PureSafe Water Systems, Inc.
Form 10-K
April 15, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) formOF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

o 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.)
25 Fairchild Avenue - Suite 250, 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: Redeemable Common Stock Purchase Warrants

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

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 o No o

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 o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

The aggregate market value of the voting and non-voting common equity of the registrant held by non-affiliates computed by reference to the closing sale price of such common equity, as of the last business day of the registrant's most recently completed first fiscal quarter, was $32,929,189, assuming that all stockholders, other than executive officers, directors and 5% stockholders of the registrant, are non-affiliates.

As of April 12, 2011, 327,240,037 shares of the common stock of the registrant were issued and 327,235,637 were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

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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.

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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, we signed a contract with Bircon Ltd., an Israeli-based engineering consulting company ("Bircon"), to design 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 nominal revenues since we sold our water coolers and filters operations. Accordingly, we are deemed for accounting purposes to be a development stage enterprise since January 1, 2002 and are subject to a number of risks similar to those of other companies in an early stage of development. The accompanying financial statements have been prepared assuming our company will continue as a going concern. We believe the PureSafe FRWS will be the product line by which we will generate our first significant sales since 2001. Upon generating significant sales, we will cease being deemed a development stage enterprise.

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, including seawater, that may be found at a first response emergency site. This system is uniquely mobile, by helicopter or transported by SUV or truck, and can decontaminate essentially any kind of contaminated water without prior knowledge of the contaminants to be treated. The initial PureSafe FRWS prototype was developed using advanced Israeli water treatment technology. This 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. The existing production unit was modified from the original prototype and has significantly greater capability, but still adheres to the original treatment train and process. A fully operational prototype has been manufactured and is currently located at the Company headquarters in Plainview, New York, where it is used for demonstrations. The Company is currently in various stages of production of the first six (6) FRWS units. The FRWS in production can produce EPA compliant drinking 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). The built in PureSafe Water Filling Station can provide an additional 25,000 gallons of water that can delivered in a choice of formats. 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 unit's water quality and the results exceeded all testing parameters.

On March 26, 2010 we entered into a long term management agreement with Hidell-Eyster International Inc. (HEI). The HEI group was involved in modifying the original prototype to meet the requirements of the existing production unit. Having mutually agreed that the HEI participation was no longer required by the Company a Termination Agreement was entered into on December 29, 2010.

Products

In 1998, searching for a “killer application,” our management focused on the worldwide need for safe drinking water for populations who are not served by municipal water treatment facilities, or are served by municipal systems that have malfunctioned because of improper maintenance or faulty design. The result of that activity was the development of the PureSafe Water Station, a turn-key unit that converts “gray,” or bathing grade, water into EPA grade drinking water. The PureSafe Water Station was designed to eliminate all living pathogens that pollute non-processed water (e.g., bacteria, cysts, viruses, parasites, etc.) at an affordable cost for the emerging economies of the world.

From 1998 to 2006, we continued to concentrate our efforts on the further development, manufacturing and marketing of the PureSafe Water Station.

While the PureSafe Water Station gained considerable attention and received appropriate approvals by various governmental and non-governmental agencies, it became clear to our management that the economics of the PureSafe Water Station, primarily the power requirements to operate the unit, made sales much more difficult than anticipated. In addition, prior management found it difficult to penetrate markets in third world countries.

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In 2007, new management made a strategic decision that the Pure Safe Water Station was not a viable product that could produce significant sales revenues. Our management recognized that the existing unit required significantly more engineering. In 2007, new management examined the need for a first response system that would be easily deployable and be able to decontaminate and purify water from any contaminated water source and deliver that water in a potable form. In 2007 we signed a contract with Bircon, Ltd. ("Bircon") an Israeli company to design our new PureSafe FRWS product line.

The PureSafe FRWS is designed as a rapid deployment water treatment and bottling system providing immediate drinking water to emergency first responders from almost any source of raw water. The PureSafe FRWS also is intended to provide drinking water to the immediately affected population of a disaster on a short term basis.

Based on the original technology developed by Bircon, in 2008 we produced a working prototype of the FRWS that can deliver 10,000 gallons of water per day. This prototype has been performance tested and the results have been independently verified. This unit had served as a demonstration unit but, has been replaced by the more advanced system.

In 2008 management held a meeting with the Department of Homeland Security in Washington D.C. and based on that meeting a strategic decision was made to modify the system to be capable of producing 30,000 gallons of water per day to serve a population of up to 45,000 people. As indicated above we are currently in production of the first six units.

The PureSafe FRWS utilizes our patent pending technology which is comprised of a water extraction boom that extracts water from streams, ponds, pools of floodwater or a failed municipal distribution system. The extracted water is then treated by the application of advanced water treatment technologies which employ multiple stage filtration, multiple stage sanitation (including ozone, chlorine and ultraviolet purification techniques), reverse osmosis membranes, mineralization and final polishing to meet the standard drinking water requirements of the U.S. Environmental Protection Agency (the "EPA"). The system provides redundancy at the filtration and sanitation stations and the duel capability of on-site filling of containers, as well as an automatic water bag producing capability. Components utilized in the system are manufactured by others and are NSF certified. 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. NSF International develops national standards, provides learning opportunities and provides third-party conformity assessment services.

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. Our manufacturing staff built out the space, and we took occupancy in July 2010. We are in the process of producing the first six FRWS units in our new factory. We believe we can produce a significant number of units in multi shifts in this new space. We may outsource the manufacturing process and /or sub-assemblies to qualified sub-contractors, based on demand and cost effectiveness. In the future we may consider licensing agreements for manufacturing in other parts of the world.

On August 6, 2008, we entered into a six month consulting agreement with Designs and Project Development Corp. (D & P) for planning and continued development of the PureSafe FRWS. Under the agreement, The President of D & P, Alphonse Wolter is to served as Director of Production.

On March 25, 2010, the Board of Directors approved the appointment of Mr. Wolter to serve as General Manager of PureSafe Manufacturing & Research Corporation.

Raw Materials

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. Therefore, we do not believe that obtaining raw materials will be difficult once manufacturing commences.

Competition

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 opportunity for our company to exploit 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 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.

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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 equally large residential sector. The municipal solution requires significant investment for infrastructure development (e.g., building plants and laying miles of distribution pipes). Products for residential 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.

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 manufactures systems capable of processing different sources, but has limitations on fuel storage and output. LifeStream has limitations on the inbound source and has a soft side trailer which provides no security from the elements for the components. Aquapura Tempest has different types of units depending on the source. None of these companies stock units ready to deploy, none have distribution/packaging capability, none have built in redundant systems, and few have the capability of field service training and support. Some require previous source definition and when ordering require additional decisions on option selections which can be complicated and confusing especially when dealing with the unknown.

After reviewing these potential competitors in the above categories we find that most do not compare favorably with the PureSafe unit as a First Responder system. They do not maintain an inventory of ready to ship units, or decontamination units. None of the competitors maintain a chain of custody for the distribution of the water, nor do they have a fill table and or Poly-Film bagging machine for immediate distribution of packaged water. None of the systems have redundant backup systems such as two high pressure pumps and four different post-treatment disinfection methods. In some cases the water source must be defined in advance in order to match the system capabilities for processing, and in other cases a different machine is required for processing brackish or seawater.

The PureSafe First Response Mobile Water Purification System is capable of processing any unknown source at any time without pre-qualification. The large units produced by GE and Siemens manufacturers are capable of processing many sources but are not first response systems considering their deployment time and requirements. None of the trailer mounted units claim the ability to be lifted by helicopter, and the containerized units have no means of movement once they are landed, without a support chassis and a way to load them. We did not find the competitive units to be focused on first responder use, since they do not include everything necessary for a successful deployment without selecting options or adding peripherals. Once on site, the competitive units have only a hose for distribution. Residual ozone in the PureSafe post-processing module also allows sanitization of utensils and medical equipment needed for use in the field. Chemicals, hoses, test kits, filters and specialty tools are all included with the PureSafe unit.

In all cases reviewed, most of these potential competitors do not maintain an inventory of units for immediate shipment, do not have flexible business models, do not have decontamination abilities, do not provide a water bottling station, the automatic production of bags of water and cannot provide units in less than eight weeks after orders are placed. In addition, most of the potential competitors' units were very limited in the types of water that they could treat successfully in emergency applications; only the very large units could handle contaminated water sources effectively. The smaller units were generally "skid" mounted and not on trailers, while the larger units were on 50-foot trailers and not easily mobile for emergency first responder use. In most instances, the competitors' units could not be easily airlifted and dropped into strategic areas. None of the units produced by these competitors were focused on first responder use. Competitive units with specific reference to bottle washing and filling, portable by airlifting, trailer towing or on boats do not exist in the market, according to the research conducted on our behalf by HEI International. In addition, our patented water extraction boom is a sophisticated particulate processor that prevents blockages from objects floating in floodwater from occurring in the extraction boom, a significant advantage over competitors' products. Although, PureSafe FRWS is designed to deliver 30,000 gallons of water per day, the system is scalable to meet specific demands..

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For these reasons, we believe the combined capability of water decontamination and delivery system of our PureSafe FRWS is unique to the market.

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.

Marketing

According to studies performed by the World Health Organization (WHO) and the United Nations, major parts of Africa, the Middle East, Southeast Asia, the Indian sub-continent, Latin and South America, the Caribbean and much of Eastern Europe are in need of adequate supplies of pure water. The earthquake in Haiti and the earthquake and tsunami in Japan have demonstrated the desperate need for safe drinking water and the currently inadequate methods of delivering potable water to an affected population. Parts of Florida, Georgia and other regions in the United States have also reported fresh water deficiencies. Contaminants in municipal water systems have further demonstrated the need for an easily deployable purification methodology. Solving this problem has been a question of applying appropriate technology to decontaminate water and deliver pure potable drinking water to the affected area. Our unique capability of disinfecting equipment and containers by using high concentrations of ozonated water furthers our competitive edge.

We believe that there are clearly two distinct markets, each requiring a different sub-set of marketing skills:

The Domestic US market. The entry into the US market will be our primary target during the first year of production of the PureSafe FRWS.

International Markets. The entry into foreign markets will require strategic partnerships with well established companies, as well as relartionships with foreign governments.

The United States domestic marketing program will focus on the primary needs of first responders, such as federal, state and local agencies entrusted with first response challenges during times of both natural and man-made disasters, as well as potential terrorist attacks.

Governmental organizations that are involved in first response situations include the Department of Homeland Security, FEMA, the Armed Forces, National Guard, State Offices of Emergency Management, municipalities, fire departments, the Red Cross and other emergency and health care agencies. The Department of Homeland Security in May 2008 issued an Operational Requirement Document (ORD) in which they estimated the market size for our type of system to be 18,000 units over a five year period.

The market for our products also includes secondary markets, such as condominium developments, universities, hospitals, dialysis centers, hotels, nursing homes, assisted living facilities, prisons or any private user that is concerned about the availability of pure, safe potable drinking water in times of natural or man-made disasters.

The international market includes governments who need to address the same needs as the United States domestic market and the private sector.

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:

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Strategic Alliances – We intend to enter into strategic alliances with special advisors and organizations already integrated in the water industry both domestically and internationally.

Direct Marketing and Sales – Our Chief Operating Officer, Gerard Stoehr, has extensive experience as a marketing executive. We are currently searching for a seasoned sales professional to represent our product domestically. Chief Peter Hayden (Ret), formerly Chief of the New York City Fire Department, is serving as Vice President-Senior Government Liaison. Chief Hayden has extensive relationships in the first responder communities. The Company will be marketing directly and through representatives to local municipalities, first responders, national public emergency management agencies and military organizations that are responsible for first response emergency situations, including those involved in planning emergency preparedness plans.

The Honorable Michael Balboni serves as a Special Advisor to our Board of Directors. Mr. Balboni was a New York State Senator and served as Deputy Secretary of Public Safety for New York State. The Company expects to utilize Mr. Balboni's extensive contacts and knowledge in the governmental sector.

Mayor Douglas H. Palmer serves as a special consultant to management. Mayor Palmer served as Mayor of Trenton New Jersey for 20 years. Further, he has served as President of the U.S. Conference of Mayors. Management believes he can be instrumental in introducing us to U.S. Mayors and other decision makers.

Shaul Kochan has been serving as Vice President of International Markets. Mr. Kochan's focus has been the international market place.

We participated in the United Nations World Water Day on March 22, 2011 and demonstrated our First Response Water System at the event. Based on the interest generated at this event we are finalizing a sales agreement with affiliates of the U.N. to sell units to foreign government representatives, including ambassadors, ministers, diplomats ,military attaches and other U.N related agencies.

Advertising – We plan to advertise in a number of leading trade magazines, such as Fire Chief, Fire House, SIGNAL Magazine, Homeland First Response, Journal and Disaster Management and Response.

Trade Show Participations –We have participated in the following conferences and trade shows in 2010:

1. Long Island New York Emergency Management Conference –Melville, NY June 2-3
2. Firehouse Expo- Baltimore, MD July 20-25
3. WEFTEC- New Orleans, LA October 4-6
4. EMEX-San Antonio, TX Nov 1-3

Each of these conferences showcased our system to a wide variety of potential purchasers. We are presently in discussion with leads generated from various conferences

We plan to participate in key industry trade shows in the United States in 2011 including:

1. Governor's Hurricane Conference – Fort Lauderdale, Fl May 15-20
2. Rotary International Conference – New Orleans, LA May 21-25

United States Conference of Mayors – We joined the United States Conference of Mayors and have joined the Mayors Water Council as an affiliate member. Being a member of this organization gives us access to 1,250 mayors and the ability to showcase and present our FRWS to mayors from around the country. We will be participating in the 79th Annual Meeting in Baltimore, MD June 17-21.

Onsite Demonstration- We plan to conduct onsite demonstrations with potential clients as required and when feasible. The Company has a fully functional prototype unit available for demonstrations, as well as production units.

Training- We plan to insure that system operators will be adequately trained. By establishing the "PureSafe Training School", we seek to assure ourselves and our customers of the quality of the training.

Web Based Marketing – We will utilize pay-per-click as well as natural Search Engine Optimization (SEO) optimization techniques to generate traffic to our website, www.puresafewatersystems.com. We also plan to publish our website address in our public relations campaigns. This strategy is expected to generate leads from potential clients for follow up by our direct sales organization. The contents of our website do not constitute a part of this Annual Report on Form 10-K.

Clear Branding Message – We plan to convey clear differentiating brand marketing messages to highlight our brand and product attributes on our website and in our promotional campaigns. The marketing messages will be designed for decision makers in our targeted markets.

Public and Investor Relations Campaign – We plan to implement an active public and investor relations campaign as part of our over-all marketing plan. We recognize that a well coordinated public relations campaign is as valuable as or more valuable than paid advertising with no organized campaign.

Intellectual Property

The Company filed for U.S. patent protection for the PureSafe FRWS on April 9, 2008 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 protect intellectual proprietary 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

The original design of the PureSafe FRWS was conducted under the supervision of Gil Tenne, President of Bircon, Ltd. On going research and development is being conducted under the guidance of Chief Operating Officer, Gerard Stoehr and Director of Research and Development, Alphonse Wolter, supported by specialists in water processing, machine control software and electrical engineering.

Our expenditures for research and development activities in fiscal 2010 were $234,666, and in fiscal 2009 were $179,919.

Insurance

The Company maintains a $4 million general business liability policy. We believe such insurance coverage to be adequate for its current requirements. No assurance can be given that adequate insurance coverage, at reasonable cost or otherwise, will be available in the future.

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Employees

As of March 31, 2011, the Company employed a Chief Executive Officer, a Chief Financial Officer, a Chief Operating Officer, a Controller and one part time administrative employee in our headquarters. The Company employed a Vice President of International Markets and a Vice President-Senior Government Liaison.

PureSafe Manufacturing and Research Corp. employed one full time Director by agreement with Designs and Project Development Corp., and three independent contractors in the production facility.

We believe there are a sufficient number of qualified personnel available for the marketing and sales function, administrative requirements and for production. 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 $5 million additional capital. We anticipate that this amount of capital, if fully raised, will satisfy our financial obligations for approximately 24 months. Our capital requirements in connection with our marketing efforts, continuing product development and purchases of inventory and parts are expected to be significant for the foreseeable future. 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 recurring losses from operations, an accumulated deficit since its inception of approximately $38.84 million and $6.6 million for the year ended December 31, 2010, and has a working capital deficiency of approximately $2 million as of December 31, 2010. 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.

We plan to expand and we may be unable to manage our growth. We intend to grow our business, but we cannot be sure that we will successfully manage our growth. In order to successfully manage our growth, we must:

- expand and enhance our administrative infrastructure;
- improve our management, financial and information systems and controls;
- expand, train and manage our employees effectively;
- successfully retain and recruit additional employees; and
- develop a world class manufacturing capability using lean principles, ERP systems, strategic outsourcing and advanced supply chain management.

Continued growth could place a further strain on our management, operations and financial resources. We cannot assure that our operating and financial control systems, administrative infrastructure, facilities and personnel will be adequate to support our future operations or to effectively adapt to future growth. If we cannot manage our growth effectively, our business may be harmed.

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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 $4,000,000 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 think are relevant.

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Item 1B. Unresolved Staff Comments.

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

Item 2. Properties.

The Company currently maintains its 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 $5,342 through June 2011 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 $2,750 per month during the period in 2010. The facility has 5,300 square feet in space and serves as our headquarters, executive offices, and showroom.

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. Under the terms of the lease the Company paid a deposit of approximate $12,000. The minimum monthly lease payments due under this lease are approximately $6,000 for the period July 1, 2010 through June 30, 2011 and approximately $10,700 for the period July 1, 2011 through June 30, 2012.

Item 3. Legal Proceedings.

On June 21, 2009 we were served with a complaint filed in the Supreme Court of the State of New York, County of Nassau, in which suit State Farm Fire & Casualty Company is the plaintiff. The suit is for approximately $202,000 in damages, resulting from a fire that occurred on or about December 16, 2008, allegedly as a result of a defective water cooler sold either by us or by Water Splash LLC, to which we had sold our water cooler business and related liabilities in November 2001. An amended complaint was filed on August 19, 2009, adding Water Splash LLC as a defendant. The claim by State Farm is on the basis that, as the insurance carrier, it is subrogated to the claim for damages of the owner of the property where the fire allegedly started by reason of a defect in the water cooler. Under the complaint, alternative claims for damages are made in negligence, breach of warranty, placing on the market a product in a defective and unreasonably dangerous condition and not fit for its intended use, failure to warn State Farm's subragor of the risks and defects associated with the water cooler which were not discoverable by reasonable inspection, and strict liability. As of December 31, 2010, we do not believe that it has any potential exposure by reason of this lawsuit and, in any event, any recovery by the plaintiff would be covered under the existing liability insurance policy. However, we cannot provide assurance that the outcome of this matter will not have a material effect on our financial condition or results of operations.

In addition to the above, we 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.

Item 4. Reserved.

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.

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Quarter Ended	High Bid Price	Low Bid Price
March 31, 2009	$ 0.05	$ 0.02
June 30, 2009	0.08	0.04
September 30, 2009	0.08	0.04
December 31, 2009	0.07	0.04
March 31, 2010	0.053	0.053
June 30, 2010	0.13	0.125
September 30, 2010	0.11	0.099
December 31, 2010	0.14	0.13

Holders

As of April 12, 2011, we had 470 stockholders of record. We estimate that there are approximately 2,000 beneficial holders of our common stock, based on information collected with respect to our annual meeting of stockholders held on November 20, 2008.

Dividends

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, 2010 with respect to each equity compensation plan and individual compensation arrangements under which our equity securities are authorized for issuance to employees or non-employees.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (A)	Weighted-average exercise price of outstanding options, warrants and rights (B)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A)) (C)
Equity compensation plans approved by security holders	6,500,000	$ 0.0410	18,500,000
Equity compensation plans not approved by security holders	12,012,461	$ 0.0529	0

Total	18,512,461	$	0.0487	18,500,000

As of December 31, 2010, we have granted warrants and other rights to purchase a total of 18,512,461 shares of our common stock with average exercise price of $0.0487. 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.

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Date of Grant/Issuance	Number of Warrants Granted	Exercise Price	Expiration Date	Name of Holder, if a Director or Executive Officer
09/28/07	2,000,000	0.0700	09/28/10	Director and CFO
03/14/08	500,000	0.0667	03/14/12	Malcolm Hoenlein, director
04/16/08	45,000	0.0853	04/15/12	
04/16/08	45,000	0.0853	04/15/12	
07/30/08	250,000	0.0580	07/30/11	
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	

In November 2008, our stockholders approved our company's 2008 Equity Incentive Plan (the "2008 Plan"). The purposes of the 2008 Plan are (a) to enable our company 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, 2010 and through April 12, 2011, 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.

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

Overview and Recent Developments

We completed production of a fully functional prototype of the 10,000 gallon per day PureSafe FRWS in 2008. The system has been tested for its capability to decontaminate and purify contaminated waters with a variety of contaminants. All bench tests have been successful. Tests were performed under the supervision of Thomas Brewer PH.D, hydrogeologist with Hidell-Eyster International, Inc. All test results were independently verified by an outside independent laboratory. Test results have been published and have been disclosed to the public. Although we have focused on producing the 30,000 gallon per day unit, we believe there is a market for the original 10,000 gallon per day unit and may produce these units as well.

In 2008 we entered into a Letter of Intent with Mekorot Development and Enterprise Ltd ("Mekorot D&E"), a wholly owned subsidiary of Mekorot National Water Company, the national water carrier of Israel, to create a working relationship with the goal of incorporating the PureSafe FRWS in the global water security initiative of Mekorot D&E. Mekorot D&E, in turn, was seeking our help in marketing their water security program in the United States. To date no further relationship has been developed with Mekorot.

We have initiated discussion with various potential international partners concerning distribution and manufacturing rights.

We completed production of two fully functional 30,000 gallon per day PureSafe FRWS. One unit was completed in April 2010 and the second unit was manufactured and completed in our new 160 Dupont Street facility. We introduced the first unit at the Long Island New York Emergency Management Conference in June 2010.

The new design units will provide the following advantages over the first prototype unit:

- Capability of delivering 30,000 gallons of potable water per day rather than the 10,000 capacity of the prototype.
- Significant advancement on maintenance requirement. Maintenance personnel can step into the unit to change filters and provide other maintenance services.
- Automatic water bagging machine integrated into the system. The FRWS can now produce 1,500 ½ liter (16.9 ozs) bags of water automatically.
- Filling station integrated into the system. The bottle filling capability is now inside the system to prevent any type of external damage. The prototype had a drop down table for this purpose.
- Integrated diesel generator. The diesel generator is an integral part of the system and can operate for up to 90 hours without refueling.

We are seeking financing to expand production to meet what we believe will be significant demand for our product.

We also have begun to explore a joint venture relationship with a financial institution to provide lease financing for production units. No assurance can be given that we will receive financing from any source or that such financing will be in a sufficient amount or on terms favorable to our company. Any financing could have a dilutive effect to our then current stockholders. Even if sufficient and on terms favorable to us, financing cannot guaranty that we will generate revenues or be profitable at any time in the future.

Production of our new systems commenced in our manufacturing facility in September 2010. The period between the date of occupancy on July 1 and commencement of production in September was devoted to preparing the facility for production, including build out of production facilities, offices, obtaining permits, electrical and water service.

We received Water Quality Association Gold Seal Certification on our FRWS in September 2010.

We hired a new Chief Operating Officer in January 2011.

Plan of Operations

Our plans for the next twelve months include;

Raising $5 million in capital in two tranches, $2.5 million within the first six months of 2011 and an additional $2.5 million in the fourth quarter of 2011

The completion of 45 commercial PureSafe FRWS units, with full operational capability. We believe that with acceptable levels of capital, 45 units can be produced of which 35 will be sold and ten will remain in inventory.

Expand production capability to meet the expected demand for the FRWS domestically by a combination of expanding the production facility of PureSafe Manufacturing and Research Corporation, and outsourcing where appropriate.

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Identify strategic partners in specific overseas markets that have the production, distribution, maintenance and training capability to produce, distribute, maintain and train personnel in the operation of our system.

To enter into field testing programs.

Targeting specific countries that have shown an interest in our product at World Water Day at the United Nations.

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

Continued utilization of strategic advisors to target potential customers and applications.

To follow our marketing and sales projections by hiring a Vice President of Sales to achieve sales by the second quarter of 2011.

Continue appointments of additional international and domestic distributors and sales representatives.

No assurance can be given that any of the above items will be completed during the next twelve months or at anytime 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, 2010, our stockholders' deficiency was $1,710,594 as compared to $2,213,943 at December 31, 2009. Negative working capital was $2,021,433 at December 31, 2010 as compared to $1,895,350 at December 31, 2009.

We continue to suffer recurring losses from operations and have an accumulated deficit since inception of approximately $38.8 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 $5 million in the next twelve months to fund the following activities: the production of 45 commercialized PureSafe FRWS units; launching a marketing program for the PureSafe FRWS, establishing a sales and marketing network; and concluding agreements with strategic partners for international marketing and manufacturing. Provided we obtain such financing, we believe that there will be revenue recognition by the second quarter of 2011.

We have no assurance that such financing will be available on terms advantageous to us, or at all. We anticipate that by the second quarter of 2011, we will be fully commercially operational and cease to be a development stage entity. 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.

For the first two quarters of 2011, our main focus will be to produce PureSafe FRWS standardized commercial units and initiate our marketing plan. We expect to recognize the first sales of the PureSafe FRWS by the end of the second quarter of 2011. We will cease being a development stage enterprise at the time of our recognition of significant revenue from the sale of PureSafe FRWS units.

The completion of these initiatives will be contingent upon the amount of capital raised.

Results of Operations

Revenues. Revenues for the years ended December 31, 2010 and 2009 were $0 and $0, respectively.

Cost of goods sold. Cost of goods sold for the years ended December 31, 2010 and 2009 were $0 and $0, respectively.

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Selling, general and administrative. Selling, general and administrative expenses for the year ended December 31, 2010 was $3,305,378, compared to $1,897,639 for the 2009 fiscal year, an increase of $1,407,739 or 74%. The overall scale of our operation was much bigger in 2010 than in 2009. That is the main reason expenses in most of the categories show substantial increase in 2010 compared to 2009. The following is a more detailed analysis on some of the categories that have the most significant changes. Legal fees incurred in 2010 was $105,737, compared to $86,356 in 2009, a $19,381 or 22% increase. The 22% increase in legal fees is attributable to more legal services required in 2010 due to the expansion of operations. Consulting services expense in 2010 was $107,360, compared to $198,962 in 2009, a $91,602 or 46% decrease. The decrease in consulting fees is because we changed one vendor's service to Research & Development because of the nature of the service they provided. Insurance expense in 2010 was $69,711, compared to $47,092 in 2009, a $22,619 or 48% increase. The increase in insurance expense was from two categories; general liability insurance increased because of the additional facility we added in July 2010 and Workers' Compensation premiums also increased significantly because of the addition of production staff. Office expenses increased $36,883 or 148% from $24,847 in 2009 to $61,729 in 2010. Marketing expense increased significantly. Marketing expense in 2010 was $699,851 compared to $223,637 in 2009, a 476,214 or 213% increase. Marketing expense can be broken down to the following categories; a.) Marketing – Consulting expense in 2010 was $58,000 compared to $0 in 2009. We hired an outside consultant in 2010 to manage, coordinate and implement marketing programs that we put in place. b.) Marketing – Trade show expense in 2010 was $85,189 compared with $5,084 in 2009, a $80,105 or 1,576% increase. The main reason for such an increase in this category was the increased participation in different trade show, since we completed the production of the first two commercialized units; c.) Marketing related printing cost increased by $17,061 from $105 in 2009 to $17,166 in 2010; d.) marketing expense related to the fee incurred in retaining Hidell-Eyster International, Inc. ("HEI")'s services in 2010 was $408,800 which includes $108,000 termination.

Directors' fees in 2010 were $44,000 compared with $8,000 in 2009, a $36,000 or 450% increase. We retained two independent directors in June 2010 and revised the directors' compensation schedule to $50,000 per year payable quarterly in our common shares.

Rent expense in 2010 was $132,393, compared to $114,311 in 2009, a $18,082or 16% increase. On May 24, 2010, effective July 1, 2010, the Company entered into a two-year lease in Plainview, New York. We incurred $36,050 rent related expense in connection with this facility. The rent increase in connection with this facility was offset by the decrease of real estate tax expense of $15,415. In addition to 2009 tax liability, in mid 2009, we received a large bill that was related to 2008 property tax that our landlord did not bill us in 2008. That was the reason 2009 rent related expense was higher compared with rent related expense incurred in 2010.

Total salaries paid, including accrued, compensation was $521,151 in 2010, compared to $262,102 in 2009, an increase of $259,049 or 99%. The $259,040 increase in salaries in 2010 is the result of the following reasons: a.) under new employment agreements signed with our chief executive officer and chief operating officer, total base compensation in 2010 increased $152,400, b.) we incurred base compensation for a staff whom worked for us between June and September 2010 and c.) compensation we paid to our V.P. – Government Liaison whom we retained in April, 2010. Stock based compensation increased to $893,071 in 2010 from $706,113 in 2009, an increase of $186,958 or 26%.

Research and development. Research and development expenses in 2010 were $234,666, compared to $179,919 in 2009, an increase of $54,747 or 30%. 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.

Discharge of debt. We realized a gain on discharge of debt of $138,261 in 2010 and $202,717 in 2009. The 2010 gain on discharge of debt arose from the settlement with Hidell-Eyster International, Inc. when both parties agreed to terminate the Management Agreement entered in March 2010 and the gain on discharge of debt in 2009 is from our settlement with Occidental Engineering outstanding debt.

Interest expense - non-debt discount related incurred in 2010 and 2009 was $162,038 and $25,849, respectively. The $136,189 or 527% increase was primarily from i) accrued interest from the promissory notes that we issued to various vendors which include our Chief Executive Officer and Chief Financial Officer for a total of $433,624 accrued compensation that they agreed to defer until January 1, 2011, ii) accrued interest on the $970,000 in funds we received from October 2009 through December 2010 through debt financing, which included $25,000 received from each of our Chief Executive Officer, Chief Financial Officer and former Chief Operating Officer, and iii) accrued interest on the aggregate $400,000 loan we received from our Chief Executive Officer and Chief Financial Officer in April and October 2010.

Interest expense - debt discount related Debt discount related interest expense incurred in 2010 and 2009 was $433,763 and $118,743, respectively, a $315,020 or 265% increase. The increase of debt discount related interest expense is caused by the $970,000 in funds received through debt financing and $400,000 aggregate loan received from our Chief Executive Officer and Chief Financial Officer.

Change in fair value of warrants and embedded conversion options. Change in fair value of warrants and embedded conversion options for the years ended December 31, 2010 and 2009 was $2,642,100 and $83,000, respectively. The warrants and the embedded conversion options are recorded as derivative liabilities at their fair market value and marked to market through earnings at the end of each reporting period. The average price of our common stock in 2010 was much higher than the average price in 2009. That is one of the reasons for the $2,559,100 or 3,083% increase in the change in fair value of warrants and embedded conversion options. The other reason for the increase was the warrants issued and embedded conversion options in connection with $137,000 debt financing activities in 2010.

On December 31, 2010, upon the request from a former director, we converted $68,491 loan principal and accrued interest we owed him into 974,312 shares of our common stock. The conversion price for the conversion was 50% of the average closing price of the common stock over the three previous business days preceding the date of demand for conversion was made. Since it was not a fixed conversion price, the number of convertible shares could not be determined at the time the loan was made. As a result, the embedded conversion option was presented as a derivative liability on the consolidated balance sheet. Subsequent to the conversion, we reclassified $2,064,500 which represented the fair value for the respective warrants and embedded conversion options previously classified as components of the derivative liabilities to equity.

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Liquidity and Capital Resources

As of December 31, 2010, we maintained a cash balance of $166,758 as compared to $107,424 at December 31, 2009 an increase in the cash balances of $59,334.

Net cash used in the operating activities was $2,399,595 and $820,870 in 2010 and 2009, respectively. The $1,578,625 additional cash used in 2010 compared to the same period in 2009 was the result of our expansion in operations. We incurred significantly greater expenses in staff and contractors' compensation. We increased marketing activities, which also contributed to the increase. We applied approximately $345,700 in cash to build-up our inventory for production.

Net cash used in capital expenditures in 2010 and 2009 was $120,712 and $16,618 respectively. Most of the capital expenditures were spent on purchasing production equipments and leasehold improvements for our new production facility.

We raised $1,292,939 and $540,500 through sales of our common stock, in 2010 and 2009 respectively. We received $494,997 from investors who exercised their warrants to purchase common stock in 2010 and $0 raised through the exercise of warrants in 2009. We raised $595,000 and $325,000 through debt financing in 2010 and 2009 respectively. Proceeds received from officers and directors' loans were $400,000 and $50,000 in 2010 and 2009 respectively. In December 2010, we repaid $200,000 loan principal plus accrued interest to our Chief Executive Officer and Chief Financial Officer. From all the above activities, net cash provided by financing activities was $2,579,641 and $915,500, in 2010 and 2009, 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.

Development Stage Company

We discontinued our water cooler and filtration operations in November 2001. We have refocused our efforts on raising capital and developing markets for its proprietary technology. Therefore, for financial purposes, we have determined that we re-entered the development stage commencing January 1, 2002. Our consolidated statements of operations, stockholders' deficiency and cash flows for the year ended December 31, 2010 represent the financial information cumulative, from inception/commencement, required by ASC 915 "Development Stage Entities."

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.

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

	Years Ended December 31,			
	2010		2009	
Risk-free interest rate	1.00	%	2.00	%
Expected life, in years	3 years		3years	
Expected volatility	115	%	83	%
Dividends	0	%	0	%

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

Derivative Financial Instruments

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

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

Effects of Recent Accounting Policies

In February 2010, the Financial Accounting Standards Board (“FASB”) Accounting Standards Update 2010-10 (ASU 2010-10), “Consolidation (Topic 810): Amendments for Certain Investment Funds.” The amendments in this Update are effective as of the beginning of a reporting entity’s first annual period that begins after November 15, 2009 and for interim periods within that first reporting period. Early application is not permitted. The adoption of provisions of ASU 2010-10 did not have a material effect on our financial position, results of operations or cash flows.

ASU No. 2010-11 was issued in March 2010, and clarifies that the transfer of credit risk that is only in the form of subordination of one financial instrument to another is an embedded derivative feature that should not be subject to potential bifurcation and separate accounting. This ASU will be effective for the first fiscal quarter beginning after June 15, 2010, with early adoption permitted. The adoption of this ASU did not have a material effect on our financial position, results of operations or cash flows.

ASU No. 2010-13 was issued in April 2010, and will clarify the classification of an employee share based payment award with an exercise price denominated in the currency of a market in which the underlying security trades. This ASU will be effective for the first fiscal quarter beginning after December 15, 2010, with early adoption permitted. We do not expect the provisions of ASU 2010-13 to have a material effect on our financial position, results of operations or cash flows.

In April 2010, the FASB issued Accounting Standards Update 2010-17 (ASU 2010-17), Revenue Recognition-Milestone Method (Topic 605): Milestone Method of Revenue Recognition. The amendments in this Update are effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. If a vendor elects early adoption and the period of adoption is not the beginning of the entity's fiscal year, the entity should apply the amendments retrospectively from the beginning of the year of adoption. We do not expect the provisions of ASU 2010-17 to have a material effect on our financial position, results of operations or cash flows.

In April 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-18 "Receivables (Topic 310) – Effect of a Loan Modification When the Loan is Part of a Pool that is Accounted for as a Single Asset – a consensus of the FASB Emerging Issues Task Force." ASU 2010-18 provides guidance on account for acquired loans that have evidence of credit deterioration upon acquisition. It allows acquired assets with common risk characteristics to be accounted for in the aggregate as a pool. ASU 2010-18 is effective for modifications of loans accounted for within pools under Subtopic 310-30 in the first interim or annual reporting period ending on or after July 15, 2010. The adoption of ASU 2010-18 did not have an impact on our financial condition, results of operations, or disclosures.

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In May 2010, the FASB issued Accounting Standards Update 2010-19 (ASU 2010-19), Foreign Currency (Topic 830): Foreign Currency Issues: Multiple Foreign Currency Exchange Rates. The amendments in this Update are effective as of the announcement date of March 18, 2010. We do not expect the provisions of ASU 2010-19 to have a material effect on our financial position, results of operations or cash flows.

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

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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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. (a development stage company) and its subsidiary (the "Company") as of December 31, 2010 and 2009 and the related consolidated statements of operations, stockholders' deficiency and cash flows for the years then ended, and for the period from January 1, 2002 (commencement as a development stage company) to December 31, 2010. 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. (a development stage company) and its subsidiary as of December 31, 2010 and 2009 and the consolidated results of their operations and cash flows for the years then ended, and for the period from January 1, 2002 (commencement as a development stage company) to December 31, 2010 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, 2010. 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 15, 2011

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PureSafe Water Systems Inc. and Subsidiary
(A Development Stage Company Commencing January 1, 2002)
Consolidated Balance Sheets

	December 31, 2010	December 31, 2009
ASSETS		
Current Assets:		
Cash	$ 166,758	$ 107,424
Inventories	442,815	97,115
Prepaid expenses and other current assets	81,697	120,083
Total Current Assets	691,270	324,622
Property and equipment, net of accumulated depreciation of $68,447 and $33,356, at December 31, 2010 and 2009, respectively	231,106	115,551
Patents and trademarks, net of accumulated amortization of $29,608 and $23,504, at December 31, 2010 and 2009, respectively	62,876	68,980
Other assets	37,280	20,500
TOTAL ASSETS	$ 1,022,532	$ 529,653
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 751,262	$ 656,242
Accrued compensation	193,533	84,000
Accrued consulting and director fees	144,000	140,000
Convertible notes and notes payable to officers and director (including accrued interest of $47,445 and $14,685 and net of debt discount of $0 and $14,706 at December 31, 2010 and 2009, respectively)	534,445	99,979
Convertible promissory note (including accrued interest of $25,132 and $9,194 and net of debt discount of $241,657 and $104,214, at December 31, 2010 and 2009, respectively)	428,475	279,980
Promissory notes payable (including accrued interest of $159,698 and $127,221, at December 31, 2010 and 2009, respectively)	470,660	285,443
Fair value of detachable warrants and options	--	286,100
Fair value of embedded conversion options	--	197,900
Accrued dividends payable	190,328	190,328
Total Current Liabilities	2,712,703	2,219,972
Long Term Liabilities:		
Promissory notes payable – Long Term	20,423	236,624
Notes payable to officers and directors	--	287,000
Total Long Term Liabilities	20,423	523,624
TOTAL LIABILITIES	2,733,126	2,743,596

Stockholders' Deficiency:				
Preferred stock $.001 par value; 10,000,000 shares authorized; 184,144 shares issued and outstanding at December 31, 2010 and 2009, (liquidation preference $2,700,550 and $2,592,250, at December 31, 2010 and 2009, respectively)		184		184
Common stock, $.001 par value; 450,000,000 authorized; 319,026,726 shares issued and 319,022,326 shares outstanding at December 31, 2010; 272,162,945 shares issued and 272,158,545 outstanding at December 31, 2009		319,026		272,162
Additional paid-in capital		37,203,196		30,086,795
Treasury Stock, at cost, 4,400 shares of common stock		(5,768)		(5,768)
Subscriptions receivable - related party (including accrued interest of $53,308 and $33,076, at December 31, 2010 and 2009, respectively)		(390,508)		(370,276)
Accumulated deficit (including $24,305,128 and $17,665,444 of deficit accumulated during development stage at December 31, 2010 and December 31, 2009, respectively)		(38,836,724)		(32,197,040)
Total Stockholders' Deficiency		(1,710,594)		(2,213,943)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$	1,022,532	$	529,653

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

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PureSafe Water Systems Inc. and Subsidiary
(A Development Stage Company Commencing January 1, 2002)
Consolidated Statements of Operations

	Years Ended December 31, 2010	2009	January 1, 2002 to December 31, 2010
Sales	$--	$--	$471,290
Costs and expenses (income):			
Cost of Sales	--	--	575,680
Selling, general and administrative, including stock-based compensation of $893,073 and $716,313 for the years ended December 31, 2010 and 2009 and $4,271,878 for the period January 1, 2002 to December 31, 2010	3,305,378	1,897,639	14,126,945
Non-dilution agreement termination costs	--	--	2,462,453
Research and development	234,666	179,919	1,120,353
Interest expense - including interest expense to a related party of $305,835 and $86,992 for the years ended December 31, 2010 and 2009, respectively, and $526,600 for the period Jan 1, 2002 to December 31, 2010	595,801	144,592	2,257,113
Financing costs - extension of warrants	--	--	74,700
Interest expense - conversion provision	--	--	113,000
(Gain) loss on settlement of debt	(138,261)	(202,717)	1,888,925
Change in fair value of warrants and embedded conversion option	2,642,100	83,000	2,157,249
Total costs and expenses	6,639,684	2,102,433	24,776,418
Net (loss)	(6,639,684)	(2,102,433)	(24,305,128)
Deemed dividend on preferred stock	--	--	(2,072,296)
Preferred stock dividends	(108,300)	(108,300)	(942,723)
	(108,300)	(108,300)	(3,015,019)
Net loss attributable to common stockholders	$(6,747,984)	$(2,210,733)	$(27,320,147)
Net loss attributable to common stockholders per common share - Basic and diluted	$(0.02)	$(0.01)	
Weighted average number of shares outstanding - Basic and diluted	295,081,218	262,016,546	

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

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PureSafe Water Systems Inc. and Subsidiary
(A Development Stage Company Commencing January 1, 2002)
Consolidated Statements of Stockholders' Deficiency

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock, at Cost	Subscription Receivable	Accumulated Deficit	Total Stockholders' Deficiency
BALANCE - JANUARY 1, 2002	145,500	$ 146	86,614,286	$ 86,614	$ 12,339,469	$ (5,768)	$ (67,500)	$ (14,531,596)	$ (2,178,635)
Extension of life of warrants	--	--	--	--	111,000	--	--	--	111,000
Proceeds from sale preferred stock ($1.00 per share)	125,000	125	--	--	117,375	--	--	--	117,500
Proceeds from sale of common stock ($0.025 per share)	--	--	2,500,000	2,500	97,500	--	--	--	100,000
Common stock issued for services ($0.08 per share)	--	--	450,000	450	35,550	--	--	--	36,000
Collection of subscription receivable	--	--	--	--	--	--	30,200	--	30,200
Net loss	--	--	--	--	--	--	--	(1,589,746)	(1,589,746)
BALANCE - DECEMBER 31, 2002	270,500	$ 271	89,564,286	$ 89,564	$ 12,700,894	$ (5,768)	$ (37,300)	$ (16,121,342)	$ (3,373,681)
Proceeds from sale of preferred stock:									
March 31, 2003 ($1.00-$2.00 per share)	62,500	63	--	--	74,937	--	--	--	75,500
June 30, 2003 ($0.50 per share)	75,000	75	--	--	37,425	--	--	--	37,500
	163,281	163	--	--	228,346	--	--	--	228,509

September 30, 2003 ($1.00-$2.40 per share)									
December 31, 2003 ($1.33-$2.80 per share)	145,450	145	--	--	258,717	--	--	--	258,862

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Preferred stock issued for services:									
March 31, 2003 ($1.00 per share)	30,000	30	--	--	29,970	--	--	--	30,000
June 30, 2003 ($1.00 per share)	51,250	51	--	--	51,199	--	--	--	51,250
September 30, 2003 ($1.00 per share)	67,035	67	--	--	66,968	--	--	--	67,035
December 31, 2003 ($1.88-$4.00 per share)	22,150	22	--	--	65,378	--	--	--	65,400
Collection of subscription receivable	--	--	--	--	--	--	15,500	--	15,500
Write-off of subscription receivable	--	--	--	--	--	--	21,800	--	21,800
Net loss	--	--	--	--	--	--	--	(3,535,479)	(3,535,479)
BALANCE - DECEMBER 31, 2003	887,166	$ 887	89,564,286	$ 89,564	$ 13,513,834	$ (5,768)	$ --	$ (19,656,821)	$ (6,058,304)
Proceeds from sale of preferred stock:									
March 31, 2004 ($2.40-$4.80 per share)	130,077	130	--	--	400,126	--	--	--	400,256
June 30, 2004 ($0.80 per share)	15,625	16	--	--	12,484	--	--	--	12,500
Preferred stock issued for services:									
March 31, 2004 ($2.00-$4.80 per share)	49,433	49	--	--	158,483	--	--	--	158,532

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PureSafe Water Systems Inc. and Subsidiary
(A Development Stage Company Commencing January 1, 2002)
Consolidated Statements of Stockholders' Deficiency
(Continued)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock, at Cost	Subscription Receivable	Accumulated Deficit	Total Stockholders' Deficiency
Proceeds from sale of common stock:									
September 30,2004 ($0.03-$0.15 per share)	--	--	2,541,595	2,541	205,059	--	--	--	207,600
December 31, 2004 ($0.05-$0.10 per share)	--	--	2,487,500	2,488	187,512	--	--	--	190,000
Common stock issued for services:									
March 31, 2004 ($0.05 per share)	--	--	477,133	477	23,380	--	--	--	23,857
September 30,2004 ($0.05-$0.15 per share)	--	--	1,857,800	1,858	126,792	--	--	--	128,650
December 31, 2004 ($0.08-$0.10 per share)	--	--	532,500	533	40,968	--	--	--	41,501
Preferred stock dividend	--	--	--	--	(81,034)	--	--	--	(81,034)
Common stock issued for satisfaction of liabilities:									
June 30, 2004 ($0.15 per share)	--	--	37,786,629	37,787	5,635,934	--	--	--	5,673,721
December 31, 2004 ($0.134 per	--	--	411,100	411	54,839	--	--	--	55,250

share)									
Preferred stock converted to common stock:									
June 30, 2004	(133,250)	(133)	5,108,332	5,108	(4,975)	--	--	--	--

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September 30, 2004	(269,263)	(269)	12,103,854	12,104	(11,835)	--	--	--	--
December 31, 2004	(65,375)	(65)	3,015,000	3,015	(2,950)	--	--	--	--
Net loss	--	--	--	--	--	--	--	(3,757,802)	(3,757,802)
BALANCE - DECEMBER 31, 2004	614,413	$ 615	155,885,729	$ 155,886	$ 20,258,617	$ (5,768)	$ --	$ (23,414,623)	$ (3,005,273)
Proceeds from sale of common stock:									
March 31,2005 ($0.05 per share)	--	--	200,000	200	9,800	--	--	--	10,000
June 30, 2005 ($0.05-$0.06 per share)	--	--	700,000	700	39,300	--	--	--	40,000
September 30, 2005 ($0.07-$0.10 per share)	--	--	2,455,357	2,455	202,545	--	--	--	205,000
December 31, 2005 ($0.05-$0.07 per share)	--	--	3,879,283	3,879	236,081	--	--	--	239,960
Common stock issued for services:									
March 31, 2005 ($0.05-$0.10 per share)	--	--	230,000	230	17,770	--	--	--	18,000
December 31, 2005 ($0.05-$0.06 per share)	--	--	407,500	408	21,219	--	--	--	21,627
Preferred stock dividend	--	--	--	--	(66,436)	--	--	--	(66,436)
Extension of 1,666,667 warrants	--	--	--	--	74,700	--	--	--	74,700
Common stock issued for satisfaction of									

liabilities:									
September 30, 2005 ($0.07 per share)	--	--	571,428	571	39,429	--	--	--	40,000

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PureSafe Water Systems Inc. and Subsidiary
(A Development Stage Company Commencing January 1, 2002)
Consolidated Statements of Stockholders' Deficiency
(Continued)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock, at Cost	Subscription Receivable	Accumulated Deficit	Total Stockholders' Deficiency
December 31, 2005 ($0.142 per share)	--	--	100,000	100	14,100	--	--	--	14,200
Preferred stock converted to common stock:									
March 31, 2005	(55,970)	(56)	2,518,800	2,519	(2,463)	--	--	--	--
June 30, 2005	(34,020)	(34)	1,360,800	1,361	(1,327)	--	--	--	--
September 30, 2005	(286,650)	(287)	13,382,583	13,383	(13,096)	--	--	--	--
December 31, 2005	(2,188)	(2)	87,520	87	(85)	--	--	--	--
Net loss	--	--	--	--	--	--	--	(1,168,328)	(1,168,328)
BALANCE - DECEMBER 31, 2005	235,585	$ 236	181,779,000	$ 181,779	$ 20,830,154	$ (5,768)	$ --	$ (24,582,951)	$ (3,576,550)
Proceeds from sale of common stock:									
March 21, 2006 ($0.07 per share)	--	--	3,600,000	3,600	246,400	--	--	--	250,000
May 8, 2002 ($0.08-$0.10 per share)	--	--	3,769,230	3,769	276,231	--	--	--	280,000
June 28, 2006 ($0.10 per share)	--	--	100,000	100	9,900	--	--	--	10,000
August 17, 2006 ($0.07 per share)	--	--	400,000	400	27,600	--	--	--	28,000
Common stock issued for services:									
	--	--	250,000	250	14,750	--	--	--	15,000

March 21, 2006 ($0.06 per share)									
May 8, 2006 ($0.05 per share)	--	--	450,000	450	22,050	--	--	--	22,500

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June 6, 2006 ($0.15 per share)	--	--	166,666	166	24,833	--	--	--	24,999
Common stock issued for repayment of debt:									
February 13, 2006 ($0.11 per share)	--	--	438,785	439	48,046	--	--	--	48,485
April 3, 2006 ($0.08 per share)	--	--	614,131	614	50,790	--	--	--	51,404
April 6, 2006 ($0.08 per share)	--	--	1,959,631	1,960	154,614	--	--	--	156,574
June 6, 2006 ($0.10-$0.15 per share)	--	--	3,583,334	3,583	390,517	--	--	--	394,100
Preferred stock converted to common stock:	(46,668)	(47)	1,866,720	1,867	(1,820)	--	--	--	
Reclassification of derivative liabilities upon conversion of debt	--	--	--	--	368,800	--	--	--	368,800
4,000,000 warrants granted for services, May 18, 2006	--	--	--	--	464,000	--	--	--	464,000
2,500,000 warrants granted for services, May 24, 2006	--	--	--	--	241,200	--	--	--	241,200
Reclassification of warrants and embedded conversion option upon issuance of convertible debt	--	--	--	--	(288,900)	--	--	--	(288,900)
Preferred stock dividend	--	--	--	--	(42,401)	--	--	--	(42,401)
Net loss	--	--	--	--	--	--	--	(2,072,917)	(2,072,917)

BALANCE - DECEMBER 31, 2006	188,917	$ 189	198,977,497	$ 198,977	$ 22,836,764	$ (5,768)	$ --	$ (26,655,868)	$ (3,625,706)

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PureSafe Water Systems Inc. and Subsidiary
(A Development Stage Company Commencing January 1, 2002)
Consolidated Statements of Stockholders' Deficiency
(Continued)

	Preferred Stock		Common Stock		Additional Paid-In	Treasury Stock, at	Subscription	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Cost	Receivable	Deficit	Deficiency
Proceeds from sale of common stock:									
May 10, 2007 ($0.090 per share)	--	--	1,111,112	1,111	98,889	--	--	--	100,000
May 10, 2007 ($0.083 per share)	--	--	2,409,640	2,409	197,591	--	--	--	200,000
May 31, 2007 ($0.090 per share)	--	--	555,555	555	49,445	--	--	--	50,000
June 26, 2007 ($0.083 per share)	--	--	1,203,080	1,203	98,797	--	--	--	100,000
October 26, 2007 ($0.063 per share)	--	--	3,159,558	3,159	196,841	--	--	--	200,000
November 7, 2007 ($0.059 per share)	--	--	1,675,978	1,676	98,324	--	--	--	100,000
December 5, 2007 ($0.051 per share)	--	--	1,948,052	1,948	98,052	--	--	--	100,000
December 12, 2007 ($0.050 per share)	--	--	1,973,684	1,974	98,026	--	--	--	100,000
December 13, 2007 ($0.051 per share)	--	--	1,948,052	1,948	98,052	--	--	--	100,000
December 20, 2007 ($0.044 per share)	--	--	2,255,639	2,256	97,744	--	--	--	100,000
Stock for compensation:						--	--	--	
May 2, 2007 ($0.110 per share)	--	--	2,500,000	2,500	272,500	--	--	--	275,000
December 14, 2007 ($0.040	--	--	1,000,000	1,000	39,000	--	--	--	40,000

per share)									
Common stock issued in repayment of debt:									
February 26, 2007 ($0.132 per share)	--	--	195,212	195	25,534	--	--	--	25,729

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March 8, 2007 ($0.111 per share)	--	--	234,165	234	25,571	--	--	--	25,805
March 14, 2007 ($0.111 per share)	--	--	256,643	257	25,587	--	--	--	25,844
March 19, 2007 ($0.099 per share)	--	--	262,650	263	25,608	--	--	--	25,871
March 23, 2007 ($0.097 per share)	--	--	806,583	807	76,867	--	--	--	77,674
April 4, 2007 ($0.095 per share)	--	--	546,901	547	51,354	--	--	--	51,901
May 1, 2007 ($0.086 per share)	--	--	908,885	909	77,345	--	--	--	78,254
Stock for late payment penalty:						--	--	--	
May 22, 2007 ($0.100 per share)	--	--	100,000	100	9,900	--	--	--	10,000
Preferred stock converted to common stock:						--			
February 16, 2007	(2,848)	(3)	113,920	114	(111)	--	--	--	--
May 4, 2007	(250)	--	10,000	10	(10)	--	--	--	--
December 12, 2007	(625)	(1)	25,000	25	(24)	--	--	--	--
Cancellation of debt for no consideration	--	--	--	--	1,327,321	--	--	--	1,327,321
Surrender and cancellation of common stock	--	--	(20,000,000)	(20,000)	20,000	--	--	--	--
Reclassification of derivative liability	--	--	--	--	(227,300)	--	--	--	(227,300)
Amortization of warrants for services	--	--	--	--	311,916	--	--	--	311,916
Common stock to be issued	--	--	--	--	100,000	--	--	--	100,000
Preferred stock dividend	--	--	--	--	(399)	--	--	--	(399)
Net loss	--	--	--	--	--	--	--	(1,701,125)	(1,701,125)

BALANCE - DECEMBER 31, 2007	185,194	$ 185	204,177,806	$ 204,177	$ 26,129,184	$ (5,768)	$ --	$ (28,356,993)	$ (2,029,215)

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PureSafe Water Systems Inc. and Subsidiary
(A Development Stage Company Commencing January 1, 2002)
Consolidated Statements of Stockholders' Deficiency
(Continued)

	Preferred Stock		Common Stock		Additional	Treasury Stock,			Total
	Shares	Amount	Shares	Amount	Paid-In Capital	at Cost	Subscription Receivable	Accumulated Deficit	Stockholders' Deficiency
Proceeds from sale of common stock:									
$0.0357 per share - February 29, 2008	--	--	1,401,869	1,402	48,598	--	--	--	50,000
$0.0350 per share - March 7, 2008	--	--	2,857,142	2,857	97,143	--	--	--	100,000
$0.0350 per share - March 13, 2008	--	--	1,428,571	1,429	48,571	--	--	--	50,000
$0.0343 per share - March 13, 2008	--	--	2,912,622	2,913	97,087	--	--	--	100,000
$0.0900 per share - March 26, 2008	--	--	1,666,667	1,667	148,333	--	--	--	150,000
$0.1083 per share - March 26, 2008	--	--	461,538	462	49,538	--	--	--	50,000
$0.1000 per share - April 11, 2008	--	--	1,000,000	1,000	99,000	--	--	--	100,000
$0.1083 per share - May 5, 2008	--	--	923,077	923	99,077	--	--	--	100,000
$0.0917 per share - May 15,	--	--	545,455	545	49,455	--	--	--	50,000

2008									
$0.0963 per share - May 15, 2008	--	--	519,031	519	49,481	--	--	--	50,000
$0.0963 per share - May 12, 2008	--	--	1,557,094	1,557	148,443	--	--	--	150,000
$0.1000 per share - May 23, 2008	--	--	500,000	500	49,500	--	--	--	50,000
$0.0840 per share - June 30, 2008	--	--	833,333	833	69,167	--	--	--	70,000
$0.0730 per share - July 25, 2008	--	--	1,369,863	1,370	98,630	--	--	--	100,000

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Stock for receivables:									
$0.0843 per share - May 12, 2008	--	--	17,000,000	17,000	1,416,100	--	(1,433,100)	--	--
$0.0843 per share - August 31, 2008	--	--	(13,000,000)	(13,000)	(1,082,900)	--	1,095,900	--	--
Accrued interest	--	--	--	--	--	--	(12,914)	--	(12,914)
Stock for compensation:									
$0.0500 per share - March 13, 2008	--	--	1,000,000	1,000	49,000	--	--	--	50,000
$0.0400 per share - March 26, 2008	--	--	333,333	333	13,000	--	--	--	13,333
$0.1000 per share - May 29, 2008	--	--	1,000,000	1,000	99,000	--	--	--	100,000
$0.0500 per share – August 6, 2008			100,000	100	4,900				5,000
$0.0500 per share - September 19, 2008	--	--	2,050,000	2,050	100,450	--	--	--	102,500
Common stock issued in repayment of debt:									
$0.02943 per share - January 9, 2008	--	--	947,119	947	26,927	--	--	--	27,874
$0.02500 per share - January 17, 2008	--	--	2,146,324	2,146	51,512	--	--	--	53,658
$0.02212 per share - January 17, 2008	--	--	1,250,000	1,250	48,750	--	--	--	50,000
$0.03108 per share - January 22, 2008	--	--	6,899,269	6,899	207,530	--	--	--	214,429
$0.02943 per share - February 1, 2008	--	--	562,282	562	15,986	--	--	--	16,548
	--	--	--	--	70,766	--	--	--	70,766

Reclassification of derivative liability									
Amortization of warrants for services	--	--	--	--	219,856	--	--	--	219,856
Issuance of common stock for $100,000 of subscription payable ($0.0443 per share) - January 4, 2008	--	--	2,255,639	2,256	(2,256)	--	--	--	--

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PureSafe Water Systems Inc. and Subsidiary
(A Development Stage Company Commencing January 1, 2002)
Consolidated Statements of Stockholders' Deficiency
(Continued)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock, at Cost	Subscription Receivable	Accumulated Deficit	Total Stockholders' Deficiency
Issuance of shares upon exercise of warrants ($0.0850 per share) - March 26, 2008	--	--	110,000	110	9,240	--	--	--	9,350
Preferred stock converted to common stock	(1,050)	(1)	42,000	42	(41)	--	--	--	--
Preferred stock dividend	--	--	--	--	(57)	--	--	--	(57)
Net loss	--	--	--	--	--	--	--	(1,737,614)	(1,737,614)
BALANCE - DECEMBER 31, 2008	184,144	$ 184	244,850,034	$ 244,849	$ 28,528,973	$ (5,768)	$ (350,114)	$ (30,094,607)	$ (1,676,483)
Proceeds from sale of common stock:									
$0.0330 per share – January 16, 2009			757,576	758	24,242				25,000
$0.0320 per share – January 30, 2009			1,562,500	1,563	48,437				50,000
$0.0320 per share – February 9, 2009			640,625	641	19,859				20,500
$0.0299 per share – February 13, 2009			1,672,241	1,672	48,328				50,000
			1,724,138	1,724	48,276				50,000

$0.0290 per share – February 17, 2009				
$0.0410 per share – April 29, 2009	609,756	610	24,390	25,000
$0.0440 per share – May 28, 2009	568,182	568	24,432	25,000
$0.0420 per share – June 3, 2009	595,238	595	24,405	25,000

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$0.0600 per share – June 17, 2009	416,667	416	24,584	25,000
$0.0700 per share – June 23, 2009	714,286			