

PureSafe Water Systems, Inc.  
Form 10-Q  
May 20, 2011

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2011

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

Commission File Number: 001-09478

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

Delaware  
(State or other jurisdiction of incorporation  
or organization)

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

25 Fairchild Avenue - Suite 250, Plainview,  
New York  
(Address of principal executive offices)

11803  
(Zip Code)

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

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

Large accelerated filer ☐

Accelerated filer ☐

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Non-accelerated filer ☐

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 ☒

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.  
As of May 18, 2011, 329,802,948 shares of the common stock of the registrant were issued and 329,798,548 were outstanding.

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

|  | March 31,<br>2011  | December<br>31,<br>2010 |
|--|--------------------|-------------------------|
| <b>ASSETS</b>  |                    |                         |
| Current Assets:  |                    |                         |
| Cash   | \$49,858           | \$166,758               |
| Inventories  | 507,124            | 442,815                 |
| Prepaid expenses and other current assets  | 99,901             | 81,697                  |
| Total Current Assets   | 656,883            | 691,270                 |
| Property and equipment, net of accumulated depreciation of \$89,678 and \$68,447, respectively   | 204,339            | 231,106                 |
| Patents and trademarks, net of accumulated amortization of \$31,134 and \$29,608, respectively   | 68,750             | 62,876                  |
| Other assets   | 37,285             | 37,280                  |
| <b>TOTAL ASSETS</b>  | <b>\$967,257</b>   | <b>\$1,022,532</b>      |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIENCY</b>  |                    |                         |
| Current Liabilities:   |                    |                         |
| Accounts payable and accrued expenses  | \$725,908          | \$751,262               |
| Accrued compensation   | 268,581            | 193,533                 |
| Accrued consulting and director fees   | 144,000            | 144,000                 |
| Convertible notes payable to officer and director (including accrued interest of \$58,790 and \$47,445 and net of debt discount of \$69,620 and \$0, respectively)   | 701,170            | 534,445                 |
| Convertible promissory note (including accrued interest of \$29,826 and \$25,132 and net of debt discount of \$199,654 and \$241,657, respectively)  | 475,172            | 428,475                 |
| Promissory notes payable (including accrued interest of \$166,204 and \$140,805, respectively)   | 471,050            | 470,660                 |
| Accrued dividends payable  | 190,328            | 190,328                 |
| Total Current Liabilities  | 2,976,209          | 2,712,703               |
| Long Term Liabilities:   |                    |                         |
| Notes Payable  | 19,000             | 20,423                  |
| Total Long Term Liabilities  | 19,000             | 20,423                  |
| <b>TOTAL LIABILITIES</b>   | <b>\$2,995,209</b> | <b>\$2,733,126</b>      |
| <b>Commitments and Contingencies</b>   |                    |                         |
| <b>Stockholders' Deficiency:</b>   |                    |                         |
| Preferred stock \$.001 par value; 10,000,000 shares authorized; 184,144 shares issued and outstanding (liquidation preference \$2,727,625 and \$2,700,500, as of March 31, 2011 and December 31, 2010, respectively) | 184                | 184                     |
| Common stock, \$.001 par value; 450,000,000 authorized; 327,240,037 shares issued and 327,235,637 shares outstanding at March 31, 2011; 319,026,726 shares issued  | 327,239            | 319,026                 |

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|   |                  |                    |
|---|------------------|--------------------|
| and 319,022,326 outstanding at December 31, 2010  |                  |                    |
| Additional paid-in capital  | 38,213,954       | 37,203,196         |
| Treasury Stock, at cost, 4,400 shares of common stock   | (5,768 )         | (5,768 )           |
| Subscriptions receivable - related party (including accrued interest of \$58,296 and \$53,308, respectively)  | (395,496 )       | (390,508 )         |
| Accumulated deficit (including \$25,636,469 and \$24,305,128 of deficit accumulated during development stage at March 31, 2011 and December 31, 2010, respectively) | (40,168,065 )    | (38,836,724 )      |
| Total Stockholders' Deficiency  | (2,027,952 )     | (1,710,594 )       |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY</b>   | <b>\$967,257</b> | <b>\$1,022,532</b> |

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

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

|  | Three Months Ended March<br>31, |                | January 1, 2002<br>To March 31, |
|--|---------------------------------|----------------|---------------------------------|
|  | 2011                            | 2010           | 2011                            |
| Sales  | \$ --                           | \$ --          | \$ 471,290                      |
| Costs and expenses (income):   | --                              | --             |                                 |
| Cost of Sales  | --                              | --             | 575,680                         |
| Selling, general and administrative, including stock-based compensation of \$651,075 and \$496,917 for the three months ended March 31, 2011 and 2010 and \$4,922,953 for the period January 1, 2002 to March 31, 2011 | 1,171,826                       | 934,246        | 15,298,771                      |
| Non-dilution agreement termination costs   | --                              | --             | 2,462,453                       |
| Research and development   | 46,679                          | 22,598         | 1,167,032                       |
| Interest expense - including interest expense to a related party of \$14,845 and \$10,104 for the three months ended March 31, 2011 and 2010, respectively, and \$541,445 for the period Jan 1, 2002 to March 31, 2011 | 112,836                         | 113,163        | 2,369,949                       |
| Financing costs - extension of warrants  | --                              | --             | 74,700                          |
| Interest expense - conversion provision  | --                              | --             | 113,000                         |
| (Gain) loss on settlement of debt  | --                              | --             | 1,888,925                       |
| Change in fair value of warrants and embedded conversion option  | --                              | 25,500         | 2,157,249                       |
| Total costs and expenses   | 1,331,341                       | 1,095,507      | 26,107,759                      |
| Net (loss)   | (1,331,341)                     | (1,095,507)    | (25,636,469)                    |
| Deemed dividend on preferred stock   | --                              | --             | (2,072,296)                     |
| Preferred stock dividends  | (27,075)                        | (27,075)       | (969,798)                       |
|  | (27,075)                        | (27,075)       | (3,042,094)                     |
| Net loss attributable to common stockholders   | \$ (1,358,416)                  | \$ (1,112,582) | \$ (28,678,563)                 |
| Net loss attributable to common stockholders per common share - Basic and diluted  | \$ (0.00)                       | \$ (0.00)      |                                 |
| Weighted average number of shares outstanding - Basic and diluted  | 323,478,011                     | 276,956,674    |                                 |

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

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

|  | Preferred Stock |        | Common Stock |            | Additional         | Treasury         | Subscription | Accumulated     | Total                       |
|--|-----------------|--------|--------------|------------|--------------------|------------------|--------------|-----------------|-----------------------------|
|  | Shares          | Amount | Shares       | Amount     | Paid-In<br>Capital | Stock<br>at Cost | Receivable   | Deficit         | Stockholders'<br>Deficiency |
| Balance at<br>December<br>31, 2010             | 184,144         | \$ 184 | 319,026,726  | \$ 319,026 | \$ 37,203,196      | \$ (5,768)       | (390,508)    | \$ (38,836,724) | \$ (1,710,594)              |
| Proceeds from sale of common stock             |                 |        |              |            |                    |                  |              |                 |                             |
| \$0.138 per<br>share –<br>January 11,<br>2011  | --              | --     | 181,554      | 182        | 24,818             | --               | --           | --              | 25,000                      |
| \$0.137 per<br>share –<br>January 13,<br>2011  | --              | --     | 182,083      | 182        | 24,818             | --               | --           | --              | 25,000                      |
| \$0.145 per<br>share –<br>February<br>16, 2011 | --              | --     | 344,828      | 345        | 49,655             | --               | --           | --              | 50,000                      |
| Proceeds<br>from<br>exercise of<br>warrants    |                 |        |              |            |                    |                  |              |                 |                             |
| \$0.088 per<br>share –<br>January 24,<br>2011  | --              | --     | 273,974      | 274        | 23,726             | --               | --           | --              | 24,000                      |
| \$0.122 per<br>share –<br>January 25,<br>2011  | --              | --     | 49,358       | 49         | 5,953              | --               | --           | --              | 6,002                       |
| \$0.042 per<br>share –<br>February 8,<br>2011  | --              | --     | 95,238       | 95         | 3,905              | --               | --           | --              | 4,000                       |
| \$0.038 per<br>share –<br>February<br>24, 2011 | --              | --     | 128,125      | 128        | 4,792              | --               | --           | --              | 4,920                       |
| \$0.042 per<br>share –                         | --              | --     | 95,238       | 95         | 3,905              | --               | --           | --              | 4,000                       |

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February  
24, 2011

Common stock issued for loan conversion

|  |    |    |           |       |        |    |    |    |        |
|--|----|----|-----------|-------|--------|----|----|----|--------|
| \$0.056 per<br>share –<br>January 4,<br>2011   | -- | -- | 493,924   | 494   | 27,166 | -- | -- | -- | 27,660 |
| \$0.055 per<br>share –<br>February 4,<br>2011  | -- | -- | 1,002,020 | 1,002 | 54,108 | -- | -- | -- | 55,110 |
| \$0.055 per<br>share –<br>February<br>10, 2011 | -- | -- | 502,399   | 502   | 27,130 | -- | -- | -- | 27,632 |

Common  
stock  
issued in  
repayment  
of debt

|   |    |    |        |    |        |  |  |  |        |
|---|----|----|--------|----|--------|--|--|--|--------|
| \$0.132 per<br>share –<br>January 25,<br>2011 | -- | -- | 86,670 | 87 | 11,353 |  |  |  | 11,440 |
|---|----|----|--------|----|--------|--|--|--|--------|

Common stock issued for services

|   |    |    |           |       |         |    |         |    |         |
|---|----|----|-----------|-------|---------|----|---------|----|---------|
| \$0.138 per<br>share –<br>January 13,<br>2011 | -- | -- | 452,900   | 453   | 62,047  | -- | --      | -- | 62,500  |
| \$0.137 per<br>share –<br>January 27,<br>2011 | -- | -- | 325,000   | 325   | 44,200  | -- | --      | -- | 44,525  |
| \$0.135 per<br>share –<br>March 9,<br>2011    | -- | -- | 2,000,000 | 2,000 | 268,000 | -- | --      | -- | 270,000 |
| \$0.135 per<br>share –<br>March 21,<br>2011   | -- | -- | 2,000,000 | 2,000 | 268,000 | -- | --      | -- | 270,000 |
| Accrued<br>interest                           | -- | -- | --        | --    | --      | -- | (4,988) | -- | (4,988) |
| Debt<br>Discount                              | -- | -- | --        | --    | 103,132 | -- | --      | -- | 103,132 |

Amortization of warrants and  
options for employees and  
non-employees

4,050

|            |         |        |             |            |               |            |              |                 |                |
|------------|---------|--------|-------------|------------|---------------|------------|--------------|-----------------|----------------|
| Net loss   | --      | --     | --          | --         | --            | --         | --           | (1,331,341)     | (1,331,341)    |
| BALANCE    |         |        |             |            |               |            |              |                 |                |
| – March 31 |         |        |             |            |               |            |              |                 |                |
| 2011       | 184,144 | \$ 184 | 327,240,037 | \$ 327,239 | \$ 38,213,954 | \$ (5,768) | \$ (395,496) | \$ (40,168,065) | \$ (2,027,952) |

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



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

|  | Three Months Ended<br>March 31, |             | For the<br>Period From<br>January 1,<br>2002 through<br>March 31,<br>2011 |
|--|---------------------------------|-------------|---|
|  | 2011                            | 2010        |   |
| Cash Flows from Operating Activities:  |                                 |             |   |
| Net loss   | \$ (1,331,341)                  | (1,095,507) | \$ (25,636,469)   |
| Adjustments to reconcile net loss to net cash used in operating activities   |                                 |             |   |
| -  |                                 |             |   |
| Loss on Sale of Property and Equipment   | --                              | --          | 8,177   |
| Depreciation and amortization  | 21,231                          | 5,450       | 96,221  |
| Amortization of patents and trademarks   | 1,526                           | 1,526       | 29,752  |
| Interest expense - amortization of deferred financing  | --                              | --          | 22,530  |
| Stock based compensation   | 651,075                         | 496,917     | 4,933,153   |
| Interest expense - conversion provision  | --                              | --          | 113,000   |
| Interest receivable  | (4,988)                         | (5,058)     | (58,296)  |
| Accretion of debt discount   | 75,515                          | 55,582      | 1,228,858   |
| Change in fair value of warrants and embedded conversion option  | --                              | 25,500      | 2,157,249   |
| (Gain)/loss on settlement of debt  | --                              | --          | 1,888,926   |
| Non-dilution agreement termination cost  | --                              | --          | 2,462,453   |
| Inventory reserve  | --                              | --          | 159,250   |
| Write-off of stock subscription receivable   | --                              | --          | 21,800  |
| Financing costs - warrant extension  | --                              | --          | 74,700  |
| Change in assets and liabilities -   |                                 |             |   |
| Prepaid expenses and other current assets  | (18,204)                        | 64,140      | (49,657)  |
| Inventories  | (64,309)                        | (121,653)   | (507,124)   |
| Other assets   | --                              | --          | (27,861)  |
| Accounts payable, accrued expenses, accrued dividends, accrued compensation, accrued consulting and director fees, customer deposits and other current liabilities | 93,570                          | 249,058     | 3,276,079   |
| Net Cash Used in Operating Activities  | (575,925)                       | (324,045)   | (9,807,259)   |
| Cash Flows from Investing Activities:  |                                 |             |   |
| Purchase of property and equipment   | --                              | (9,656)     | (288,689)   |
| Patent costs   | (7,400)                         | --          | (73,829)  |
| Proceeds from sale of property & equipment   | --                              | --          | 4,350   |
| Net Cash Used in Investing Activities  | (7,400)                         | (9,656)     | (358,168)   |
| Cash Flows from Financing Activities:  |                                 |             |   |
| Reduction of stock subscription receivable   | --                              | --          | 65,700  |
| Proceeds from sale of preferred stock  | --                              | --          | 1,130,127   |
| Proceeds from sale of common stock   | 100,000                         | 100,000     | 5,793,999   |
| Proceeds from exercise of warrants   | 42,922                          | --          | 547,269   |

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|   |           |          |            |
|---|-----------|----------|------------|
| Proceeds from sale of common stock to be issued                 | --        | --       | 300,000    |
| Deferred financing costs  | --        | --       | (22,530)   |
| Proceeds from convertible promissory note                       | 100,000   | 175,000  | 1,870,000  |
| Proceeds from officers and directors convertible loans          | 225,000   | --       | 975,000    |
| Repayment of officers and directors loans                       | --        | --       | (200,000)  |
| Repayment of notes payable                                      | (1,497)   | --       | (279,791)  |
| Net Cash Provided by Financing Activities                       | 466,425   | 275,000  | 10,179,774 |
| Net increase (decrease) in cash                                 | (116,900) | (58,701) | 14,347     |
| Cash at beginning of period                                     | 166,758   | 107,423  | 35,511     |
| Cash at end of period   | 49,858    | 48,722   | 49,858     |
| Supplemental Disclosure of Cash Flow Information:               |           |          |            |
| Cash paid during the year for interest                          | 4,555     | 335      | 395,139    |
| Non-Cash Investing Activities:                                  |           |          |            |
| Notes Receivable for common stock issued                        | --        | --       | --         |
| Non-Cash Financing Activities:                                  |           |          |            |
| Compensation satisfied by issuance of common stock              | --        | 84,000   | 229,250    |
| Common stock issued in satisfaction of liabilities              | 121,842   | 144,615  | 8,095,792  |
| Reclassification of derivative liabilities                      | --        | --       | 3,645,166  |
| Reclassification of equity instrument to derivative liabilities | --        | (80,000) | 48,600     |
| Cancellation of debt for no consideration                       | --        | --       | 1,327,321  |
| Debt discount for conversion and warrant rights                 | 103,132   | --       | 103,132    |

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

PureSafe Water Systems Inc. and Subsidiary  
(A Development Stage Company Commencing January 1, 2002)  
Notes to Condensed Consolidated Financial Statements  
(Unaudited)

NOTE 1: DESCRIPTION OF BUSINESS.

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

NOTE 2: BASIS OF PRESENTATION AND ACCOUNTING POLICIES.

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

The operating results for the three month period ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. These financial statements should be read in conjunction with the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission on April 15, 2011.

Use of Estimates

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

Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. The most significant estimates, among other things, are used in accounting for allowances for deferred income taxes, expected realizable values for long-lived assets (primarily intangible assets and property and equipment), contingencies, as well as the recording and presentation of its common stock. Estimates and assumptions are periodically reviewed and the effects of any material revisions are reflected in the consolidated financial statements in the period that they are determined to be necessary. Actual results could differ from those estimates and assumptions.

Principles of Consolidation

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

Inventories

Inventory amounts are stated at lower of first-in, first-out (“FIFO”) cost or market.

#### Stock-Based Compensation

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

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

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

**NOTE 3: GOING CONCERN.**

The accompanying unaudited condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred recurring losses from operations, has an accumulated deficit since its inception of approximately \$40,168,000 and \$38,837,000 as of March 31, 2011 and December 31, 2010, respectively, and has a working capital deficiency of approximately \$2,319,000 and \$2,021,000 as of March 31, 2011 and December 31, 2010, respectively. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The Company's plans with respect to these matters include restructuring its existing debt and raising additional capital through future issuances of stock and/or debt. The Company is seeking to raise an additional \$5 million in the next twelve months to fund the following activities: to manufacture 45 commercialized PureSafe FRWS units within the next twelve months; to expand production capability by increasing the inventory level of components used in the manufacturing process; by re-engineering the assembly process and outsourcing production where appropriate; continue to implement our established marketing program, to establish a sales and marketing network which includes hiring a Vice President of Sales. Provided the Company obtains such financing, the Company believes that there will be revenue recognition by the third quarter of 2011.

For the first two quarters of 2011, management's main focus is to produce PureSafe FRWS standardized commercial units and continue our marketing plan including participation in tradeshow, concluding agreements with strategic partners for international marketing and manufacturing, entering field testing programs for PureSafe FRWS unit. The Company expects to recognize the first sales of the PureSafe FRWS by the third quarter of 2011. The Company will cease being a development stage enterprise when it recognizes significant revenue from the sale of PureSafe FRWS units. The extent of these initiatives will be contingent upon the amount of capital raised.

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

**NOTE 4: RECENT ACCOUNTING PRONOUNCEMENTS.**

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

**NOTE 5 – INVENTORIES**

Inventories consist of the following at March 31, 2011,

|                |           |
|----------------|-----------|
| Raw materials  | \$254,614 |
| Finished Goods | 252,510   |
| Total          | \$507,124 |

**NOTE 6: NET LOSS PER SHARE OF COMMON STOCK.**

Basic loss per share was computed using the weighted average number of outstanding common shares. Diluted loss per share includes the effect of dilutive common stock equivalents from the assumed exercise of options, warrants,

convertible preferred stock and convertible notes. Common stock equivalents were excluded in the computation of diluted loss per share since their inclusion would be anti-dilutive.

In accordance with ASC 260 “Earnings per Share”, the Company has given effect to the issuance of 847,461 warrants exercisable at \$0.001 issued by the Company. These warrants have been included in computing the basic net loss per share for the three months period ended March 31, 2011.

Total shares issuable upon the exercise of warrants and conversion of preferred stock and convertible promissory notes for the three months ended March 31, 2011 and 2010 were as follows:

|                              | March 31,  |            |
|------------------------------|------------|------------|
|                              | 2011       | 2010       |
| Warrants                     | 27,705,817 | 39,103,516 |
| Convertible promissory notes | 11,702,778 | 13,857,904 |
| Convertible preferred stock  | 1,545,760  | 1,545,760  |
| Total                        | 40,954,355 | 54,507,180 |

#### NOTE 7: STOCKHOLDERS' DEFICIENCY.

##### Debt

During the three months ended March 31, 2011, the Company issued total 1,998,343 shares of common stock upon the requests from three convertible note holders to convert their notes plus accrued interest totaling \$110,402 into the Company's common stock based on the term set forth in the loan. The conversion rates were from \$0.055 to \$0.056.

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

##### Cash

##### Through Equity Financing:

During the three months ended March 31, 2011, for gross proceeds of \$100,000 the Company sold an aggregate of 708,465 shares of common stock and warrants to purchase additional 141,694 shares of common stock at exercise prices from \$0.1648 to \$0.1740. The warrants have a term of three years and were fully vested on the grant date.

##### Through Warrant Exercise

During the three months ended March 31, 2011, the Company received gross proceeds of \$42,922 through warrant exercise. The Company issued aggregate of 641,933 shares of common stock in connection with warrant exercises.

##### Through Debt Financing

During the three months ended March 31, 2011, the Company received gross proceeds of \$100,000 through debt financing. The Company issued the lender a convertible promissory note bearing interest at a rate of 10% per annum with a term of one year. In connection with the placement, the Company also issued a warrant to purchase 127,389 shares of common stock at an exercise price of \$0.1884. The warrants have a term of five years and were fully vested on the grant date.

##### Services

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

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

On March 9, 2011, the Company issued 2,000,000 shares of common stock to the Company's Chief Financial Officer per grant that was approved by the Company's Board of Directors on January 21, 2011. The shares were fully vested on the date of the grant and accordingly, the Company recorded \$270,000 of stock-based compensation in connection with this issuance.

On March 21, 2011, the Company issued 2,000,000 shares of common stock to the Company's Chief Executive Officer per grant that was approved by the Company's Board of Directors on January 21, 2011. The shares were fully vested on the date of the grant and accordingly, the Company recorded \$270,000 of stock-based compensation in connection with this issuance.



NOTE 8 - CONVERTIBLE PROMISSORY NOTES PAYABLE

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

The gross proceeds from the sale of the notes \$100,000 were recorded net of a discount of \$33,612. The debt discount is being charged to interest expense ratably over the term of the convertible notes.

(b) On February 14, 2011, the Company sold and issued a convertible promissory note in the principal amount of \$100,000 bearing interest at 10% per annum and warrants to purchase 127,389 shares of common stock at an exercise price of \$0.1884 per share. The convertible note matures on February 14, 2012. The holder of the note is entitled to convert all or a portion of the convertible note plus any unpaid interest, at the lender's sole option, into shares of common stock at a conversion price of \$0.157 per share.

The gross proceeds from the sale of the note \$100,000 was recorded net of a discount of \$27,438. The debt discount is being charged to interest expense ratably over the term of the convertible note.

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

The gross proceeds from the sale of the notes \$85,000 were recorded net of a discount of \$28,610. The debt discount is being charged to interest expense ratably over the term of the convertible notes.

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

The gross proceeds from the sale of the notes \$40,000 were recorded net of a discount of \$13,472. The debt discount is being charged to interest expense ratably over the term of the convertible notes.

NOTE 9: RELATED PARTY TRANSACTIONS.

- (a) On January 13, 2011, the Company issued a total of 452,900 shares of common stock to its five directors, including shares issued to the Chief Executive Officer and Chief Financial Officer, each of which received 90,580 shares for their first quarter of 2011 director fees. The issuance is part of the annual compensation that was authorized by the Company's Board of Directors on May 26, 2010, when the Board approved the annual director fees to be \$50,000, paid in shares of common stock, payable quarterly, and valued at the beginning of each quarter. The Company incurred stock-based compensation of \$62,500 in connection with the January 2011 issuance.
- (b) On March 9, 2011, the Company issued 2,000,000 shares of common stock to the Company's Chief Financial Officer per grant that was approved by the Company's Board of directors on January 21, 2011. The shares were fully vested on the date of the grant and accordingly, the Company recorded \$270,000 of stock-based compensation in connection with this issuance.
- (c) On March 21, 2011, the Company issued 2,000,000 shares of common stock to the Company's Chief Executive Officer per grant that was approved by the Company's Board of directors on January 21, 2011. The shares were fully vested on the date of the grant and accordingly, the Company recorded \$270,000 of stock-based compensation in connection with this issuance.
- (d) On February 7, 2011, the Company's Chief Executive Officer and the Company's Chief Financial Officer each made loans of \$50,000 to the Company. The loans accrue interest at the rate of 10% per annum. In addition, the Company issued warrants to each officer to purchase 89,928 shares of common stock at an exercise price of \$0.139 per share. The loans are due and payable by or on February 7, 2012. The loan and accrued interest are to be paid on the maturity date. The loans were evidenced by the promissory notes the Company issued to the two officers which each contain a conversion clause that allow the officers at the officer's sole option to convert the loan amount plus all accrued and unpaid interest due under the note into common stock. The conversion price was set at \$0.139 per share, which was the closing market price of the common stock as of the closing date of the loans.

The gross proceeds from the sale of the notes \$100,000 were recorded net of a discount of \$33,612. The debt discount is being charged to interest expense ratably over the term of the convertible notes.

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

The gross proceeds from the sale of the notes \$85,000 were recorded net of a discount of \$28,610. The debt discount is being charged to interest expense ratably over the term of the convertible notes.

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

The gross proceeds from the sale of the notes \$40,000 were recorded net of a discount of \$13,472. The debt discount is being charged to interest expense ratably over the term of the convertible notes.

#### NOTE 10: LEGAL PROCEEDINGS.

Current legal proceedings to which the Company is a party are as follows:

On June 21, 2009 the Company was 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 the Company or by Water Splash LLC, to which the Company had sold its 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 subrogor of the risks and defects associated with the water cooler which were not discoverable by reasonable inspection, and strict liability. As of April 29, 2011, the Company does 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, the Company cannot provide assurance that the outcome of this matter will not have a material effect on the Company's financial condition or results of operations.

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

#### NOTE 11: SUBSEQUENT EVENTS.

(a)

From April 1 through May 18, 2011, for gross proceeds of \$167,000 the Company sold an aggregate of 1,828,935 shares of common stock and warrants to purchase an additional 457,228 shares of common stock at an exercise price of \$0.1032 to \$0.1152. The warrants have a term of three years and were fully vested on the grant date.

- (b) On April 26, 2011, the Company received gross proceeds of \$12,000 through warrant exercise. The Company issued aggregate of 175,941 shares of common stock in connection with warrant exercises.
- (c) On April 28, 2011, the Company issued a total of 558,035 shares of common stock to its five directors, including shares issued to the Chief Executive Officer and Chief Financial Officer, each of which received 111,607 shares for their second quarter of 2011 director fees. The issuance is part of the annual compensation that was authorized by the Company's Board of Directors on May 26, 2010, when the Board approved the annual director fees to be \$50,000, paid in shares of common stock, payable quarterly, and valued at the beginning of each quarter. The Company incurred stock-based compensation of \$62,500 in connection with the April 2011 issuance.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Introductory Comment

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our financial statements and related notes contained elsewhere in this Quarterly Report on Form 10-Q, as well as our audited financial statements and related notes at and for the year ended December 31, 2010 contained in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission (the "SEC") on April 15, 2011.

Note Regarding Forward-Looking Statements

This quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). To the extent that any statements made in this Form 10-Q contain information that is not historical, these statements are essentially forward-looking. Forward-looking statements can be identified by the use of words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "hope," "intend," "may," "plan," "potential," "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-Q and, from time to time, in our other filings with the Securities and Exchange Commission.

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

General

PureSafe Water Systems, Inc. (herein referred to as the “Company”, “Puresafe”, “we”, “us” or “our”) was incorporated in Delaware in 1987. The manufacture and marketing of water coolers and filters constituted a substantial part of our business from 1993 until the fourth quarter of 2001, at which time such operations were sold and we began concentrating on the further development, manufacturing and marketing of a patented line of water purification systems. 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 consolidated financial statements have been prepared assuming our company will continue as a going concern.

#### Results of Operations

Sales. We recorded zero sales for the three months ended March 31, 2011 and 2010.

Until the fourth quarter of 2001, we were engaged in the manufacture and marketing of water coolers and water purification and filtration products. In the fourth quarter of 2001, such business was sold so that we could concentrate on the further development, manufacturing and marketing of a line of water purification systems. In 2007, new management made a strategic decision that the existing water filtration system had not produced any significant sales. New management further recognized that the existing unit required significantly more engineering. In 2007, we signed a contract with Bircon Ltd., an Israeli-based engineering consulting company, to design our new “PureSafe First Response Water System” (the “PureSafe FRWS”) line of water decontamination systems. In September 2009, we set up PureSafe Manufacturing & Research Corporation, a Delaware corporation that is wholly owned subsidiary of PureSafe Water Systems, Inc., to handle the production and research. In 2010, we made significant modifications on our PSWS unit and standardized the design and manufacturing process. The first two commercialized units were completed in the fourth quarter of 2010. We are currently in the process of building three more units. We believe the PureSafe FRWS product will result in our first significant sales since 2001. We currently expect to recognize the first sales of the PureSafe product in the third quarter of 2011. We will cease being a development stage enterprise at the time of our recognition of significant revenue from sales of the PureSafe FRWS product.

**Cost of sales.** We recorded zero cost of sales for the three months ended March 31, 2011 and 2010.

**Selling, general and administrative.** We incurred selling, general and administrative expenses for the three months ended March 31, 2011 \$1,171,826 compared to \$934,246 for the same period in 2010, a \$237,580 or 25% increase. The following is a more detailed analysis on some of the categories that have the most significant changes. Legal fees incurred in the first quarter of 2011 were \$27,852, compared to \$16,694 in 2010, a \$11,158 or 67% increase. The 67% increase in legal fees is attributable to more legal services required in 2011 due to the expansion of operations. Manufacturing overhead incurred in the first quarter of 2011 was \$78,578, compared to \$65,616 in 2010, a \$12,962 or 20% increase. The reason for the \$12,962 increase in Manufacturing overhead is the utility cost incurred from our 160 Dupont facility of which we took possession in July 2010. The difference between marketing expense incurred in the first quarter of 2011 and 2010 is very small, though the consulting sector in overall marketing expense has decreased by \$49,833 from \$69,000 in the first quarter of 2010 to \$19,167 in the same period of 2011 due to the termination of the Management agreement between PureSafe and Hidell International, Inc. on December 29, 2010. The funds saved from marketing consulting services were utilized to fund other marketing programs, including participation in the United Nations’s World Water Day.

Rent expense incurred in the first quarter of 2011 was \$39,250, compared to \$22,126 in the same period of 2010, a \$17,124 or 77% increase. On May 24, 2010, effective July 1, 2010, the Company entered into a two-year lease in Plainview, New York. The rent related expense in connection with our Dupont Street facility was \$21,607.

Total salaries expense, including deferred compensation, was \$136,786 for the first quarter of 2011 compared to \$107,555 in the same period of 2010, an increase of \$29,231 or 27%. The \$29,231 increase in salaries in 2011 is the result of the hiring of our new Chief Operating Officer in January 2011. Stock based compensation increased to \$651,075 in the first quarter of 2011 from \$496,917 in the same period of 2010, an increase of \$154,158 or 31% , which includes Directors’ fee incurred in the first quarter of 2011 of \$62,500 as compared with \$2,000 in the same period of 2010, a \$60,500 or 3,025% increase. We retained two independent directors in June 2010 and revised the directors’ compensation schedule from \$2,000 per year to \$50,000 per year in May 2010 effective July 1, 2010. We awarded approximately 2 million shares less to employees and various consultants which included our Chief Executive Officer and Chief Financial Officer in the first quarter of 2011 compared to the same period of 2010. Because the fair value of our common stock in the first quarter of 2011 was much higher with an average price of \$0.136 per share compared to the average price of \$0.05 per share in the same period of 2010, we incurred more stock based compensation in the first quarter of 2011 than in the same period of 2010.

Research and development for the three months ended March 31, 2011 and 2010 was \$46,679 and \$22,598, respectively, an increase of \$24,081 or 107%. Since the beginning of 2010, we have spent considerable amount of funds on redesigning and modifying our FRWS unit from the prototype that was built July 2008 and have since completed two standardized commercial units. We understand the vital importance of research and development for our overall success. We are committed to continue to conduct research and development activities to ensure PureSafe FRWS has the most advanced technology within the water filtration equipment industry.

Interest expense (non-debt discount related) for the three months ended March 31, 2011 and 2010 was \$37,321 and \$57,581, respectively. The \$20,260 or 35% decrease in interest expense (non-debt discounted related) was primarily from the reduction in debt in 2010 due to loan conversions requested by lenders in the second half of 2010.

Debt discount related interest expense for the three months ended March 31, 2011 and 2010 was \$75,515 and \$55,582, a \$19,933 or 36% increase, respectively. We incurred a total of \$103,132 in debt discount related to loans of which we received total of \$325,000 in the first quarter of 2011. The debt discount is being amortized over the term of the loans. Changes in fair value of warrants and embedded conversion options for the three months ended March 31, 2011 and 2010 were \$0 and \$25,500, respectively. In March 2007, we issued a convertible promissory note to a former director for a \$50,000 loan. 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 conversion 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.



The accounting treatment, pursuant to ASC 815 “Derivatives and Hedging”, of derivative financial instruments requires that we record the conversion option and related warrants at their fair values as of the inception date of the convertible debenture agreements and at fair value as of each subsequent balance sheet date. As a result of entering into the convertible promissory notes, we were required to reclassify all other non-employee warrants and options as derivative liabilities and record them at their fair values at each balance sheet date. Any change in fair value was recorded as non-operating, non-cash income or expense for each reporting period at each balance sheet date. We reassess the classification of the instruments at each balance sheet date. If the classification changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification.

On December 31, 2010, upon the request from the former director, we converted \$68,491 loan principal and accrued interest we owed him into 974,312 shares of our common stock. Subsequent to the conversion, we reclassified \$2,064,500 which represented the fair value for all respective warrants and embedded conversion options previously classified as components of the derivative liabilities to equity and we are no longer required to report the issuance of certain convertible promissory notes, options and warrants as derivative instrument.

For all the above-stated reasons, the net loss for three months ended March 31, 2011 and 2010 was \$1,331,341 and \$1,095,507, respectively.

#### Liquidity and Capital Resources

As of March 31, 2011, we maintained a cash balance of \$49,858 as compared to \$48,722 as of the same date in 2010.

Net cash used in the operating activities in the three months ended March 31, 2011 and 2010 was \$575,925 and \$324,045, respectively. The \$251,880 increase in cash spent in 2011 was primarily from the following factors: a.) We paid more rent in the first quarter of 2011 compared in the same period of 2010 because of the additional facility we added in July 2010; b.) we spent considerable more cash on purchasing inventories in the first quarter of 2011 compared to the same period of 2010; and c.) we paid a considerable amount of cash for various marketing programs in which we participated in the first quarter of 2011 which included approximately \$20,000 paid to a marketing consultant.

We incurred \$7,400 in capital expenditures in the first quarter of 2011 and \$9,656 in the same period of 2010. The entire capital expenditures incurred in this quarter are related to FRWS Systems patent application.

In the three months ended March 31, 2011 and 2010, we raised \$142,922 and \$100,000 through sales of our common stock and warrant exercise, respectively. Funds received in the first quarter of 2011 and 2010 from convertible promissory note were \$325,000 and \$175,000, respectively. In the three months ended March 31, 2011 and 2010, cash used for repayment of notes payable was \$1,497 and \$0, respectively.

From all the above activities, net cash provided by financing activities for first quarter of 2011 and 2010 was \$466,425 and \$275,000, respectively.

At March 31, 2011, we had a working capital deficit of approximately \$2,319,000. We continue to suffer recurring losses from operations and have an accumulated deficit since inception of approximately \$40,168,000. These conditions raise substantial doubt about our ability to continue as a going concern. Our plans with respect to these matters include restructuring its existing debt and raising additional capital through future issuances of stock and/or debt. We are seeking to raise an additional \$5 million in the next twelve months to fund the following activities: to manufacture 45 commercialized PureSafe FRWS units within the next twelve months; to expand production capability by increasing the inventory level of components used in the manufacturing process; by re-engineering the assembly process and outsourcing production where appropriate; continue to implement our established marketing program, to

establish a sales and marketing network which includes hiring a Vice President of Sales. Provided we obtain such financing, we believe that there will be revenue recognition by the third quarter of 2011.

For the first two quarters of 2011, our main focus is to produce PureSafe FRWS standardized commercial units and continue our marketing plan including participation in tradeshow, concluding agreements with strategic partners for international marketing and manufacturing, entering field testing programs for PureSafe FRWS unit. We expect to recognize the first sales of the PureSafe FRWS by the third quarter of 2011. We will cease being a development stage enterprise when we recognize significant revenue from the sale of PureSafe FRWS units. The extent of these initiatives will be contingent upon the amount of capital raised.

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

### Recent Accounting Pronouncements

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

### Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of the statements in accordance with these principles requires that we make estimates, using available data and our judgment, for such things as valuing assets, accruing liabilities and estimating expenses. We are currently in development stage as defined by Accounting Standard Codification ("ASC") 915. The following is a list of what we believe are the most critical estimations that we make when preparing our consolidated financial statements.

### Stock-Based Compensation

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

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

The Black-Scholes option valuation model is used to estimate the fair value of the options or their equivalent granted. The model includes subjective input assumptions that can materially affect the fair value estimates. The model was developed for use in estimating the fair value of traded options or warrants that have no vesting restrictions and that are fully transferable. The expected volatility is estimated based on the most recent historical period of time equal to the weighted average life of the options granted.

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

### Income taxes

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

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

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Our uncertain tax positions are related to tax years that remain subject to examination by relevant tax authorities. We file income tax returns in the United States (federal) and in various state and local jurisdictions. We are no longer subject to federal, state and local income tax examinations by tax authorities for years prior to 2006.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

This Item is not applicable to smaller reporting companies.

Item 4. Controls and Procedures.

## Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this report to provide reasonable assurance that information required to be disclosed by us in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Our management identified the following material weaknesses as of March 31, 2011:

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

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

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

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

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the first quarter of our 2011 fiscal year that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

## Item 1. Legal Proceedings.

Current legal proceedings to which we are a party are as follows:

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 the Company or by Water Splash LLC, to which we had sold its 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 subrator of the risks and defects associated with the water cooler which were not discoverable by reasonable inspection, and strict liability. As of April 29, 2011, 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 1A. Risk Factors.

This Item is not applicable to smaller reporting companies.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table sets forth the sales of unregistered securities by the Company in the quarterly period ended March 31, 2011.

| Date             | Title and Amount(1)   | Purchaser        | Underwriter | Principal Offering Price/ Discounts | Total Underwriting |
|------------------|---|------------------|-------------|-------------------------------------|--------------------|
| January 4, 2011  | 493,924 shares of common stock issued through conversion of loan  | Private investor | NA          | \$0.056 per share/NA                |                    |
| January 11, 2011 | 181,554 shares of common stock and three year warrants to purchase 36,311 shares of common stock at exercise price \$0.1652 | Private investor | NA          | \$0.1377 per share/NA               |                    |

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|                  |   |                    |    |                       |
|------------------|---|--------------------|----|-----------------------|
|                  | through 2010 Private Placement.   |                    |    |                       |
| January 13, 2011 | 452,900 shares of common stock issued for compensation  | Board of directors | NA | \$0.138 per share/NA  |
| January 13, 2011 | 182,083 shares of common stock and three year warrants to purchase 36,417 shares of common stock at exercise price \$0.1648 through 2010 Private Placement. | Private investor   | NA | \$0.1373 per share/NA |
| January 24, 2011 | 273,974 shares of common stock issued through exercise of warrants.   | Private investor   | NA | \$0.0876 per share/NA |
| January 25, 2011 | 49,358 shares of common stock issued through exercise of warrants   | Private investor   | NA | \$0.1216 per share/NA |
| January 25, 2011 | 86,670 shares of common stock issued in connection with settlement of debt.   | Consultant         | NA | \$0.132 per share/NA  |
| January 27, 2011 | 325,000 shares of common stock issued as compensation.  | Corporate employee | NA | \$0.137 per share/NA  |



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|                   |  |                         |    |                       |
|-------------------|--|-------------------------|----|-----------------------|
| February 4, 2011  | 1,002,020 shares of common stock through loan conversion.  | Private investor        | NA | \$0.055 per share/NA  |
| February 8, 2011  | 95,238 shares of common stock issued through exercise of warrants.   | Private investor        | NA | \$0.042 per share/NA  |
| February 10, 2011 | 502,399 shares of common stock issued through loan conversion.   | Private investor        | NA | \$0.055 per share/NA  |
| February 16, 2011 | 344,828 shares of common stock and three year warrants to purchase 68,966 shares of common stock at exercise price \$0.174 through 2010 Private Placement. | Private investor        | NA | \$0.145 per share/NA  |
| February 24, 2011 | 95,238 shares of common stock issued through exercise of warrants.   | Private investor        | NA | \$0.042 per share/NA  |
| February 24, 2011 | 128,125 shares of common stock issued through exercise of warrants.  | Private investor        | NA | \$0.0384 per share/NA |
| March 9, 2011     | 2,000,000 shares of common stock issued as executive compensation.   | Chief Financial Officer | NA | \$0.135 per share/NA  |
| March 21, 2011    | 2,000,000 shares of common stock issued as executive compensation.   | Chief Executive Officer | NA | \$0.135 per share/NA  |
| February 7, 2011  | Five-year Warrants to purchase 89,928 shares of common stock at an exercise price of \$0.139 per share issued in connection with a loan.                   | Chief Executive Officer | NA | \$-0-/NA              |
| February 7, 2011  | Five-year Warrants to purchase 89,928 shares of common stock at an exercise price of \$0.139 per share issued in connection with a loan.                   | Chief Financial Officer | NA | \$-0-/NA              |

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|                  |  |                         |    |          |
|------------------|--|-------------------------|----|----------|
| February 14 2011 | Five-year Warrants to purchase 127,389 shares of common stock at an exercise price of \$0.1884 per share issued in connection with a loan. | Private investor        | NA | \$-0-/NA |
| March 1, 2011    | Three-year Warrants to purchase 500,000 shares of common stock at an exercise price of \$0.135 per share issued as compensation.           | Consultant              | NA | \$-0-/NA |
| March 15, 2011   | Five-year Warrants to purchase 174,180 shares of common stock at an exercise price of \$0.122 per share issued in connection with a loan.  | Chief Financial Officer | NA | \$-0-/NA |
| March 28, 2011   | Five-year Warrants to purchase 83,333 shares of common stock at an exercise price of \$0.12 per share issued in connection with a loan.    | Chief Financial Officer | NA | \$-0-/NA |

(1) The issuances to executives, employees, lenders, consultants and investors are viewed by the Company as exempt from registration under the Securities Act of 1933, as amended ("Securities Act"), alternatively, as transactions either not involving any public offering, or as exempt under the provisions of Regulation D or Rule 701 promulgated by the SEC under the Securities Act.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Removed and Reserved

Not applicable.

Item 5. Other Information.

None

Item 6. Exhibits.

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

| Exhibit<br>Number | Exhibit Description |
|-------------------|---------------------|
|-------------------|---------------------|

|             |  |
|-------------|--|
| <u>31.1</u> | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer. |
|-------------|--|

|             |  |
|-------------|--|
| <u>31.2</u> | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer. |
|-------------|--|

|             |  |
|-------------|--|
| <u>32.1</u> | Section 1350 Certification of Chief Executive Officer. |
|-------------|--|

|             |  |
|-------------|--|
| <u>32.2</u> | Section 1350 Certification of Chief Financial Officer. |
|-------------|--|

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: May 20, 2011

PureSafe Water Systems, Inc.

By: /s/ Leslie J. Kessler  
Leslie J. Kessler  
Chief Executive Officer

By: /s/ Terry R. Lazar  
Terry R. Lazar  
Chief Financial Officer