PURADYN FILTER TECHNOLOGIES INC
Form 10-K
March 30, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

or

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

For the transition period from: _____________ to _____________

Commission File Number 001-11991

PURADYN FILTER TECHNOLOGIES INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	**14-1708544**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2017 HIGH RIDGE ROAD, BOYNTON BEACH, FLORIDA 33426

(Address of principal executive office) (Zip Code)

Registrant s telephone number, including area code **561-547-9499**

Securities registered under Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
NONE	**NONE**

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, PAR VALUE $.001 PER SHARE

(Title of class)

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

Yes ¨ No þ

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

Yes ¨ No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 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 þ No ¨

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

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	þ

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

Yes ¨ No þ

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter. $6,195,394 on June 30, 2015.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. 48,683,135 shares of common stock are outstanding as of March 30, 2016.

DOCUMENTS INCORPORATED BY REFERENCE

None.

PURADYN FILTER TECHNOLOGIES INCORPORATED

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements in this annual report contain or may contain forward-looking statements that are subject to known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements were based on various factors and were derived utilizing numerous assumptions and other factors that could cause our actual results to differ materially from those in the forward-looking statements. These factors include, but are not limited to:

- our history of losses and uncertainty that we will be able to continue as a going concern,
- our ability to generate net sales in an amount to pay our operating expenses,
- our need for additional financing and uncertainties related to our ability to obtain these funds,
- our ability to repay the outstanding debt of approximately $12.3 million due our Chairman and CEO,
- our reliance on sales to a limited number of customers,
- the significant amount of deferred compensation owed to two of our executive officers and other employees and our ability to pay these amounts,
- our ability to protect our intellectual property and the potential impact of expiring patents on our business in future periods,
- anti-takeover provisions of Delaware law and our Board's ability to issue preferred stock without stockholder consent,
- potential dilution to our stockholders from the exercise of outstanding options and warrants,

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the lack of sufficient liquidity in the market for our common stock, and

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the application of penny stock rules to the trading in our common stock.

Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the areas of risk described in connection with any forward-looking statements that may be made herein. Readers are cautioned not to place undue reliance on these forward-looking statements and readers should carefully review this annual report in its entirety, including the risks described in *Part I. Item 1A. Risk Factors*. Except for our ongoing obligations to disclose material information under the Federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. These forward-looking statements speak only as of the date of this annual report, and you should not rely on these statements without also considering the risks and uncertainties associated with these statements and our business.

OTHER PERTINENT INFORMATION

Our website is www.puradyn.com. The information which appears on our website is not part of this report.

When used in this annual report, the terms "Puradyn", the Company, "we," "our," and "us" refers to Puradyn Filter Technologies Incorporated, a Delaware corporation. 2015 refers to the year ended December 31, 2015, 2014 refers to the year ended December 31, 2014 and 2016 refers to the year ending December 31, 2016.

PART I

ITEM 1.

BUSINESS.

The Company

We design, manufacture, market and distribute worldwide the Puradyn® bypass oil filtration system (the *"Puradyn" system*) for use with substantially all internal combustion engines and hydraulic equipment that use lubricating oil. Working in conjunction with the equipment s full-flow oil filter, the *Puradyn* system cleans oil by providing a second circuit of oil filtration and treatment to continually remove solid, liquid and gaseous contaminants from the oil through a sophisticated and unique filtration and evaporation or absorption process. The *Puradyn* system consists of a base filtration unit or housing that is connected via hoses to the engine or hydraulic system, along with filter elements that reside inside the filtration unit and are replaced periodically to maintain top performance. Our filter is unique in that it incorporates an additive package to replenish depleted base additive levels in engine lubricating oil. Because *Puradyn* filtered lubricating oil is kept in a continually clean state, our system has been used effectively to safely and significantly extend oil-drain intervals and to extend the time between engine overhauls. We are the exclusive manufacturer of our unique disposable replacement filter elements ("Element") for the *Puradyn system*.

Products

The core product, the patented *Puradyn* bypass oil filtration system, is offered in three families of models, MTS, TF, and PFT, which can be attached to almost any engine or hydraulic system. The Puradyn bypass filtration system is similar to a kidney dialysis machine that provides an additional filtration circuit outside the body/engine to filter blood/oil and rid it of impurities, keeping the blood/oil continually clean. Whenever the engine or machinery is operating, the *Puradyn* is extracting from the oil solid particles down to less than one micron (1/39 millionth of an inch), as well as gaseous and liquid contaminants, protecting the engine or hydraulic equipment from harmful wear and less efficient operation caused by these contaminants. *Puradyn* replacement filter elements may contain an additive package that serves to replenish base additives (in engine lube oil only) in the oil during the filtration process, helping to maintain the oil s proper chemical balance and viscosity.

Oil condition is monitored through periodic analysis of small oil samples. If the sample results show that the condition of the oil is considered good for continued use, the *Puradyn* filter element is changed in lieu of performing a scheduled oil change.

Consequently, the *Puradyn* system significantly reduces maintenance costs by decreasing oil consumption, engine wear and certain other types of general maintenance as well as reducing environmental impact and concerns and costs associated with the storage and disposal of waste oil. Depending on the application, potential savings from utilizing the *Puradyn* system generally provide a relatively short average payback period of 3 to 12 months, during which time the customer s oil and labor savings more than recoup the cost of the filtration unit and expended filter elements.

The *Puradyn* system is currently manufactured in seven different sizes suitable for placement on engines or equipment with oil sump capacities ranging from a minimum of 1 gallon (3.8 liters) to a maximum of 85 gallons (322 liters). Sump capacities up to 510 gallons (1,931 liters) can be serviced by utilizing multiple systems. The recently released, next generation MTS model offers the same filtration benefits and features of the TF and PFT models, with the added enhancements of greater simplicity (no electrical connection is required) and easier serviceability as water contaminant removal is achieved through the Company s patented recently introduced Polydry® polymer technology embedded in each filter element, all encompassed in a similar footprint.

All *Puradyn* systems are compatible with virtually all standard and synthetic oils on the market, and they work with engines using gasoline, diesel, propane or natural gas. The *Puradyn* system, ordinarily, cannot be used on engines that do not have a pressurized lubricating system.

We also manufacture and distribute replacement filter elements for the *Puradyn* system. Depending upon the application, we generally recommend that the element be replaced at the engine manufacturer's recommended/approved periodic oil change interval or current service interval. The type of element used also depends upon the specific type of engine or hydraulic application. A customer can change the filter element and take the required oil sample in approximately five to 10 minutes.

The *Puradyn* system has no moving parts and consequently requires no significant ongoing maintenance. As long as filter elements are changed at the recommended intervals and other standard preventive maintenance procedures are completed, such as changing factory full-flow oil filters and air filters and completing regular oil analyses, the Company believes the *Puradyn* system will perform as designed; such belief is established and supported by independent lab tests and historical field performance over more than a decade.

Warranties

The *Puradyn* system carries a six-month money-back performance guarantee and is currently warrantied to the original user to be free of defects in material and workmanship for five years from date of purchase, with a one-year limited warranty on the heating element contained in the TF and PFT models. The Company will accept returns of products that are defective at the time of sale or prove to be defective during the limited warranty period. Returns are subject to specific conditions.

For the Company s performance guarantee and warranty to remain in effect, users must, among other things, maintain a record of the laboratory oil analysis results and use *Puradyn* filter elements and replacement parts. The Company has received letters from numerous OEMs which have all stated that the installation and use of the *Puradyn* system does not void their manufacturer warranties if there is no oil related engine failure or malfunction attributed to the *Puradyn* system. To date, there have been no significant warranty claims, although there can be no assurances that such a trend will continue.

Marketing

The Company has established an in-house marketing department comprised of two employees, with various projects outsourced on an as-needed basis.

The Company s products are marketed to numerous industries that include a multitude of hydraulic applications, and other users of engines or equipment that utilize up to 50 weight oil for lubrication.

We rely on management's ability to determine the existence and extent of available markets for our product. Company management has considerable sales and marketing backgrounds and devotes a significant portion of their time to sales-related activities.

Distribution

We currently have 75 active domestic and international distributors and dealers that sell and/or service the *Puradyn* system; however, the majority of our products are sold through a limited number of distributors. Currently, international sales are administered by Puradyn from the United States. The international distributors are located primarily in South America, Europe, Africa, India, and Asia. Our international distributors purchase product directly from the Company and sell to their existing or new customers. All distributor agreements can be terminated by either party with a 30 to 60 day written notice.

Sales

Direct Sales

The Company directly and/or with the assistance of its manufacturer's representatives, distributors or other agents, markets its products directly to OEMs, other distributors and national accounts. We are dependent upon sales to a limited number of customers. During 2015 three customers together accounted for 53.5% of the Company s net sales and during 2014 five customers together accounted for 57.8% of the Company s net sales. There were two customers at December 31, 2015, whose trade receivable balances equaled or exceeded 10% of total receivables, representing approximately 47%, and 32%, respectively of total receivables. There were two customers at December 31, 2014, whose accounts receivable balances equaled or exceeded 10% of total receivables, representing approximately 40%, and 20%, respectively of total receivables. Additionally, contractual agreements previously announced with two current distributors Marine Equipment Repair, Inc. in the commercial marine industry and HongHua America for the territory of China, have not fully materialized with the agreed-upon sales volume.

The loss of business from one or a combination of the Company s significant customers could adversely affect its operations.

International Sales

The Company, directly and/or with the assistance of commission-based manufacturer's representatives, has established primarily non-exclusive distributors and sales representation in various countries, including Germany, South Africa, Turkey, United Kingdom, Thailand, Colombia, and others. The ultimate success of these and other distributors primarily depends upon their ability to successfully introduce and sell the product in their respective territories, including obtaining local evaluations, establishing distribution, and other factors similar to those faced by the Company in the United States. Unlike domestic sales, the Company has a policy that international sales be paid in advance or secured by a letter of credit before shipping. The Company s credit risk is minimal with international sales as a result of this policy. Total international sales amounted to approximately 13% of net sales in both 2015 and 2014.

Manufacturing and Production

The Company purchases component parts for unit housings and filter elements. The component parts are assembled, packed and shipped from our facility in Boynton Beach, Florida.

We currently source substantially all of our raw materials and component parts from various vendors in the United States. Substantially all the tools and dies used by certain of our vendors are owned by the Company. We have researched alternative sources of supply and do not anticipate that the loss of any single supplier would have a material long-term adverse effect on our business, operations or financial condition. However, there can be no assurance that our current or future suppliers will be able to meet our requirements on commercially reasonable terms or within scheduled delivery times. An interruption of our arrangements with suppliers could cause a delay in the production of our products for timely delivery to distributors and customers which could result in a loss of sales revenue in future periods.

The Company has achieved ISO 9001:2008 registration from the International Organization for Standardization, validating its Quality Management Standards process for design, manufacture, sales and distribution of bypass oil filtration systems and replacement filters for various industries.

Engineering and development costs are expensed as incurred. During the years ended December 31, 2015 and 2014, we incurred engineering and development costs, excluding payroll and benefit expenses for engineering, in the amount of $9,210 and $14,517, respectively, which are included in selling and administrative expenses in the accompanying statements of operations.

Competition

Bypass oil filtration systems produced by other companies in varying degrees address the issues of solid or liquid contaminant filtration through centrifugal design, media filtration or evaporation. However, Puradyn believes that its solution is the only bypass oil filtration system that simultaneously incorporates all of the following features, which we believe provide us with a competitive advantage:

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Filtering solid contaminants to below one micron, including enhanced soot retention through the use of a patent-pending process for chemical grafting;

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Effectively removing harmful gaseous and liquid contaminants through a heated evaporation chamber or patented polymer formulation; and

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Replenishing the base additives in engine oil so as to maintain proper oil viscosity and total base number (TBN) rating.

The proper use of our products reduces the need for oil-related maintenance services, replacement parts, original oil sales and consumption and waste oil disposal.

Some of our competitors may have more capital, greater brand recognition, larger customer bases and significantly greater financial, technical and marketing resources than we do. Our competitors' products may achieve greater acceptance in the marketplace than our own, limiting our ability to gain market share and customer loyalty and to generate sufficient revenues to achieve a profitable level of operations.

Intellectual Property

Our ability to compete effectively depends in part on our ability to maintain the proprietary nature of our technology, products and manufacturing processes. We principally rely upon patent, trademark, trade secrets and contract law to establish and protect our proprietary rights.

We rely on a combination of trade secrets, patents and trademarks to establish and protect our intellectual property rights. As of December 31, 2015, we had issued nine U.S. patents and 24 issued international patents that directly relate to our technology that expire between 2016 and 2033, as well as two pending patent applications in the U.S. and 27 pending patent applications internationally.

We intend to pursue additional patent protection to the extent that we believe it would be beneficial and cost effective.

In 2015 and 2014 we spent $9,210 and $14,192, respectively, on research and development.

We have registered the product trademark *Puradyn*® in the United States and other countries where the "*Purifiner*®" trademark was registered, and have registered the product trademarks *Polydry*®, *CGP*® and *Keep It Clean!*® in the United States. In addition, we have applied for various pending trending trademarks.

We have also obtained the rights to the domain name www.puradyn.com as well as the domain names puradyn.asia, puradyn.ro, puradyn.com.tr, puradyn.org, puradyn.us, puradyn.info and puradyn.biz. As with telephone numbers, we do not have and cannot acquire any property rights in an Internet address. We do not expect to lose the ability to use these Internet addresses; however, there can be no assurance in this regard.

Employees

At March 26, 2016, the Company had 21 full-time employees, including our executive officers.

None of the employees are covered by collective bargaining agreements, and we believe our relationships with our employees to be good.

History of our Company

The Company has been incorporated in the State of Delaware since February 1988. On February 4, 1998, the Company filed a Certificate of Amendment to its Certificate of Incorporation, changing its name to Puradyn Filter Technologies Incorporated.

ITEM 1A.

RISK FACTORS.

An investment in our common stock involves a significant degree of risk. You should not invest in our common stock unless you can afford to lose your entire investment. You should consider carefully the following risk factors and other information in this annual report before deciding to invest in our common stock. If any of the following risks and uncertainties develop into actual events, our business, financial condition or results of operations could be materially adversely affected and you could lose your entire investment in our Company.

Risks Related to our Business

WE HAVE A HISTORY OF LOSSES AND OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM HAS SUBSTANTIAL DOUBTS ABOUT OUR ABILITY TO CONTINUE AS A GOING CONCERN.

We have incurred substantial operating and net losses, as well as negative operating cash flows, since our inception through December 31, 2015. For the years ended December 31, 2015 and 2014, we reported net losses of $1,446,090 and $1,156,860, respectively, and at December 31, 2015 we had a working capital deficit of $1,016,765. At December 31, 2015, we had an accumulated deficit of approximately $60 million. These recurring losses, working capital deficit and the reliance on cash inflows from our principal stockholder who is also an executive officer and director of our Company have led our independent registered public accounting firm to include a statement in its audit report relating to our audited financial statements for the years ended December 31, 2015 and 2014 expressing substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty. We anticipate that we will continue to incur losses in future periods until we are successful in significantly increasing our revenues. There are no assurances that we will be able to raise our revenues to a level which supports profitable operations and provides sufficient funds to pay our obligations. If we are unable to meet those obligations, we could be forced to cease operations in which event investors would lose their entire investment in our Company.

OUR NET SALES DECLINED IN 2015 FROM 2014 AND ARE NOT SUFFICIENT TO FUND OUR OPERATING EXPENSES. THERE ARE NO ASSURANCES WE WILL BE ABLE TO INCREASE OUR SALES, IN THE NEAR FUTURE, TO A LEVEL WHICH WILL FUND OUR OPERATING EXPENSES.

Our net sales decreased 37% in 2015 from 2014, and our current operations are not sufficient to fund our operating expenses. We used cash in operations of approximately $1,303,000 and approximately $823,000 in 2015 and 2014, respectively. We do not have any external sources of liquidity and we are dependent on loans from our principal stockholder who is also an executive officer and director of our Company. During 2015 this stockholder advanced an additional $1,350,250 to the Company and at December 31, 2015 we owe him $11,924,617. Our gross margins have declined due to our decrease in sales as a result of certain fixed costs which are included in our cost of sales. However, as long as our cash flow from operations remains insufficient to fund our operations, we will continue depleting our cash and other financial resources, which are extremely limited. Our failure to achieve profitable operations in future periods will adversely affect our ability to continue as a going concern. In this event, you could lose all of your investment in our Company.

WE NEED ADDITIONAL FINANCING WHICH WE MAY NOT BE ABLE TO OBTAIN ON ACCEPTABLE TERMS. IF WE CANNOT RAISE ADDITIONAL CAPITAL AS NEEDED, OUR ABILITY TO EXECUTE OUR GROWTH STRATEGY AND FUND OUR ONGOING OPERATIONS WILL BE IN JEOPARDY.

Historically, our operations have been financed primarily through a credit line from one of our principal stockholders, as well as short-term loans from other affiliates. Our future capital requirements, however, depend on a number of factors, including our ability to internally grow our revenues, manage our business and control our expenses. We need to raise additional capital to fund our ongoing operations, pay our existing obligations and for future growth of our Company. We do not have any commitments for additional capital, and we cannot assure you that any additional capital will be available to us in the future upon terms acceptable to us. We owe our principal stockholder who is an executive and director of our company approximately $12.3 million. There are no assurances he will continue to advance funds to us for our operating expenses. Given our history of losses, debt levels and general uncertainties of the capital markets, we face a number of challenges in our ability to raise capital. If we do not raise funds as needed, or if our principal stockholder should discontinue his practice of advancing funds to us to pay our operating expenses, our ability to provide for current working capital needs, pay our obligations as they become due, grow our Company, and continue our existing business and operations is in jeopardy. In this event, you could lose all of your investment in our Company.

WE OWE APPROXIMATELY $12.3 MILLION WHICH IS DUE BY DECEMBER 31, 2016.

Since March 2002, our principal stockholder has been providing funding to us for working capital on an unsecured basis. The original amount of the credit line extended to us in 2002 was $2.5 million. At December 31, 2015, we owed him approximately $11.9 million, and he has advanced us an additional $400,075 in 2016. As extended, this loan is due on December 31, 2017 or (i) at such time as we have raised an additional $7 million over the $3.5 million raised in prior offerings, or (ii) at such time as we are operating within sufficient cash flow parameters to sustain operations, or (iii) until a disposition of our Company, such as an acquisition or merger, occurs. We do not have sufficient funds to pay this loan when it becomes due. Although he has continually extended the due date of this obligation since the credit line was first extended to us in 2002, most recently extending the maturity date from December 31, 2016 to December 31, 2017, there are no assurances this stockholder will continue to provide extensions to us indefinitely. While the loan is unsecured, the repayment terms of this obligation makes it more difficult for us to secure the additional financing we need to fund our operations.

WE RELY ON SALES TO A LIMITED NUMBER OF CUSTOMERS AND THERE ARE NO ASSURANCES THAT THESE CUSTOMERS WILL CONTINUE TO PURCHASE PRODUCTS FROM US.

We are dependent upon sales to a limited number of customers. During 2015 three customers individually accounted for approximately 28%, 13.5% and 12%, respectively (for a total of 53.5%) of our net sales. During 2014 two customers individually accounted for approximately 17%, and 16.6%, respectively (for a total of 33.6%), of our net sales. We do not have contracts with our customers and the loss of sales from one or more of these customers could materially impact our results of operations in future periods.

AT DECEMBER 31, 2015 OUR CURRENT LIABILITIES INCLUDE $1,609,585 OF DEFERRED COMPENSATION. WE DO NOT HAVE THE FUNDS TO PAY THESE AMOUNTS.

Since 2005, Messrs. Sandler and Kroger, two of our executive officers, and two other employees, have elected to defer a portion of the cash compensation due them to assist us in managing our cash flow and working capital needs. As there is no written agreement with these employees which memorializes the terms of salary deferral, only a voluntary election to do so, it is possible that the employees could demand payment in full at any time. We do not have the funds to pay these amounts in entirety, and any demand by these officers and employees for full payment would reduce the amount of funds we have available for our operations. We could be required to pay these obligations at a time when it is disadvantageous for us, and could result in our inability to satisfy our other obligations as they become due.

IF WE ARE UNABLE TO PROTECT OUR INTELLECTUAL PROPERTY OUR ABILITY TO CONDUCT OUR BUSINESS AS IT IS PRESENTLY CONDUCTED IS IN JEOPARDY.

Our success is heavily dependent on our proprietary technology and we rely on a combination of contractual rights, patents, trade secrets, trademarks and non-disclosure agreements to establish and protect our proprietary rights. There can be no assurances that the steps we take to protect our proprietary rights will be adequate to prevent misappropriation of the technology or independent development by others of products with features based upon, or otherwise similar to, our products. In addition, although we believe that any new technology currently in development or patent pending has been independently developed and does not infringe on the proprietary rights of others, there can be no assurance that we are correct or that third parties will not assert infringement claims against us in the future. If instituted, there can be no assurances we will have adequate resources to defend a patent infringement or other proprietary rights infringement action. If we are unable to adequately protect our proprietary rights or if other products should be developed which are substantially similar to ours, our ability to continue our operations as they are presently conducted could be in jeopardy and we could be forced to cease operations. The Company believes it will have future benefits from current patent awards and applications and does not regard our business as being dependent upon any single patent or group of patents that may expire in the near-term.

Risk Related to our Common Stock

PROVISIONS OF OUR CERTIFICATE OF INCORPORATION AND BYLAWS MAY DELAY OR PREVENT A TAKE-OVER WHICH MAY NOT BE IN THE BEST INTERESTS OF OUR STOCKHOLDERS.

Provisions of our certificate of incorporation and bylaws may be deemed to have anti-takeover effects, which include when and by whom special meetings of our shareholders may be called, and may delay, defer or prevent a takeover attempt. In addition, certain provisions of the Delaware General Corporation Law also may be deemed to have certain anti-takeover effects. Further, our certificate of incorporation authorizes the issuance of up to 500,000 shares of preferred stock with such rights and preferences as may be determined from time to time by our board of directors in their sole discretion. Although, to date, we have never issued preferred stock, our board of directors may, without stockholder approval, issue series of preferred stock with dividends, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of the holders of our common stock.

THE EXERCISE OF OUTSTANDING WARRANTS AND OPTIONS WILL BE DILUTIVE TO OUR EXISTING STOCKHOLDERS.

At December 31, 2015, we had 48,683,135 shares of our common stock issued and outstanding and the following securities, which are exercisable into shares of our common stock, were outstanding:

- 1,099,915 shares of our common stock issuable upon the exercise of warrants with exercise prices ranging from $0.25 to $0.50 per share; and

- 3,858,000 shares of our common stock issuable upon the exercise of options with exercise prices ranging from $0.17 per share to $0.94 per share.

The issuance of these shares will be dilutive to our existing stockholders.

BECAUSE OUR STOCK CURRENTLY TRADES BELOW $5.00 PER SHARE, AND IS QUOTED ON THE OTCQB® MARKETPLACE, OUR STOCK IS CONSIDERED A "PENNY STOCK" WHICH CAN ADVERSELY AFFECT ITS LIQUIDITY.

As the trading price of our common stock is less than $5.00 per share, our common stock is considered a "penny stock," and trading in our common stock is subject to the requirements of Rule 15g-9 under the Securities Exchange Act of 1934. Under this rule, broker/dealers who recommend low-priced securities to persons other than established customers and accredited investors must satisfy special sales practice requirements. The broker/dealer must make an individualized written suitability determination for the purchaser and receive the purchaser's written consent prior to the transaction.

Securities and Exchange Commission regulations also require additional disclosure in connection with any trades involving a "penny stock," including the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and its associated risks. These requirements severely limit the liquidity of our common stock in the secondary market because few brokers or dealers are likely to undertake these compliance activities. Purchasers of our common stock may find it difficult to resell the shares in the secondary market.

THERE MAY NOT BE SUFFICIENT LIQUIDITY IN THE MARKET FOR OUR SECURITIES IN ORDER FOR INVESTORS TO SELL THEIR SECURITIES. THE MARKET PRICE OF OUR COMMON STOCK MAY BE VOLATILE.

While our common stock is quoted on the OTCQB Tier of the OTC Markets, our common stock is thinly traded and should be considered an illiquid investment. The market price of our common stock will likely be highly volatile, as is the stock market in general, and the market for over the counter quoted stocks in particular. Some of the factors that may materially affect the market price of our common stock are beyond our control, such as conditions or trends in the industry in which we operate or sales of our common stock. These factors may materially adversely affect the market price of our common stock, regardless of our performance. In addition, the public stock markets have experienced extreme price and trading volume volatility. This volatility has significantly affected the market prices of securities of many companies for reasons frequently unrelated to the operating performance of the specific companies. These broad market fluctuations may adversely affect the market price of our common stock.

FINRA SALES PRACTICE REQUIREMENTS MAY ALSO LIMIT A STOCKHOLDERS ABILITY TO BUY AND SELL OUR STOCK.

In addition to the penny stock rules promulgated by the SEC, which are discussed earlier in this section, the rules of the Financial Industry Regulatory Authority, Inc. (FINRA) require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative, low-priced securities to their non-institutional customers, broker-dealers must have reasonable efforts to obtain information about the customer s financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low-priced securities will not be suitable for at least some customers. FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit the ability to buy and sell our stock and have an adverse effect on the market value for our shares.

ITEM 1B.

UNRESOLVED STAFF COMMENTS.

Not applicable to a smaller reporting company.

ITEM 2.

PROPERTIES.

We lease approximately 25,500 square feet of office and warehouse space in Boynton Beach, Florida which serves as our principal executive offices, from an unrelated third party under a lease which expires on July 31, 2019. We pay a base rental of $12,386, which escalates to $13,940 in 2018 and we are responsible for all operating expenses and utilities. The Company leases a condominium in Ocean Ridge, Florida, on an annual basis, to provide accommodations for Company use, primarily for Mr. Alan Sandler and Mr. Kevin Kroger, executive officers of the Company. The lease, which expires in December 2016, has an annual expense of $8,500.

ITEM 3.

LEGAL PROCEEDINGS.

None.

ITEM 4.

MINE SAFETY DISCLOSURES.

Not applicable to our Company.

PART II

ITEM 5.

STOCKHOLDER MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is quoted on the OTCQB® Tier of the OTC Markets under the symbol PFTI. The reported high and low sales prices for the common stock as reported on the OTCQB® are shown below for the periods indicated. The quotations reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not represent actual transactions.

	High	**Low**
2014		
First quarter ended March 31, 2014	$0.22	$0.14
Second quarter ended June 30, 2014	$0.25	$0.18
Third quarter ended September 30, 2014	$0.33	$0.19
Fourth quarter ended December 31, 2014	$0.24	$0.15
2015		
First quarter ended March 31, 2015	$0.22	$0.15
Second quarter ended June 30, 2015	$0.20	$0.10
Third quarter ended September 30, 2015	$0.20	$0.06
Fourth quarter ended December 31, 2015	$0.15	$0.03

On March 28, 2016, the last sale price of our common stock as reported on the OTCQB® was $0.19. As of March 26, 2016, there were 322 record owners of our common stock. The transfer agent for the Company s common stock is ClearTrust LLC, 16540 Pointe Village Drive, Suite 201, Lutz, Florida 33558.

Dividend Policy

The Company has never declared or paid cash dividends on its common stock. Under Delaware law, we may declare and pay dividends on our capital stock either out of our surplus, as defined in the relevant Delaware statutes, or if there is no such surplus, out of our net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. If, however, the capital of our Company, computed in accordance with the relevant Delaware statutes, has been diminished by depreciation in the value of our property, or by losses, or otherwise, to an amount less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets, we are prohibited from declaring and paying out of such net profits and dividends upon any shares of our capital stock until the deficiency in the amount of capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets shall have been repaired.

The Company presently intends to retain future earnings, if any, to finance the expansion of its business and does not anticipate any cash dividends will be paid in the foreseeable future. The future dividend policy will depend on our earnings, capital requirements, expansion plans, financial condition and other relevant factors.

Recent Sales of Unregistered Securities

In March 2016 we entered into an Advisory Agreement with an outside consultant pursuant to which he will provide management and advisory services to us for a six-month term. As compensation for those services, we issued him a five-year common stock purchase warrant to purchase 350,000 shares of our common stock at an exercise price of $0.05 per share. The recipient was a sophisticated investor who had access to business and financial information on our company and the issuance was exempt from registration under the Securities Act of 1933, as amended, in reliance on an exemption provided by Section 4(a)(2) of that act.

ITEM 6.

SELECTED FINANCIAL DATA.

Not applicable to a smaller reporting company.

ITEM 7.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

You should read the following discussion together with our audited financial statements and the related notes appearing elsewhere in this report. In addition to historical financial information, this discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Actual results could differ from these expectations as a result of factors including those described under Cautionary Statement Regarding Forward-Looking Information and Item 1A, Risk Factors, and elsewhere in this Annual Report on Form 10-K.

General

Sales of the Company s products, the Puradyn® bypass oil filtration system and replaceable filter elements depend principally upon end user demand for such products and acceptance of the Company s products by OEMs. Developing market acceptance for the Company s existing and proposed products requires substantial marketing and sales efforts and the expenditure of a significant amount of funds to inform customers of the perceived benefits and cost advantages of its products. We continue to market our product and its benefits through direct contact efforts with our distributors, direct customers, and original equipment manufacturers.

We focus our sales strategy on individual sales and distribution efforts as well as on the development of a nationwide distribution network that will not only sell but also install and support our product. We currently have approximately 75 distributors and dealers that sell and/or service the *Puradyn* system in the U.S. and internationally.

In October 2014, we released two new additions to our line of bypass filtration products:

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Puradyn Millennium Technology System (MTS) which utilizes a closed lubricating system to remove, as do all the Puradyn products, solid contaminants down to less than one micron while safely extending the lubrication or hydraulic oil's useful life. The MTS technology eliminates the legacy electrical power connection and electric evaporation plate, required for liquid contamination removal in the TF and PFT models, thus bringing the product into compliance with all new emission standards required for Tier 4 engines. The MTS also offers the added benefits of reduced mechanical complexity and a smaller profile for a simpler, faster, and lower cost installation. The MTS can be used on all engine types and configurations using any fuel type, including natural gas and biofuels, where the incidence of water formation during combustion can be more prevalent.

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Puradyn Polydry® patented replacement filter element, specifically designed for use with the MTS. Polydry filter elements incorporate polymer-based technology formulated specifically to absorb water contamination occurring naturally in engine oil and hydraulic systems through condensation or the combustion process. Water trapped in the polymer-based material within Polydry filter elements is eliminated with each filter element replacement.

Our sales and marketing efforts target industries and potential customers open to innovative methods to reduce oil maintenance costs. We believe that these businesses are searching for new and progressive ways to better maintain their equipment, including bypass oil filtration. While this is a long-term and ongoing process, we believe we have achieved a degree of product acceptance based on the expansion of existing relationships we have with Nabors Industries, Inc., Scandrill, Inc and other end-users and distributors, including:

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A recent announcement that DistributionNOW (DNOW) is now the distributor for *Puradyn* bypass oil filtration products in the oil and gas, downstream & industrial, and manufacturing services industries. DNOW adds 300 outlets for the *Puradyn* product worldwide. The addition of DNOW as our new distributor for the industries they serve increases our worldwide coverage and brings with them immediate name recognition of quality products and a dedication to customer service. DNOW has already demonstrated its ability to establish contact with potential customers. These opportunities have led to new orders in 2016, and evaluations.

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Evaluations begun in 2015 in Africa, Asia, Europe, and South America are still currently underway with commercial marine, construction, transportation, and mining applications.

Net sales decreased due to a number of customers that have purchased the larger product models, and who continue to be negatively impacted by the volatility in oil prices. We believe certain customers and potential customers of ours in targeted markets continue to internally adapt to volatile oil prices and are reluctant to enter into new purchases or evaluations until a certain measure of stability is achieved. These customers in these markets affected by the downturn in oil prices may have either postponed ordering additional systems until oil pricing begins to stabilize and again rise, or have temporarily interrupted production on their end, slowing replacement filter sales.]

We continue to address our liquidity and working capital issues as we seek to raise additional capital. During 2015 we borrowed an additional $1,350,250 from our principal stockholder, and at December 31, 2015 we owed this stockholder approximately $11.9 million. He has also advanced us an additional $400,075 during 2016. These amounts are due in December 2017 and we do not have the funds to satisfy these obligations. We are materially dependent upon him continuing to provide working capital to us to pay our operating expenses. As discussed elsewhere in this report, there are no assurances he will continue to advance funds to us.

We continue to address liquidity concerns because of inadequate revenue growth. Our cash flow from operations is insufficient to cover our liquidity needs for the immediate future. We have implemented measures to preserve our ability to operate, including organizational changes, a reduction and/or deferral of salaries, reduction in personnel and renegotiating creditor and collection arrangements. If we are unable to borrow any additional funds from our principal stockholder, and as we do not have any other sources of capital and our ability to raise equity capital has not been successful in the past few years, absent a significant increase in our net sales it is likely we would be unable to continue our business and operations.

Going Concern

Our financial statements have been prepared on the basis that we will operate as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. We have incurred net losses each year since inception and have relied on loans from related parties to fund our operations. These recurring operating losses, liabilities exceeding assets and the reliance on cash inflows from our principal stockholder, as set forth above, have led our independent registered public accounting firm Liggett & Webb, P.A. to include a statement in its audit report relating to our audited financial statements for the years ended December 31, 2015 and 2014 expressing substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to obtain the necessary financing to meet our obligations and repay our liabilities when they become due and to generate profitable operations in the future. There are no assurances that we will have sufficient funds to execute our business plan, pay our obligations as they become due or generate positive operating results.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reported periods. The more critical accounting estimates include estimates related to revenue recognition and accounts receivable allowances. We also have other key accounting policies, which involve the use of estimates, judgments and assumptions that are significant to understanding our results, which are described in Note 1 to our audited financial statements appearing elsewhere in this report.

Recent Accounting Pronouncements

Information concerning recently issued accounting pronouncements is set forth in Note 1 of our Notes to Financial Statements appearing elsewhere in this report.

Results of Operations

Net Sales. Net sales decreased by 37% in 2015 compared to 2014. Domestic sales represented 87% of net revenues in each of 2015 and 2014, and in 2015 and 2014, international sales remained constant 13% of the Company s net sales.

Net sales decreased due to a number of customers that have purchased the larger product models, and who continue to be negatively impacted by the volatility in oil prices.

Cost of Products Sold. Gross profit, as a percentage of sales, decreased from 36% for 2014 to 26% for 2015. The decrease in gross profit was attributable to reduced sales.

Total Operating Costs. Total operating costs decreased between 2015 and 2014. Salaries and wages decreased approximately 17.7% in 2015 as compared to 2014. This decrease resulted from a reduction in vested benefit accruals from prior periods as well as a reduction in staffing. Salaries and wages, as a percentage of sales, increased to 45% in 2015 compared to 35% in 2014 as a result of declining sales in 2015. Management does not anticipate any material changes in salaries and wages at the current level of sales and anticipates only nominal hiring would be required to support increased sales to OEM and niche industry targets.

Selling and administrative expenses decreased by approximately 17% in 2015 from 2014. The following table sets forth the components of selling and administrative expenses:

		2015		**2014**	**% Change**
Employee Benefits	$	151,493	$	199,875	(24.2%)
Travel & Marketing		119,950		200,086	(40.1%)
Depreciation/Amortization		22,174		21,976	.9%
Engineering		(10,257)		(4,189)	144.8%
Professional Fees		162,871		174,665	(6.8%)
Investor Relations		69,870		47,180	48.1%
Occupancy Expense		104,110		102,322	1.7%
Patent Expense		58,013		100,217	(42.1%)
Bad Debts		257		1,140	(77.5%)
Other Expenses		91,167		79,264	(15.0%)
Total	$	769,648	$	922,536	(16.5%)

The decrease in employee benefits resulted from the impact of vested employee stock option expenses. Travel and marketing expenses decreased due to the reduced international travel. Professional fees decreased as a result of reduced accounting costs. The increase in investor relations was due to our new arrangement with an outside investor relation firm. The decrease in patent costs was due to filing costs for patents associated with our MTS and future products in 2014. We anticipate that our selling and administration expenses will remain at the same level in 2016 as 2015. Other Expenses represents various expenses including communication costs, office supplies and other components of administrative expenses.

Interest Expense Interest expense increased 17% in 2015 as compared to 2014 as a result of increased borrowings in 2015. The Company pays interest monthly on the notes payable to our principal stockholder at prime rate less 0.5%, with rates reset as often as the Federal Reserve changes interest rates, which was a weighted average of 2.586% for 2015, as compared to an average of 2.431% for 2014.

Liquidity and Capital Resources

Liquidity is the ability of a company to generate adequate amounts of cash to meet its needs for cash. As of December 31, 2015, we had cash of $34,471 as compared to cash of $53,288 at December 31, 2014**.** At December 31 2015, we had negative working capital of $1,016,765 and our current ratio (current assets to current liabilities) was .49

to 1. At December 31, 2014 we had negative working capital of approximately $1,043,010 and our current ratio was .47 to 1. The decrease in working capital is primarily attributable to decreases in accounts receivable, prepaid expense, accounts payable and cash, offset by an increase in inventories, accrued liabilities and deferred compensation. The 39% increase in inventories at December 31, 2015 as compared to December 31, 2014 reflects inventory increases in the fourth quarter of 2015 in anticipation of several large orders. During the first quarter of 2016 we utilized the majority of that inventory to fulfill a large order.

We have incurred net losses each year since inception and at December 31, 2015 we had an accumulated deficit of $59,889,968. Our net sales are not sufficient to fund our operating expenses. We do not have any external sources of liquidity. Historically, we have relied on loans from related parties to fund our operations. During 2015 we borrowed an additional $1,350,250 from our principal stockholder, and at December 31, 2015, we owed this stockholder approximately $11.9 million for funds advanced to us for working capital. Interest expense on this loan was $292,393 for the year ended December 31, 2015. This loan matures on December 31, 2017 and we do not have sufficient funds to repay it.

We do not currently have any commitments for capital expenditures.

Operating activities

Net cash used in operating activities during 2015 was $1,303,075, as compared to $823,904 for 2014, which went primarily to fund the operating losses. During 2015, the effect of the net loss on working capital is decreased by higher inventories which were partially offset by increased accounts payable, deferred compensation and accrued liabilities and a decrease in accounts receivable. During 2014, the effect of the net loss on working capital is decreased by lower inventories, prepaid expense and lower accounts payable which were partially offset by increased deferred compensation and accrued liabilities and an increase in accounts receivable.

Investing activities

Net cash used in investing activities during 2015 was $61,924, as compared to $70,722 for 2014. The majority of the 2015 and 2014 investment activity related to capitalized patent costs and the purchase of computer equipment.

Financing activities

Net cash provided by financing activities was $1,346,182 for 2015, as compared to $786,411 for 2014. During 2015, $1,350,250 was received from a note payable due to our primary stockholder. These amounts were offset by payment of $4,068 on capital leases. During 2014, $745,125 was received from a note payable due to our primary stockholder and another $25,000 was received from a stockholder who is also a director and the sole owner of Boxwood Associates, Inc. as well as $24,383 from the exercise of employee stock options. These amounts were offset by payment of $8,097 on capital leases.

Off Balance Sheet Arrangements

As of the date of this report, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term "off-balance sheet arrangement" generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have any obligation arising under a guarantee contract, derivative instrument or variable interest or a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets

ITEM 7A.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable to smaller reporting companies.

ITEM 8.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Our financial statements are contained later in this report beginning on page F-1.

ITEM 9.

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

None.

ITEM 9A.

CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our management, which includes our Chief Executive Officer, and our Vice President who serves as our principal financial officer, have conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended (the Exchange Act) as of December 31, 2015. Based on that evaluation, our Chief Executive Officer and our Vice President who serves as our principal financial officer, concluded that as of December 31, 2015, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit 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 to provide reasonable assurance that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure.

Our management does not expect that our disclosure controls or our internal controls will prevent all error and fraud. 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. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control. The design of any systems of controls also is based in part upon certain assumptions about 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. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Management s Report on Internal Control over Financial Reporting

Our management, including our Chief Executive Officer and our Vice President who serves as our principal financial officer, are responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting includes those policies and procedures that:

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pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

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provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

.

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2015. In making its assessment of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework 2013* . Based on this assessment, our management has concluded that as of December 31, 2015, our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Changes in Internal Controls over Financial Reporting

There have been no changes in our internal control over financial reporting during our fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B.

OTHER INFORMATION.

On November 3, 2015 the Company announced the death of long-time Board member, Dr. Charles W. Walton.

PART III

ITEM 10.

DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Directors and Executive Officers

The following individuals serve as our executive officers and/or members of our Board of Directors:

Name	Age	Positions
Joseph V. Vittoria	80	Chairman of the Board of Directors and Chief Executive Officer
Kevin G. Kroger	64	President, Chief Operating Officer and Director
John S. Caldwell (1)	71	Director
Forrest D. Hayes (1)	83	Director
Dominick Telesco	84	Director
Alan J. Sandler	76	Principal Financial Officer, Vice President, Chief Administrative Officer and Corporate Secretary

(1)

Compensation Committee member

Joseph V. Vittoria was appointed to the Puradyn Board of Directors as Chairman on February 8, 2000 and to the office of Chief Executive Officer on October 24, 2006. Mr. Vittoria was Chairman and Chief Executive Officer of Travel Services International, Inc. from 1997 until it was sold in 2000. From 1987 to 1997, Mr. Vittoria served as Chairman and Chief Executive Officer of Avis, Inc., and was its President and Chief Operating Officer from 1982 to 1987. Mr. Vittoria also serves on the Boards of City Car Services, Inc. and Lenger Financial.

Mr. Vittoria s extensive management, banking, organizational growth and experience bring oversight and guidance to the Company s entire organization. The Board believes that Mr. Vittoria has the experience, qualifications, attributes and skills necessary to serve as a Director.

Kevin G. Kroger joined Puradyn July 3, 2000 as President and Chief Operating Officer and was appointed to the Board of Directors in November 2000. He was also appointed to the Board of Ltd. In December 2000, Mr. Kroger was with Detroit Diesel Corporation from 1989 to the time he joined our Company, serving in various executive and Board positions prior to his appointment in 1998 to the position of Vice President and General Manager of Series 55/40/30/Cento Industrial product line. From 1987 to 1989 he was Vice President of R.E.S. Leasing and of VE Corporation. From 1971 to 1987, he held several management positions with Caterpillar Corporation.

With significant experience in the heavy-duty engine industry, Mr. Kroger provides our company with operations oversight and guidance in sales and marketing. Mr. Kroger also holds a degree in engineering which facilitates our research and development area, along with a deeper understanding in configuring our products to the customer s needs. The Board believes that Mr. Kroger has the experience, qualifications, attributes and skills necessary to serve as a Director.

Lieutenant General (Retired) John S. Caldwell, Jr. was appointed to the Puradyn Board of Directors on August 25, 2005 and is also the Chairman of the Compensation Committee. Gen. Caldwell served as the Army s top ranking officer for Acquisition, Logistics and Technology when he retired in January 2004. Also served as Director of the 50,000-person Army Acquisition Workforce, responsible for personnel development and training policy and key assignment recommendations. Prior to these positions, Gen. Caldwell served as the Commanding General of the US Army Tank-Automotive and Armaments Command (TACOM), in which capacity he developed, fielded and supported lethality, survivability and mobility capabilities for approximately 70% of the Army s ground force. He served 4 years as the Project Manager, Abrams Tank System, leading R&D, production, quality assurance, procurement and logistical support of the Army s tank program, a $600 million R&D, $15 billion procurement program with major international components. General Caldwell currently consults in various capacities, including Senior Vice President, The Spectrum Group. General Caldwell holds the degrees of Bachelor of Science from the US Military Academy, West Point, in New York; Master in Mechanical Engineering from Georgia Institute of Technology in Atlanta, GA, and the Industrial College of the Armed Forces. General Caldwell has been a member of the board of Taser International since 2007.

Gen. Caldwell s logistic and military background brings to our organization oversight and guidance in the planning and execution of our financial and operational growth plan. The Board believes that Gen. Caldwell has the experience, qualifications, attributes and skills necessary to serve as a Director.

Forrest D. Hayes was appointed to the Board of Directors in 2005. He is a member of the Compensation Committee of the Board and served as a member of the Audit Committee until it was disbanded in March 2016. Mr. Hayes served as Vice President and CFO of Wastequip, Inc., a privately owned manufacturer of waste equipment in 1990 and 1991, and from 1992 to 2000, as a member of the Wastequip Board of Directors. Mr. Hayes was President and CEO of Brittany Corporation, a privately owned manufacturer of auto/truck parts and HVAC parts from 1992 to 2000, and as Vice-Chairman through 2003. Prior to this, Mr. Hayes served as a CPA with Arthur Andersen from 1954 to 1990 in various capacities including Managing Partner of Cleveland and Cincinnati, Ohio offices. Mr. Hayes was a member of the board of The Town and Country Trust from 2005-2006 and currently serves on the board of Polychem Corporation and Brittany Stamping, LLC.

Mr. Hayes depth of experience and credentials in the financial arena and his experience with manufacturers of auto and truck parts provides insight and a knowledge base to the Company on finance, production and marketing which is extremely valuable to the operation. The Board believes that Mr. Hayes has the experience, qualifications, attributes and skills necessary to serve as a Director.

Dominick Telesco was appointed to the Puradyn Board of Directors on December 19, 2006. In addition to Puradyn, Mr. Telesco also serves on the Boards of the Palm Beach County Cultural Council and the United Way of Palm Beach. Mr. Telesco is Chairman of the Board of 3 Logistics Corporation and Datelco, Inc. Mr. Telesco is also President of Boxwood Association, Inc.

Mr. Telesco brings to the Company many years of finance and banking experience along with strategic and corporate oversight guidance. The Board believes that Mr. Telesco has the experience, qualifications, attributes and skills necessary to serve as a Director.

Alan J. Sandler serves as the Company s principal financial officer, Vice President, Chief Administrative Officer, and Secretary to the Board. Mr. Sandler joined our Company in June 1998 and has served in various other positions including President (June 1998 until January 2000), Chief Operating Officer (June 1998 to January 2000), Chief Financial Officer (June 1998 to March 2001 and August 2001 to March 2002), Principal Financial Officer (April 2010 to present) and Director (June 1998 to December 2004). Prior to joining our Company, from 1995 until 1997 Mr. Sandler served as President and Chief Executive Officer to Hood Depot, Inc., a national restaurant supply manufacturer/distributor. From 1979 to 1995 he was President and Chief Executive Officer of Sandler & Sons Dental Supply Company, a regional dental supply and equipment distributor. Previous to this position he was a Vice President of Gardner Advertising Company, a national advertising agency, from 1965 to 1979.

There are no family relationships between any of the executive officers and directors, except as set forth above. Each director is elected at our annual meeting of stockholders and holds office until the next annual meeting of stockholders, or until his successor is elected and qualified.

Compliance With Section 16(a) of the Exchange Act

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to us under Rule 16a-3(d) of the Securities Exchange Act of 1934 during the year ended December 31, 2015 and Forms 5 and amendments thereto furnished to us with respect to the year ended December 31, 2015, as well as any written representation from a reporting person that no Form 5 is required, we are not aware of any officer, director or 10% or greater stockholder that failed to file on a timely basis, as disclosed in the aforementioned Forms, reports required by Section 16(a) of the Securities Exchange Act of 1934 during the year ended December 31, 2015.

Code of Ethics

We have adopted a Business Ethics and Conflicts of Interest Statement outlining business ethics and conflicts of interest for all officers, directors and employees of the Company, including procedures for prompt internal reporting of violations of the code to the appropriate persons.

You will find a copy of our Business Ethics and Conflicts of Interest Statement posted on our website at http://www.puradyn.com under Investor Relations, or you may write to us at Puradyn Investor Relations, 2017 High Ridge Road, Boynton Beach, FL 33426. Our Code of Ethics applies to all directors, officers and employees. We will provide a copy to you upon request at no charge.

Role of our Board in Risk Oversight

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. We face a number of risks, including liquidity risk, operational risk, strategic risk and reputation risk. Mr. Vittoria serves as both our Chief Executive Officer and Chairman of the Board. Messrs. Caldwell, Hayes, and Telesco are considered independent directors, but we do not have a lead independent director. The business and operations of our Company are managed by our Board as a whole, including oversight of various risks, such as operational and liquidity risks that our Company faces. Management is responsible for the day-to-day management of the risks we face, while the Board, as a whole, has responsibility for the oversight of risk management. In their roles and as independent directors, Messrs. Caldwell, Hayes, and Telesco meet regularly with management to discuss strategy and risks we face and to address any questions or concerns they may have on risk management and any other matters.

Nominees the Board of Directors

We do not have a policy regarding the consideration of any director candidates which may be recommended by our stockholders, including the minimum qualifications for director candidates, nor has our Board of Directors established a process for identifying and evaluating director nominees. We have not adopted a policy regarding the handling of any potential recommendation of director candidates by our stockholders, including the procedures to be followed. Our Board has not considered or adopted any of these policies as we have never received a recommendation from any stockholder for any candidate to serve on our Board of Directors. We do not anticipate that any of our stockholders will make such a recommendation in the near future. While there have been no nominations of additional directors proposed, in the event such a proposal is made, all members of our Board will participate in the consideration of director nominees.

Committees of the Board of Directors

Audit Committee

The Audit Committee of the Board of Directors, which operated under a written charter, reviewed our financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process including the system of internal controls. Until November 3, 2015 the Audit Committee of the Board of Directors was composed of two independent directors, Mr. Forrest D. Hayes (Chairperson) and Dr. Charles W. Walton. The Audit Committee met four times in 2015. Following Dr. Walton s death in November 2015, Mr. Hayes remained the sole member of the committee until March 2016 when the committee was disbanded. The functions of the Audit Committee are now being undertaken by the entire Board.

The Board has determined that Mr. Hayes satisfies the criteria as an audit committee financial expert as established by the SEC under 407(d) (5) of Regulation S-K. In general, an audit committee financial expert is an individual member of the audit committee or Board of Directors who:

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understands generally accepted accounting principles and financial statements,

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is able to assess the general application of such principles in connection with accounting for estimates, accruals and reserves,

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has experience preparing, auditing, analyzing or evaluating financial statements comparable to the breadth and complexity to our financial statements,

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understands internal controls over financial reporting, and

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understands audit committee functions.

Compensation Committee

On November 20, 2008, the Board of Directors formally adopted a compensation committee charter that was incorporated into the by-laws of the Company. The charter defines the purpose and responsibilities of the Compensation Committee.

The Compensation Committee is a standing committee appointed by the Board of Directors. The Committee is comprised of a minimum of two independent board members; currently, General John S. Caldwell (Chairperson) and Mr. Forrest D. Hayes. The Committee has the authority to determine the compensation of the organization s executive officers and other employees as the Committee deems appropriate.

In consultation with senior management, the Committee may review, establish, or approve general compensation philosophy, policies and implementation of compensation, with respect to employees or independent contractors. In addition to the salary compensation, the Committee may review and approve other forms of compensation, such as incentive compensation, equity-based, deferred compensation and benefit plans. The Committee shall meet a minimum of once per year and prepare minutes of all meetings and shall distribute said minutes to all Board of Directors for approval.

The Compensation Committee met in discrete session in the context of a full board meeting. The Compensation Committee did not engage a compensation consultant or similar consultant nor did it consult with any third parties regarding compensation matters during 2015.

You will find a copy of our Compensation Committee Charter posted on our website at http://www.puradyn.com under Investor Relations, or you may write to us at Puradyn Investor Relations, 2017 High Ridge Road, Boynton Beach, FL 33426. We will provide a copy to you upon request at no charge.

ITEM 11.

EXECUTIVE COMPENSATION.

The following table summarizes all compensation recorded by us in the last completed fiscal year for:

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our principal executive officer or other individual serving in a similar capacity,

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our two most highly compensated executive officers other than our principal executive officer who were serving as executive officers at December 31, 2015 as that term is defined under Rule 3b-7 of the Exchange Act

For definitional purposes in this annual report these individuals are sometimes referred to as the "named executive officers." The value attributable to any option awards is computed in accordance with FASB ASC 718, *Compensation-Stock Compensation*. The assumptions made in the valuations of the option awards are included in Note 13 of the Notes to our Financial Statements for the year ended December 31, 2015 appearing elsewhere in this report. During 2015, two executives deferred 11% and 48% of base wages. During 2014, two executives deferred 35% and 15% of base wages. The amounts included below reflect wages actually earned during the respective periods.

SUMMARY COMPENSATION TABLE

Name and principal position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation	All Other Compensation	Total ($)

				Earnings ($)	**($)**	
Joseph V.						
Vittoria [1]	2015					
	2014					
Kevin			16,370			
Kroger [2]	2015	186,000			16,165	218,535
	2014	186,000			16,165	202,165
Alan			16,370			
Sandler [3]	2015	112,000			1,453	129,823
	2014	112,000			1,453	113,453

1.

Mr. Vittoria, who is also the Chairman of our Board of Directors, serves as our Chief Executive Officer. Mr. Vittoria s compensation excludes interest paid to him under the working capital loan he provides to our Company. See Item 13. Certain Relationships and Related Transactions, and Director Independence appearing later in this report.

2.

Mr. Kroger serves as our President and Chief Operating Officer. All Other Compensation in the foregoing table represents the aggregate dollar amount of a car allowance received by Mr. Kroger during each fiscal year and disability and life insurance premiums we pay on his behalf. Annual salary deferral of $21,185 and $65,255, which is included in his salary for 2015 and 2014 in the foregoing table, and 100,000 employee stock options, exercisable at $0.16 per share, with a four-year vesting period from date of grant As there is no written agreement with Mr. Kroger which memorializes the terms of salary deferral, only a voluntary election to do so, it is possible that he could demand payment in full at any time.

3.

Mr. Sandler serves as our principal financial officer, Vice President, and Chief Administrative Officer. All Other Compensation in the foregoing table represents the amounts for reimbursement of Social Security and Medicare premiums. Annual salary deferral of $53,760 and $16,852 in his salary for 2015 and 2014, respectively in the foregoing table, and 100,000 employee stock options, exercisable at $0.16 per share, with a four-year vesting period from date of grant. As there is no written agreement with Mr. Sandler which memorializes the terms of salary deferral, only a voluntary election to do so, it is possible that he could demand payment in full at any time.

How our Executive Officers Compensation is Determined

Mr. Vittoria, who has served as our Chief Executive Officer since October 2006, is not a party to an employment agreement with the Company. He receives no compensation and does not participate in any of the Company s insurance plans.

On July 3, 2000, the Company entered into an employment agreement, with an initial term of three years, with Mr. Kroger, who serves as our President and Chief Operating Officer. Thereafter, the contract was amended on December 23, 2002 and July 3, 2003. The term of the agreement automatically renews on a year to year basis on the same terms and conditions contained herein in effect as of the time of renewal. The contract provided for an annual salary of $166,000, minimum bonuses of $50,000, $80,000 and $80,000, respectively, for the years 2000 through 2002; 300,000 qualified stock options; a one-year salary severance clause, and certain insurance and auto allowance compensations. On December 23, 2002, it was agreed that the President receive 100,000 shares of common stock in lieu of the $80,000 bonus due to be paid. Mr. Kroger is also entitled to paid health insurance, a life insurance and disability policy, a $1,000 per month car allowance, five weeks paid vacation and other executive benefits which may be made available from time to time. Upon entering into the agreement we granted Mr. Kroger 10-year options to purchase 300,000 shares of our common stock at the then fair market value of our common stock which vested in equal installments on the first, second, third and fourth anniversary date of the agreement. The agreement also contains customary indemnification, non-compete, confidentiality and invention assignment clauses. The term of the agreement continues on a year-to-year basis on the same terms and conditions as were in effect at the time of renewal. The agreement may be terminated by us upon Mr. Kroger s death or disability, by us for good cause as defined in the agreement, or by either party without cause. In the event the agreement is terminated on Mr. Kroger s death, by us for cause or by him without cause, we do not owe any severance benefits. If the agreement is terminated as a result of his disability, we are required to pay him a lump sum equal to the greater of the base salary then in effect for the remaining term of the agreement or for one year. If the agreement is terminated by us without cause or by Mr. Kroger in the event of a change of control of our Company, we are required to pay him a lump sum equal to the greater of the base salary then in effect for the remaining term of the agreement or for one year, together with any declared but unpaid bonus. The addendum dated July 3, 2003 discontinued the bonus provision of the contract but all other terms and conditions of the contract remain in effect. During 2015, Mr. Kroger s base annual salary was $186,000 with approximately $21,185 deferred annually. As there is no written agreement with Mr. Kroger which memorializes the terms of salary deferral, only a voluntary election to do so, it is possible that he could demand payment in full at any time.

Mr. Sandler, who has served as our principal financial officer since April 2010 and Vice President and Chief Administrative Officer since January 2000, is not a party to an employment agreement with the Company. His compensation was determined by the Compensation Committee of our Board of Directors. The Compensation Committee considered a number of factors in determining Mr. Sandler s compensation including the scope of his duties and responsibilities to our Company and the time he devotes to our business. The Compensation Committee did not consult with any experts or other third parties in determining the amount of Mr. Sandler s compensation. During 2015 and 2014 Mr. Sandler s compensation package included a base annual salary of $112,000, with approximately $53,760 and $16,852 deferred in 2015 and 2014, respectively, and company-provided insurance benefits and reimbursement of his Social Security and Medicare premiums. As there is no written agreement with Mr. Sandler which memorializes the terms of salary deferral, only a voluntary election to do so, it is possible that he could demand payment in full at any time. The amount payable to Mr. Sandler can be increased at any time upon the determination of the Compensation Committee of our Board of Directors.

Outstanding Equity Awards at Fiscal Year End

The following table provides information concerning unexercised options, stock that has not vested and equity incentive plan awards for each named executive officer outstanding as of December 31, 2015:

	OPTION AWARDS					STOCK AWARDS			
Name	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	Equity incentive plan awards: Number of securities underlying unexercised unearned options (#)	Option exercise price ($)	Option expiration date	Number of shares or units of stock that have not vested (#)	Market value of shares or units of stock that have not vested ($)	Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested (#)	Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not vested (#)
Joseph V. Vittoria	20,492			.50	1/10/16				
	166,666	333,334		.18	11/22/18				
Kevin Kroger	100,000			0.26	06/10/18				
	100,000			0.21	9/8/20				
	150,000			0.28	02/04/21				
	150,000			0.14	3/30/22				
	100,000	100,000		0.16	5/26/25				
Alan Sandler	100,000			0.26	06/10/18				
	100,000			0.30	08/05/18				
	75,000			0.21	09/08/20				
	75,000			0.28	02/04/21				
	75,000			0.14	3/30/22				
	100,000	100,000		0.16	5/26/25				

Incentive and Non-qualified Stock Option and Stock Award Plans

On July 29, 2010, the Board of Directors approved the adoption of a stock option plan (the "2010 Option Plan"), which provides for the granting of up to 2,000,000 options, subject to stockholder approval, (for both incentive and non-qualified stock options to key personnel, including officers, directors, consultants and advisors to the Company, based upon the determination of the Board of Directors.

On May 23, 2011 the Board of Directors approved and adopted an increase in the number of shares reserved for issuance under the 2010 from 2,000,000 shares to 4,000,000 shares.

The Board of Directors adopted the 2000 Non-Employee Directors Plan (the Directors Plan) on November 8, 2000 under which options to purchase 400,000 shares have been authorized for issuance. The Directors Plan will provide a means for us to attract and retain highly qualified persons to serve as non-employee directors and advisory directors.

Each member of the Board of Directors was automatically granted 5,000 options at the date of commencement of the Directors Plan and on their initial election as new members to the Board of Directors. Each director receives an additional 5,000 options at the close of each annual meeting of stockholders. Additionally, each director automatically receives 2,500 options for each committee of the Board on which the director serves. Options are granted at a price equal to the fair market value of the stock on the date of grant, are exercisable commencing two years following grant, and will expire five years from the date of grant. In the event a person ceases to serve on the Board of Directors, the outstanding options expire one year from the date of cessation of service. The Board of Directors administers the Directors Plan.

Our 1999 Stock Option Plan (the 1999 Plan) was adopted on September 15, 1999 and amended in June 2000. The plans were adopted to increase proprietary interest in our Company of our employees, consultants, and non-employee directors and to align more closely their interests with the interests of our stockholders. The plans may also serve to enhance our ability to attract and retain the services of experienced and highly qualified employees and non-employee directors. The 1999 Stock Option Plan expired on September 15, 2009.

Under the 1999 Plan and 1996 Plan, we reserved an aggregate of 3,000,000 and 2,200,000 shares, respectively, of common stock for issuance pursuant to options granted under the plans. The Compensation Committee of the Board of Directors administers the plans including, without limitation, the selection of the persons who will be granted plan options under the plans, the type of plan options to be granted, the number of shares subject to each plan option and the plan option price.

The Board of Directors or the Committee may amend, suspend or terminate the plans at any time, except that no amendment shall be made which:

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increases the total number of shares subject to the plans or changes the minimum purchase price therefore (except in either case in the event of adjustments due to changes in ours capitalization),

.

extends the term of any plan option beyond 10 years, or

.

extends the termination date of the plan.

The 1996 Plan terminated on July 31, 2006. During 2009, options to purchase 5,150 which were granted under the 1996 Plan prior to its termination expired. The 1999 Plan terminated on September 15, 2009.

As of December 31, 2015, under the Directors   Plan, options to purchase 150,000 shares of common stock were outstanding. As of December 31, 2015, under the 1996 Plan, there were no non-qualified options outstanding, under the 1999 Plan, incentive stock options to purchase 715,500 shares of common stock were outstanding and, under the 2010 Plan, incentive stock options to purchase 2,992,500 shares of common stock were outstanding.

Director Compensation

Each independent member of the Board of Directors is automatically granted 5,000 options upon election or appointment as a new member of the Board of Directors. Each independent director receives an additional 5,000 options at the close of each annual meeting of stockholders or on the anniversary of their appointment to the Board. Additionally, each independent director automatically received 2,500 options for each committee of the Board on which the director serves. Options are granted at a price equal to the fair market value of the stock on the date of grant, are exercisable commencing two years following grant, and will expire five years from the date of grant. In the event a person ceases to serve on the Board of Directors, the outstanding options expire one year from the date of cessation of service. Our management directors do not receive any compensation for their services as directors.

The following table provides information concerning the compensation of our Board members for their services as members of our Board of Directors for 2015. The value attributable to any option awards is computed in accordance with FASB ASC Topic 718. The assumptions made in the valuations of the option awards are included in Note 13 of the Notes to our Financial Statements for the year ended December 31, 2015 appearing elsewhere in this report.

Director Compensation

Name	Fees earned or paid in cash ($)	Stock awards ($)	Option awards ($)	Non-equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation earnings ($)	All other compensation ($)	Total ($)
Joseph V. Vittoria							
John S. Caldwell (1)			895				895
Forrest D. Hayes (2)			1,306				1,306
Kevin G. Kroger							
Dominick Telesco (3)	24,000		330				24,330
Charles W. Walton (4)			895				895

(1)

On August 25, 2015, General Caldwell was granted options to purchase 7,500 shares of common stock at an exercise price of $0.13 per share, vesting on August 25, 2017 and expiring on August 25, 2020.

(2)

On November 10, 2015, Mr. Hayes was granted options to purchase 10,000 shares of common stock at an exercise price of $0.11 per share, vesting on November 10, 2017 and expiring on November 10, 2020; and options to purchase 2,500 shares of common stock at an exercise price of $0.11 per share, vesting on November 10, 2017 and expiring on November 10, 2025.

(3)

On December 19, 2015, Mr. Telesco was granted options to purchase 5,000 shares of common stock at an exercise price of $0.22 per share, vesting on December 19, 2017 and expiring on December 19, 2020. On October 20, 2009, the Company entered into a consulting agreement with Boxwood Associates, Inc., whereby the Company pays $2,000 monthly for management and strategic development services performed. The contract will remain in effect until terminated by either party providing 30 days written notice. Mr. Telesco is President of Boxwood Associates, Inc.

(4)

On August 25, 2015, Dr. Walton was granted options to purchase 7,500 shares of common stock at an exercise price of $0.13 per share, vesting on August 25, 2017 and expiring on August 25, 2020. Pursuant to our Non-Employee Directors Stock Plan, Dr. Walton s options will expire one following the date of his death.

ITEM 12.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

At March 26, 2016 we had 48,683,135 shares of our common stock issued and outstanding. The following table sets forth information regarding the beneficial ownership of our common stock as of March 26, 2016 by:

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each person known by us to be the beneficial owner of more than 5% of our common stock;

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each of our directors;

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each of our named executive officers; and

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our named executive officers, directors and director nominees as a group.

Unless otherwise indicated, the business address of each person listed is in care of 2017 High Ridge Road, Boynton Beach, Florida 33426. The percentages in the table have been calculated on the basis of treating as outstanding for a particular person, all shares of our common stock outstanding on that date and all shares of our common stock issuable to that holder in the event of exercise of outstanding options, warrants, rights or conversion privileges owned by that person at that date which are exercisable within 60 days of that date. Except as otherwise indicated, the persons listed below have sole voting and investment power with respect to all shares of our common stock owned by them, except to the extent that power may be shared with a spouse.

NAME OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	% OF CLASS
Joseph V. Vittoria [1]	5,597,753	11.4%
Kevin G. Kroger [2]	1,226,041	2.3%
Alan J. Sandler [3]	513,270	*
Lieutenant General John S. Caldwell, Jr. US Army (retired)[4]	22,500	*
Forrest D. Hayes [5]	30,000	*
Dominick Telesco [6]	6,242,570	14.0%
All officers and directors as a group (six persons) [1][2][3][4][5][6]	13,605,134	27.7%

*

represents less than 1%

(1)

The number of shares beneficially owned by Mr. Vittoria includes:

.

options to purchase 333,334 shares of common stock at $0.18 per share through November 22, 2018.

The number of shares beneficially owned by Mr. Vittoria excludes:

.

unvested options to purchase 166,666 shares of common stock at $0.18 per share through November 22, 2018.

(2)

The number of shares beneficially owned by Mr. Kroger includes:

.

options to purchase 100,000 shares of common stock at $0.26 per share through June 10, 2018;

.

options to purchase 100,000 shares of our common stock at an exercise price of $0.21 per share through September 8, 2020;

.

options to purchase 150,000 shares of our common stock at an exercise price of $0.28 per share through February 4, 2021;

.

options to purchase 150,000 shares of our common stock at an exercise price of $0.14 per share through March 30, 2022; and

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options to purchase 33,332 shares of our common stock at an exercise price of $0.16 per share through May 26, 2025.

The number of shares beneficially owned by Mr. Kroger excludes:

.

unvested options to purchase 66,668 shares of common stock at $0.16 per share through May 26, 2025; and

(3)

The number of shares beneficially owned by Mr. Sandler includes:

.

options to purchase 100,000 shares of common stock at $0.26 per share through June 10, 2018;

.

options to purchase 100,000 shares of common stock at $0.30 per share through August 5, 2018;

.

options to purchase 75,000 shares of our common stock at an exercise price of $0.21 per share through September 8, 2020;

.

options to purchase 75,000 shares of our common stock at an exercise price of $0.28 per share through February 4, 2021;

.

options to purchase 75,000 shares of our common stock at an exercise price of $0.14 per share through March 30, 2022; and

.

options to purchase 33,332 shares of our common stock at an exercise price of $0.16 per share through May 26, 2025.

The number of shares beneficially owned by Mr. Sandler excludes:

.

unvested option to purchase 66,668 shares of common stock at $0.16 per share through May 26, 2025; and

(4)

The number of shares beneficially owned by General Caldwell includes:

.

options to purchase 7,500 shares of common stock at $0.18 per share through August 25, 2016;

.

options to purchase 7,500 shares of common stock at $0.15 per share through August 25, 2017; and

.

options to purchase 7,500 shares of common stock at $0.18 per share through August 25, 2018.

The number of shares beneficially owned by General Caldwell excludes:

.

unvested options to purchase 7,500 shares of common stock at $0.27 per share through August 25, 2019; and

.

unvested options to purchase 7,500 shares of common stock at $0.13 per share through August 25, 2020.

(5)

The number of shares beneficially owned by Mr. Hayes includes:

.

options to purchase 10,000 shares of common stock at $0.18 per share through November 10, 2016;

.

options to purchase 10,000 shares of common stock at $0.12 per share through November 10, 2017; and

.

options to purchase 10, 000 shares of common stock at $0.18 per share through November 10, 2018.

The number of shares beneficially owned by Mr. Hayes excludes:

.

unvested options to purchase 10,000 shares of common stock at $.21 per share through November 10, 2019;

.

unvested options to purchase 10,000 shares of common stock at $0.11 per share through December 9, 2020; and

.

unvested options to purchase 2,500 shares of common stock at 40.11 per share through December 9, 2025.

(6)

The number of shares beneficially owned by Mr. Telesco includes:

.

options to purchase 5,000 shares of common stock at $0.11 per share through December 19, 2016;

.

options to purchase 5,000 shares of common stock at $0.13 per share through December 19, 2017; and

.

vested options to purchase 5,000 shares of common stock at $0.15 per share through December 19, 2018; and

The number of shares beneficially owned by Mr. Telesco excludes:

.

unvested options to purchase 5,000 shares of common stock at $0.22 per share through December 19, 2019; and

.

unvested options to purchase 5,000 shares of common stock at $0.07 per share through December 18, 2020.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth securities authorized for issuance under any equity compensation plans approved by our stockholders as well as any equity compensation plans not approved by our stockholders as of December 31, 2015.

Plan category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)**	**Weighted average exercise price of outstanding options, warrants and rights (b)**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (c)**
Plans approved by stockholders:			
1999 Stock Option Plan	992,008	.35	
2010 Stock Option Plan	2,418,057	.20	1,430,279
2000 Non-Employee Directors Plan	150,000	.20	250,000
Plans not approved by stockholders	N/A	N/A	N/A

A description of each of these plans is contained earlier in this report under Part III, Item 11. Executive Compensation - Stock Option Plans.

ITEM 13.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTION, AND DIRECTOR INDEPENDENCE.

Please see Note 16 to the Company's audited financial statements appearing elsewhere in this report for a description of transactions with related parties during 2015 and 2014.

Director Independence

John S. Caldwell, Forrest D. Hayes, and Dominick Telesco are considered "independent within the meaning of Rule 5605 of the NASDAQ Marketplace Rules.

ITEM 14.

PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Liggett & Webb, P.A., served as our independent registered public accounting firm for 2015 and 2014. The following table shows the fees that were billed for the audit and other services provided by such firm for 2015 and 2014.

		2015		**2014**
Audit Fees	$	45,000	$	46,000
Audit-Related Fees				
Tax Fees				
All Other Fees				
Total	$	45,000	$	46,000

Audit Fees This category includes the audit of our annual financial statements, review of financial statements included in our Form 10-Q Quarterly Reports and services that are normally provided by the independent auditors in connection with engagements for those fiscal years. This category also includes advice on audit and accounting matters that arose during, or as a result of, the audit or the review of interim financial statements.

Audit-Related Fees This category consists of assurance and related services by the independent auditors that are reasonably related to the performance of the audit or review of our financial statements and are not reported above under Audit Fees. The services for the fees disclosed under this category include consultation regarding our correspondence with the SEC and other accounting consulting.

Tax Fees This category consists of professional services rendered by our independent auditors for tax compliance and tax advice. The services for the fees disclosed under this category include tax return preparation and technical tax advice.

All Other Fees This category consists of fees for other miscellaneous items.

Our Board of Directors has adopted a procedure for pre-approval of all fees charged by our independent auditors. Under the procedure, the Board approves the engagement letter with respect to audit, tax and review services. Other fees are subject to pre-approval by the Board, or, in the period between meetings, by a designated member of Board. Any such approval by the designated member is disclosed to the entire Board at the next meeting. The audit and tax fees paid to the auditors with respect to 2015 were pre-approved by the entire Board of Directors.

PART IV

ITEM 15.

EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following documents are filed as a part of this report or are incorporated by reference to previous filings, if so indicated:

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation dated December 30, 1996 (2)
3.2	Certificate of Amendment to Certificate of Incorporation dated February 3, 1998 (3)
3.3	Bylaws (1)
3.4	Certificate of Amendment to the Certificate of Incorporation dated July 7, 2011 (14)
4.1	Form of common stock certificate (8)
4.2	Form of Class A Warrant issued to Mr. Vittoria (9)
4.3	Form of $1.25 common stock purchase warrant (7)
4.4	Form of Warrant Amendment (15)
4.5	Form of Common Stock Purchase Warrant to be issued to Catalyst Global LLC (22)
10.1	Agreement dated June 8, 2012 by and between Puradyn Filter Technologies Incorporated and Monarch Communications, Inc. (17)
10.2	1999 Stock Option Plan (4)
10.3	2000 Non-Employee Directors Plan (5)
10.4	[intentionally left blank]
10.5	Agreement between T/F Systems, Inc. and T/F Purifiner, Inc. dated March 1, 1991 (1)
10.6	Asset Purchase Agreement between T/F Systems, Inc. and T/F Purifiner, Inc. dated December 31, 1995 (1)
10.7	Lease Amendment #2 between Puradyn Filter Technologies, Inc. and Premier Gateway Center at Quantum LLP (10)
10.8	Master Distributor Agreement dated February 18, 2008 by and between Puradyn Filter Technologies Incorporated and Filter Solutions Ltd. (11)
10.9	Employment Agreement dated July 3, 2000 between Puradyn Filter Technologies Incorporated and Kevin Kroger, as amended (11)
10.10	Standby Commitment Agreement Amendment No. 16 dated March 5, 2014
10.11	Consulting Agreement dated October 20, 2009 between Puradyn Filter Technologies Incorporated and Boxwood Associates, Inc.(16)
10.12	2010 Stock Option Plan (13) (20)
10.13	Lease between Puradyn Filter Technologies, Inc. and Duke PBC At Quantum I-9, LLC (18)
10.14	Public Relations Agreement with Monarch Communications dated July 24, 2013 (19)
10.15	Investors Relations Agreement with Catalyst Global LLC dated October 1, 2014 (21)
10.16	Standby Commitment Agreement Amendment No. 17 dated March 19, 2014 (22)
10.17	Standby Commitment Agreement Amendment No. 18 dated March 20, 2016*

10.18	Promissory Note dated July 6, 2016 with Dominick A. Telesco *
10.19	Advisory Agreement dated March 7, 2016 by and between Puradyn Filter Technologies Incorporated and Rainerio Reyes*
14.1	Business Ethics and Conflicts of Interest Statement (6)
21.1	Subsidiaries of the registrant (11)
23.1	Consent of Liggett & Webb, P.A.*
31.1	Section 302 certification of Chief Executive Officer*
31.2	Section 302 certification of Principal financial and accounting officer*
32.1	Section 906 certification of Chief Executive Officer*
32.2	Section 906 certification of Principal financial and accounting officer*
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document *

*

filed herewith

(1)

Incorporated by reference from the exhibits to the registration statement on Form 10-SB, SEC File No. 001-11991, as filed with the Securities and Exchange Commission, on July 30, 1996, as amended.

(2)

Incorporated by reference from the exhibit to the Current Report on Form 8-K as filed on January 9, 1997.

(3)

Incorporated by reference from the exhibit to the Current Report on Form 8-K/A as filed on February 12, 1998.

(4)

Incorporated by reference to the registration statement on Form S-8, SEC File No. 333-91379, as filed with the Securities and Exchange Commission on November 22, 1999.

(5)

Incorporated by reference from the exhibits to the Annual Report on Form 10-KSB/A for the year ended December 31, 2000.

(6)

[intentionally left blank].

(7)

Incorporated by reference to the Current Report on Form 8-K as filed on October 10, 2006.

(8)

Incorporated by reference to exhibits to the Form 8-A as filed with the Securities and Exchange Commission on December 6, 2001.

(9)

Incorporated by reference to exhibits to the Quarterly Report on Form 10-QSB for the period ended March 31, 2005.

(10)

Incorporated by reference to the exhibits to the Quarterly Report on Form 10-Q for the period ended June 30, 2008.

(11)

Incorporated by reference to the registration statement on Form S-1, SEC File No. 333-155,054, as declared effective on November 14, 2008, as amended.

(12)

Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2008.

(13)

Incorporated by reference to the registration statement on Form S-8, SEC File No. 333-169441, as filed with the Securities and Exchange Commission on September 16, 2010.

(14)

Incorporated by reference to the Quarterly Report on Form 10-Q for the period ended June 30, 2011.

(15)

Incorporated by reference to the Current Report on Form 8-K as filed on November 28, 2012

(16)

Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2010.

(17) Incorporated by reference to the Quarterly Report on Form 10-Q for the period ended June 30, 2012.

(18)

Incorporated by reference to the Quarterly Report on Form 10-Q for the period ended September 30, 2012.

(19)

Incorporated by reference to the Quarterly Report on Form 10-Q for the period ended September 30, 2013.

(20)

Incorporated by reference to the registration statement on Form S-8, SEC File No. 333-197098, as filed with the Securities and Exchange Commission on June 27, 2014.

(21)

Incorporated by reference to the Quarterly Report on Form 10-Q for the period ended September 30, 2014.

(22)

Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2014.

SIGNATURES

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

Puradyn Filter Technologies Incorporated (Registrant)

By: /s/ Joseph V. Vittoria
Chairman and Chief Executive Officer
Date: March 30, 2016

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

Date:

March 30, 2016

/s/ Joseph V. Vittoria
Joseph V. Vittoria

Chief Executive Officer and Chairman of the Board, principal executive officer

/s/ Alan J. Sandler
Alan J. Sandler

principal financial and principal accounting officer, Vice President, Chief Administrative Officer and Secretary to the Board

/s/ Kevin G. Kroger
Kevin G. Kroger, President and Chief Operating Officer and Director

/s/ John S. Caldwell
John S. Caldwell, Director

/s/ Forrest D. Hayes
Forrest D. Hayes, Director

/s/ Dominick Telesco
Dominick Telesco, Director

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of:

Puradyn Filter Technologies, Inc.

We have audited the accompanying balance sheets of Puradyn Filter Technologies, Inc. (the Company) as of December 31, 2015 and 2014, and the related statements of operations, changes in shareholders deficit and cash flows for the two years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Puradyn Filter Technologies, Inc. as of December 31, 2015 and 2014 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has experienced net losses since inception and negative cash flows from operations and has relied on loans from related parties to fund its operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans concerning these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Liggett & Webb, P.A.

LIGGETT & WEBB, P.A.

Certified Public Accountants

Boynton Beach, Florida

March 30, 2016

PURADYN FILTER TECHNOLOGIES INCORPORATED

BALANCE SHEETS

	December 31, 2015		December 31, 2014	
ASSETS				
Current assets:				
Cash	$	34,471	$	53,288
Accounts receivable, net of allowance for uncollectible accounts of $17,000 and $17,000, respectively		116,425		205,314
Inventories, net		817,437		587,690
Prepaid expenses and other current assets		23,594		91,893
Total current assets		991,927		938,185
Property and equipment, net		61,919		57,891
Other noncurrent assets		374,720		347,836
Total assets	$	1,428,566	$	1,343,912
LIABILITIES AND STOCKHOLDERS DEFICIT				
Current liabilities:				
Accounts payable	$	73,844	$	130,597
Accrued liabilities		321,508		308,387
Current portion of capital lease obligation		3,755		3,280
Deferred compensation		1,609,585		1,513,931
Notes Payable - stockholders				25,000
Total current liabilities		2,008,692		1,981,195
Capital lease obligation, less current portion		7,198		
Notes Payable - stockholders		11,924,617		10,574,367
Total Long Term Liabilities		11,931,815		10,574,367
Total Liabilities		13,940,507		12,555,562
Commitments and contingencies (Note 12)				
Stockholders deficit:				
Preferred stock, $.001 par value:				
Authorized shares 500,000;				
None issued and outstanding				
Common stock, $.001 par value,				
Authorized shares 100,000,000;				
Issued and outstanding 48,683,135 and 48,683,135, respectively		48,683		48,683
Additional paid-in capital		47,329,344		47,183,545
Accumulated deficit		(59,889,968)		(58,443,878)
Total stockholders deficit		(12,511,941)		(11,211,650)
Total liabilities and stockholders deficit	$	1,428,566	$	1,343,912

See accompanying notes to financial statements.

PURADYN FILTER TECHNOLOGIES INCORPORATED
STATEMENTS OF OPERATIONS

	Years Ended December 31, 2015		2014	
Net sales	$	1,974,799	$	3,112,636
Cost of sales		1,459,308		2,005,500
Gross profit		515,491		1,107,136
Costs and expenses:				
Salaries and wages		897,247		1,090,329
Selling and administrative		769,648		922,536
Total Operating Costs		1,666,895		2,012,865
Loss from operations		(1,151,404)		(905,729)
Other (expense):				
Interest expense		(294,686)		(251,131)
Total other expense		(294,686)		(251,131)
Provision for income taxes				
Net loss	$	(1,446,090)	$	(1,156,860)
Basic and diluted loss per common share	$	(.03)	$	(.02)
Basic and diluted weighted average common shares Outstanding		48,683,135		48,809,135

See accompanying notes to financial statements.

PURADYN FILTER TECHNOLOGIES INCORPORATED

STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2015	2014
Operating activities		
Net loss	$ (1,446,090)	$ (1,156,860)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	41,700	39,754
Loss on disposal of fixed assets	4,332	
Gain on extinguishment of lease	(3,279)	
Provision for bad debts		764
Provision for obsolete and slow moving inventory	21,211	1,727
Compensation expense on stock-based arrangements with employees, consultants, vendors and investors	119,413	148,702
Changes in operating assets and liabilities:		
Accounts receivable	88,889	(23,935)
Inventories	(250,958)	4,366
Prepaid expenses and other current assets	68,299	(7,819)
Other noncurrent assets		10,147
Accounts payable	(56,753)	27,345
Accrued liabilities	14,507	18,770
Deferred compensation	95,654	113,135
Net cash used in operating activities	(1,303,075)	(823,904)
Investing activities		
Capitalized patent costs	(40,005)	(41,553)
Purchases of equipment	(21,919)	(29,169)
Net cash used in investing activities	(61,924)	(70,722)
Financing activities		
Proceeds from exercise of stock options		24,383
Proceeds from issuance of notes payable to stockholders	1 ,350,250	745,125
Proceeds from stockholder loan		25,000
Payment of capital lease obligations	(4,068)	(8,097)
Net cash provided by financing activities	1,346,182	786,411
Net decrease in cash	(18,817)	(108,215)
Cash at beginning of year	53,288	161,503
Cash at end of year	$ 34,471	$ 53,288
Supplemental cash flow information		
Cash paid for interest	$ 278,996	$ 237,377

Cash paid for taxes				
Noncash investing and financing activities				
Forgiveness of note payable and accrued interest related party	$	26,386	$	
Common stock returned by related party	$		$	294
Assets acquired from capital lease	$	15,020	$	

See accompanying notes to financial statements.

PURADYN FILTER TECHNOLOGIES INCORPORATED

STATEMENTS OF CHANGES IN STOCKHOLDERS DEFICIT

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders Deficit
Balance at December 31, 2013		$	48,632,482	$ 48,632	$ 47,010,511	$ (57,287,018)	$ (10,227,875)
Net loss						(1,156,860)	(1,156,860)
Exercise of employee stock options			161,664	162	24,221		24,383
Common stock issued to consultants			183,107	183	35,817		36,000
Common stock retired			(294,118)	(294)	294		
Warrants issued to consultants					32,486		32,846
Compensation expense associated with unvested option awards					79,856		79,856
Balance at December 31, 2014			48,683,135	48,683	47,183,545	(58,443,878)	(11,211,650)
Net loss						(1,446,090)	(1,446,090)
Forgiveness of note payable and accrued interest related party					26,386		26,386
Warrants issued to consultants					49,153		49,153
					70,260		70,260

Compensation expense associated with unvested option awards										
Balance at December 31, 2015	$	48,683,135	$	48,683	$	47,329,344	$	(59,889,968)	$	(12,511,941)

See accompanying notes to financial statements.

PURADYN FILTER TECHNOLOGIES INCORPORATED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

1. Significant Accounting Policies

Organization

Puradyn Filter Technologies Incorporated (the Company), a Delaware corporation, is engaged in the manufacturing, distribution and sale of bypass oil filtration systems under the trademark Puradyn® primarily to companies within targeted industries. The Company holds the exclusive worldwide manufacturing and marketing rights for the Puradyn through direct ownership of various other patents.

Revenue Recognition

The Company recognizes revenue from product sales to customers, distributors and resellers when products that do not require further services or installation by the Company are shipped, when there are no uncertainties surrounding customer acceptance and when collectability is reasonably assured in accordance with FASB ASC 605, *Revenue Recognition*, as amended and interpreted. Cash received by the Company prior to shipment is recorded as deferred revenue. Sales are made to customers under terms allowing certain limited rights of return and other limited product and performance warranties for which provision has been made in the accompanying financial statements.

Amounts billed to customers in sales transactions related to shipping and handling, represent revenues earned for the goods provided and are included in net sales. Costs of shipping and handling are included in cost of products sold.

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 amounts reported in the financial statements. Actual results could differ from those estimates. Included in those estimates are assumptions about allowances for inventory obsolescence, useful life of fixed assets, warranty reserves and bad-debt reserves, valuation allowance on the deferred tax asset, and the assumptions used in Black-Scholes valuation models related to stock options and warrants.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less at the time of purchase. At December 31, 2015 and December 31, 2014, the Company did not have any cash equivalents.

Fair Value of Financial Instruments

The carrying amounts of cash, accounts receivable, prepaid expenses and other assets, accounts payable, accrued liabilities and notes payable to stockholder approximate their fair values as of December 31, 2015 and December 31, 2014, respectively, because of their short-term natures.

Accounts Receivable

Accounts receivable are recorded at fair value on the date revenue is recognized. The Company provides allowances for doubtful accounts for estimated losses resulting from the inability of its customers to repay their obligation. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to repay, additional allowances may be required. The Company provides for potential uncollectible accounts receivable based on specific customer identification and historical collection experience adjusted for existing market conditions. If market conditions decline, actual collection experience may not meet expectations and may result in decreased cash flows and increased bad debt expense.

PURADYN FILTER TECHNOLOGIES INCORPORATED

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

The policy for determining past due status is based on the contractual payment terms of each customer, which are generally net 30 or net 60 days. Once collection efforts by the Company and its collection agency are exhausted, the determination for charging off uncollectible receivables is made.

Inventories

Inventories are stated at the lower of cost or market using the first in, first out (FIFO) method. Production costs, consisting of labor and overhead, are applied to ending finished goods inventories at a rate based on estimated production capacity. Excess production costs are charged to cost of products sold. Provisions have been made to reduce excess or obsolete inventories to their net realizable value.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the related assets, except for assets held under capital leases, for which the Company records depreciation and amortization based on the shorter of the asset s useful life or the term of the lease. The estimated useful lives of property and equipment range from 3 to 5 years. Upon sale or retirement, the cost and related accumulated depreciation and amortization are eliminated from their respective accounts, and the resulting gain or loss is included in results of operations. Repairs and maintenance charges, which do not increase the useful lives of the assets, are charged to operations as incurred.

Patents

Patents are stated at cost. Amortization is provided using the straight-line method over the estimated useful lives of the patents. The estimated useful lives of patents are 20 years. Upon retirement, the cost and related accumulated amortization are eliminated from their respective accounts, and the resulting gain or loss is included in results of operations.

Impairment of Long-Lived Assets

Management assesses the recoverability of its long-lived assets when indicators of impairment are present. If such indicators are present, recoverability of these assets is determined by comparing the undiscounted net cash flows estimated to result from those assets over the remaining life to the assets net carrying amounts. If the estimated undiscounted net cash flows are less than the net carrying amount, the assets would be adjusted to their fair value, based on appraisal or the present value of the undiscounted net cash flows.

Product Warranty Costs

As required by FASB ASC 460, *Guarantees*, the Company is including the following disclosure applicable to its product warranties.

The Company accrues for warranty costs based on the expected material and labor costs to provide warranty replacement products. The methodology used in determining the liability for warranty cost is based upon historical information and experience. The Company's warranty reserve is calculated as the gross sales multiplied by the historical warranty expense return rate.

PURADYN FILTER TECHNOLOGIES INCORPORATED

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

The following table shows the changes in the aggregate product warranty liability for the year ended December 31, 2015 and December 31, 2014, respectively:

	2015	2014
Balance as of beginning of year	$ 20,000	$ 20,000
Less: Payments made		
Add: Provision for current years warranty		
Balance as of end of year	$ 20,000	$ 20,000

Advertising Costs

Advertising costs are expensed as incurred. During the years ended December 31, 2015 and 2014, advertising costs incurred by the Company totaled approximately $7,951 and $5,795, respectively, and are included in selling and administrative expenses in the accompanying statements of operations.

Engineering and Development

Engineering and development costs are expensed as incurred. During the years ended December 31, 2015 and 2014, engineering and development costs incurred by the Company totaled $9,210 and $14,192, respectively, and are included in selling and administrative expenses in the accompanying statements of operations.

Income Taxes

The Company accounts for income taxes under FASB ASC 740, *Income Taxes*. Deferred income tax assets and liabilities are determined based upon differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Stock Option Plans

We adopted FASB ASC 718, *Compensation-Stock Compensation,* effective January 1, 2006 using the modified prospective application method of adoption which requires us to record compensation cost related to unvested stock awards as of December 31, 2005 by recognizing the amortized grant date fair value in accordance with provisions of FASB ASC 718 on straight line basis over the service periods of each award. We have estimated forfeiture rates based on our historical experience. Stock option compensation expense for the year ended December 31, 2015 has been recognized as a component of cost of goods sold and general and administrative expenses in the accompanying financial statements.

In 2015 and 2014, respectively, 787,500 and 60,000 options were granted at fair market value on the date of grant pursuant to the Stock Option Plan.

The Company leases its employees from a payroll leasing company. The Company s leased employees meet the definition of employees as specified by FIN 44 for purposes of applying FASB ASC 718.

Stock options and warrants issued to consultants and other non-employees as compensation for services provided to the Company are accounted for based on the fair value of the services provided or the estimated fair market value of the option or warrant, whichever is more reliably measurable in accordance with FASB ASC 505, *Equity,* and FASB ASC 718*, Compensation-Stock Compensation,* including related amendments and interpretations. The related expense is recognized over the period the services are provided.

PURADYN FILTER TECHNOLOGIES INCORPORATED

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

Credit Risk

The Company minimizes the concentration of credit risk associated with its cash by maintaining its cash with high quality federally insured financial institutions. However, cash balances in excess of the FDIC insured limit of $250,000 are at risk. At December 31, 2015 and December 31, 2014, respectively, the Company did not have cash balances above the FDIC insured limit. The Company performs ongoing evaluations of its significant trade accounts receivable customers and generally does not require collateral. An allowance for doubtful accounts is maintained against trade accounts receivable at levels which management believes is sufficient to cover probable credit losses. The Company also has some customer concentrations, and the loss of business from one or a combination of these significant customers, or an unexpected deterioration in their financial condition, could adversely affect the Company s operations. Please refer to Note 17 for further details.

Basic and Diluted Loss Per Share

FASB ASC 260, *Earnings per Share*, requires a dual presentation of basic and diluted earnings per share. However, because of the Company s net losses, the effects of stock options and warrants would be anti-dilutive and, accordingly, are excluded from the computation of earnings per share. The number of such shares excluded from the computations of diluted loss per share totaled 4,957,915 in 2015 and 4,628,345 in 2014.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Recent Accounting Pronouncements

In June 2014, FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* . The update gives entities a single comprehensive model to use in reporting information about the amount and timing of revenue resulting from contracts to provide goods or services to customers. The proposed ASU, which would apply to any entity that enters into contracts to provide goods or services, would supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. Additionally, the update would supersede some cost guidance included in Subtopic 605-35, Revenue Recognition Construction-Type and Production-Type Contracts. The update removes inconsistencies and weaknesses in revenue requirements and provides a more robust framework for addressing revenue issues and more useful information to users of financial statements through improved disclosure requirements. In addition, the update improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. This updated guidance is not expected to have a material impact on our results of operations, cash flows or financial condition.

In June 2014, ASU No. 2014-12, *Compensation Stock Compensation (Topic 718); Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* . The amendments in this ASU apply to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. For all entities, the amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The effective date is the same for both public business entities and all other entities.

PURADYN FILTER TECHNOLOGIES INCORPORATED

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

Entities may apply the amendments in this ASU either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying this Update as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. Additionally, if retrospective transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cost. This updated guidance is not expected to have a material impact on our results of operations, cash flows or financial condition.

In August 2014, the FASB issued ASU No. 2014-15 on *Presentation of Financial Statements Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern* . This Update provides guidance about management s responsibility to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern or to provide related footnote disclosures. The amendments require management to assess an entity s ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. The amendments in this Update are effective for public and nonpublic entities for annual periods ending after December 15, 2016. We are currently assessing the impact of the adoption of ASU No. 2014-15, and we have not yet determined the effect of the standard on our ongoing financial reporting.

In July 2015, FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory more closely align the measurement of inventory in GAAP with the measurement of inventory in International Financial Reporting Standards (IFRS). The amendments in this ASU do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. An entity should measure inventory within the scope of this Update at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. For public business entities, this ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, this ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The amendments in this ASU should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. We are currently reviewing the provisions of this ASU to determine if there will be any impact on our results of operations, cash flows or financial condition.

All other newly issued accounting pronouncements not yet effective have been deemed either immaterial or not applicable.

2. Going Concern

The Company s financial statements have been prepared on the basis that it will operate as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has incurred net losses each year since inception, negative cash flows, and has relied on loans from related parties to fund its operations.

These recurring operating losses, liabilities exceeding assets and the reliance on cash inflows from a current stockholder have led the Company s management to conclude there is substantial doubt about the Company s ability to continue as a going concern.

PURADYN FILTER TECHNOLOGIES INCORPORATED

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

3. Inventories

At December 31, 2015 and December 31, 2014 inventories consisted of the following:

	2015	2014
Raw materials	$ 1,145,452	$ 961,313
Work In Process		986
Finished goods	159,460	91,655
Valuation allowance	(487,475)	(466,264)
	$ 817,437	$ 587,690

4. Prepaid Expenses and Other Current Assets

At December 31, 2015 and December 31, 2014, prepaid expenses and other current assets consisted of the following:

	2015	2014
Prepaid expenses	$ 23,594	$ 52,893
Deposits		39,000
	$ 23,594	$ 91,893

5. Property and Equipment

At December 31, 2015 and December 31, 2014, property and equipment consisted of the following:

	2015	2014
Machinery and equipment	$ 1,045,217	$ 1,023,143
Furniture and fixtures	56,558	56,558
Leasehold improvements	129,722	129,722
Software and website development	88,842	88,842
Computer hardware and software	150,069	148,885
	1,470,408	1,447,150
Less accumulated depreciation and amortization	(1,408,489)	(1,389,259)
	$ 61,919	$ 57,891

Depreciation and amortization expense of property and equipment for the years ended December 31, 2015 and 2014 is $28,579 and $28,324, respectively, of which $6,404 and $6,347 is included in cost of products sold and $25,947 and

$21,977 is included in selling and administrative costs, respectively, in the accompanying statements of operations. During the year ended December 31, 2014 the Company impaired $29,284 of machinery and equipment that was determined to have no future economic value.

6. Patents

Included in other assets at December 31, 2015 and 2014 are capitalized patent costs as follows:

		2014		2014
Patent costs	$	372,411	$	332,406
Less accumulated amortization		(33,512)		(20,390)
	$	338,899	$	312,016

Amortization expense for the year ended December 31, 2015 and 2014 amounted to $13,122 and $11,430, respectively.

PURADYN FILTER TECHNOLOGIES INCORPORATED

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

7. Leases

The Company leases its office and warehouse facilities in Boynton Beach, Florida under a long-term non-cancellable lease agreement, which contains renewal options and rent escalation clauses. As of December 31, 2014, a security deposit of $34,970 is included in noncurrent assets in the accompanying balance sheet. During 2008, this lease was renewed effective August 1, 2008 and expired on July 31, 2013 and contained an annual increase of 3%. During June 2009, an amendment to the lease agreement was reached, temporarily reducing the monthly rent. The total minimum lease payments over the term of the lease were reduced from an aggregate of approximately $956,000 to approximately $925,000, or approximately 3%. On September 27, 2012 the Company entered into a non-cancellable lease agreement for the same facilities commencing August 1, 2013 and expiring July 31, 2019. The total minimum lease payments over the term of the lease signed on September 27, 2012 amount to $909,383. See Note 10.

The Company leases a condominium in Ocean Ridge, Florida, on an annual basis, to provide accommodations for Company use, primarily for Mr. Alan Sandler and Mr. Kevin Kroger, the Company s Principal Financial Officer, Vice President and Chief Administrative Officer, and Chief Operating Officer, respectively. The lease has an annual expense of $8,500. In December 2015, the Company renewed the lease at an annual expense of $8,500 until December 21, 2016.

Rent expense under all operating leases for the years ended December 31, 2015 and 2014 totaled $268,759 and $268,759, respectively, of which $204,568 and $204,568 is included in cost of products sold and $64,191 and $64,191 is included in selling and administrative costs, respectively, in the accompanying statements of operations.

In January 2012 and August 2011, the Company entered into capital lease obligations for the purchase of $15,383 and $13,681, respectively of office equipment, which is included in property and equipment. As of December 31, 2015 and 2014 the office equipment was recorded net of $12,016 and $24,732 respectively, of accumulated depreciation, in the accompanying balance sheets. In January 2015 the Company entered into a new capital lease for office equipment in the amount of $15,020. The Company recorded a loss on extinguishment of previous capital lease of $3,279.

Future minimum lease commitments due for facilities and equipment leases under non-cancellable capital and operating leases at December 31, 2015 are as follows:

	Capital Leases	Operating Leases
2016	$ 10,952	$ 155,008

2017				159,659
2018				164,448
2019 and thereafter				97,586
Total minimum lease payments		10,952	$	576,701
Less amount representing interest				
Present value of minimum lease payments	$	10,952		

8. Accrued Liabilities

At December 31, 2015 and December 31, 2014, accrued liabilities consisted of the following:

		2015		2014
Accrued wages and benefits	$	64,844	$	61,178
Accrued expenses relating to vendors and others		133,646		138,523
Accrued warranty costs		20,000		20,000
Accrued interest payable relating to stockholder notes		69,419		56,158
Deferred rent		33,599		32,528
	$	321,508	$	308,387

PURADYN FILTER TECHNOLOGIES INCORPORATED

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

9. Deferred Compensation

Deferred compensation represents amounts owed to four employees for salary. As there is no written agreement with these employees which memorializes the terms of salary deferral, only a voluntary election to do so, it is possible that the employees could demand payment in full at any time. As of December 31, 2015 and 2014 the Company recorded deferred compensation of $1,609,585 and $1,513,931 respectively.

10. Notes Payable to Stockholders and Capital Leases

Beginning on March 28, 2002 the Company executed a binding agreement with one of its principal stockholders, who is also the Chairman of the Board and an Executive officer, to fund up to $6.1 million. Under the terms of the agreements, the Company can draw amounts as needed to fund operations. Amounts drawn bear interest at the BBA LIBOR Daily Floating Rate plus 1.4 percentage points (2.5865% and 2.431% per annum at December 31, 2015 and 2014, respectively), payable monthly and were to become due and payable on December 31, 2005 or upon a change in control of the Company or consummation of any other financing over $7.0 million. Beginning in March 2006, annually, through February 2012, the maturity date for the agreement was extended annually from December 31, 2007, to December 31, 2017. Refer to Note 16.

At December 30, 2015, the Company had drawn the full funding amount under the initial agreement of $6.1 million plus additional advances of $5,824,614. At December 31, 2014 the Company had drawn the full funding amount under the initial agreement of $6.1 million plus an additional $4,474,367. Additionally, the Company had an unsecured loan outstanding from a member of the board of directors who is also a significant stockholder, totaling $0 and $25,000 at December 31, 2015 and December 31, 2014, respectively. The note bears interest at a rate of 5% per annum and was due November 22, 2015. On November 21, 2015 the board of director member forgave the principal amount of $25,000 and accrued interest of $1,386. The Company recorded the forgiveness as a capital contribution. See Note 14 and 16.

On February 13, 2013 the Company issued 882,353 shares of its common stock valued at $0.17 per share as payment for the note payable in the amount of $150,000 from a stockholder who is also a director. On April 8, 2013 the Company issued 50,656 shares of its common stock valued at $0.18 per share as payment for the interest, in the amount of $9,118, on the $150,000 note payable. On February 4, 2015 the Company received from the abovementioned stockholder who is also a director, a certificate in the amount of 882,353 shares of its common stock valued at $0.17 per share which had been issued in error as payment for the note payable in the amount of $150,000.

The certificate was reissued in the amount of 588,235 the company recorded a reduction of $294 for the par value of the common stock with on a corresponding offset to additional paid in capital as of December 31, 2014. See Notes 14 and 16.

During the years ended December 31, 2015 and 2014, the Company incurred interest expense of $249,134 and $215,696, respectively, on its loans from the stockholder who is also a director, which is included in interest expense in the accompanying statements of operations. Also included in interest expense at December 31, 2015 and 2014 were $1,997 and $3,118 of interest related to capital lease obligations, financing and loans from a stockholder.

Notes payable and capital leases consisted of the following at December 31, 2015 and December 31, 2014:

		2015		**2014**
Notes payable to stockholders	$	11,924,617	$	10,574,367
Capital lease obligation		10,953		3,280
		11,935,570		10,577,647
Less: current maturities		(3,755)		(3,280)
	$	11,931,815	$	10,574,367

PURADYN FILTER TECHNOLOGIES INCORPORATED

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

Maturities of Long-Term Obligations for Five Years and Beyond

The minimum annual principal payments of notes payable and capital lease obligations at December 31, 2015 were:

2016	$	3,755
2017		11,928,372
2018		3,443
	$	11,935,570

11. Income Taxes

The significant components of the Company s net deferred tax assets are as follows for the years ended December 31:

		2015		2014
Deferred tax assets:				
Net operating loss carryforwards	$	16,922,143	$	17,317,362
Accrued expenses and reserves		196,607		188,626
Compensatory stock options and warrants		192,648		147,712
Capital Loss Carryover				1,549
Other		5,406		2,308
Total deferred tax assets		17,316,804		17,657,557
Valuation allowance		(17,316,804)		(17,657,557)
Net deferred tax assets	$		$	

FASB ASC 740, *Income Taxes,* requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all the evidence, both positive and negative, management has determined that a full valuation allowance of $17,316,804 and $17,657,557 against its net deferred taxes is necessary as of December 31, 2015 and December 31, 2014, respectively. The change in valuation allowance for the years ended December 31, 2015 and 2014 is $294,436 and $950,505 respectively.

At December 31, 2015 and December 31, 2014, respectively, the Company had $46,014,496 and $46,924,149, respectively, of U.S. net operating loss carryforwards remaining, which expire beginning in 2017.

As a result of certain ownership changes, the Company may be subject to an annual limitation on the utilization of its U.S. net operating loss carryforwards pursuant to Section 382 of the Internal Revenue Code. A study to determine the effect, if any, of this change, has not been undertaken.

Tax returns for the years ended December 31, 2015, 2014, 2013, 2012 and 2011 are subject to examination by the Internal Revenue Service.

A reconciliation of the Company s income taxes to amounts calculated at the federal statutory rate is as follows for the years ended December 31:

	2015	2014
Federal statutory taxes	(34.00)%	(34.00)%
State income taxes, net of federal tax benefit	(3.63)	(3.63)
Nondeductible items	0.72	0.72
Change in valuation allowance	36.91	36.91
	%	%

PURADYN FILTER TECHNOLOGIES INCORPORATED

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

12. Commitments and Contingencies

Agreements

On October 1, 2014, the Company entered into a one-year agreement with Catalyst Global LLC to provide services rendered as investor relations consultant for the Company. As compensation for their services, Catalyst receives a monthly service fee of $4,000 in addition to warrants to purchase 635,000 shares of common stock, in lots of 52,917 warrants per month, exercisable at $0.25 per share. Either party may terminate the agreement with 30 days notice. The Company suspended the agreement on May 31, 2015.

In December 2015, the Company renewed the lease at an annual expense of $8,500 on a condominium in Ocean Ridge, Florida until December 21, 2016.

On September 27, 2012, the Company entered into a 72 month lease for its corporate offices and warehouse facility in Boynton Beach, Florida. The renewed lease commences August 1, 2013 and requires an initial rent of $12,026 per month beginning in the second month for the first year, increasing in varying amounts to $13,941 per month in the sixth year. In addition, the Company is responsible for all operating expenses and utilities.

On October 20, 2009, the Company entered into a consulting agreement with Boxwood Associates, Inc., whereby the Company pays $2,000 monthly for management and strategic development services performed. The contract will remain in effect until terminated by either party providing 30 days written notice. Mr. Telesco, a member of our board of directors, and a significant stockholder, is President of Boxwood Associates, Inc. Refer to Note 16.

13. Stock Options

The Company has three stock option plans, one adopted in September 1999 and amended in June 2000 (the 1999 Option Plan), one adopted on November 8, 2000 (the Directors Plan), and one adopted in July 2010 (the 2010 Option Plan). The 1999 Option Plan provides for the granting of up to 3,000,000 options, the Directors Plan provides for the granting of up to 400,000 options, and the 2010 Option Plan provides for the granting of 4,000,000 options.

On June 24, 2014, the Company filed a registration statement on Form S-8 with the Securities and Exchange Commission amending the shares of Common Stock included within its 2010 Stock Option from 2,000,000 shares to 4,000,000 shares.

The 1999 and 2010 Plans provide for the granting of both incentive and non-qualified stock options to key personnel, including officers, directors, consultants and advisors to the Company, at the discretion of the Board of Directors. Each plan limits the exercise price of the options at no less than the quoted market price of the common stock on the date of grant. The option term is determined by the Board of the Directors or the Compensation Committee, provided that no option may be exercisable more than 10 years after the date of its grant and, in the case of an Incentive Option granted to an eligible employee owning more than 10% of the Company s common stock, no more than five years after the date of the grant. Generally, under both plans, options to employees vest over four years at 25% per annum, except for certain grants to employees that vest 25% upon grant with remaining amounts over two years at 50% and 25% per annum, respectively.

The Directors Plan provides for the granting of non-qualified options to members of the Board of Directors at exercise prices not less than the quoted market price of the common stock on the date of grant and options expire five years from the date of grant. In the event a person ceases to serve on the Board of Directors, the outstanding options expire one year from the date of cessation of service. Such options may be exercised commencing two years from the date of grant.

PURADYN FILTER TECHNOLOGIES INCORPORATED

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

On August 25, 2014, the Company granted two directors options to purchase 15,000 shares of the Company s common stock, at an exercise price of $0.27 per share. The options vest over a two year period and expire August 25, 2019. The quoted market price of the common stock at the time of issuance of the options was $0.27 per share. The fair value of the options totaled $3,856 using the Black-Scholes option pricing model with the following assumptions: i) risk free interest rate of 0.0097%, ii) expected life of 5 years, iii) dividend yield of 0%, iv) expected volatility of 176%.

On September 3, 2014, the Company granted an employee options to purchase 30,000 shares of the Company s common stock, at an exercise price of $0.27 per share. The options vest over a four-year period and expire May 22, 2024. The fair value of the options totaled $8,049 using the Black-Scholes option pricing model with the following assumptions: i) risk free interest rate of 1.63%, ii) expected life of 5 years, iii) dividend yield of 0%, iv) expected volatility of 174%.

On November 10, 2014, the Company granted one director options to purchase 10,000 shares of the Company s common stock, at an exercise price of $0.21 per share. The options vest over a two year period and expire November 10, 2019. The quoted market price of the common stock at the time of issuance of the options was $0.21 per share. The fair value of the options totaled $2,030 using the Black-Scholes option pricing model with the following assumptions: i) risk free interest rate of 0.088%, ii) expected life of 5 years, iii) dividend yield of 0%, iv) expected volatility of 175%.

On December 19, 2014, the Company granted one director options to purchase 5,000 shares of the Company s common stock, at an exercise price of $0.22 per share. The options vest over a two year period and expire December 18, 2019. The quoted market price of the common stock at the time of issuance of the options was $0.22 per share. The fair value of the options totaled $1,044 using the Black-Scholes option pricing model with the following assumptions: i) risk free interest rate of 0.96%, ii) expected life of 5 years, iii) dividend yield of 0%, iv) expected volatility of 174%.

On May 27, 2015, the Company granted employees options to purchase 755,000 shares of the Company s common stock, at an exercise price of $0.16 per share. The options vest over a three-year period and expire May 26, 2025. The quoted market price of the common stock at the time of issuance of the options was $0.16 per share. The fair value of the options totaled $123,591 using the Black-Scholes option pricing model with the following assumptions: i) risk free interest rate of 0.125%, ii) expected life of 10 years, iii) dividend yield of 0%, iv) expected volatility of 168%.

On August 25, 2015, the Company granted two directors options to purchase 15,000 shares of the Company s common stock, at an exercise price of $0.13 per share. The options vest over a two year period and expire August 25, 2020. The quoted market price of the common stock at the time of issuance of the options was $0.13 per share. The fair value of the options totaled $1,791 using the Black-Scholes option pricing model with the following assumptions: i) risk free interest rate of 1.03%, ii) expected life of 5 years, iii) dividend yield of 0%, iv) expected volatility of 165%.

On December 9, 2015, the Company granted a director options to purchase 2,500 shares of the Company s common stock, at an exercise price of $0.11 per share. The options vest over a two-year period and expire December 9, 2025. The quoted market price of the common stock at the time of issuance of the options was $0.11 per share. The fair value of the options totaled $272 using the Black-Scholes option pricing model with the following assumptions: i) risk free interest rate of 1.39%, ii) expected life of 10 years, iii) dividend yield of 0%, iv) expected volatility of 167%.

On December 9, 2015, the Company granted one director options to purchase 10,000 shares of the Company s common stock, at an exercise price of $0.11 per share. The options vest over a two-year period and expire December 9, 2020. The quoted market price of the common stock at the time of issuance of the options was $0.11 per share. The fair value of the options totaled $1,033 using the Black-Scholes option pricing model with the following assumptions: i) risk free interest rate of 0.93%, ii) expected life of 10 years, iii) dividend yield of 0%, iv) expected volatility of 167%.

PURADYN FILTER TECHNOLOGIES INCORPORATED

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

On December 18, 2015, the Company granted one director options to purchase 5,000 shares of the Company s common stock, at an exercise price of $0.07 per share. The options vest over a two-year period and expire December 18, 2020. The quoted market price of the common stock at the time of issuance of the options was $0.07 per share. The fair value of the options totaled $330 using the Black-Scholes option pricing model with the following assumptions: i) risk free interest rate of 1.20%, ii) expected life of 5 years, iii) dividend yield of 0%, iv) expected volatility of 169%.

At December 31, 2015 there was $129,577 of unrecognized compensation cost related to nonvested share-based payments, which is expected to be recognized over a weighted-average period of 2.08 years. At December 31, 2014 there was $72,820 of unrecognized compensation cost related to nonvested share-based payments, which is expected to be recognized over a weighted-average period of 1.72 years.

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company s common stock for those awards that have an exercise price currently below the closing price. As of December 31, 2015 and 2014, the Company had options outstanding to purchase an aggregate of 3,858,000 and 3,560,065 shares respectively, with an exercise price above the quoted price of the Company s stock, resulting in no intrinsic value.

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In July 2014 an employee exercised a total of 66,666 employee stock options with an exercise price of $0.14 per share The Company received net proceeds of $9,333 upon the exercise.

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In September 2014 an employee exercised a total 25,000 employee stock options with an exercise price of $0.21 per share The Company received net proceeds of $5,250 upon the exercise.

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In September 2014 an employee exercised a total 26,666 employee stock options with an exercise price of $0.14 per share The Company received net proceeds of $3,733 upon the exercise.

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In November 2014 an employee exercised a total 43,332 employee stock options with an exercise price of $0.14 per share The Company received net proceeds of $6,067 upon the exercise.

Additional information concerning the activity in the three option plans is as follows:

	2015		2014	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	3,560,065	0.24	4,194,972	0.25
Granted	787,500	0.16	60,000	0.26
Exercised			(161,664)	0.15
Cancelled			(45,418)	0.15
Expired	(489,565)	0.34	(487,825)	0.32
Outstanding, end of year	3,858,000	0.22	3,560,065	0.24
Exercisable, end of year	2,851,333	0.23	2,885,051	0.19
Options available for future grant, end of year	537,008		834,943	0.16

Additional information concerning the unvested options is as follows:

	2015		2014	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Non-Vested options at beginning of year	675,014	0.16	1,311,674	0.18
Granted	787,500	0.16	60,000	0.26
Vested	(455,847)	0.16	(691,242)	0.18
Cancelled			(5,418)	0.15
Non-Vested options end of year	1,006,667	0.17	675,014	0.16

PURADYN FILTER TECHNOLOGIES INCORPORATED

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

Summarized information with respect to options outstanding under the three option plans at December 31, 2015 is as follows:

	Options Outstanding Remaining			Options Exercisable	
Range of Exercise Price	Number Outstanding	Average Contractual Life (In Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
0.11-.94	3,858,000	5.33	.022	2,851,333	0.23

The estimated fair value of each stock option grant on the date of grant was computed using the following weighted-average assumptions:

	December 31, 2015	December 31, 2014
Risk-free interest rate	0.93%-1.39%	0.88%-1.63%
Expected term (life) of options (in years)	5-10	4.65-9.40
Expected dividends		
Expected volatility	164.47%-169.10%	173.78%-176.67%

14. Common Stock

On February 13, 2013 the Company issued 882,353 shares of its common stock valued at $0.17 per share as payment for the note payable in the amount of $150,000 from a stockholder who is also a director. On April 8, 2013 the Company issued 50,656 shares of its common stock valued at $0.18 per share as payment for the interest, in the amount of $9,118, on the $150,000 note payable. On February 4, 2015 the Company received from the abovementioned stockholder who is also a director, a certificate in the amount of 882,353 shares of its common stock valued at $0.17 per share which had been issued in error as payment for the note payable in the amount of $150,000. The certificate was reissued in the amount of 588,235 the Company recorded a reduction of $294 for the par value of the common stock with on a corresponding offset to additional paid in capital as of December 31, 2014. See Notes 10 and 16.

As partial compensation per an agreement dated May 19, 2011 and extended on June 8, 2012 for consultant work, the Company issued to Monarch Communications, Inc. the following:

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On January 6, 2014, 28,571 shares of its common stock valued at $0.14 per share

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On February 7, 2014, 25,000 shares of its common stock valued at $0.16 per share.

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On March 5, 2014, 21,053 shares of its common stock valued at $0.19 per share.

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On April 1, 2014, 18,182 shares of its common stock valued at $0.22 per share.

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On May 2, 2014, 20,000 shares of its common stock valued at $0. 20 per share.

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On June 4, 2014, 19,048 shares of its common stock valued at $0.21 per share.

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On July 1, 2014, 21,053 shares of its common stock valued at $0.19 per share.

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On August 1, 2014, 14,815 shares of its common stock valued at $0.27 per share.

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On September 17, 2014, 15,385 shares of its common stock valued at $0.26 per share

PURADYN FILTER TECHNOLOGIES INCORPORATED

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

15. Warrants

At December 31, 2015 and 2014, 1,099,915 and 1,068,280 shares, respectively, of common stock have been reserved for issuance under outstanding warrants. All of the warrants are fully vested and began expiring on March 24, 2013 with the remaining warrants expiring at various dates through October 1, 2019. Information concerning the Company s warrant activity is as follows:

	2015 Weighted Average			2014 Weighted Average		
		Exercise			Exercise	
	Warrants		Price	Warrants		Price
Outstanding, at the beginning of year	1,068,280	$	0.37	2,271,483	$	0.46
Granted	264,585		0.25	158,751		0.25
Exercised						
Expired	(232,950)		0.50	(1,361,954)		0.50
Outstanding, at the end of year	1,099,915	$	0.32	1,068,280	$	0.37

Warrants Outstanding December 31, 2015				
		Remaining Average		
Range of	Number	Contractual Life	Weighted Average	
Exercise Price	Outstanding	(In Years)	Exercise Price	
$0.25 - $0.50	1,099,915	2.42	$	.32
Totals	1,099,915	2.42	$	.32

On July 11, 2014, the Company board of directors resolved to extend the expiration date by an additional two years past the original individual expiration dates of 482,830 Class A warrants to purchase common stock at a price of $0.35 per share, which were previously awarded to certain stockholder as part of private offerings. The Company did not incur a charge for the extension of the warrants.

As partial compensation per an agreement dated October 1, 2014, for consultant work, the Company issued to Catalyst Global LLC the following:

On January 1, 2015, warrants to purchase 52,917 shares of its common stock, priced at $0.25 per share. The warrants vest immediately and expire October 1, 2019. The quoted market price of the common stock at the time of issuance of the options was $0.22 per share. The fair value of the options totaled $11,242 using the Black-Scholes option pricing model with the following assumptions: i) risk free interest rate of 0.96%, ii) expected life of 5 years, iii) dividend yield of 0%, iv) expected volatility of 173%.

On February 3, 2015, warrants to purchase 52,917 shares of its common stock, priced at $0.25 per share. The warrants vest immediately and expire October 1, 2019. The quoted market price of the common stock at the time of issuance of the options was $0.21 per share. The fair value of the options totaled $10,385 using the Black-Scholes option pricing model with the following assumptions: i) risk free interest rate of 1.06%, ii) expected life of 5 years, iii) dividend yield of 0%, iv) expected volatility of 173%.

On March 1, 2015, warrants to purchase 52,917 shares of its common stock, priced at $0.25 per share. The warrants vest immediately and expire October 1, 2019. The quoted market price of the common stock at the time of issuance of the options was $0.19 per share. The fair value of the options totaled $9,331 using the Black-Scholes option pricing model with the following assumptions: i) risk free interest rate of 0.90%, ii) expected life of 5 years, iii) dividend yield of 0%, iv) expected volatility of 173%.

PURADYN FILTER TECHNOLOGIES INCORPORATED

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

On April 1, 2015, warrants to purchase 52,917 shares of its common stock, priced at $0.25 per share. The warrants vest immediately and expire October 1, 2019. The quoted market price of the common stock at the time of issuance of the options was $0.19 per share. The fair value of the options totaled $9,504 using the Black-Scholes option pricing model with the following assumptions: i) risk free interest rate of 0.99%, ii) expected life of 5 years, iii) dividend yield of 0%, iv) expected volatility of 171%.

On May 1, 2015, warrants to purchase 52,917 shares of its common stock, priced at $0.25 per share. The warrants vest immediately and expire October 1, 2019. The quoted market price of the common stock at the time of issuance of the options was $0.18 per share. The fair value of the options totaled $8,691 using the Black-Scholes option pricing model with the following assumptions: i) risk free interest rate of 1.02%, ii) expected life of 5 years, iii) dividend yield of 0%, iv) expected volatility of 169%.

16. Related Party Transactions

In March 2002 the Company executed a binding agreement with its CEO, who is also a principal stockholder, to fund up to $6.1 million. Under the terms of the agreements, the Company can draw amounts as needed to fund operations. Amounts drawn bear interest at the BBA LIBOR Daily Floating Rate plus 1.4 percentage points (2.5865% and 2.431% per annum at December 31, 2015 and 2014, respectively), payable monthly and were to become due and payable on December 31, 2005 or upon a change in control of the Company or consummation of any other financing over $7.0 million. Beginning in March 2006, annually, through February 2012, the maturity date for the agreement was extended from December 31, 2007 to December 31, 2017. Refer to Note 10.

At December 30, 2015, the Company had drawn the full funding amount under the initial agreement of $6.1 million plus additional advances of $5,824,614. At December 31, 2014 the Company had drawn the full funding amount under the initial agreement of $6.1 million plus an additional $4,474,367. Additionally, the Company has an unsecured loan outstanding from a member of the board of directors who is also a significant stockholder, totaling $0 and $25,000 at December 31, 2015 and December 31, 2014, respectively. The note bears interest at a rate of 5% per annum and is due November 22, 2015. On November 21, 2015 the board of director member forgave the principal amount of $25,000 and accrued interest of $1,386. The Company recorded the forgiveness as a capital contribution.

On February 13, 2013 the Company issued 882,353 shares of its common stock valued at $0.17 per share as payment for the note payable in the amount of $150,000 from a stockholder who is also a director. On April 8, 2013 the Company issued 50,656 shares of its common stock valued at $0.18 per share as payment for the interest, in the amount of $9,118, on the $150,000 note payable. Additionally, the Company has unsecured loans outstanding from one board member, who is also a significant stockholder, totaling $25,000 at December 31, 2014. On November 21, 2015 the board of director member forgave the principal amount of $25,000 and accrued interest of $1,386. The Company recorded the forgiveness as a capital contribution. The note bears interest at a rate of 5% per annum and is due November 22, 2015. On February 4, 2015 the Company received from the abovementioned stockholder who is also a director, a certificate in the amount of 882,353 shares of its common stock valued at $0.17 per share which had been issued in error as payment for the note payable in the amount of $150,000. The certificate was reissued in the amount of 588,235 in exchange for the note payable in the amount of $100,000, the remaining $50,000 was recorded as a capital contribution in the year ended December 31, 2014. The Company recorded the transaction retroactive to December 31, 2014. See Notes 10 and 14.

On October 20, 2009, the Company entered into a consulting agreement with Boxwood Associates, Inc., whereby the Company pays $2,000 monthly for management and strategic development services performed. The contract remains in effect until terminated by either party providing 30 days written notice. During each of 2015 and 2014 we paid Boxwood Associates, Inc. $24,000 under this agreement. Mr. Dominick Telesco, a member of our board of directors, is President of Boxwood Associates, Inc.

PURADYN FILTER TECHNOLOGIES INCORPORATED

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

17. Major Customers

There are concentrations of credit risk with respect to accounts receivables due to the amounts owed by two customers at December 31, 2015 whose balances each represented approximately 47%, and 32%, for a total of 77% of total accounts receivables. There are concentrations of credit risk with respect to accounts receivables due to the amounts owed by two customers at December 31, 2014 whose balances each represented approximately 40%, and 20%, for a total of 60% of total accounts receivables. The loss of business from one or a combination of the Company s significant customers, or an unexpected deterioration in their financial condition, could adversely affect the Company s operations.

18. Subsequent Events

From January 1, 2016 through March 27, 2016, the Company received additional loans in the amount of $400,075, from the Company s Chairman and CEO, as advances for working capital needs. The loans bear interest at the BBA Libor Daily Floating Rate plus 1.4 points.

On January 6, 2016 the Company entered into an unsecured loan outstanding from a member of the Board of Directors who is also a significant stockholder, totaling $25,000. The note bears interest at a rate of 5% per annum and is due January 7, 2017.

On March 7, 2016, the Company entered into an Advisory Agreement for duration of six months with an outside consultant, who is also a stockholder. We issued the consultant five year warrants to purchase 350,000 shares of the Company's common stock with an exercise price of $0.05 per share.