issuance was approved by the Company's Compensation Committee on February 11, 2013. The warrant has term of five year.

The Company recorded \$188,700 stock-based compensation which includes \$97,500 for the shares issuance and \$91,200 for the warrants granted.

- (m) On March 18, 2013, the Company issued to its Chief Financial Officer 10,000,000 shares of common stock and rights to purchase additional 10,000,000 shares of common stock at the exercise price of \$0.0033 per shares. The issuance was approved by the Company's Compensation Committee on February 11, 2013. The warrant has term of five year.

The Company recorded \$125,800 stock-based compensation which includes \$65,000 for the shares issuance and \$60,800 for the warrants granted.

- (n) On March 25, 2013, the Company issued 950,000 shares of common stock and rights to purchase additional 900,000 shares of common stock at the exercise price of \$0.0033 per shares to its employee. The issuance was approved by the Board of Directors on January 7, 2013. The warrant has term of five year.

The Company recorded \$6,200 stock-based compensation which includes \$2,400 for the shares issuance and \$3,800 for the warrants granted.

- (o) On March 25, 2013, the Company issued 1,250,000 shares of common stock and rights to purchase additional 250,000 shares of common stock at the exercise price of \$0.0033 per shares to multiple consultants. The issuance was approved by the Board of Directors on January 7, 2013. The warrant has term of five year.

The Company recorded \$5,900 stock-based compensation which includes \$900 for the shares issuance and \$5,000 for the warrants granted.

- (p) On April 5, 2013, the Company issued 21,509,222 shares to a consultant per the agreement the Company entered into on February 11, 2013. The Company recorded \$80,000 consultant fees in connection with such issuance.

- (q) Effective February 28, 2013, voted by the Series Preferred B shareholder, the Company increases the authorized Common Shares of the Company from 800,000,000 to 2,000,000,000. The Company filed a Schedule 14C Information Statement with SEC in connection with such increase.

- (r) On March 19, 2013, the Company issued 3,000,000 shares to an consultant for service received. The Company recorded \$27,000 consultant fees in connection with such issuance.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have each reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934), as of December 31, 2012. Based on such review and evaluation, our chief executive officer and chief financial officer have concluded that, as of December 31, 2012, our disclosure controls and procedures were not effective to ensure that information required to be disclosed by us in the reports that we file or submit to the Securities and Exchange Commission pursuant to the reporting obligations of the Exchange Act, including this Annual Report on Form 10-K, is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosures.

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

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and Rule 15d-15(f) of the Exchange Act. Internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States ("US GAAP"), including those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company,
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with US GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the company, and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become

inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

Under the supervision and with the participation of our management, we have assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, our management used the criteria described in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Due to the inherent issue of segregation of duties in a small company, we have relied heavily on entity or management review controls to lessen the issue of segregation of duties. Based on this assessment and those criteria, our management concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2012.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Our management identified the following material weaknesses as of December 31, 2012:

Entity Level. We recognize the need to provide leadership and guidance to our employees regarding the maintenance and preparation of financial matters. There is a weakness due to the fact that there are not documented policies and procedures in place for certain procedures. An audit committee has not been established.

Financial Reporting. There needs to be a more structured mechanism for evidence of review in the financial reporting process. The following procedures have been implemented since the beginning of 2009, (a) CFO signs and date all financial documents upon the completion of reviewing such documents, (b) all approval or permission will be evidenced by either email or in writing. No oral approval or permission is allowed, (c) General Journal is recorded only after CFO approves (in writing) such entry and (d) monthly bank reconciliations must complete within 15 days after month ends and reviewed by CFO 5 days after the completion of bank reconciliation.

Confidential Reporting Mechanism. We recognize that we need to provide leadership and guidance to our employees, clients and vendors regarding business ethics and professional conduct. A confidential reporting mechanism must be in place for anonymous reporting of a breach to these ethics that will enable prompt and thorough investigation. In January 2009, we implemented a whistleblower program. A toll-free number, as well as an email address, were posted on the homepage of our website to encourage our employee, contractors, sub-contractors, vendors to report any unethical or illegal behavior they suspect.

The entire staff consists of three officers, one Controller and one receptionist. Therefore, we have relied heavily on entity or management review controls to lessen the issue of segregation of duties. Upon receiving adequate financing the Company plans to increase its controls in these areas by hiring more experienced employees in financial reporting, establishing an audit committee and formally documenting the controls the Company has in place.

Attestation Report

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that permit us to provide only our management's annual report on internal control over financial reporting in this Form 10-K.

Changes in Internal Controls Over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter of our fiscal year ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Directors and Executive Officers

The following table sets forth the names and positions of our current executive officers and directors.

| Name | Age | Principal Positions and Offices with our Company | Director Since |
|----------------------|-----|--|----------------|
| Leslie J. Kessler | 65 | Chief Executive Officer and Chairman | 2007 |
| Terry R. Lazar | 69 | Chief Financial Officer and Director | 2007 |
| Gerard Stoehr | 59 | Chief Operating Officer | |
| Dr. Stephen E. Flynn | 53 | Director | 2011 |
| Theresa Bischoff | 60 | Director | 2013 |

Dr. Stephen R. Flynn was elected to our Board of Directors on December 6, 2011, and Theresa Bischoff was elected to the Board on January 7, 2013, to fill the vacancies in the Board.

Our directors are elected at our annual meeting of stockholders and serve for one year or until successors are elected and qualify. Our board of directors appoints our company's officers, and their terms of office are at the discretion of our board, except to the extent governed by an employment contract.

Set forth below is a brief description of the background of each of our current directors and executive officers, based on information provided to us by them.

Leslie J. Kessler was retained as our President in January 2007 and was appointed our Chief Executive Officer and elected as a member of our board of directors in February 2007. Since 1994, Ms. Kessler has served as President of LIK Capital, which specializes in consulting and assisting companies with financing their growth and development. In 1996, Ms. Kessler co-founded CPC of America, Inc., a development stage publicly-traded company developing cardiologic and other medical devices, where she served as corporate secretary and a director from 1996 to 1998. Ms. Kessler holds BA degrees in psychology and elementary education and an MA degree in elementary education from Hofstra University.

Terry Lazar was retained as our Chief Financial Officer in September 2007. At such time, he also was elected as a member of our board of directors. Mr. Lazar is a senior partner at the accounting firm Lazar Broder LLP, which was formed in 2009. Prior to the formation of Lazar Broder LLP, he was a senior partner of Lazar Sanders Thaler & Associates, LLP, an accounting firm founded in 1977. Mr. Lazar has served as a partner and the Chief Executive Officer of the Ambulatory Surgery Center of Brooklyn since 1987. Mr. Lazar is a certified public accountant and holds a BBA degree from the City University of New York.

Gerard Stoehr was appointed Chief Operating Officer of the Company effective January 1, 2011. Prior to his position with the Company, from September 1, 2007 through 2010, Mr. Stoehr was president of Hudson Rail Products and Services, Long Island City, New York, which provides technical and administrative support for warranty, modifications and general field services for car builders, system suppliers and transit authorities. Prior thereto, from August 1, 2004, Mr. Stoehr was General Manager – Customer Services for Bombardier Transportation, Long Island City, New York, in charge of customer acceptance and warranty support for all passenger trains delivered in North America by Bombardier. From 1999 through 2004, Mr. Stoehr was Vice President & General Manager –Business Jet Group-Holbrook operations, for the B/E Aerospace manufacturing operations, Wellington, Florida.

Mr. Stoehr received his Degree in Business Administration from the New York University Stern School of Business in 1989.

Dr. Stephen E. Flynn was elected to our Board of Directors on December 6, 2011. Dr. Flynn, from 2002 to the present, has been the principal for Stephen E. Flynn Associates LLC, where he provides independent advisory services on improving enterprise resiliency and critical infrastructure protection, and transportation and maritime security. He also has served as Senior Security Advisor for Dowley Security Systems. In January 2010, Dr. Stephen Flynn became the sixth President of the Center for National Policy, founded in 1981. He has focused the work of the Center on informing and advancing societal and infrastructure resilience and led the effort to organize the Washington DC Summit to mark the Tenth Anniversary of the 9/11 Attacks. Prior to being selected to lead the Center, he spent a decade as a senior fellow for National Security Studies at the Council on Foreign Relations.

Dr. Flynn is the author of the critically acclaimed *The Edge of Disaster: Rebuilding a Resilient Nation* (Random House, 2007). and the national bestseller, *America the Vulnerable* (HarperCollins 2004). He is a Senior Research Fellow at the Wharton School's Risk Management and Decision Processes Center at the University of Pennsylvania. Since 9/11 he has provided testimony on twenty-six occasions on Capitol Hill. Dr. Flynn is one of the world's leading experts on maritime and transportation security issues. Prior to September 11, 2001, he served as an expert advisor to U.S. Commission on National Security (Hart-Rudman Commission), and following the 9/11 attacks he was the principal advisor to the bipartisan Congressional Pool Security Caucus. and advised the Bush Administration on maritime and homeland security issues. He currently serves as a member of the bipartisan National Security Preparedness Group. co-chaired by former 9/11 commissioners, Governor Tom Kean and Congressman Lee Hamilton.

He is a frequent media commentator and has appeared on Meet the Press, 60 Minutes. The News Hour with Jim Lehrer. The Today Show. the Charlie Rose Show, CNN and on National Public Radio. Five of his articles have been published in the journal *Foreign Affairs*. Excerpts of his books have been featured in *Time*, as the cover story for *U.S. News & World Report*, and as the subject of two CNN documentaries.

A 1982 graduate of the U.S. Coast Guard Academy, Dr. Flynn served in the Coast Guard on active duty for 20 years, including two tours as commanding officer at sea, received several professional awards including the Legion of Merit. and retired at the rank of Commander. As a Coast Guard officer, he served in the White House Military Office during the George H.W. Bush administration and as a director for Global Issues on the National Security Council staff during the Clinton administration.

Dr. Flynn received the M.A.L.D. and Ph.D. degrees in International Politics from the Fletcher School of Law and Diplomacy, Tufts University, in 1990 and 1991. He was a Consulting Professor at the Center of International Security and Cooperation at Stanford University from 2006-2010. He was a Guest Scholar in the Foreign Policy Studies Program at the Brookings Institution from 1991-92, and in 1993-94 he was an Annenberg Scholar-in-Residence at the University of Pennsylvania. In 2009, he received an honorary doctorate of laws from Monmouth University,

Theresa Bischoff, age 60, was elected to our Board of Directors on January 7, 2013, and since September 2010 has been a Partner with RC Consulting, focused on strategic consulting for health care and other not for profit organizations. Previously from January 2004 to September 2010, she served as Chief Executive Officer of the American Red Cross in Greater New York, the largest chapter in the country, covering the five boroughs of New York City as well as Putnam, Rockland, Orange and Sullivan Counties. As a disaster response and preparedness organization providing immediate humanitarian support, it serves more than 9 million people in the Greater New York area. A staff of 140 employees working in partnership with over 7,300 adult and 700 youth volunteers help more than 200,000 New Yorkers annually who have been affected by fires, blizzards, floods, blackouts and other emergencies, responding to seven disasters or emergencies a day. The Chapter also trains 130,000 New Yorkers in preparedness and life saving skills each year. In July 2007, Ms. Bischoff was also given oversight responsibilities for the Red Cross Chapters in Westchester, Nassau, Suffolk, Shelter Island and Greenwich, Connecticut. Previously, she was at NYU Medical Center from 1984 to 2004 where she served as President for the last six years of her tenure. An advocate of healthcare on the national, state and local levels, she has held many other positions including: Chair of the Greater New York Hospital Association and Chair of the Association of American Medical Colleges which represents 125 accredited medical schools and 400 major teaching hospitals. She serves on the Board of Mutual of America Capital Management Corporation, Israel Discount Bank of New York and Vice Chair of the New York State Commission on National and Community Service. She is also an active American Red Cross disaster response volunteer. Ms. Bischoff is a graduate of the University of Connecticut where she earned a B.S. in Accounting. She also holds an MBA from New York University's Stern School of Business and is a CPA.

Section 16(a) Compliance by Officers and Directors

Based solely upon a review of Forms 3, 4 and 5 and amendments to these forms furnished to us, together with written representations received by us from applicable parties that no Form 5 was required to be filed by such parties, all parties subject to the reporting requirements of Section 16(a) of the Exchange Act filed all such required reports during and with respect to our fiscal year ended December 31, 2012, with the following exceptions:

On January 26, 2012, John Gibb and Dr. Stephen Flynn, directors of the Company, filed a late Form 3's with respect to their election as directors on December 6, 2011.

On March 9, 2012, Leslie Kessler and Terry Lazar filed late Form 4's with respect to stock issuances received on January 23, 2012, and with respect to gifts of stock made on March 1, 2012.

On September 10, 2012, four directors, Leslie Kessler, Terry Lazar, Stephen Flynn and John Gibb, filed late Form 4's with respect to warrant issuances to the directors on January 1, April 2 and July 2, 2012.

On November 21, 2012, four directors, Leslie Kessler, Terry Lazar, Stephen Flynn and John Gibb, filed late Form 4's with respect to warrant issuances to the directors on October 25, 2012, and on November 26, 2012, filed amendments to such Form 4's to correct the exercise price of the warrants.

On November 26, 2012, Gerard Stoehr filed a late Form 4 with respect to warrant issuances to him on October 25, 2012 and November 1, 2011.

On February 20, 2013, three directors, Leslie Kessler, Terry Lazar and Stephen Flynn, filed late Form 4's with respect to warrant issuances to the directors on November 5, 2012 and January 17, 2013, and additionally Leslie Kessler and Terry Lazar both reported additional warrant issuances to each of them on February 11, 2013.

Theresa Bishoff was elected a director on January 7, 2013, and not filed the required Form 3 nor filed any Form 4's with respect to warrant issuances to directors on January 17 and April 5, 2013.

Code of Ethics

On June 13, 2005, our board of directors adopted a written Code of Ethics designed to deter wrongdoing and promote honest and ethical conduct, full, fair and accurate disclosure, compliance with laws, prompt internal reporting and accountability to adherence to the Code of Ethics. Our Code of Ethics applies to all of our employees and directors, including our Chief Executive Officer, Chief Financial Officer and Controller. This Code of Ethics was filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 filed with the SEC on August 15, 2005.

Committees

Theresa Bischoff and Dr. Stephen Flynn serve on the newly formed Compensation Committee, formed in February 2013. Our has not established standing audit committee, or a committee performing similar functions, to assist it in the discharge of the board's duties.

Our Board of Directors has not established a nominating committee, nor did it adopt a nominating committee charter. Our Board believes that its size negates the need for establishing a separate nominating committee. However, all of our Board's nominees for election as directors of our company are approved by our directors, if any, who meet the definition of independent under the rules of The Nasdaq Stock Market. Our independent directors will consider recommendations for election as directors submitted by our stockholders. These recommendations will be discussed at board meetings and appropriate candidates will be invited

ITEM 11. EXECUTIVE COMPENSATION.

General

The following table sets forth, with respect to our fiscal years ended December 31, 2012, 2011 and 2010, all compensation earned by or paid to all persons who served as our chief executive officer at any time during our fiscal year ended December 31, 2012 and certain other executive officers, including our Chief Financial Officer and Chief Operating Officer.

SUMMARY COMPENSATION TABLE

| | Fiscal Year | Salary | Stock Awards | Option Awards | All Other Compensation | Total |
|---|----------------|------------|--------------|------------------|---------------------------|------------|
| Leslie J. Kessler, Chief Executive Officer (1) | 2012 | 210,000 | 65,000 | 109,840 | -- | 384,840 |
| | 2011 | 180,000 | 339,000 | -- | -- | 519,000 |
| | 2010 | \$ 180,000 | \$ 233,997 | \$ 69,600 | \$ 20,000 | \$ 503,597 |
| Terry R. Lazar, Chief Financial Officer (2) | 2012 | 180,000 | 65,000 | 109,840 | -- | 354,840 |

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| | | | | | | |
|---|------|---------|---------|---------|--------|----------|
| | 2011 | 140,400 | 339,000 | 128,300 | -- | 607,700 |
| | 2010 | 140,400 | 169,600 | 64,397 | 20,000 | 394,397 |
| Gerard Stoehr, Chief Operating Officer (3) | 2012 | 208,615 | -- | 14,600 | -- | 223,2115 |
| | 2011 | 139,615 | -- | 26,500 | -- | 166,115 |

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- (1) Ms. Kessler was appointed our President in January 2007 and Chief Executive Officer in February 2007. From May 2006 to January 2007, she was an outside consultant to our company. The amounts reflected in the table constitute the total compensation earned by Ms. Kessler during the subject fiscal years, whether or not actually paid to her. Ms. Kessler elected to defer \$162,692 and \$97,500 from her 2012 and 2011 salary, respectively. In 2011, Ms. Kessler was awarded 3,000,000 shares of our common stock. We recorded \$339,000 in stock-based compensation in connection with such award and have included such amount in the Summary Compensation Table. In 2012, Ms. Kessler was awarded 1,000,000 shares of our common stock. We recorded \$65,000 in stock-based compensation in connection with such award and have included such amount in the Summary Compensation Table. In addition, in 2012, Ms. Kessler was also awarded warrants to purchase 15,000,000 shares of our common stock at exercise price of \$0.006 per share. We recorded \$72,900 in stock-based compensation in connection with such award and have included such amount in the Summary Compensation Table. In 2012, Ms. Kessler received warrants to purchase 1,805,119 shares of our common stock at exercise price of \$0.013 to \$0.058 per share as the Directors Fees that was approved by the Board of Director on December 6, 2011, when the Board approved to replace directors annual compensation of \$50,000 with three year warrants payable quarterly. We recorded total 36,940 as director fee in connection issuances and have included such amount in the Summary Compensation Table.
- (2) Mr. Lazar was appointed Chief Financial Officer and a director of our company in September 2007. The amounts reflected in the table constitute the total compensation earned by Mr. Lazar during the subject fiscal years, whether or not actually paid to him. Mr. Lazar elected to defer \$129,150 and \$76,050 from his 2012 and 2011 salary, respectively. In 2011, Mr. Lazar was awarded 3,000,000 shares of our common stock and was also awarded warrants to purchase 2 million shares of our common stock at exercise price of \$0.07 per share. We recorded \$339,000 and \$128,300 in stock-based compensation in connection with these awards and have included such amount in the Summary Compensation Table. In 2012, Mr. Lazar was awarded 1,000,000 shares of our common stock. We recorded \$65,000 in stock-based compensation in connection with such award and have included such amount in the Summary Compensation Table. In addition, in 2012, Mr. Lazar was awarded warrants to purchase 15,000,000 of our common stock at exercise price of \$0.006 per share. We recorded \$72,900 in stock-based compensation in connection with such award and have included such amount in the Summary Compensation Table. In 2012, Mr. Lazar received warrants to purchase 1,805,119 shares of our common stock at exercise price of \$0.013 to \$0.058 per share as the Directors Fees that was approved by the Board of Director on December 6, 2011, when the Board approved to replace directors annual compensation of \$50,000 with three year warrants payable quarterly. We recorded total 36,940 as director fee in connection issuances and have included such amount in the Summary Compensation Table.
- (3) Mr. Stoehr was appointed Chief Operating Officer of the Company effective January 1, 2011. The amounts reflected in the table constitute the total compensation earned by Mr. Stoehr during the subject fiscal years, whether or not actually paid to him. \$60,000 from Mr. Stoehr 2012 salary has been deferred. In 2012, Mr. Stoehr was also awarded warrants to purchase 3,000,000 shares of our common stock at exercise price of \$0.006 per share. We recorded \$14,600 in stock-based compensation in connection with such award and have included such amount in the Summary Compensation Table.

Employment Agreements/Arrangements with Executive Officers

In connection with our retention of Leslie J. Kessler, our President and Chief Executive Officer, as an employee in January 2007, we established her base compensation at \$9,000 per month, issued to her 2 million shares of our common stock, with a fair value of \$220,000, and granted her warrants to purchase an additional 2 million shares of our common stock. The warrants are exercisable at \$0.11 per share, have a term of three years, vest over two years

and were valued at \$125,200. These warrants were valued using the Black-Scholes option valuation model and are charged to operations over the vesting period. We amended the terms of her warrants in September 2007 to permit cashless exercise.

In April, 2008, we entered into an employment agreement with Leslie J. Kessler, our President and Chief Executive Officer, pursuant to which she is to receive a base salary of \$108,000 per year. Under Ms. Kessler's 2008 employment agreement, we are obligated to provide her with fully paid accident and health insurance for her and her family and pay her an automobile allowance of up to \$1,000 per month, plus reimburse her for the expense of insurance, fuel and maintenance of the automobile. Ms. Kessler's employment agreement provides that, if there is a "change in control," of our company (as defined in the agreement) and she is terminated within one year following such change in control, we are obligated to pay her an amount equal to \$9,000 multiplied by the greater of (a) twelve or (b) the number of months remaining under the agreement. In addition, upon a change in control, all of her then outstanding options and warrants will become fully vested and any restriction on any common stock previously awarded to her will lapse. Ms. Kessler's employment agreement also provides for payments to her in the event of her termination other than for cause, on account of her death or on account of her disability. Ms. Kessler's employment agreement contains confidentiality, non-competition, non-solicitation and work product provisions. Ms. Kessler's employment agreement has a stated term of five years with provisions for automatic one-year-extensions if neither party elects to terminate the agreement at least 90 days prior to the renewal date. In connection with our retention of Terry R. Lazar, our Chief Financial Officer, in September 2007, we established his base compensation at \$5,000 per month, and, in December 2007, issued to him 1 million shares of our common stock and granted him warrants to purchase an additional 1 million shares of our common stock. The fair value of our common stock on the date of issuance of such 1 million shares was \$0.04 per share and we recorded a charge of \$40,000 as stock based compensation in connection with such stock issuance. The warrants are exercisable at \$0.07 per share, have a term of three years, vest over two years and were valued at \$25,100. The warrants were valued using the Black-Scholes option valuation model and are charged to operations over the vesting period. The warrants permit cashless exercise.

We entered into an employment agreement with Terry R. Lazar, our Chief Financial Officer, in April 2008, pursuant to which he is to receive a base salary of \$60,000 per year. Under Mr. Lazar’s employment agreement, we are obligated to provide him with fully paid accident and health insurance for him and his family and pay him an automobile allowance of up to \$1,000 per month, plus reimburse him for the expense of insurance, fuel and maintenance of the automobile. Mr. Lazar has waived all rights to such insurance benefits and automobile allowance for the years ending December 31, 2008 and 2007. Mr. Lazar’s employment agreement provides that, if there is a “change in control” of our company (as defined in the agreement) and he is terminated within one year following such change in control, we are obligated to pay him an amount equal to \$5,000 multiplied by the greater of (a) twelve or (b) the number of months remaining under the agreement. In addition, upon a change in control, all of his then outstanding options and warrants will become fully vested and any restriction on any common stock previously awarded to him will lapse. Mr. Lazar’s employment agreement also provides for payments to him in the event of his termination other than for cause, on account of his death or on account of his disability. Mr. Lazar’s employment agreement contains confidentiality, non-competition, non-solicitation and work product provisions. Mr. Lazar’s employment agreement has a stated term of five years with provisions for automatic one-year-extensions if neither party elects to terminate the agreement at least 90 days prior to the renewal date.

On February 1, 2010, the Board of Directors of the Company approved new Employment Agreements with Leslie J. Kessler, our Chief Executive Officer, and Terry R. Lazar, our Chief Financial Officer. The Employment Agreements are effective January 1, 2010, for initial terms of five years, and the term is automatically extended for additional one year periods if neither party gives notice of termination at least 90 days prior to the end of the initial term or any current additional one year term.

The Employment Agreement with Ms. Kessler provides for a base salary of \$180,000 per year for 2010 , 2011 and \$210,000 per year in 2012, and the Employment Agreement with Mr. Lazar provides for a base salary of \$140,400 for 2010, 2011 and \$ 180,000 per year in 2012 Both Employment Agreements provide for incentive payments as established by the Board of Directors and for a performance bonus as follows:

| Net Operating Profit Before Income Taxes | Performance Bonus |
|--|-------------------|
| On the First \$10 Million | 0% |
| On the Next \$40 Million | 3.5% |
| On the Next \$50 Million | 2.5% |
| On all Amounts Over \$100 Million | 1.5% |

Both Employment Agreements contain similar provisions for discharge for "cause", including breach of the Employment Agreement or specified detrimental conduct by the employee, in which cases accrued compensation would payable as provided in the Employment Agreements. The Agreements also provide for termination by the executives for “good reason”, comprising events such as breach of the Agreement by the Company, assignment of duties inconsistent with the Executive’s position, transfer of the executive’s primary office by more than 25 miles from Plainview, New York, or in the event of a change in control of the Company. In the event of a termination by the Company without cause, or by the executive for “good reason”, the Company is required to pay to the Executive in a lump sum in cash within 30 days after the date of termination the aggregate of the following amounts:

A. the sum of (1) the executive’s annual minimum salary through the date of termination to the extent not theretofore paid, (2) any annual incentive payment earned by the executive for a prior period to the extent not theretofore paid and

not theretofore deferred, (3) any annual performance bonus payment earned by the executive for a prior period to the extent not theretofore paid and not theretofore deferred, (4) any accrued and unused vacation pay and (5) any business expenses incurred by the executive that are unreimbursed as of the date of termination;

B. The product of (1) the performance bonus payment and (2) a fraction, the numerator of which is the number of days that have elapsed in the fiscal year of the Company in which the date of termination occurs as of the date of termination, and the denominator of which is 365;

C. the amount equal to the sum of (1) three (3) times the executive's annual minimum salary; (2) one (1) times the performance bonus payment and (3) one (1) times the incentive payment;

D. In the event executive is not fully vested in any retirement benefits with the Company from pension, profit sharing or any other qualified or non-qualified retirement plan, the difference between the amounts executive would have been paid if he or she had been vested on the date his/her employment was terminated and the amounts paid or owed to the executive pursuant to such retirement plans; and

E. The product of (1) the incentive payment and (2) a fraction, the numerator of which is the number of days that have elapsed in the fiscal year of the Company in which the date of termination occurs as of the date of termination, and the denominator of which is 365.

In addition all stock options and warrants outstanding as of the date of termination and held by the executive shall vest in full and become immediately exercisable for the remainder of their full term; all restricted stock shall no longer be restricted to the extent permitted by law, and the Company will use its best efforts, at its sole cost to register such restricted stock as expeditiously as possible; and for the remainder of the executive's life and the life of his/her spouse, the Company is required to provide the executive continued health care benefits. The executive is responsible for the payment of any COBRA premium, provided that the Company is required to make a lump sum payment to the executive equal to the cost of such premiums, plus an income tax gross-up thereon so that the executive retains an amount equal to the cost of such premiums. The Company in addition beyond the COBRA period is required to pay the executive a lump sum cash amount equal to the present value of the cost of premiums for health care coverage as a supplement to Medicare benefits under an individual policy from a third party insurer, with such insurer to be selected by the executive (which coverage in combination with Medicare benefits shall provide benefits to the executive and/or his/her spouse which are comparable to those provided to executive and/or his/her spouse under the Company's group health plan as of January 1, 2010) for the remainder of each of the lives of the executive and/or his/her spouse.

Generally, if an Employment Agreement is terminated by reason of death or disability of the executive, the Company is required to pay to the executive or his/her estate accrued salary and bonus obligations, pro-rata incentive compensation, accrued equity benefits and COBRA and retiree health benefits to the executive and/or the executive's spouse.

To the extent any payment under the Employment Agreement to the executive is subject to the excise tax imposed by section 4999 of the Internal Revenue Code, the executive is entitled to a gross-up payment from the Company to reimburse the executive for additional federal, state and local taxes imposed on executive by reason of the excise tax and the Company's payment of the initial taxes on such amount. The Company is also required to bear the costs and expenses of any proceeding with any taxing authority in connection with the imposition of any such excise tax.

Outstanding Equity Awards at Fiscal Year-End

The following tables set forth, for each person listed in the Summary Compensation Table set forth in the "General" subsection above, as of December 31, 2012:

with respect to each option award -

the number of shares of our common stock issuable upon exercise of outstanding options that have been earned, separately identified by those exercisable and unexercisable;

the number of shares of our common stock issuable upon exercise of outstanding options that have not been earned;

the exercise price of such option; and

the expiration date of such option; and

with respect to each stock award -

the number of shares of our common stock that have been earned but have not vested;

the market value of the shares of our common stock that have been earned but have not vested;

the total number of shares of our common stock awarded under any equity incentive plan that have not vested and have not been earned; and

the aggregate market or pay-out value of our common stock awarded under any equity incentive plan that have not vested and have not been earned.

Option Awards –

| Name | Number of Securities Underlying Unexercised Options Exercisable | Number of Securities Underlying Unexercised Options Unexercisable | Equity Incentive Plan Awards: | Option Exercise Price | Option Expiration Date |
|-----------------------|---|---|--|-----------------------|------------------------|
| | | | Number of Securities Underlying Unexercised Options Unearned | | |
| Leslie J. Kessler (1) | 7,000,000 | | | \$ 0.041 | 04/17/14 |
| | 2,000,000 | | | 0.052 | 03/07/15 |
| | 15,000,000 | | | 0.006 | 10/25/17 |
| | 256,410 | | | 0.047 | 10/14/2013 |
| | 250,000 | | | 0.048 | 11/17/2013 |
| | 113,636 | | | 0.0528 | 11/9/2014 |
| | 104,167 | | | 0.057 | 10/21/2015 |
| | 431,034 | | | 0.059 | 4/7/2015 |
| | 200,000 | | | 0.1 | 10/4/2015 |
| | 89,928 | | | 0.139 | 2/7/2016 |
| | 215,517 | | | 0.058 | 1/1/2017 |
| | 260,417 | | | 0.048 | 4/2/2017 |
| | 367,647 | | | 0.034 | 7/2/2017 |
| | 961,538 | | | 0.013 | 11/5/2017 |
| Terry R. Lazar (2) | 2,000,000 | | | \$ 0.07 | 11/28/16 |
| | 3,000,000 | | | 0.041 | 04/17/14 |
| | 15,000,000 | | | 0.006 | 10/25/17 |
| | 256,410 | | | 0.047 | 10/14/2013 |
| | 250,000 | | | 0.048 | 11/17/2013 |
| | 100,000 | | | 0.05 | 10/23/2014 |
| | 431,034 | | | 0.059 | 4/7/2015 |
| | 200,000 | | | 0.09 | 10/4/2015 |
| | 74,074 | | | 0.09 | 2/1/2016 |
| | 89,928 | | | 0.139 | 2/7/2016 |
| | 174,180 | | | 0.122 | 3/16/2016 |
| | 83,333 | | | 0.12 | 3/28/2016 |
| | 215,517 | | | 0.058 | 1/1/2017 |
| | 260,417 | | | 0.048 | 4/2/2017 |
| 367,647 | | | 0.034 | 7/2/2017 | |
| 961,538 | | | 0.013 | 11/5/2017 | |
| Gerard Stoehr | 500,000 | | | \$ 0.08 | 10/31/14 |
| | 3,000,000 | | | \$ 0.006 | 10/25/17 |

-
- (1) Does not include (a) 1,910,742 shares of our common stock issuable upon conversion of notes payable issued in connection with loans Ms. Kessler made to the Company between April 2010 and Feb 2011 and (b) 520,962 shares of our common stock issuable upon exercise of warrants granted to Ms. Kessler in connection with loans she made to the Company between April 2010 and February 2011.
- (2) Does not include (a) 2,961,742 shares of our common stock issuable upon conversion of notes payable issued in connection with loans Mr. Lazar made to the Company between April 2010 and February 2011 and (b) 978,475 shares of our common stock issuable upon exercise of warrants granted to Mr. Lazar in connection with loans he made to the Company between April 2010 and March 2011.

Board of Directors Policy on Executive Compensation

Executive Compensation

Our executive compensation philosophy is to provide competitive levels of compensation by recognizing the need for multi-discipline management responsibilities, achievement of our company's overall performance goals, individual initiative and achievement, and allowing our company to attract and retain management with the skills critical to its long-term success. Management compensation is intended to be set at levels that we believe is consistent with that provided in comparable companies. Our company's compensation programs are designed to motivate executive officers to meet annual corporate performance goals and to enhance long-term stockholder value. Our company's executive compensation has four major components: base salary, performance incentive, incentive stock options and other compensation.

Executive Base Salaries

Base salaries are determined by evaluating the various responsibilities for the position held, the experience of the individual and by comparing compensation levels for similar positions at companies within our principal industry. We review our executives' base salaries and determine increases based upon an officer's contribution to corporate performance, current economic trends and competitive market conditions.

Performance Incentives

We utilize performance incentives based upon criteria relating to performance in special projects undertaken during the past fiscal year, contribution to the development of new products, marketing strategies, manufacturing efficiencies, revenues, income and other operating goals to augment the base salaries received by executive officers.

Incentive Stock Options

Our company uses stock options as a means to attract, retain and encourage management and to align the interests of executive officers with the long-term interest of our company's stockholders.

Benefits and Other Compensation

Our company does not offer a health plan to its executive officers or employees.

Retirement and Post Retirement Benefits

Our company does not offer a post-retirement health plan to its executive officers or employees unless it is included in a employment agreement directly entered between employee and us.

Director Compensation

We have set forth below compensation earned by any person serving as a non-executive director of our company during our fiscal year ended December 31, 2012, unless such person is also listed in the Summary Compensation Table set forth in the “Executive Compensation” subsection above. On May 26, 2010, the Board of Directors approved annual board compensation, effective July 1, 2010, to be \$50,000 to be paid in shares quarterly and the number of shares would be valued at the beginning of each quarter.

On December 6, 2011, effective January 1, 2012, the Board approved to replace directors annual compensation of \$50,000 with three year warrants payable quarterly.

| Name | Fees Earned or Paid in Cash | Stock Awards | Option Awards | Non-Equity Incentive Plan Compensation | Change in Pension Value and Nonqualified Deferred Compensation Earnings | All Other Compensation | Total |
|------------------|-----------------------------|--------------|---------------|--|---|------------------------|-----------|
| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) |
| John R. Gibb | | | \$ 44,240 | | | | \$ 44,240 |
| Stephen E. Flynn | | | \$ 44,240 | | | | \$ 44,240 |

Our directors, as compensation for service on our Board of Directors in fiscal 2012, were in four quarterly installments each issued three-year warrants to purchase an aggregate of 1,805,119 shares of common stock, at exercise prices ranging from \$0.013 to \$0.058.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

We currently have outstanding four classes of voting securities: our common stock, Series A Preferred Stock, Series B Preferred Stock, Series D Preferred Stock and Series F Preferred Stock.

The following tables set forth information with respect to the beneficial ownership of shares of each class of our voting securities as of April 5, 2013, by:

- each person known by us to beneficially own 5% or more of the outstanding shares of such class of stock, based on filings with the Securities and Exchange Commission and certain other information,
- each of our current “named executive officers” and directors, and
- all of our current executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting and investment power. In addition, under SEC rules, a person is deemed to be the beneficial owner of securities which may be acquired by such person upon the exercise of options and warrants or the conversion of convertible securities within 60 days from the date on which beneficial ownership is to be determined.

The term “named executive officers” is defined in the SEC rules as those executive officers who are required to be listed in the Summary Compensation Table provided under Item 10 of this Annual Report on Form 10-K.

Except as otherwise indicated in the notes to the following table,

we believe that all shares are beneficially owned, and investment and voting power is held by, the persons named as owners, and the address for each beneficial owner listed in the table is c/o Puresafe Water Systems, Inc., 160 Dupont Street, Plainview, New York 11803.

Series A Preferred Stock:

| Name and Address of Stockholder | Amount and Nature of Beneficial Ownership | Percentage of Class |
|---|---|---------------------|
| Jerome and Anne Asher JTWROS (1) | 5,000 | 9.5% |
| Robert D. Asher (2) | 5,000 | 9.5 |
| All executive officers and directors as a group (three persons) | 0 | 0.0% |

(1) The address for Mr. J. and Ms. Asher is 2701 N. Ocean Boulevard, Apartment E-202, Boca Raton, Florida 33431.

(2) The address for Mr. R. Asher is 72 Old Farm Road, Concord, Massachusetts 01742.

Series B Preferred Stock:

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 carries no conversion provisions.

Each share of Series B Preferred has voting rights equal to (x) 0.019607 multiplied by the total issued and outstanding Common Stock eligible to vote at the time of the respective vote (the "Numerator"), divided by (y) 0.49, minus (z) the Numerator entitling the holder to an aggregate 51% voting control. The Series B is non-transferable and cannot be sold by the holder. The Company issued 51 shares of the Series B to the Chief Executive Officer. The fair value of the shares on the date of issuance was determined to be de minimus. Subsequent to December 31, 2012 the shares were returned by the holder for no consideration to the Company, and our Board authorized cancellation of the Series B Preferred Stock.

Series D Preferred Stock:

| Name and Address of Stockholder | Amount and Nature of Beneficial Ownership | Percentage of Class |
|---|---|---------------------|
| John A. Borger (1) | 10,000 | 10.8% |
| Shirley M. Wan (2) | 6,000 | 6.5 |
| All executive officers and directors as a group (three persons) | 0 | 0.0% |

(1) The address for Mr. Borger is 806 E. Avenida Pico, Suite 1, PMB #262, San Clemente, California 92673.

(2) The address for Ms. Wan is 5455 Chelsen Wood Drive, Duluth, Georgia 30155.

Series F Preferred Stock:

| Name and Address of Stockholder | Amount and Nature of Beneficial Ownership | Percentage of Class |
|---|---|---------------------|
| Robert Kaszovitz (1) | 10,000 | 25.2% |
| C Trade Inc. (2) | 9,375 | 10.4 |
| Olsham Grundman Frome Rosenzweig & Wolosky (3) | 5,000 | 5.6 |
| Peter Hoffman (4) | 3,126 | 7.9 |
| All executive officers and directors as a group (three persons) | 0 | 0.0 |

(1) The address for Mr. Kaszovitz is 1621 51st Street, Brooklyn, New York, 11204.

(2) The address for C Trade Inc. is 25-40 Shore Boulevard, Suite 9L, Astoria, New York 11102.

(3) The address for Olsham Grundman Frome Rosenzweig & Wolosky is 65 East 55th Street, New York, New York 10022.

(4) The address for Mr. Hoffman is 70-35 Vleigh Place, Flushing, New York 11367.

Common Stock:

| Name and Address of Stockholder (6) | Percentage |
|-------------------------------------|------------|
|-------------------------------------|------------|

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| | Amount and Nature of Beneficial Ownership | | of Class(1) | |
|---|--|-----|-------------|---|
| Leslie Kessler | 81,439,123 | (2) | 9.50 | % |
| Terry Lazar | 67,318,455 | (3) | 7.92 | % |
| Stephen Flynn | 7,471,785 | (4) | 0.91 | % |
| Theresa Bischoff | 4,166,666 | (5) | 0.51 | % |
| John Twomey | 69,890,298 | (6) | 8.49 | % |
| All executive officers and directors as a group | 156,229,363 | | 17.25 | % |

- (1) Based on 809,346,722 shares of common stock outstanding as of April 5, 2013.
- (2) Ms. Kessler is our Chief Executive Officer and a member of our board of directors. Ms. Kessler owns 33,133,003 shares of common stock directly, and additionally owns beneficially (a) 46,416,960 shares of our common stock issuable upon exercise of warrants granted to Ms. Kessler or issued to Ms. Kessler in connection with loans made to or investments made in the Company by Ms. Kessler; and (b) 1,889,160 shares of our common stock issuable upon conversion of outstanding loans to the Company made by Ms. Kessler to the Company in 2010 and 2011. This number does not include the 51 shares of Series B Preferred owned by Ms. Kessler, which is representative of 615,048,593 shares solely for voting purposes.
- (3) Mr. Lazar is our Chief Financial Officer and a member of our board of directors. Mr. Lazar owns 26,884,907 shares of common stock directly, and additionally owns beneficially (a) 140,000 shares held in an IRA account of Mr. Lazar's spouse; (b) 2,919,214 shares of common stock issuable upon conversion of outstanding loans to the Company made by Mr. Lazar in 2010 and 2011; and (c) 37,374,334 shares of common stock issuable upon the exercise of warrants granted to Mr. Lazar or issued to Mr. Lazar in connection with loans made to or investments made in the Company by Mr. Lazar.
- (4) Mr. Flynn is a member of our board of directors. Mr. Flynn holds warrants to purchase 7,471,785 shares of our common stock.
- (5) Ms. Bischoff is a member of our board of directors. Ms. Bischoff holds warrants to purchase 4,166,666 shares of our common stock.
- (6) Mr. Twomey owns 55,912,238 shares of common stock directly, and holds warrants expiring December 12, 2015 to purchase 3,371,999 shares of common stock at an exercise price of \$0.004448, and warrants expiring February 12, 2016 to purchase 10,606,061 shares of common stock at an exercise price of \$0.0039.
- (7) The addresses of our executive officers and directors, and of any other stockholder for whom an address is not given, listed in the above table are c/o the Company, 160 Dupont Street, Plainview, NY 11803

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Certain Relationships and Related Transactions

- (a) In March 2007, the Company's Chief Executive Officer and a former director each made loans of \$50,000 to the Company. The loans accrue simple interest at the rate of 10% per annum and were due and payable 120 days after funding. The loans carry an option that, if the loans were not repaid by June 14, 2007 and June 29, 2007, respectively, such options would entitle the lenders to convert their debt into shares of common stock at a conversion price equal to 50% of the average closing price of the common stock over the three previous business days preceding the date of demand for conversion is made. In January 2008, the Chief Executive Officer converted her note plus accrued interest of \$53,658 into 2,146,324 shares of common stock. In December 2010, the Company issued \$947,312 shares of common stock to the former director upon his request to convert his 2007 loan principal \$50,000 and accrued interest of \$18,491.
- (b) In each of 2009 and 2010, a firm in which the Company's Chief Financial Officer held fifty percent equity position was retained to prepare the Company's income tax and other returns. During the years ended December 31, 2010 and 2009, the Company incurred fees totaling \$7,364 and \$4,768, respectively, with respect to such services rendered.
- (c) In April 2009, the Company granted the Company's Chief Executive Officer the right to receive a total of 4,000,000 shares of common stock, 2,000,000 of which were issued in April 2009 and the remaining 2,000,000 shares were issued in February 2010. In addition to such stock grants, the officer was granted a five-year option to purchase an additional 3,000,000 shares of common stock. The option was made fully vested as of its grant date and has an exercise price of \$0.041 per share. Such stock and option are

being issued and were granted under the Company's 2008 Equity Incentive Plan.

- (d) In April 2009, the Company granted the Company's Chief Financial Officer the right to receive a total of 4,000,000 shares of common stock, 2,000,000 of which were issued in April 2009 and the remaining 2,000,000 shares were issued in February 2010. In addition to such stock grants, the officer was granted a five-year option to purchase an additional 3,000,000 shares of common stock. The option was made fully vested as of its grant date and has an exercise price of \$0.041 per share. Such stock and option are being issued and were granted under the Company's 2008 Equity Incentive Plan
- (e) In May 2009, the Company issued 250,000 shares of common stock to a director in order to fulfill the Company's obligation in connection with the appointment of the director effective March 14, 2008.

- (f) In December 2009, the Company issued 1,000,000 shares of Common Stock to each of the Company's Chief Executive Officer and Chief Financial Officer and recorded \$100,000 of stock-based compensation. The issuance is in connection with the 2008 award that granted each of the Company's chief executive officer and chief financial officer 2,000,000 shares of common stock with 1,000,000 shares vesting immediately and 1,000,000 shares vesting in one year provided the officer remains employed by the Company.
- (g) In September 2009, the Company entered into agreements with the Chief Executive Officer and Chief Financial Officer together to defer a total of \$239,000 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.
- (h) In March 2010, the Company issued to its Chief Executive Officer 1,058,824 shares of common stock in settlement of \$54,000 accrued compensation, 588,235 shares to the Company's Chief Financial Officer in settlement of \$30,000 accrued compensation and 500,000 shares to the Company's Vice President of International Markets in settlement of \$25,500 accrued compensation.
- (i) In February 2010, the Company issued 600,000 shares of common stock to each of the Company's Chief Executive Officer and Chief Financial per grant that was approved by the Company's Board of Directors on February 1, 2010. The shares were fully vested on the date of the grant.
- (j) In February 2010, the Company issued 500,000 shares of common stock to each of the Company's Vice President of International Markets and Director of Research and Development per grant that was approved by the Company's Board of Directors on February 1, 2010. The shares were fully vested on the date of the grant.
- (k) On March 8, 2010, the Company granted 2,000,000 warrants to the Company's Chief Executive Officer to purchase common stock at a price of \$0.052 per share. The award was approved by Boar of Directors on March 8, 2010. The warrants have a life of 5 years and were fully vested on the date of the grant.
- (l) On March 8, 2010, the Company granted 2,000,000 warrants to the Company's Vice President of International Markets to purchase common stock at a price of \$0.052 per share to a consultant for services provided. The award was approved by Boar of Directors on March 8, 2010. The warrants have a life of 5 years and were fully vested on the date of the grant.
- (m) In June 30, 2010, the Company's Chief Operating Officer requested to convert \$25,000 he lent to the Company in October 2009 plus accrued interest \$1,514 to the Company's common stock. The Company issued 530,278 shares of common stock to the designated party the Chief Operating Officer instructed. In addition, the Chief Operating Officer also exercised 100,000 warrants that he received through the October 2009 loan, at the exercise price of \$0.06 per share. The Company issued 100,000 shares to the Chief Operating Officer and received \$6,000 in connection with such warrant exercise.
- (n) On April 7, 2010, the Company's Chief Executive Officer, and the Company's 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 interest accrued on the loans is 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.

- (o) On July 12, 2010, the Company issued 1,764,706 shares of common stock in settlement of \$90,000 of accounts payable due to Hidell-Eyster Technical Services ("Hidell-Eyster") with whom the Company signed a General Management Agreement with in March 2010. Hidell-Eyster subsequently transferred all shares to their employees including 419,118 shares to Carroll S. Keim, President and Chief Executive Officer of Hidell-Eyster, who also served as the Company's President under the March 2010 agreement, and 419,117 shares to Henry R. Hidell, Founder and Chairman of Hidell-Eyster, who also served as the Company's Chief Operating Officer under the same agreement.
- (p) On October 4, 2010, the Company's Chief Executive Officer and the Company's Chief Financial Officer each made loans of \$100,000 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 200,000 shares of common stock at an exercise price of \$0.10 per share. The loans are due and payable by or on November 17, 2010. The loan and accrued interest were to be paid on the mature date. 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 \$0.10 per share, which was the closing market price of the common stock as of the closing date of the loans.

- (q) In July, 2010, the Company issued a total of 178,572 shares of common stock to its Chief Executive Officer and Chief Financial Officer, each of which received 89,286 shares for their third quarter of 2010 director fees. The issuance is part of the annual compensation that was authorized by the Company's Board of Directors on May 26, 2010, when the Board approved the annual director fees to be \$50,000, paid in shares of common stock, payable quarterly, and valued at the beginning of each quarter.
- (r) In October, 2010, the Company issued a total of 227,272 shares of common stock to its Chief Executive Officer and Chief Financial Officer, each of which received 113,636 shares for their fourth quarter of 2010 director fees. The issuance is part of the annual compensation that was authorized by the Company's Board of Directors on May 26, 2010, when the Board approved the annual director fees to be \$50,000, paid in shares of common stock, payable quarterly, and valued at the beginning of each quarter.
- (s) On October 19, 2010, the Company issued 670,802 shares to each of the Company's Chief Executive Officer and Chief Financial Officer. The issuance was approved by the Board of Directors on August 5, 2010 for their efforts in raising capital.
- (t) On December 30, 2010, the Company issued 557,778 shares of common stock to its chief financial officer upon his request to convert \$25,000 of loan principal and \$2,889 of accrued interest the Company owed him into common stock based on the terms in the loan agreement the Company entered with the officer on October 23, 2009.
- (u) On December 30, 2010, the Company issued 581,308 shares of common stock to its chief executive officer upon his request to convert \$25,000 of loan principal and \$2,903 of accrued interest the Company owed her into common stock based on the terms in the loan agreement the Company entered with the officer on October 21, 2009.
- (v) On January 13, 2011, the Company issued a total of 452,900 shares of common stock to its five directors, including shares issued to the Chief Executive Officer and Chief Financial Officer, each of which received 90,580 shares for their first quarter of 2011 director fees. The issuance is part of the annual compensation that was authorized by the Company's Board of Directors on May 26, 2010, when the Board approved the annual director fees to be \$50,000, paid in shares of common stock.
- (w) On March 9, 2011, the Company issued 2,000,000 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 21, 2011. The shares were fully vested on the date of the grant.
- (x) On March 21, 2011, the Company issued 2,000,000 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 21, 2011. The shares were fully vested on the date of the grant.
- (y) On February 7, 2011, the Company's Chief Executive Officer and the Company's 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 and accrued interest are to be paid on the maturity date. 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.

On June 3, 2011, the Company repaid \$40,000 principal. Total principal payable as of September 30, 2011 was \$60,000.

- (z) 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 and accrued interest are to be paid on the maturity date. 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.
- (aa) 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 and accrued interest are to be paid on the maturity date. 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.

- (bb) On April 28, 2011, the Company issued a total of 558,035 shares of common stock to its five directors, including shares issued to the Chief Executive Officer and Chief Financial Officer, each of which received 111,607 shares for their second quarter of 2011 director fees. The issuance is part of the annual compensation that was authorized by the Company's Board of Directors on May 26, 2010, when the Board approved the annual director fees to be \$50,000, paid in shares of common stock.
- (cc) On July 11, 2011, the Company issued a total of 946,970 shares of common stock to its five directors, including shares issued to the Chief Executive Officer and Chief Financial Officer, each of which received 189,394 shares for their third quarter of 2011 director fees. The issuance is part of the annual compensation that was authorized by the Company's Board of Directors on May 26, 2010, when the Board approved the annual director fees to be \$50,000, paid in shares of common stock.
- (dd) On August 23, 2011, the Company issued 2,000,000 shares of common stock, 1,000,000 shares each to the Company's Chief Executive Officer and Chief Financial Officer per grant that was approved by the Company's Board of Directors on January 21, 2011. The shares were fully vested on the date of the grant and accordingly, the Company recorded \$138,000 of stock-based compensation in connection with this issuance.
- (ee) On October 10, 2011, the Company issued a total of 367,647 shares of common stock to its three directors, including shares issued to the Chief Executive Officer and Chief Financial Officer, each of which received 122,549 shares for their third quarter of 2011 director fees. The issuance is part of the annual compensation that was authorized by the Company's Board of Directors on May 26, 2010, when the Board approved the annual director fees to be \$50,000, paid in shares of common stock.
- (ff) On November 1, 2011, the Company granted 500,000 warrants to the Company's Chief Operating Officer to purchase common stock at a price of \$0.08 per share. The award was approved by Board of Directors on October 31, 2011. The warrants have a life of 3 years and were fully vested on the date of the grant.
- (gg) On November 28, 2011, the Company granted 2,000,000 warrants to the Company's Chief Operating Financial to purchase common stock at a price of \$0.07 per share. The award was approved by Board of Directors on November 28, 2011. The warrants have a life of 5 years and were fully vested on the date of the grant.
- (hh) On January 1, April 2 and July 2, 2012, the Company issued five-year warrants to purchase 215,517, 260,417 and 367,647 shares of common stock, respectively, at the respective exercise prices of \$0.058, \$0.048, and \$0.034, to each of the Company's four directors, Leslie Kessler, Terry Lazar, John Gibb and Stephen Flynn.
- (ii) On October 25, 2012, the Company issued five-year warrants to purchase 15,000,000 shares of common stock to Leslie Kessler and to Terry Lazar, officers and directors of the Company, and five-year warrants to purchase 1,500,000 shares of common stock to John Gibb and Stephen Flynn, directors. All warrants were issued with an exercise price of \$.006 per share.
- (jj) On October 25, 2012, the Company issued five-year warrants to purchase 3,000,000 shares of common stock, exercisable at a price of \$0.006 per share, to Gerard Stoehr, the Company's Chief Operating Officer.
- (kk)

On November 5, 2012, the Company issued five-year warrants to purchase 961,538 shares of common stock, at an exercise price of \$0.013, to each of the Company's three directors, Leslie Kessler, Terry Lazar and Stephen Flynn.

(II) Series B Preferred Stock

By unanimous written consent of the Board dated June 25, 2012, the Board issued an aggregate of fifty-one (51) shares of Series B Preferred to our Chief Executive Officer, Leslie J. Kessler (the "Series B Stockholder"). The designation, rights, preferences and privileges that the Board established for the Series B Preferred Stock is set forth in a Certificate of Designation that was filed with the Secretary of State of the State of Delaware on June 26, 2012. Among other things, the Certificate of Designation provides that each one share of Series B Preferred has voting rights equal to (x) 0.019607 multiplied by the total issued and outstanding Common Stock eligible to vote at the time of the respective vote (the "Numerator"), divided by (y) 0.49, minus (z) the Numerator. As a result of the voting rights granted to the Series B Preferred, the Series B Stockholder held in the aggregate approximately 51% of the total voting power of all issued and outstanding voting capital of the Company. Subsequent to December 31, 2012, the shares of Series B Preferred Stock were returned to the Company by Leslie J. Kessler, the holder, and our Board authorized cancellation of the Series B Preferred Stock.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Marcum LLP ("Marcum") has served as our independent registered public accountants for our past two fiscal years.

Principal Accountant Fees and Services

The following table sets forth the fees billed by our independent certified public accountants for the years ended December 31, 2012 and 2011 for the categories of services indicated.

| Category | Fiscal Year Ended December 31, | |
|------------------------|-----------------------------------|------------|
| | 2011 | 2012 |
| Audit fees (1) | \$80,000 | \$ 125,000 |
| Audit-related fees (2) | 0 | 0 |
| Tax fees (3) | 0 | 0 |
| All Other Fees (4) | 0 | 0 |

- (1) Consists of fees billed for the audit of our annual financial statements, review of financial statements included in our Quarterly Reports on Form 10-Q and services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements.
- (2) Consists of assurance and related services that are reasonably related to the performance of the audit and reviews of our financial statements and are not included in “audit fees” in this table.
- (3) Consists of professional services rendered for tax compliance, tax advice and tax planning. The nature of these tax services is tax preparation.
- (4) Marcum provided the following other services during the year ended December 31, 2012 and 2011: none.

Audit Committee Approval

We do not have an audit committee of our board of directors. We believe that each member of our board has the expertise and experience to adequately serve our stockholders’ interests while serving as directors. Since we are not required to maintain an audit committee and our full board acts in the capacity of an audit committee, we have not elected to designate any member of our board as an “audit committee financial expert.”

Pre-Approval Policy

We understand the need for Marcum to maintain objectivity and independence in its audit of our financial statements. To minimize relationships that could appear to impair the objectivity of Marcum, our board of directors has restricted the non-audit services that Marcum may provide to us and has determined that we would obtain even these non-audit services from Marcum only when the services offered by Marcum are more effective or economical than services available from other service providers.

Our board of directors has adopted policies and procedures for pre-approving all non-audit work performed by Marcum or any other accounting firms we may retain. Specifically, under these policies and procedures, our board shall pre-approve the use of Marcum for detailed, specific types of services within the following categories of non-audit services: merger and acquisition due diligence and related accounting services; tax services; internal control reviews; and reviews and procedures that we request Marcum to undertake to provide assurances of accuracy on matters not required by laws or regulations. In each case, the policies and procedures require our board to set specific annual limits on the amounts of such services which we would obtain from Marcum and require management to report the specific engagements to the board and to obtain specific pre-approval from the board for all engagements.

Board of Directors Approval of Audit-Related Activities

Management is responsible for the preparation and integrity of our financial statements, as well as establishing appropriate internal controls and financial reporting processes. Marcum is responsible for performing an independent audit of our financial statements and issuing a report on such financial statements. Our board of directors’ responsibility is to monitor and oversee these processes.

Our board reviewed the audited financial statements of our company for the year ended December 31, 2012 and met with both other members of management and the independent auditors, separately and together, to discuss such financial statements. Management and the auditors have represented to us that the financial statements were prepared in accordance with generally accepted accounting principles in the United States. Our board also received written disclosures and a letter from our auditors regarding their independence from us, as required by [Independence Standards Board Standard No. 1,] and discussed with the auditors their independence with respect to all services that our auditors rendered to us. Our board also discussed with the auditors any matters required to be discussed by Statement on Auditing Standards No. 61. Based upon these reviews and discussions, our board authorized and directed that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2012.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements

The financial statements and schedules included in this Annual Report on Form 10-K are listed in Item 8 and commence following page 26.

(b) Exhibits

The following exhibits are being filed as part of this Annual Report on Form 10-K, or incorporated herein by reference as indicated.

| Exhibit Number | Exhibit Description |
|----------------|--|
| 3.1 | Composite of Certificate of Incorporation of PureSafe Water Systems, Inc., as amended to date. |
| 3.1a | Certificate of Designations of Series B Preferred Stock, filed June 26, 2012. [Incorporated by reference to Exhibit 3.1a to our Current Report on Form 8-K, filed with the SEC on April 3, 2013.] |
| 3.2 | Amended and restated By-laws of PureSafe Water Systems, Inc. [Incorporated by reference to Exhibit 3(ii) to Amendment No. 1 to our Annual Report 10-KSB/A, filed with the SEC on November 17, 2003 (File No.: 0-30544).] |
| 3.2a | Amended and Restated By-laws of PureSafe Water Systems, Inc., effective June 11, 2009 [Incorporated by reference to Exhibit 3.2a to our Current Report on Form 8-K, filed with the SEC on June 11, 2009.] |
| 4.5 | Series B Warrant to Purchase Common Stock and Allonge to and Amendment and Extension of Common Stock Purchase Warrant. [Incorporated by reference to Exhibit 4.6 to Amendment No. 1 to our Annual Report on Form 10-KSB/A, filed with the SEC on November 17, 2003 (File No.: 0-30544).] |
| 4.6 | Series B Second Allonge to and Amendment and Extension of Common Stock Purchase Warrant. [Incorporated by reference to Exhibit 4.6 to our Registration statement on Form SB-2, filed with the SEC on January 24, 2005 (File No.: 0-30544).] |
| 4.7 | Subordinated Debentures. [Incorporated by reference to Exhibit 4.5 to Amendment No. 1 to our Annual Report on Form 10-KSB, filed with the SEC on November 17, 2003 (File No.: 0-30544).] |
| 10.4 | Warrant Certificate, dated November 16, 2005, issued to Southridge Partners LP. [Incorporated by reference to Exhibit 99.4 to our Current Report on Form 8-K, filed with the SEC on November 23, 2005 (File No.: 0-30544).] |
| 10.5 | Loan Agreement, dated as of October 11, 2006, between Water Chef, Inc. and Southridge Partners LP. [Incorporated by reference to Exhibit 99.4 to our Current Report on Form 8-K, filed with the SEC on October 19, 2006 (File No.: 0-30544).] |
| 10.6 | Registration Rights Agreement, dated as of October 11, 2006, between Water Chef, Inc. and Southridge Partners LP. [Incorporated by reference to Exhibit 99.4 to our Current Report on Form 8-K, filed with the SEC on October 19, 2006 (File No.: 0-30544).] |
| 10.7 | Promissory Note of Water Chef, Inc., dated October 17, 2006 and in the principal amount of \$300,000, issued to Southridge Partners LP. [Incorporated by reference to Exhibit 99.4 to our Current Report on Form 8-K, filed with the SEC on October 19, 2006 (File No.: 0-30544).] |
| 10.8 | Warrant Certificate, dated October 11, 2006, issued to Southridge Partners LP. [Incorporated by reference to Exhibit 99.4 to our Current Report on Form 8-K, filed with the SEC on October 19, 2006 (File No.: 0-30544).] |
| 10.9 | Securities Purchase Agreement, dated as of August 27, 2007, between Water Chef, Inc., Southridge Partners LP and Southshore Capital Fund Ltd. [Incorporated by reference to Exhibit 99.1 to our Current |

- Report on Form 8-K, filed with the SEC on September 9, 2007 (File No.: 0-30544).]
- 10.10 Registration Rights Agreement, dated as of August 27, 2007, between Water Chef, Inc. and Southridge Partners LP. [Incorporated by reference to Exhibit 99.2 to our Current Report on Form 8-K, filed with the SEC on September 9, 2007 (File No.: 0-30544).]
- 10.11 10% Convertible Promissory Note of Water Chef, Inc., dated September 7, 2007 and in the principal amount of \$200,000, issued to Southridge Partners LP. [Incorporated by reference to Exhibit 99.3 to our Current Report on Form 8-K, filed with the SEC on September 9, 2007 (File No.: 0-30544).]

- 10.12 10% Convertible Promissory Note of Water Chef, Inc., dated September 7, 2007 and in the principal amount of \$50,000, issued to Southshore Capital Fund Ltd. [Incorporated by reference to Exhibit 99.4 to our Current Report on Form 8-K, filed with the SEC on September 9, 2007 (File No.: 0-30544).]
- 10.13 Warrant Certificate, dated September 7, 2007, issued to Southridge Partners LP. [Incorporated by reference to Exhibit 99.5 to our Current Report on Form 8-K, filed with the SEC on September 9, 2007 (File No.: 0-30544).]
- 10.14 Warrant Certificate, dated September 7, 2007, issued to Southshore Capital Fund Ltd. [Incorporated by reference to Exhibit 99.6 to our Current Report on Form 8-K, filed with the SEC on September 9, 2007 (File No.: 0-30544).]
- 10.15 Private Equity Credit Agreement, dated as of September 7, 2007, between Water Chef, Inc. and Brittany Capital Management Limited. [Incorporated by reference to Exhibit 99.7 to our Current Report on Form 8-K, filed with the SEC on September 9, 2007 (File No.: 0-30544).]
- 10.16 Registration Rights Agreement, dated as of September 7, 2007, between Water Chef, Inc. and Brittany Capital Management Limited. [Incorporated by reference to Exhibit 99.8 to our Current Report on Form 8-K, filed with the SEC on September 9, 2007 (File No.: 0-30544).]
- 10.17 Employment Agreement, dated April 16, 2008 between Water Chef, Inc. and Leslie J. Kessler. [Incorporated by reference to Exhibit 99.1 to our Current Report on Form 8-K (Date of Report: April 16, 2008), filed with the SEC on April 17, 2008 (File No.: 0-30544).]
- 10.18 Employment Agreement, dated April 16, 2008, between Water Chef, Inc. and Terry R. Lazar. [Incorporated by reference to Exhibit 99.2 to our Current Report on Form 8-K (Date of Report: April 16, 2008), filed with the SEC on April 17, 2008 (File No.: 0-30544).]
- 10.19 Stock Purchase, Loan and Security Agreement, dated April 16, 2008, between Water Chef, Inc. and Leslie J. Kessler. [Incorporated by reference to Exhibit 99.3 to our Current Report on Form 8-K (Date of Report: April 16, 2008), filed with the SEC on April 17, 2008 (File No.: 0-30544).]
- 10.20 Stock Purchase, Loan and Security Agreement, dated April 16, 2008, between Water Chef, Inc. and Terry R. Lazar. [Incorporated by reference to Exhibit 99.4 to our Current Report on Form 8-K (Date of Report: April 16, 2008), filed with the SEC on April 17, 2008 (File No.: 0-30544).]
- 10.21 Stock Purchase, Loan and Security Agreement dated April 16, 2008 between Water Chef, Inc. and Shaul Kochan. [Incorporated by reference to Exhibit 99.5 to our Current Report on Form 8-K (Date of Report: April 16, 2008), filed with the SEC on April 17, 2008 (File No.: 0-30544).]
- 10.22 Letter Agreement, dated August 18, 2008 between Water Chef, Inc. and Leslie J. Kessler. [Incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K (Date of Report: August 18, 2008), filed with the SEC on August 19, 2008 (File No.: 0-30544).]
- 10.23 Letter Agreement, dated August 18, 2008, between Water Chef, Inc. and Terry R. Lazar. [Incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K (Date of Report: August 18, 2008), filed with the SEC on August 19, 2008 (File No.: 0-30544).]
- 10.24 Consulting Agreement, dated as of June 6, 2008, by and between Water Chef, Inc., and Hidell-Eyster International. [Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-QSB, filed with the SEC on August 19, 2008 (File No.: 0-30544).]
- 10.25 Form of Stock Subscription Agreement utilized in the sale of common stock and warrants from October 26, 2007 through July 18, 2008. [Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-QSB, filed with the SEC on August 19, 2008 (File No.: 0-30544).]
- 10.26 Form of Warrant issued to investors in connection with the sale of common stock and warrants from October 26, 2007 through July 18, 2008. [Incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-QSB, filed with the SEC on August 19, 2008 (File No.: 0-30544).]
- 10.27 Loan Agreement, Promissory Note, and Warrant of Water Chef, Inc., dated October 14, 2008 and in the principal amount of \$50,000 issued to Leslie J. Kessler. [Incorporated by reference to Exhibit 10.27 to our Annual Report on Form 10-K, filed with the SEC on April 15, 2009.]
- 10.28

- Loan Agreement, Promissory Note, and Warrant of Water Chef, Inc., dated November 17, 2008 and in the principal amount of \$50,000 issued to Leslie J. Kessler. [Incorporated by reference to Exhibit 10.28 to our Annual Report on Form 10-K, filed with the SEC on April 15, 2009.]
- 10.29 Loan Agreement, Promissory Note, and Warrant of Water Chef, Inc., dated October 14, 2008 and in the principal amount of \$50,000 issued to Terry R. Lazar. [Incorporated by reference to Exhibit 10.29 to our Annual Report on Form 10-K, filed with the SEC on April 15, 2009.]
- 10.30 Loan Agreement, Promissory Note, and Warrant of Water Chef, Inc., dated November 17, 2008 and in the principal amount of \$50,000 issued to Terry R. Lazar. [Incorporated by reference to Exhibit 10.30 to our Annual Report on Form 10-K, filed with the SEC on April 15, 2009.]
- 10.31 Loan Agreement, Promissory Note, and Warrant of Water Chef, Inc., dated December 17, 2008 and in the principal amount of \$50,000 issued to Steve Legum. [Incorporated by reference to Exhibit 10.30 to our Annual Report on Form 10-K, filed with the SEC on April 15, 2009.]
- 10.32 Consulting Agreement, dated as of August 6, 2008, by and between Water Chef, Inc., and Designs and Project Development Corp. [Incorporated by reference to Exhibit 10.32 to our Annual Report on Form 10-K, filed with the SEC on April 15, 2009.]
- 10.33 Consulting Agreement, dated as of December 14, 2007, by and between Water Chef, Inc., and Bircon Ltd. [Incorporated by reference to Exhibit 10.33 to our Annual Report on Form 10-K, filed with the SEC on April 15, 2009.]
- 10.34 Incentive Stock Option Agreement, dated April 17, 2009, between PureSafe Water Systems, Inc. and Leslie J. Kessler. [Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q, filed with the SEC on May 20, 2009.]
- 10.35 Incentive Stock Option Agreement, dated April 17, 2009, between PureSafe Water Systems, Inc. and Terry R. Lazar.
[Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q, filed with the SEC on May 20, 2009.]

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|-------------|---|
| 10.36 | Incentive Stock Option Agreement, dated April 17, 2009, between PureSafe Water Systems, Inc. and Al Wolter. [Incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q, filed with the SEC on May 20, 2009.] |
| 10.37 | Incentive Stock Option Agreement, dated April 17, 2009, between PureSafe Water Systems, Inc. and Al Wolter. [Incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q, filed with the SEC on May 20, 2009.] |
| 10.38 | Warrant certificate evidencing 4,000,000 warrants registered in the name of Leslie J. Kessler. [Incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q, filed with the SEC on May 20, 2009.] |
| 10.39 | Form of Loan Agreement for the Company's 2009 private placement. [Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q, filed with the SEC on November 16, 2009.] |
| 10.40 | Employment Agreement, effective as of January 1, 2010, between the Company and Leslie J. Kessler. [Incorporated by reference to Exhibit 10.40 to our Current Report on Form 8-K, filed with the SEC on February 8, 2010.] |
| 10.41 | Employment Agreement, effective as of January 1, 2010, between the Company and Terry R. Lazar. [Incorporated by reference to Exhibit 10.41 to our Current Report on Form 8-K, filed with the SEC on February 8, 2010.] |
| 10.42 | General Management Services Agreement, effective January 1, 2010, between Hidell-Eyster International and the Company. [Incorporated by reference to Exhibit 10.42 to our Current Report on Form 8-K, filed with the SEC on April 1, 2010.] |
| 10.43 | Secured Convertible Promissory Note, dated August 3, 2011, issued by the Company to Southridge Partners II, LP. [Incorporated by reference to Exhibit 10.43 to our Quarterly Report on Form 10-Q, filed with the SEC on August 22, 2011.] |
| 10.44 | Securities Purchase Agreement, dated August 3, 2011, between the Company and Southridge Partners II, LP. [Incorporated by reference to Exhibit 10.44 to our Quarterly Report on Form 10-Q, filed with the SEC on August 22, 2011.] |
| 10.45 | Common Stock Purchase Warrant issued August 3, 2011 by the Company to Southridge Partners II, LP. [Incorporated by reference to Exhibit 10.45 to our Quarterly Report on Form 10-Q, filed with the SEC on August 22, 2011.] |
| 10.46 | Engineering Package Agreement, dated January 24, 2013, by and between the Company and ETG/Engineering Technologies Group, Inc. [Incorporated by reference to Exhibit 10.46 to our Current Report on Form 8-K, filed with the SEC on April 3, 2013.] |
| 10.47 | Exclusive Sales and Marketing Agreement, dated January 25, 2013, by and between the Company and Global Equipment Marketing, Inc. [Incorporated by reference to Exhibit 10.47 to our Current Report on Form 8-K, filed with the SEC on April 3, 2013.] |
| 14.1 | Code of Ethics. [Incorporated by reference to Exhibit 14.1 to our Quarterly Report on Form 10-QSB, filed with the SEC on August 15, 2005.] |
| <u>31.1</u> | Rule 13a-14(a)/15d-14(a) Certification of Leslie J. Kessler.*. |
| <u>31.2</u> | Rule 13a-14(a)/15d-14(a) Certification of Terry R. Lazar*. |
| <u>32.1</u> | Section 1350 Certification of Leslie J. Kessler.** |
| <u>32.2</u> | Section 1350 Certification of Terry R. Lazar.** |

* Filed herewith

** Furnished herewith

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

SEC Ref.

No. Title of Document

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| | |
|---------|--|
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document |

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 16, 2013

PURESAFE WATER SYSTEMS, INC.

By: /s/ Leslie J. Kessler
Leslie J. Kessler, President

By: /s/ Terry R. Lazar
Terry R. Lazar, Chief Financial and
Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature and Name | Capacities | Date |
|---|---|----------------|
| /s/ Leslie J. Kessler Leslie J. Kessler (Principal Executive Officer) | Chief Executive Officer and Director | April 16, 2013 |
| /s/ Terry R. Lazar Terry R. Lazar | Chief Financial Officer and Director (Principal Financial Officer and Principal Accounting Officer) | April 16, 2013 |
| /s/ Stephen E. Flynn Stephen E. Flynn | Director | April 16, 2013 |
| /s/ Theresa Bishoff Theresa Bishoff | Director | April 16, 2013 |