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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

X .

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

For the fiscal year ended December 31, 2013

.

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

Commission File Number: 0-30544

PureSafe Water Systems, Inc.
(Name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**86-0515678** (I.R.S. Employer Identification No.)
35 East Mall, Plainview, New York (Address of principal executive offices)	**11803** (Zip Code)

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

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

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

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

Yes . No X .

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

Yes . No X .

Indicate by check mark if the registrant has (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes . No X .

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes . No X .

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

Large accelerated filer .	Accelerated filer .
Non-accelerated filer	Smaller reporting company X .

. (Do not check if a smaller reporting company)

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

Yes . No X .

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

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

Table of Contents

Introductory Comment - Use of Terminology

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

Note Regarding Forward - Looking Statements

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

.

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

.

our ability to manage marketability of our products;

.

general economic and business conditions;

.

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

.

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

.

adverse results of any legal proceedings;

.

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

.

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

.

the volatility of our operating results and financial condition;

.

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

.

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

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

PART I

Item 1. Business.

Organizational Structure

Our company was incorporated in Delaware in 1987. Our business predecessor was incorporated in Arizona in 1985. In 1993, our business predecessor, then known as Auto Swap, U.S.A., Inc., merged with and into our company, although the business predecessor was treated as the surviving corporation for accounting purposes. Following the effectiveness of such merger, the surviving corporation changed its name to Water Chef, Inc. and began operating the businesses previously conducted by the business predecessor, the manufacture and marketing of water coolers and filters. The manufacture and marketing of water coolers and filters constituted a substantial part of our business from 1993 until the fourth quarter of 2001, at which time such operations were sold and we began concentrating on the further development, manufacturing and marketing of a patented line of water purification systems. In 2007, new management commenced development of our PureSafe First Response Water System line of mobile water decontamination and purification systems (the PureSafe FRWS). In 2008, we changed our name to PureSafe Water Systems, Inc.

With the initial sales of the Puresafe FRWS in 2011 and 2012, for accounting purposes we are no longer deemed to be a development state enterprise. We are, however, an early stage commercial enterprise. The accompanying financial statements have been prepared assuming our Company will continue as a going concern. The PureSafe FRWS is the product line by which we have generated our first significant sales since 2001.

General

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

Recent Developments Management Changes

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

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

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

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

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

Products

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

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

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

Marketing Plan

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

.

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

.

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

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

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

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

Manufacturing

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

Components

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

Competition

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

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

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

There are four categories of existing water purification units:

1.

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

2.

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

3.

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

4.

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

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

Markets Served

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

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

.

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

.

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

End Users/Target Market Segments

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

Municipal Treatment

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

Target Organizations:

.

Federal/State and Local Offices of Emergency Management

.

Federal/State Department of Homeland Security

.

Department of Public Works

.

Department of Public Safety

.

Public Water Authority

.

Federal, State and Local Correctional Institutions/Facilities

Quasi-Municipal Treatment

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

Target Organizations:

- Public (State) Universities
- Private Universities
- Private Hospitals
- Nursing Homes/Assisted Living Facilities
- Hotels and Resorts
- Analytical Laboratories
- Outpatient Treatment Centers

Industrial Treatment

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

Target Industries:

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

The International Market

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

World Water Facts

.

884 million people lack access to safe drinking water.

.

3.575 million people die each year from water-related diseases.

.

Every 20 seconds a child dies from a water related disease.

.

In the developing world 24,000 children under the age of five die every day from preventable causes like diarrhea contracted from unclean water.

.

In just one day 200 million hours of women s time is consumed for the most basic of human needs-collecting water for domestic use.

.

Less than 1% of the world s fresh water is readily accessible for direct human use.

.

More than 80% of sewage in developing countries is discharged untreated, polluting rivers, lakes and coastal areas.

Sources; Water.org, UN reports, WHO

Intellectual Property

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

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

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

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

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

Seasonality

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

Research and Development

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

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

Insurance

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

Employees

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

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

Item 1A. Risk Factors.

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

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

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

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

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

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

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

Technological change and competition may render our potential products obsolete.

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

Product liability exposure may expose us to significant liability.

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

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

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

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

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

We will face substantial competition in marketing our PureSafe FRWS.

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

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

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

Item 1B. Unresolved Staff Comments.

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

Item 2. Properties.

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

Item 3. Legal Proceedings.

The Company is a defendant in a suit in the Supreme Court of the State of New York, County of Nassau, filed by Fairchild Warehouse Associates, LLC (Fairchild), as plaintiff, for recovery of past rental payments for the Company s former office space at 25 Fairchild Avenue, Plainview, New York 11803, with money damages, as of February 2014, requested in the amount of $475,930, which have been accrued for and included in accounts payable and accrued liabilities as of December 31, 2013. An inquest is set to begin on December 3, 2014 to determine the amount of money damages due on Fairchild s claim.

The Company on April 4, 2013, was served with a summons and complaint, filed with the Supreme Court of the State of New York, County of New York, Levin Consulting Group, LLC (Levin), as plaintiff, where the plaintiff is claiming that additional shares of the Company s Common Stock are issuable by the Company to plaintiff in connection with the exercise by plaintiff of a common stock purchase warrant issued by the Company. The warrant was originally issued contemporaneously with the issuance of a $20,000 promissory note to Levin. In June 2014 the Company entered into a settlement and has agreed to issue a convertible promissory note in the amount of $50,000 to the plaintiff. The convertible note matures on December 31, 2015 and accrues interest at 10% per annum. The holder may convert all or any portion of the outstanding principal and accrued and unpaid interest due and payable under the note into shares of the Company s common stock at a conversion price equal to 50% of the lowest closing bid price of the Company s common stock during the five trading days immediately prior to such applicable conversion date, in each case subject to the lender not being able to beneficially own more than 9.999% of our outstanding common stock upon any conversion. If the closing bid price for the common stock on the date in which the conversion shares are deposited into the holders brokerage account and the holder may execute trades of the conversion shares (the Clearing Date) then the conversion price shall be adjusted such that the discount be taken from the closing bid price on the Clearing Date. The original $20,000 note remains outstanding. As of December 31, 2013 the Company has accrued a $50,000 loss as a result of the settlement and is included in accounts payable and accrued liabilities.

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

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

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

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

The Company was notified by an April 22, 2013 letter from The Depository Trust Company (DTC) that DTC had determined to impose a restriction on physical deposit and on Deposit/Withdrawal At Custodian (DWAC) electronic deposit transactions (referred to as a deposit chill) on the Company s common stock. The effect of the deposit chill was that, for the period April 22, 2013 through August 6, 2013, when the deposit chill was lifted following submissions by the Company, no new shares of the Company s common stock were accepted for deposit with DTC for electronic transfer. As of October 2014 the restriction had not been lifted.

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

An action was commenced on March 22, 2012, in the Supreme Court of the New York for the County of Nassau, by Lazar, Sanders Thaler & Associates, LLP, a dissolved accounting firm of which Terry R. Lazar, the Company s former CFO was a member. Among the parties named as defendants were Mr. Lazar and the Company. The claim was made that the Company owned fees to the plaintiff and/or that such fees were paid to Terry Lazar who never forwarded them to the plaintiff. Mr. Lazar undertook the defense of the action on his behalf and on behalf of the Company.

The matter proceeded to inquest and the court awarded judgment to the plaintiff against the Company in the sum of $25,000. Adding interests and costs to the awarded amount, judgment has been entered against the Company in the total sum of $36,613. An appeal has been taken from the judgment. The appeal has been perfected by the filing of the record and brief in the Supreme Court of the state of New York. As of December 31, 2013 the Company is reporting a liability of $36,613 related to the judgment.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

<u>Market</u>

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

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

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

Holders

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

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

Securities Authorized for Issuance under Equity Compensation Plans

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

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

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

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

Sales of Unregistered Securities

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

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

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