

PureSafe Water Systems, Inc.  
Form 10-Q  
November 19, 2010

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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 September 30, 2010

£ 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   
Non-accelerated filer

Accelerated filer   
Smaller reporting company

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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 November 16, 2010, 309,958,934 shares of common stock of the issuer were outstanding.

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

|   | September 30,<br>2010 | December 31,<br>2009 |
|---|-----------------------|----------------------|
| <b>ASSETS</b>   |                       |                      |
| Current Assets:   |                       |                      |
| Cash  | \$ 57,598             | \$ 107,424           |
| Inventories   | 337,172               | 97,115               |
| Prepaid expenses and other current assets   | 85,666                | 120,083              |
| <b>Total Current Assets</b>   | <b>480,436</b>        | <b>324,622</b>       |
| Property and equipment, net of accumulated depreciation of \$55,142 and \$33,356, respectively  | 186,951               | 115,551              |
| Patents and trademarks, net of accumulated amortization of \$28,082 and \$23,504, respectively  | 64,402                | 68,980               |
| Other assets  | 37,280                | 20,500               |
| <b>TOTAL ASSETS</b>   | <b>\$ 769,069</b>     | <b>\$ 529,653</b>    |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIENCY</b>   |                       |                      |
| Current Liabilities:  |                       |                      |
| Accounts payable and accrued expenses   | \$ 764,574            | \$ 656,242           |
| Accrued compensation  | 141,833               | 84,000               |
| Accrued consulting and director fees  | 144,000               | 140,000              |
| Convertible notes payable to officer and director (including accrued interest of \$60,311 and \$14,685 and net of debt discount of \$3,908 and \$14,706, respectively)  | 643,403               | 99,979               |
| Convertible promissory note (including accrued interest of \$38,924 and \$9,194 and net of debt discount of \$34,134 and \$104,214, respectively)   | 479,790               | 279,980              |
| Promissory notes payable (including accrued interest of \$153,299 and \$127,221, respectively)  | 311,520               | 285,443              |
| Fair value of detachable warrants and options   | 1,084,200             | 286,100              |
| Fair value of embedded conversion options   | 1,087,100             | 197,900              |
| Accrued dividends payable   | 190,328               | 190,328              |
| <b>Total Current Liabilities</b>  | <b>4,846,748</b>      | <b>2,219,972</b>     |
| Long Term Liabilities:  |                       |                      |
| Notes Payable   | 28,208                | 236,624              |
| Notes payable to officers and directors   | --                    | 287,000              |
| <b>Total Long Term Liabilities</b>  | <b>28,208</b>         | <b>523,624</b>       |
| <b>TOTAL LIABILITIES</b>  | <b>4,874,956</b>      | <b>2,743,596</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 \$2,673,475 and \$2,592,250 as of September 30, 2010 and December 31, 2009, respectively) | 184                   | 184                  |

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|  |                   |                   |
|--|-------------------|-------------------|
| Common stock, \$.001 par value; 450,000,000 authorized; 304,077,129 shares issued and 304,072,729 shares outstanding at September 30, 2010; 272,162,945 shares issued and 272,158,545 outstanding at December 31, 2009 | 304,076           | 272,162           |
| Additional paid-in capital   | 33,035,987        | 30,086,795        |
| Treasury Stock, at cost, 4,400 shares of common stock  | (5,768 )          | (5,768 )          |
| Subscriptions receivable - related party (including accrued interest of \$48,250 and \$33,076, respectively)   | (385,450 )        | (370,276 )        |
| Accumulated deficit (including \$22,518,320 and \$17,665,444 of deficit accumulated during development stage at September 30, 2010 and December 31, 2009, respectively)  | (37,054,916 )     | (32,197,040 )     |
| Total Stockholders' Deficiency   | (4,105,887 )      | (2,213,943 )      |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY</b>  | <b>\$ 769,069</b> | <b>\$ 529,653</b> |

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 Condensed Statements of Operations

|   | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |                | January 1,<br>2002 To<br>September 30, |
|---|-------------------------------------|--------------|------------------------------------|----------------|--|
|   | 2010                                | 2009         | 2010                               | 2009           | 2010                                   |
| Sales   | \$--                                | \$--         | \$--                               | \$--           | \$ 471,290                             |
| Costs and expenses (income):  |                                     |              |                                    |                |  |
| Cost of Sales   | --                                  | --           |                                    |                | 575,680                                |
| Selling, general and administrative, including stock-based compensation of \$155,267 and \$16,942 for the three months and \$654,351 and \$598,946 for the nine months ended September 30, 2010 and 2009, respectively and \$3,790,058 for the period January 1, 2002 to September 30, 2010 | 790,238                             | 252,000      | 2,304,436                          | 1,546,798      | 13,126,003                             |
| Non-dilution agreement termination costs  | --                                  | --           | --                                 | --             | 2,462,453                              |
| Research and development  | 5,394                               | 15,107       | 80,842                             | 23,143         | 966,529                                |
| Interest expense - including interest expense to a related party of \$14,151 and \$1,250 for the three months and \$37,779 and \$9,583 for the nine months ended September 30, 2010 and 2009, respectively, and \$258,544 for the period Jan 1, 2002 to September 30, 2010                  | 135,488                             | 9,734        | 392,498                            | 111,611        | 2,053,810                              |
| Financing costs - extension of warrants   | --                                  | --           | --                                 | --             | 74,700                                 |
| Interest expense - conversion provision   | --                                  | --           | --                                 | --             | 113,000                                |
| (Gain) loss on settlement of debt   | --                                  | --           | --                                 | --             | 2,027,186                              |
| Change in fair value of detachable warrants and, embedded conversion option   | (505,400 )                          | (153,600 )   | 2,080,100                          | 68,300         | 1,595,249                              |
| Total costs and expenses  | 425,720                             | 123,241      | 4,857,876                          | 1,749,852      | 22,994,610                             |
| Net (loss)  | (425,720 )                          | (123,241 )   | (4,857,876 )                       | (1,749,852 )   | (22,523,320 )                          |
| Deemed dividend on preferred stock  | --                                  | --           | --                                 | --             | (2,072,296 )                           |
| Preferred stock dividends   | (27,075 )                           | (27,075 )    | (81,225 )                          | (81,225 )      | (915,648 )                             |
| Net loss attributable to common stockholders  | \$(452,795 )                        | \$(150,316 ) | \$(4,939,101 )                     | \$(1,831,077 ) | \$(25,511,264 )                        |
| Net loss attributable to common stockholders per common share -   |                                     |              |                                    |                |  |

|   |    |             |    |             |         |             |         |             |
|---|----|-------------|----|-------------|---------|-------------|---------|-------------|
| Basic and diluted Net loss attributable to common stockholders per common share (* less than a penny a share) | \$ | *           | \$ | *           | \$(0.02 | )           | \$(0.01 | )           |
| Weighted average number of shares outstanding   |    | 301,874,648 |    | 249,941,712 |         | 289,782,805 |         | 250,126,857 |

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)  
Condensed Consolidated Statement of Stockholders' Deficiency

|  | Preferred Stock<br>Shares | Preferred Stock<br>Amount | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid-In<br>Capital | Treasury<br>Stock at<br>Cost | Subscription<br>Receivable | Accumulated<br>Deficit | Total<br>Stockholders'<br>Deficiency |
|--|---------------------------|---------------------------|------------------------|------------------------|----------------------------------|------------------------------|----------------------------|------------------------|--------------------------------------|
| Balance at December 31, 2009                     | 184,144                   | \$184                     | 272,162,945            | 272,162                | \$30,086,795                     | \$(5,768)                    | \$(370,276)                | \$(32,197,040)         | \$(2,211,000)                        |
| Proceeds from sale of common stock and warrants: |                           |                           |                        |                        |                                  |                              |                            |                        |                                      |
| \$0.0530 per share – January 29, 2010            | --                        | --                        | 1,886,792              | 1,887                  | 98,113                           | --                           | --                         | --                     | 100,000                              |
| \$0.0530 per share – April 5, 2010               | --                        | --                        | 471,698                | 472                    | 24,528                           | --                           | --                         | --                     | 25,000                               |
| \$0.0597 per share – April 15, 2010              | --                        | --                        | 1,675,042              | 1,675                  | 98,325                           | --                           | --                         | --                     | 100,000                              |
| \$0.0577 per share – April 20, 2010              | --                        | --                        | 433,276                | 433                    | 24,567                           | --                           | --                         | --                     | 25,000                               |
| \$0.0630 per share – April 30, 2010              | --                        | --                        | 793,651                | 794                    | 49,206                           | --                           | --                         | --                     | 50,000                               |
| \$0.0767 per share – May 13, 2010                | --                        | --                        | 651,890                | 652                    | 49,348                           | --                           | --                         | --                     | 50,000                               |
| \$0.1013 per share – May 14, 2010                | --                        | --                        | 740,375                | 740                    | 74,260                           | --                           | --                         | --                     | 75,000                               |
| \$0.1263 per share – May 17, 2010                | --                        | --                        | 197,941                | 198                    | 24,802                           | --                           | --                         | --                     | 25,000                               |
| \$0.2327 per share – May 26, 2010                | --                        | --                        | 128,922                | 129                    | 29,871                           | --                           | --                         | --                     | 30,000                               |
| \$0.2293 per share – May 27, 2010                | --                        | --                        | 109,027                | 109                    | 24,891                           | --                           | --                         | --                     | 25,000                               |
| \$0.2323 per share – June 3, 2010                | --                        | --                        | 107,619                | 108                    | 24,892                           | --                           | --                         | --                     | 25,000                               |
| \$0.1990 per share – June 4, 2010                | --                        | --                        | 125,628                | 126                    | 24,874                           | --                           | --                         | --                     | 25,000                               |
| \$0.1580 per share – June 15, 2010               | --                        | --                        | 632,911                | 633                    | 99,367                           | --                           | --                         | --                     | 100,000                              |
| \$0.24566 per share – June 17, 2010              | --                        | --                        | 432,922                | 433                    | 105,918                          | --                           | --                         | --                     | 106,300                              |
| \$0.24566 per share – June 17, 2010              | --                        | --                        | 108,230                | 108                    | 26,480                           | --                           | --                         | --                     | 26,580                               |
| \$0.1083 per share – July 29, 2010               | --                        | --                        | 230,840                | 231                    | 24,769                           | --                           | --                         | --                     | 25,000                               |
| \$0.1080 per share – July 30, 2010               | --                        | --                        | 925,926                | 926                    | 99,074                           | --                           | --                         | --                     | 100,000                              |
|  | --                        | --                        | 506,586                | 506                    | 49,494                           | --                           | --                         | --                     | 50,000                               |

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|   |    |    |           |       |        |  |  |  |         |
|---|----|----|-----------|-------|--------|--|--|--|---------|
| \$0.0987 per share –<br>August 13, 2010   |    |    |           |       |        |  |  |  |         |
| \$0.0887 per share –<br>August 24, 2010   | -- | -- | 1,127,395 | 1,127 | 98,873 |  |  |  | 100,000 |
| \$0.0990 per share –<br>August 27, 2010   | -- | -- | 252,525   | 253   | 24,747 |  |  |  | 25,000  |
| \$0.1133 per share –<br>September 7, 2010 | -- | -- | 220,653   | 221   | 24,779 |  |  |  | 25,000  |
| \$0.1183 per share –<br>September 8, 2010 | -- | -- | 211,327   | 211   | 24,789 |  |  |  | 25,000  |

Common stock  
issued for accrued  
compensation and  
settlement of debt:

|  |    |    |           |       |         |    |    |    |         |
|--|----|----|-----------|-------|---------|----|----|----|---------|
| \$0.0510 per share –<br>February 1, 2010 | -- | -- | 2,604,608 | 2,605 | 130,230 | -- | -- | -- | 132,800 |
| \$0.055 per share –<br>February 19, 2010 | -- | -- | 1,741,464 | 1,741 | 94,039  |    |    |    | 95,780  |
| \$0.0500 per share –<br>June 2, 2010     | -- | -- | 530,278   | 530   | 25,984  |    |    |    | 26,510  |
| \$0.0350 per share –<br>May 28, 2010     | -- | -- | 1,580,967 | 1,581 | 53,753  |    |    |    | 55,330  |
| \$0.0350 per share –<br>June 7, 2010     | -- | -- | 50,000    | 50    | 1,700   |    |    |    | 1,750   |
| \$0.80510 per share –<br>July 1, 2010    | -- | -- | 1,764,706 | 1,765 | 88,235  |    |    |    | 90,000  |

Common stock  
issued for services

|   |    |    |           |       |         |    |    |    |         |
|---|----|----|-----------|-------|---------|----|----|----|---------|
| \$0.051 per share –<br>February 1, 2010 | -- | -- | 2,375,000 | 2,375 | 117,475 | -- | -- | -- | 119,800 |
| \$0.057 per share –<br>February 1, 2010 | -- | -- | 2,000,000 | 2,000 | 112,000 | -- | -- | -- | 114,000 |
| \$0.057 per share –<br>February 9, 2010 | -- | -- | 2,000,000 | 2,000 | 112,000 | -- | -- | -- | 114,000 |
| \$0.1188 per share –<br>July 12, 2010   | -- | -- | 535,716   | 536   | 74,464  |    |    |    | 75,000  |

Common stock  
issued for the  
exercise of warrants

|  |    |    |         |     |        |  |  |  |        |
|--|----|----|---------|-----|--------|--|--|--|--------|
| \$0.24566 per share –<br>June 17, 2010<br>(cashless) | -- | -- | 843,649 | 843 | (843 ) |  |  |  | --     |
| \$0.0600 per share –<br>June 2, 2010                 | -- | -- | 100,000 | 100 | 5,900  |  |  |  | 6,000  |
| \$0.0580 per share –<br>June 4, 2010                 | -- | -- | 50,000  | 50  | 2,850  |  |  |  | 2,900  |
|  | -- | -- | 250,000 | 250 | 10,000 |  |  |  | 10,250 |

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|   |         |     |             |         |              |           |             |                |               |
|---|---------|-----|-------------|---------|--------------|-----------|-------------|----------------|---------------|
| \$0.0410 per share –<br>June 4, 2010  |         |     |             |         |              |           |             |                |               |
| \$0.0510 per share –<br>June 4, 2010  | --      | --  | 50,000      | 50      | 2,500        |           |             |                | 2,550         |
| \$0.0412 per share –<br>June 9, 2010  | --      | --  | 291,262     | 291     | 11,709       |           |             |                | 12,000        |
| \$0.0876 per share –<br>June 9, 2010  | --      | --  | 273,973     | 274     | 23,726       |           |             |                | 24,000        |
| \$0.0359 per share –<br>June 9, 2010  | --      | --  | 334,448     | 334     | 11,672       |           |             |                | 12,000        |
| \$0.0412 per share –<br>June 15, 2010   | --      | --  | 291,262     | 291     | 11,709       |           |             |                | 12,000        |
| \$0.0384 per share –<br>July 26, 2010   | --      | --  | 312,500     | 312     | 11,688       |           |             |                | 12,000        |
| \$0.0532 per share –<br>July 30, 2010   | --      | --  | 451,129     | 451     | 23,549       |           |             |                | 24,000        |
| \$0.1300 per share –<br>July 30, 2010   | --      | --  | 92,308      | 92      | 11,908       |           |             |                | 12,000        |
| \$0.0660 per share –<br>July 30, 2010   | --      | --  | 90,908      | 91      | 5,909        |           |             |                | 6,000         |
| \$0.1184 per share –<br>August 13, 2010                                       | --      | --  | 101,318     | 102     | 11,895       |           |             |                | 11,990        |
| \$0.0864 per share –<br>August 13, 2010                                       | --      | --  | 55,557      | 56      | 4,744        |           |             |                | 4,800         |
| \$0.042 per share –<br>August 13, 2010  | --      | --  | 571,428     | 572     | 23,428       |           |             |                | 24,000        |
| \$0.0716 per share –<br>August 13, 2010                                       | --      | --  | 13,966      | 14      | 986          |           |             |                | 1,000         |
| \$0.0428 per share –<br>August 19, 2010                                       | --      | --  | 280,374     | 280     | 11,720       |           |             |                | 12,000        |
| \$0.0396 per share –<br>August 19, 2010                                       | --      | --  | 151,515     | 152     | 5,848        |           |             |                | 6,000         |
| \$0.0576 per share –<br>August 19, 2010                                       | --      | --  | 104,167     | 104     | 5,896        |           |             |                | 6,000         |
| \$0.1188 per share –<br>August 27, 2010                                       | --      | --  | 50,505      | 50      | 5,950        |           |             |                | 6,000         |
| Accrued interest  | --      | --  | --          | --      | --           | --        | (15,174 )   | --             | (15,174 )     |
| Reclassification of<br>warrants/Conversion<br>to derivative liability,<br>net | --      | --  | --          | --      | 579,100      | --        | --          | --             | 579,100       |
| Amortization of<br>detachable warrants<br>for employees and<br>non-employees  |         |     |             |         | 231,501      |           |             |                | 231,501       |
| Net loss  | --      | --  | --          | --      | --           | --        |             | (4,857,876 )   | (4,857,876 )  |
| Balance as of<br>September 30, 2010   | 184,144 | 184 | 304,077,129 | 304,076 | \$33,035,987 | \$(5,768) | \$(385,450) | \$(37,054,916) | \$(4,100,000) |

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 Statements of Cash Flows

|  | Nine Months Ended<br>September 30, |                   | For the Period<br>From<br>January 1,<br>2002 through<br>September 30,<br>2010 |
|--|------------------------------------|-------------------|---|
|  | 2010                               | 2009              |   |
| <b>Cash Flows from Operating Activities:</b>   |                                    |                   |   |
| Net loss   | \$(4,857,876)                      | \$(1,749,852)     | \$ (22,523,320 )  |
| Adjustments to reconcile net loss to net cash used in operating activities -   |                                    |                   |   |
| Loss on Sale of Property and Equipment   | --                                 | 8,177             | 8,177   |
| Depreciation and amortization  | 21,786                             | 17,319            | 61,685  |
| Amortization of patents and trademarks   | 4,578                              | 4,096             | 26,700  |
| Interest expense - amortization of deferred financing  | --                                 | --                | 22,530  |
| Stock based compensation   | 654,351                            | 598,946           | 4,043,359   |
| Interest expense - conversion provision  | --                                 | --                | 113,000   |
| Interest receivable  | (15,174 )                          | (15,104 )         | (48,250 )   |
| Accretion of debt discount   | 267,178                            | 90,501            | 954,999   |
| Change in fair value of detachable warrants and embedded conversion option   | 2,080,100                          | 68,300            | 1,595,249   |
| (Gain)/loss on settlement of debt  | --                                 | --                | 2,027,187   |
| 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  | 34,416                             | 15,639            | (35,423 )   |
| Inventories  | (240,058 )                         | --                | (337,173 )  |
| Other assets   | (16,780 )                          | --                | (27,861 )   |
| Accounts payable, accrued expenses, accrued dividends, accrued compensation, accrued consulting and director fees, customer deposits and other current liabilities | 362,189                            | 495,828           | 2,863,909   |
| <b>Net Cash Used in Operating Activities</b>   | <b>(1,705,290)</b>                 | <b>(466,150 )</b> | <b>(8,537,029 )</b>   |
| <b>Cash Flows from Investing Activities:</b>   |                                    |                   |   |
| Purchase of property and equipment   | (63,253 )                          |                   | (231,230 )  |
| Patent costs   | --                                 | (12,558 )         | (66,429 )   |
| Proceeds from sale of property & equipment   | --                                 | 4,350             | 4,350   |
| <b>Net Cash Used in Investing Activities</b>   | <b>(63,253 )</b>                   | <b>(8,208 )</b>   | <b>(293,309 )</b>   |
| <b>Cash Flows from Financing Activities:</b>   |                                    |                   |   |
| Reduction of stock subscription receivable   | --                                 | --                | 65,700  |
| Proceeds from sale of preferred stock  | --                                 | --                | 1,130,127   |
| Proceeds from sale of common stock   | 1,137,939                          | 515,500           | 5,538,999   |
| Proceeds from exercise of warrants   | 207,502                            | --                | 216,852   |

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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                  | 175,000   | --      | 1,350,000  |
| Proceeds from officers and directors convertible loans     | 200,000   | --      | 550,000    |
| Repayment of notes payable                                 | (1,724 )  | --      | (276,723 ) |
| Net Cash Provided by Financing Activities                  | 1,718,717 | 515,500 | 8,852,425  |
| Net (decrease) increase in cash                            | (49,826 ) | 41,142  | 22,087     |
| Cash at beginning of period                                | 107,424   | 29,411  | 35,511     |
| Cash at end of period                                      | 57,598    | 70,553  | 57,598     |
| Supplemental Disclosure of Cash Flow Information:          |           |         |            |
| Cash paid during the year for interest                     | 7,987     | 1,088   | 379,530    |
| Non-Cash Investing Activities:                             |           |         |            |
| Notes Receivable for common stock issued                   | --        | --      | 337,200    |
| Purchase of Equipment through long term financing          | 29,932    | --      | 29,932     |
| Non-Cash Financing Activities:                             |           |         |            |
| Accrued compensation satisfied by issuance of common stock | 174,000   | --      | 229,250    |
| Common stock issued in satisfaction of liabilities         | 228,213   | 236,672 | 7,576,506  |
|  | --        | --      | --         |
| Reclassification of derivative liabilities                 | 579,100   | 142,100 | 1,098,167  |
| Conversion of current liabilities to notes payable         | --        | 523,624 | 523,624    |
| Cancellation of debt for no consideration                  | --        | --      | 1,327,321  |

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 whose vision is to provide a branded line of emergency and disaster relief products designed to provide First Responder emergency Personnel with the most advanced survival and life sustaining equipment which can efficiently be deployed to disaster sites. These products are designed to 1) provide immediate protection for the first responder to enhance job performance, 2) provide the event impacted population with life saving services such as safe drinking water, decontamination systems and emergency sanitization systems and 3) provide equipment manufactured to specifications which permit long term equipment deployment to disaster sites. The Company's corporate headquarters is 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 nine months period ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. 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, 2009, filed with the Securities and Exchange Commission on April 13, 2010.

Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period.

The Company 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 the valuation allowances for deferred income taxes, expected realizable values for long-lived assets (primarily intangible assets) and contingencies, as well as the recording and presentation of the Company's common stock, preferred stock, derivative liabilities, option and warrant issuances. Estimates and assumptions are periodically reviewed and the effects of any material revisions are reflected in the 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. Intercompany transactions and balances are eliminated in consolidation.

## Inventories

Inventory principally consists of raw materials that will be used to manufacture the water purification system machines. These 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 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 subject option.

## Subsequent events

Management has evaluated subsequent events or transactions occurring through the date the financial statements were issued. Other than as disclosed in Note 12 the Company is not aware of any additional subsequent events which would require recognition or disclosure in the condensed consolidated financial statements.

## 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 \$37,055,000 and \$32,197,000 as of September 30, 2010 and December 31, 2009, respectively, and has a working capital deficiency of approximately \$4,366,000 and \$1,895,000 as of September 30, 2010 and December 31, 2009, 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 \$3.5 million in the next four months to fund the following activities: the production of 10 commercialized PureSafe FRWS units; submitting one commercialized unit for all necessary certifications; launching a marketing program for the PureSafe FRWS, establishing a sales and marketing network; and concluding agreements with strategic partners for international marketing and manufacturing.

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.

The FASB, the Emerging Issues Task Force and the SEC have issued certain accounting standards updates and regulations as of September 30, 2010 that will become effective in subsequent periods; however, management of the Company does not believe that any of those updates would have significantly affected the Company's financial accounting measures or disclosures had they been in effect during 2010 or 2009, and it does not believe that any of those pronouncements will have a significant impact on the Company's consolidated financial statements at the time they become effective.

## NOTE 5: 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 776,839 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 and nine months period ended September 30, 2010.

Total shares issuable upon the exercise of warrants and conversion of preferred stock and convertible promissory notes for the three months ended September 30, 2010 and 2009 were as follows:

|                              | September 30, |            |
|------------------------------|---------------|------------|
|                              | 2010          | 2009       |
| Warrants                     | 29,989,389    | 37,071,573 |
| Convertible promissory notes | 14,785,636    | 4,218,053  |
| Convertible preferred stock  | 1,545,760     | 1,545,760  |
| Totals                       | 46,320,785    | 42,835,386 |

## NOTE 6: FAIR VALUE.

ASC 820 “Fair Value Measurements and Disclosures” defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Standard clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date and emphasizes that fair value is a market-based measurement and not an entity-specific measurement.

ASC 820 establishes the following hierarchy used in fair value measurements and expands the required disclosures of assets and liabilities measured at fair value:

Level 1 – Inputs use quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 – Inputs use other inputs that are observable, either directly or indirectly. These inputs include quoted prices for similar assets and liabilities in active markets as well as other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 – Inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company’s assessment of the significance of particular inputs to these fair measurements requires judgment and considers factors specific to each asset or liability.



Liabilities measured at fair value on a recurring basis at September 30, 2010 are as follows:

|                              | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Liabilities<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Balance at<br>September 30,<br>2010 |
|------------------------------|--|---|--|-------------------------------------|
| Embedded conversion feature  | \$-  | \$-   | \$ 1,087,100                                       | \$ 1,087,100                        |
| Warrant and option liability | \$-  | \$-   | \$ 1,084,200                                       | \$ 1,084,200                        |
|                              | \$-  | \$-   | \$ 2,171,300                                       | \$ 2,171,300                        |

Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Our Level 3 liabilities consist of derivative liabilities associated with the convertible debt that contains an indeterminable conversion share price and the tainted warrants as the Company cannot determine if it will have sufficient authorized common stock to settle such arrangements.

The following table provides a summary of the changes in fair value, including net transfers in and/or out, of all financial assets measured at fair value on a recurring basis using significant unobservable inputs during the nine months ended September 30, 2010.

|  | Embedded<br>Conversion<br>Feature | Warrant<br>Liability | Total        |
|--|-----------------------------------|----------------------|--------------|
| Balance January 1, 2010                  | \$ 197,900                        | \$ 286,100           | \$ 484,000   |
| Included in income (expense)             | 962,700                           | 1,117,400            | 2,080,100    |
| Included in debt discount                | 127,700                           | 58,600               | 186,300      |
| Reclassification to stockholder's equity | (201,200 )                        | (377,900 )           | (579,100 )   |
| Transfers in and /or out of Level 3      | -                                 | -                    | -            |
| Balance September 30, 2010               | \$ 1,087,100                      | \$ 1,084,200         | \$ 2,171,300 |

#### NOTE 7: PROPERTY AND EQUIPMENT

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

#### NOTE 8: STOCKHOLDERS' DEFICIENCY.

##### Debt

During the nine months ended September 30, 2010, the Company issued 8,272,023 shares of Common Stock in settlement of \$402,213 of debt which include 1,058,824 shares issued to the Company's Chief Executive Officer in settlement of \$54,000 accrued compensation, 588,235 shares issued to the Company's Chief Financial Officer in settlement of \$30,000 accrued compensation and 530,278 shares issued to the Company's Chief Operating Officer upon his request in June to convert a \$25,000 principal loan and \$1,514 accrued interests that was payable to him and

the Company also issued 1,764,706 shares to a consulting firm in settlement of \$90,000 of accrued compensation. The Company's Chief Operating Officer has 95% ownership of the consulting firm.  
Cash

Through Equity Financing:

During the nine months ended September 30, 2010, for gross proceeds of \$1,137,939 the Company sold an aggregate of 11,971,176 shares of common stock and warrants to purchase additional 2,394,235 shares of common stock at an exercise price of \$0.0636 to \$0.2948. The warrants have a term of three years. The Company evaluated the transaction under ASC 815 and was not able to determine if the Company had sufficient authorized shares of common stock to settle the warrants. Accordingly, on the date of closing the transaction the Company recorded the warrants as a derivative liability at their fair value of \$134,300 and will be marked to market through earnings at the end of each reporting period.

During the nine months ended September 30, 2010, the Company issued 3,916,620 shares of common stock for gross proceeds of \$207,503 received through the exercise of 3,916,620 warrants. On the date of exercise, the Company reclassified to equity \$305,000 of the derivative liability related to the fair value of the warrants.

In June, 2010, two investors received 843,649 shares of common stock through exercising 1,384,786 warrants that had a cashless exercise provision. On the date of exercise, the Company reclassified to equity \$103,700 of the derivative liability related to the fair value of the warrants.

Through Debt Financing:

During the nine months ended September 30, 2010, the Company received gross proceeds of \$175,000 through debt financing. The Company issued each lender a convertible promissory note bearing interest rate of 10% per annum with a term of one year. In connection with the placement, the Company also issued each lender a warrant to purchase aggregate 637,463 shares of common stock at exercise price of \$0.0624 to \$0.0720 per share. The warrants have a term of five years. (See Note 9)

Services

In the first quarter of 2010, the Company issued an aggregate 1,175,000 shares of common stock to multiple employee and consultants per grant that was approved by the Company's Board of directors on February 1, 2010. The shares were fully vested on the date of the grant and accordingly, the Company recorded \$58,650 of stock-based compensation in connection with this issuance.

In February 2010, the Company issued 600,000 shares of common stock to the Company's Chief Executive Officer per grant that was approved by the Company's Board of directors on February 1, 2010. The shares were fully vested on the date of the grant and accordingly, the Company recorded \$30,600 of stock-based compensation in connection with this issuance.

In February 2010, the Company issued 600,000 shares of common stock to the Company's Chief Financial Officer per grant that was approved by the Company's Board of directors on February 1, 2010. The shares were fully vested on the date of the grant and accordingly, the Company recorded \$30,600 of stock-based compensation in connection with this issuance.

In February 2010, the Company issued 2,000,000 shares to the Company's Chief Executive Officer. The issuance is part of the grant the Company awarded to the officer in April 2009 in which the Chief Executive Officer has the right to receive a total of 4,000,000 shares of common stock of which 2,000,000 shares were issued in April 2009 and the remaining 2,000,000 shares were to be issued on January 1, 2010. In addition to such stock grants, the officer was granted a five-year option to purchase an additional 3,000,000 shares of common stock. The option was made fully exercisable as of its grant date and has an exercise price of \$0.041 per share. The Company incurred stock-based

compensation of \$114,000 in connection with February 2010 issuance.

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In February 2010, the Company issued 2,000,000 shares to the Company's Chief Financial Officer. The issuance is part of the grant the Company awarded to the officer in April 2009 in which the Chief Financial Officer has the right to receive a total of 4,000,000 shares of common stock of which 2,000,000 shares were issued in April 2009 and the remaining 2,000,000 shares were to be issued in January 1, 2010. In addition to such stock grants, the officer was granted a five-year option to purchase an additional 3,000,000 shares of common stock. The option was made fully exercisable as of its grant date and has an exercise price of \$0.041 per share. The Company incurred stock-based compensation of \$114,000 in connection with February 2010 issuance.

In July, 2010, the Company issued a total of 535,716 shares of common stock to its six directors each of which received 89,286 shares for their third quarter of 2010 compensation. 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 \$75,000 in connection with the July issuance.

In August 2010, Board of Directors cancelled three million warrants granted to a consultant in connection with consulting agreement signed in December 2007 due to non-performance. The cancellation was approved by Board of Directors on April 30, 2010. The Company reclassified \$173,100 of derivative liability to equity relating to such agreement.

During the nine months ended September 30, 2010, the Company granted 2,100,000 of warrants to purchase common stock at a price of approximately \$0.05 per share to employees for services provided. The warrants have a life of 5 years and were fully vested on the date of the grant. The Company recorded a charge of approximately \$72,300 for the fair value of the grant.

During the nine months ended September 30, 2010, the Company granted 2,000,000 warrants to purchase common stock at a price of \$0.05 per share to a consultant for services provided. The warrants had a life of 5 years and were fully vested on the date of the grant. The Company recorded a charge of approximately \$69,600 for the fair value of the grant. Under ASC 815 "Derivatives and Hedging," the Company was required to reclassify the warrant as a derivative liability and marked to market through earnings at the end of each reporting period.

In addition the Company recorded a charge of approximately \$20,467 for the amortization of previously granted warrants for services.

#### NOTE 9 - CONVERTIBLE PROMISSORY NOTES PAYABLE

During the nine months ended September 30, 2010, the Company sold and issued convertible promissory notes in the aggregate principal amount of \$175,000 bearing interest at 10% per annum and warrants to purchase an additional 637,463 shares of common stock at an exercise price of \$0.0624 to \$0.072 per share. The convertible notes mature in one year. The holders of the notes are entitled to convert all or a portion of the convertible note plus any unpaid interest, at the note holders' sole discretion, into shares of common stock at a conversion price of \$0.052 to \$0.06 per share.

The Company accounted for the issuance of these convertible promissory notes in accordance with ASC 815 "Derivatives and Hedging". Accordingly, the warrants and the embedded conversion option of the convertible note are recorded as derivative liabilities at their fair market value and were marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the notes of \$175,000 were recorded net of a discount of \$84,700. The debt discount consisted of approximately \$23,800 related to the fair value of the warrants and approximately \$60,900 related to the fair value of the embedded conversion option. The debt discount was being charged to interest expense ratably over the term of the convertible notes.



On December 17, 2008, the Company sold and issued a convertible promissory note in the principal amount of \$50,000 bearing interest at 10% per annum and warrants to purchase an additional 285,714 shares of common stock at an exercise price of \$0.042 per share. The convertible note matured on December 17, 2009. 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 \$0.035 per share.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815. Accordingly, the warrants and the embedded conversion option of the convertible note is recorded as derivative liabilities at their fair market value and were marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note of \$50,000 were recorded net of a discount of \$19,500. The debt discount consisted of approximately \$2,800 related to the fair value of the warrants and approximately \$16,700 related to the fair value of the embedded conversion option. The debt discount was being charged to interest expense ratably over the term of the convertible note.

On April 30, 2010, the Company received a request from the lender who made the December 17, 2008 loan to convert \$50,000 of principal and accrued interest of \$7,084 into the Company's common stock. The Company issued 1,630,967 shares of common stock to the lender in connection with such conversion and accordingly on the date of conversion the Company reclassified \$190,600 of the derivative liability for the fair value of the embedded conversion option to equity.

#### NOTE 10: RELATED PARTY TRANSACTIONS.

- (a) In March 2010, the Company issued to its Chief Executive Officer 1,058,824 shares of common stock in settlement of \$54,000 accrued compensation and 588,235 shares to the Company's Chief Financial Officer in settlement of \$30,000 accrued compensation.
- (b) In February 2010, the Company issued 2,000,000 shares to the Company's Chief Executive Officer. The issuance is part of the grant the Company awarded to the officer in April 2009 in which the chief executive officer has the right to receive a total of 4,000,000 shares of common stock, of which 2,000,000 shares were issued in April 2009 and the remaining 2,000,000 shares were to be issued on January 1, 2010. In addition to such stock grants, the officer was granted a five-year option to purchase an additional 3,000,000 shares of common stock. The option was made fully exercisable as of its grant date and has an exercise price of \$0.041 per share. The Company incurred stock-based compensation \$114,000 in connection with this issuance.
- (c) In February 2010, the Company issued 2,000,000 shares to the Company's Chief Financial Officer. The issuance is part of the grant the Company awarded to the officer in April 2009 in which the Chief Financial Officer was granted the right to receive a total of 4,000,000 shares of common stock of which 2,000,000 shares were issued in April 2009 and the remaining 2,000,000 shares were to be issued on January 2010. In addition to such stock grants, the officer was granted a five-year option to purchase an additional 3,000,000 shares of common stock. The option was made fully exercisable as of its grant date and has an exercise price of \$0.041 per share. The Company incurred stock-based compensation \$114,000 in connection with this issuance.
- (d) In February 2010, the Company issued 600,000 shares of common stock to the Company's Chief Executive Officer per grant that was approved by the Company's Board of directors on February 1, 2010. The shares were fully vested on the date of the grant and accordingly, the Company recorded \$30,600 of stock-based compensation in connection with this issuance.
- (e) In February 2010, the Company issued 600,000 shares of common stock to the Company's Chief Financial Officer per grant that was approved by the Company's Board of directors on February 1, 2010. The shares were fully

vested on the date of the grant and accordingly, the Company recorded \$30,600 of stock-based compensation in connection with this issuance.

- (f) In June 30, 2010, the Company's Chief Operating Officer requested to convert \$25,000 he lent to the Company in October 2009 plus accrued interest \$1,514 to the Company's common stock. The Company issued 530,278 shares of common stock to the designated party the Chief Operating Officer instructed. In addition, the Chief Operating Officer also exercised 100,000 warrants that he received through the October 2009 loan, at the exercise price of \$0.06 per share. The Company issued 100,000 shares to the Chief Operating Officer and received \$6,000 in connection with such warrant exercise. The Company reclassified \$10,600 of the derivative liability to equity for the fair value of the embedded conversion option on the date of conversion.
- (g) On April 7, 2010, the Company's Chief Executive Officer, and the Company's Chief Financial Officer each made loans of \$100,000 to the Company. The loans accrue interest at the rate of 7% per annum. In addition, the Company issued warrants to each officer to purchase 431,034 shares of common stock at an exercise price of \$0.059 per share. The loans are due and payable by or on October 7, 2010. The interest accrued on the loans is to be paid on the 7th day of each month until the loans mature and paid off. The loans were evidenced by the promissory notes the Company issued to the two officers which each contain a conversion clause that allow the officers at the officer's sole option to convert the loan amount plus all accrued and unpaid interest due under the note into common stock. The conversion price was set at \$0.059 per share, which was the closing market price of the common stock as of the closing date of the loans.

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

- (h) On July 12, 2010, the Company issued 1,764,706 shares of common stock in settlement of \$90,000 of accounts payable due to Hidell-Eyster Technical Services ("Hidell-Eyster") with whom the Company signed a General Management Agreement with in March 2010. Hidell-Eyster subsequently transferred all shares to their employees including 419,118 shares to Carroll S. Keim, President and Chief Executive Officer of Hidell-Eyster, who also serves as the Company's President under the March 2010 agreement, and 419,117 shares to Henry R. Hidell, Founder and Chairman of Hidell-Eyster, who also serves as the Company's Chief Operating Officer under the same agreement.

#### NOTE 11: COMMITMENTS AND CONTINGENCIES

##### Contingencies:

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

In March 2007, a then director, John Clarke provided a \$50,000 loan to the Company. The loan pays simple interest at the rate of 10% per annum and the principal was due to be paid on June 29, 2007. The loan carries an option provision that entitles the former director to convert his debt to shares of our common stock if the principal was not paid on the due date. The conversion price is the 50% of the average closing price of common stock over the three previous business days before demand for conversion is made. The former director has made a demand for conversion, but the date of the demand is currently in question.

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. 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 Company's existing liability insurance policy. However, the Company cannot provide assurance that the outcome of this matter will not have a material effect on its financial condition or results of operations.

The Company has received a collection notice from Bircon, Ltd. for a \$140,000 balance they claim is due. The Company is disputing such claim based on their breach of contract. The Company plans to vigorously defend any suit filed by Mr. Gil Tenne and /or Bircon Ltd.

Commitments:

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

NOTE 12: SUBSEQUENT EVENTS.

- (a) On October 7, 2010, the Company issued a total of 681,816 shares of common stock to its six directors each of which received 113,636 shares for their 4th quarter of 2010 compensation. 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 of \$50,000, paid in shares of common stock, payable quarterly, and valued at the beginning of each quarter. The Company recorded \$75,000 stock based compensation in connection with such issuance.
- (b) From October 1, 2010 through November 16, 2010, for gross proceeds of \$125,000 the Company sold an aggregate of 1,201,084 shares of common stock and warrants to purchase additional 240,217 shares of common stock at an exercise price of \$0.12 to \$0.1272. The warrants have a term of three years. The Company evaluated the transaction under ASC 815 and was not able to determine if the Company had sufficient authorized shares of common stock to settle the warrants. Accordingly, on the date of closing the transaction the Company recorded the warrants as a derivative liability at their fair value of \$16,100 and will be marked to market through earnings at the end of each reporting period.
- (c) From October 1, 2010 through November 16, 2010, the Company issued 2,123,010 shares of common stock for gross proceeds of \$151,195 received through exercise of 2,123,010 warrants. On the date of exercise, the Company reclassified to equity \$116,400 of the derivative liability related to the fair value of the warrants.
- (d) On October 4, 2010, the Company's Chief Executive Officer, and the Company's Chief Financial Officer each made loans of \$100,000 to the Company. The loans accrue interest at the rate of 10% per annum. In addition, the Company issued warrants to each officer to purchase 200,000 shares of common stock at an exercise price of \$0.10 per share. The loans are due and payable by or on November 17, 2010. The interest accrued on the loans is to be paid on November 17, 2010 or the last day of each month until the loans are paid off. The loans were evidenced by the promissory notes the Company issued to the two officers which each contain a conversion clause that allow the officers at the officer's sole option to convert the loan amount plus all accrued and unpaid interest due under the note into common stock. The conversion price was set at \$0.10 per share, which was the closing market price of the common stock as of the closing date of the loans.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815 "Derivatives and Hedging." Accordingly, the warrants and the embedded conversion option of the convertible note are recorded as derivative liabilities at their fair market value and were marked to market through earnings at the end of each reporting period. The gross proceeds from the sales of the notes of \$200,000 were recorded net of a discount of \$158,200. The debt discount consisted of \$70,000 related to the fair value of the warrants and approximately \$88,200 related to the fair value of the embedded conversion option. The debt discount will be charged to interest expense ratably over the term of the convertible note.

(e) On October 4, 2010, the Company issued 150,000 shares to the Company's counsel/advisor to the Board of Directors for his services. The Company recorded \$14,400 stock-based compensation for such issuance.

(f) On October 19, 2010, the Company issued 670,802 shares to each of the Company's Chief Executive Officer and Chief Financial Officer. The issuance was approved by the Board of Directors on August 5, 2010 for their efforts in raising capital. The Company recorded \$128,794 stock-based compensation for such issuance.

(g) On October 1, 2010, the Company issued 388,691 shares to an investor upon his request to convert a \$25,000 principal amount loan and \$2,208 accrued interest that was payable to him. The Company reclassified \$22,300 of the derivative liability to equity for the fair value of the embedded conversion option on the date of conversion and expensed the remaining \$542 debt discount to interest.

## 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, 2009 contained in our Annual Report on Form 10-K for the year ended December 31, 2009, filed with the Securities and Exchange Commission (the "SEC") on April 13, 2010.

### 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 (Three months periods analysis)

**Sales.** We recorded zero sales for the three month periods ended September 30, 2010 and 2009.

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. 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 fourth quarter of 2010. 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 month periods ended September 30, 2010 and 2009.



Selling, general and administrative. Selling, general and administrative expenses for the three month period ended September 30, 2010 was \$790,238 compared to \$252,000 for the same period in 2009, a \$538,238 or 214% increase. The overall increase was the combination of several factors. The \$130,716 in manufacturing overhead expenses in the three month period ended September 30, 2010 was due to the fact that we started production on our first two commercialized units in the beginning of 2010, compared to \$0 for the same period in 2009 during which time we did not have any activities related to manufacturing. As business activities increased significantly in 2010, we incurred \$41,019 in legal fees in the three month period ended September 30, 2010 compared with \$26,174 in the same period in 2009, a \$14,845 or 57% increase. Office expenses increased by \$7,940 for the three month period ended September 30, 2010 to \$20,490 when compared with \$12,550 in the same period for 2009. The cause of the increase is, again, due to the increased business activities. Marketing related expenses in the three month period ended September 30, 2010 were \$167,823 compared to \$59,769 in the same period of 2009, a \$108,054 or 181% increase. Since the beginning of 2010, we have launched several marketing programs and signed an agreement with a marketing consultant to devise and implement a comprehensive marketing program. We continue to participate in important tradeshows which also contributes to the increase of marketing expenses. We expect spending for marketing related expenses will continue to grow, inclusive of trade shows, advertising, organized public relations campaign, etc. if the funding allows. Salary expense, including deferred compensation in the three month period ended September 30, 2010, was \$153,818 compared to \$65,802 in the same period of 2009, an \$88,016 or 134% increase. The reason for the salary expense increase was due to additional staff hired in 2010 to meet increasing responsibilities as the Company continues to grow. Stock based compensation in the three month period ended September 30, 2010 was \$155,267 compared \$16,942 in the same period of 2009, a \$138,325 or 816% increase. The Company paid \$75,000 quarterly director fees in the Company's common stock to its six directors in July. The directors' fees is the main reason for the increase.

Research and development expense for the three month periods ended September 30, 2010 and 2009 was \$5,394 and \$15,107, respectively. 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 and completed in July 2008, to be a standardized commercial unit. 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 month periods ended September 30, 2010 and 2009 was \$33,362 and \$4,859, respectively. The \$28,503 or 587% increase was primarily from i) accrued interest from the promissory notes that we issued to various vendors which include our Chief Executive Officer and Chief Financial Officer for a total of \$523,624 accrued compensation that they agreed to defer until January 1, 2011, and ii) accrued interest on the \$550,000 in funds the Company received from October 2009 through January 2010 through debt financing, which included \$25,000 received from each of our Chief Executive Officer, Chief Financial Officer and Chief Operating Officer. Debt discount related interest expense for the three month periods ended September 30, 2010 and 2009 was \$102,126 and \$4,875, respectively, a \$97,251 or 1995% increase. The increase of debt discount related interest expense is caused by the \$550,000 in funds received through debt financing, as is the non-debt discount related interest expense, and from \$100,000 received through loans from each of our Chief Executive Officer and Chief financial Officer in April 2010.

Changes in fair value of warrants and embedded conversion options for the three month periods ended September 30, 2010 and 2009 were \$(505,400) and \$(153,600), respectively, a \$351,800 or 229% decrease, despite the fact that the average stock price during the three month period ended in 2010 is 64% higher compared to the same period in 2009. The main reason for the decrease of liability is that 2,275,675 warrants were exercised during this period. As a result, we wrote-off a total of \$147,900 warrant liability during this period and reduced the warrant base to be valued on September 30, 2010.



## Results of Operations (Nine month periods analysis)

Sales. We recorded zero sales for the nine month periods ended September 30, 2010 and 2009, respectively.

Cost of sales. We recorded zero cost of sales for the nine month periods ended September 30, 2010 and 2009, respectively.

Selling, general and administrative. We incurred selling, general and administrative expenses for the nine months ended September 30, 2010 of \$2,304,436, compared to \$1,546,798 for the same period in 2009, a \$757,638 or 49% increase. The overall increase was the combination of several factors with the same reasons discussed above in the three month period comparison except we see large decreases in legal fees, audit fees and consultant fees. The \$273,767 in manufacturing overhead expenses in the nine month period ended September 30, 2010 was due to the fact that we started production on our first two commercialized units in the beginning of 2010, compared to \$0 for the same period in 2009, during which time we did not have any activities related to manufacturing. We incurred \$67,674 in legal fees in the nine month period ended September 30, 2010 compared with \$113,999 in the same period in 2009, a \$46,325 or 41% decrease. We incurred \$30,000 in audit fees in the nine month period ended September 30, 2010 compared to \$78,815 in the same period of 2009, a \$48,815 or 62% decrease. The decrease in audit fees was credited to a more experienced accounting and finance team resulting in less audit hours incurred. We incurred \$87,360 in consulting fees in the nine month period ended September 30, 2010, compared to \$133,961 in the same period of 2009, a \$46,601 or 35% decrease. In 2009, most of the fees paid to our consultants were recorded under consulting services. Since 2010, we record the payments to our consultants based on the nature of services provided. For example, payments to consultants who provide marketing services will be recorded as market expenses; consultants who provide engineering design services will be recorded either as manufacturing overhead – labor or research & development. Insurance premiums for nine month period ended September 30, 2010 was \$54,650 compared to \$35,587 in the same period of 2009, a \$19,063 or 54% increase. The increase was due to the coverage of an additional 15,000 square-foot production facility on a lease we signed in May 2010 and new coverage for inventory and raw materials. Office expenses increased by \$20,041 or 87% for the nine month period ended September 30, 2010 to \$42,961 when compared with \$22,920 in the same period for 2009. The cause of the increase in office expense is due to the increased business activities. Marketing related expenses in the nine month period ended September 30, 2010 was \$432,107 compared \$176,639 in the same period of 2009, a \$255,468 or 145% increase. Since the beginning of 2010, we have launched several marketing programs and signed an agreement with a marketing consultant to devise and implement a comprehensive marketing program. We continue to participate in important tradeshows which also contributes to the increase of marketing expenses. We expect spending in marketing related expenses will continue to grow, inclusive of trade shows, advertising, organized public relations campaign, etc. if the funding allows. Salary expense including deferred compensation in the nine month period ended September 30, 2010 was \$419,752, compared to \$195,558 in the same period of 2009, a \$224,194 or 115% increase. The reason of the salary expense increase was due to more staff we have hired in 2010 to meet the increasing responsibilities as the Company continues to grow. For the same reason as the salary increase, payroll taxes incurred in the nine month period ended September 30, 2010 were \$17,785 compared with \$7,090 in the same period of 2009, a \$10,695 or 151% increase. Stock Based Compensation in the nine month period ended September 30, 2010 was \$659,351, compared \$598,946 in the same period of 2009, a \$60,405 or 10% increase.

Research and development expense for the nine month periods ended September 30, 2010 and 2009 was \$80,842 and \$23,143, respectively, an increase of \$57,670 or 249%. Since the beginning of 2010, we have spent a considerable amount of funds on redesigning and modifying our FRWS unit from the prototype that was built and completed in July 2008, to be a standardized commercial unit. 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 nine month periods ended September 30, 2010 and 2009 was \$125,320 and \$21,111, respectively. The \$104,209 or 494% increase was primarily from i) accrued interest from the promissory notes that we issued to various vendors which include our Chief Executive Officer and Chief Financial Officer for a total of \$523,624 accrued compensation that they agreed to defer until January 1, 2011 and ii) accrued interest on the \$550,000 funds the Company received from October 2009 through January 2010, through debt financing which included \$25,000 received from each of our Chief Executive Officer, Chief Financial Officer and Chief Operating Officer. Debt discount related interest expense for the nine month periods ended September 30, 2010 and 2009 was \$267,178 and \$90,501, respectively, a \$176,677 or 195% increase. The increase of debt discount related interest expense is caused by the \$550,000 funds received through debt financing and debt discount incurred in connection with the \$100,000 loans we received from each of the Company's Chief Executive Officer and Chief Financial Officer.

Changes in fair value of warrants and embedded conversion options for the nine month periods ended September 30, 2010 and 2009 were \$2,080,100 and \$68,300, respectively. There are two main factors for the \$2,011,800 or 2,946% increase. The first factor is the fair value we recorded as the result of new issuances of warrants and the embedded conversion value in the convertible loans incurred in the 3rd quarter of 2009 and the first nine months of 2010. The second factor is the fluctuation of the Company's stock price. The closing price per share for the Company's common stock on September 30, 2010 and 2009 was \$0.11 and \$0.047, respectively, a 134% increase thus causing the significant increase in the fair value of the outstanding warrants and the embedded conversion value of all outstanding convertible promissory notes in the nine months ended September 30, 2010 compared to the same period in 2009.

For all the above-stated reasons, the net loss for the three month periods ended September 30, 2010 and 2009 was \$(425,720) and \$(123,241), respectively and for the nine month periods ended September 30, 2010 and 2009 was \$(4,857,876) and \$(1,749,852), respectively.

### Liquidity and Capital Resources

As of September 30, 2010, we maintained a cash balance of \$57,598 as compared to \$70,553 as of the same date in 2009.

Net cash used in operating activities for the nine month periods ended September 30, 2010 and 2009 was \$1,705,290 and \$466,150, respectively. The \$1,239,140 increase was primarily from the manufacturing overhead incurred in 2010. Since the beginning of 2010, we have started to manufacture two commercialized units. We spent a considerable amount of cash on purchasing inventories, equipment and parts for production, compensation paid to the production team and various production related expenses.

Net cash used in investing activities for the nine month periods ended September 30, 2010 and 2009 is \$63,253 and \$8,208, respectively. The capital expenditures incurred in this period are for purchasing machines and tools for the production of our water purification system.

Net cash provided by financing activities for the nine month periods ended September 30, 2010 and 2009 is \$1,718,717 and \$515,500, respectively. The breakdown is as follow: \$1,137,939 and \$515,500 through sales of our common stock; \$207,502 and \$0 through investors exercising warrants; \$200,000 and \$0 from officers and director's convertible loans; and \$175,000 and \$0 from convertible promissory notes, and we paid a financing company \$1,724 for the vehicle the Company acquired through financing.

At September 30, 2010, we had a working capital deficit of approximately \$4,366,000. Absent fluctuations due to market to market changes in our outstanding detachable warrants, options and embedded conversion option liabilities, we continue to suffer recurring losses from operations and have an accumulated deficit since inception of approximately \$37,055,000. These conditions raise substantial doubt about our ability to continue as a going concern. Our plans with respect to these matters include restructuring existing debt and raising additional capital through future issuances of stock and/or debt. We are seeking to raise an additional \$3.5 million in the next four months to fund the following activities: the production of 10 commercialized PureSafe FRWS units; submitting one unit for all necessary certifications; launching a marketing program for the PureSafe FRWS, establishing a sales and marketing network; and concluding agreements with strategic partners for international marketing and manufacturing. For the first two quarters of 2010, management's main focus was to produce two PureSafe FRWS standardized commercial units compliant with output, ease of operation, mobility and water quality as described in the recently published "Operational Requirements Document" by the U.S. Department of Homeland Security (2009) for emergency water supplies, complete the certification process and initiate the Company's marketing plan. We have embarked a comprehensive marketing plan which include a series of trade shows, and to design a complete set of marketing materials. We hired experts in different areas to help us in Marketing and Sales. We expect to recognize

the first sales of the PureSafe FRWS by the fourth quarter of 2010.

We can give no assurance that additional 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.

In September 2010, the Company received Gold Seal Certification from the Water Quality Association (WQA) for its Mobile Water Treatment Device. The Water Quality Association certifies products to industry standards. WQA is accredited by the American national Standards Institute (ANSI) and the Standards Council of Canada (SCC) and certifies products to NSF/ANSI 60, 61, 14, 50, 42, 44, 53, 55, 58, 62, 177, 22, 51 and 24 standards. Manufacturers can be assured that products bearing the Gold Seal meets or exceeds industry standards (WQA, NSF/ANSI, LAPMO, ASME, ASTM, EPA's WaterSense, etc.) for material safety, structural integrity, performance in removing a variety of drinking water contaminants, and facility inspections. Gold Seal Certification is an effective way to differentiate our product from the competition.

Additionally, PureSafe's FRWS has been certified to NSF/ANSI Standard 61 and to the WQA ORD 0902 for Low Lead Compliance. Standard 61 is the accepted standard for municipalities and health departments across the country. This standard established minimum health effects requirements for materials, components, products, or systems that contact drinking water, drinking water chemicals, or both. The WQA 0902 Low Lead certification meets new legislation which is currently monitored and enforced in California, Vermont, and Massachusetts and soon to be adopted in other states.

#### Recent Accounting Pronouncements

The FASB, the Emerging Issues Task Force and the SEC have issued certain accounting standards updates and regulations as of March 31, 2010 that will become effective in subsequent periods; however, our management team does not believe that any of those updates would have significantly affected our financial accounting measures or disclosures had they been in effect during 2010 or 2009, and it does not believe that any of those pronouncements will have a significant impact on our consolidated financial statements at the time they become effective.

#### 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.

#### Principles of Consolidation

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

## Inventories

Inventory principally consists of raw materials that will be used to manufacture the water purification system machines. These amounts are stated at lower of first-in, first-out (“FIFO”) cost or market.

## Stock-Based Compensation

We report 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.

## Derivative Financial Instruments

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

The accounting treatment of derivative financial instruments requires that we record the conversion option and related warrants at their fair values as of the inception date of the convertible debenture agreements and at fair value as of each subsequent balance sheet date. In addition, under the provisions of ASC 815, as a result of issuing 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 required under ASC 815 changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification.

## 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."

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 2005.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

This item is not applicable to smaller reporting companies.

Item 4T. 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 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 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 quarter ended September 30, 2010 that has materially affected, or are 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:

In March 2007, a then director, John Clarke provided a \$50,000 loan to our company. The loan pays simple interest at the rate of 10% per annum and the principal was due to be paid on June 29, 2007. The loan carries an option provision that entitles the former director to convert his debt to shares of our common stock if the principal was not paid on the due date. The conversion price is the 50% of the average closing price of common stock over the three previous business days before demand for conversion is made. The former director has made a demand for conversion, but the date of the demand is currently in question.

On June 21, 2009, we were served with a complaint filed in the Supreme Court of the State of New York, County of Nassau, in which suit State Farm Fire & Casualty Company is the plaintiff. The suit is for approximately \$202,000 in damages, resulting from a fire that occurred on or about December 16, 2008, allegedly as a result of a defective water cooler sold either by us or by Water Splash LLC, to which we had sold our water cooler business and related liabilities in November 2001. An amended complaint was filed on August 19, 2009, adding Water Splash LLC as a defendant. The claim by State Farm is on the basis that, as the insurance carrier, it is subrogated to the claim for damages of the owner of the property where the fire allegedly started by reason of a defect in the water cooler. Under the complaint, alternative claims for damages are made in negligence, breach of warranty, placing on the market a product in a defective and unreasonably dangerous condition and not fit for its intended use, failure to warn State Farm's subrogor of the risks and defects associated with the water cooler which were not discoverable by reasonable inspection, and strict liability. 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 our 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.

We have received a collection notice from Bircon, Ltd. for a \$140,000 balance they claim is due. We are disputing such claim based on their breach of contract. We plan to vigorously defend any suit filed by Mr. Gil Tenne and /or Bircon Ltd. We will be cancelling the warrants previously authorized for lack of performance.

## 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 September 30, 2010.

| Date          | Title and Amount(1)  | Purchaser        | Principal | Total Offering Price/<br>Underwriter<br>Underwriting<br>Discounts |
|---------------|--|------------------|-----------|---|
| July 26, 2010 | 312,500 shares of common stock issued through exercise of warrants | Private investor | NA        | \$0.0384/NA   |

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July 30, 2010

451,129 shares of common stock issued  
through exercise of warrants

Private  
investor

NA

\$0.0532/NA

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|                 |   |                  |    |             |
|-----------------|---|------------------|----|-------------|
| July 30, 2010   | 92,308 shares of common stock issued through exercise of warrants   | Private investor | NA | \$0.1300/NA |
| July 30, 2010   | 90,908 shares of common stock issued through exercise of warrants   | Private investor | NA | \$0.0660/NA |
| August 13, 2010 | 101,318 shares of common stock issued through exercise of warrants  | Private investor | NA | \$0.1184/NA |
| August 13, 2010 | 55,557 shares of common stock issued through exercise of warrants   | Private investor | NA | \$0.0864/NA |
| August 13, 2010 | 571,428 shares of common stock issued through exercise of warrants  | Private investor | NA | \$0.042/NA  |
| August 13, 2010 | 13,966 shares of common stock issued through exercise of warrants   | Private investor | NA | \$0.0716/NA |
| August 19, 2010 | 280,374 shares of common stock issued through exercise of warrants  | Private investor | NA | \$0.0428/NA |
| August 19, 2010 | 151,515 shares of common stock issued through exercise of warrants  | Private investor | NA | \$0.0396/NA |
| August 19, 2010 | 104,167 shares of common stock issued through exercise of warrants  | Private investor | NA | \$0.0576/NA |
| August 27, 2010 | 50,505 shares of common stock issued through exercise of warrants   | Private investor | NA | \$0.1188/NA |
| July 29, 2010   | 230,840 shares of common stock and three year warrants to purchase 46,168 shares of common stock issued in 2010 private placement.    | Private investor | NA | \$0.1083/NA |
| July 30, 2010   | 925,926 shares of common stock and three year warrants to purchase 185,185 shares of common stock issued in 2010 private placement.   | Private investor | NA | \$0.1080/NA |
| August 13, 2010 | 253,293 shares of common stock and three year warrants to purchase 50,659 shares of common stock issued in 2010 private placement.    | Private investor | NA | \$0.0987/NA |
| August 13, 2010 | 253,293 shares of common stock and three year warrants to purchase 50,659 shares of common stock issued in 2010 private placement.    | Private investor | NA | \$0.0987/NA |
| August 24, 2010 | 1,127,395 shares of common stock and three year warrants to purchase 225,479 shares of common stock issued in 2010 private placement. | Private investor | NA | \$0.0887/NA |



|                   |  |                  |    |             |
|-------------------|--|------------------|----|-------------|
| August 27, 2010   | 252,525 shares of common stock and three year warrants to purchase 50,505 shares of common stock issued in 2010 private placement. | Private investor | NA | \$0.0990/NA |
| September 4, 2010 | 220,653 shares of common stock and three year warrants to purchase 44,131 shares of common stock issued in 2010 private placement. | Private investor | NA | \$0.1133/NA |
| September 7, 2010 | 211,327 shares of common stock and three year warrants to purchase 42,265 shares of common stock issued in 2010 private placement. | Private investor | NA | \$0.1183/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 5. Other Information.

##### Termination of Hidell-Eyster International General Management Service Agreement; Resignations of Officers and Director

On March 25, 2010, our Board of Directors approved the Company’s entering into a General Management Service Agreement (the “HEI Agreement”) with Hidell-Eyster International (HEI) to assist us in the management of our business and oversee financial performance in accordance with the Company’s Board of Directors approved budgets and operating plans. We signed the HEI Agreement on March 26, 2010. Pursuant to the terms of the HEI Agreement, the Board appointed, effective March 26, 2010, Carroll S. (Steve) Keim as President, Henry R. (Bob) Hidell as Chief Operating Officer, and Richard Pellerito as Vice President of Operations. Mr. Hidell was also elected to our Board of Directors, as per the terms of the HEI Agreement. On September 15, 2010, we received a notice of default under the HEI Agreement from HEI. The parties then, on October 23, 2010, entered into a Modification Agreement (“Modification Agreement”) to the HEI Agreement that provided (1) for reduction of the Company’s payments under the HEI Agreement to payments of \$10,000 per month for the services of Mr. Hidell and \$8,000 per month for the services of Mr. Pellerito, and (2) that Mr. Hidell would act as Chief Operating Officer for our manufacturing subsidiary and Mr. Pellerito would act as Vice President and Director of Technical Sales for the Company. The Modification Agreement further provided that Mr. Keim would be terminated as President of the Company effective November 1, 2010. The Modification Agreement extended the period within which we may notify HEI of our decision to modify or terminate the HEI Agreement to December 31, 2010. Pursuant to the terms of the Modification Agreement, Mr. Keim resigned as President of the Company, effective November 1, 2010.

On November 15, 2010, we received notice from HEI terminating any and all of its obligations under the terms of the amended HEI Agreement and demanding payment of all compensation due HEI under the terms of the HEI Agreement. As of November 15, 2010, Henry R. Hidell, III and Richard Pellerito resigned as officers of the Company, and Mr. Hidell also resigned as a director.

Following termination of the HEI Agreement, as amended, the Company and HEI have entered into discussions to resolve their issues that led to the HEI termination. Both companies believe that an ongoing positive business relationship will ultimately be in the best interest of our shareholders.

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 Principal Executive Officer. |
| <u>31.2</u>       | Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer. |
| <u>32.1</u>       | Section 1350 Certification of Principal Executive Officer.             |
| <u>32.2</u>       | Section 1350 Certification of Principal Financial Officer.             |

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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: November 19, 2010

PureSafe Water Systems, Inc.

By: /s/ Leslie J. Kessler  
Leslie J. Kessler  
Chief Executive Officer  
(Duly Authorized Officer and Principal  
Executive Officer)

By: /s/ Terry R. Lazar  
Terry R. Lazar  
Chief Financial Officer  
(Duly Authorized Officer and Principal  
Financial Officer)