

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

**FORM 10-QSB**

(Mark one)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2007

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
(No Fee Required)

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-29192

**Puradyn Filter Technologies Incorporated**

(Exact name of small business issuer as specified in its charter)

Delaware

14-1708544

(State or other jurisdiction of incorporation)

(I.R.S. Employer Identification No.)

2017 High Ridge Road, Boynton Beach, Florida 33426  
(Address of principal executive offices)

(561) 547-9499  
(Issuer's telephone number)

not applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

State the number of shares outstanding of each of the issuer's class of common equity, as of the last practicable date. As of November 14, 2007, there were 29,400,638 shares of registrant's common stock outstanding.

Puradyn Filter Technologies Incorporated  
Index to Quarterly Report on Form 10-QSB

Part I. Financial Information		Page
Item 1.	Financial Statements (Unaudited)	
	Condensed Consolidated Balance Sheet - As of September 30, 2007 and December 31, 2006 ....	3
	Condensed Consolidated Statements of Operations – Three months and nine months ended September 30, 2007 and 2006.....	4
	Condensed Consolidated Statements of Cash Flows – Nine months ended September 30, 2007 and 2006.....	5
	Condensed Consolidated Statement of Stockholders’ Deficit – Nine months ended September 30, 2007.....	6
	Notes to Condensed Consolidated Financial Statements.....	7
Item 2.	Management's Discussion and Analysis of Financial Condition or Plan of Operation .....	14
Item 3.	Controls and Procedures.....	21
Part II. Other Information		
Item 1.	Legal Proceedings.....	22
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.....	22
Item 3.	Default Upon Senior Securities.....	22
Item 4.	Submission of Matters to a Vote of Security Holders.....	22
Item 5.	Other Information.....	22
Item 6.	Exhibits.....	22
	Signatures.....	22

## PART I - FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

Puradyn Filter Technologies Incorporated  
Condensed Consolidated Balance Sheets  
As of September 30, 2007 and December 31, 2006  
(Unaudited)

	September 30, 2007	December 31, 2006
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 103,778	\$ 55,175
Accounts receivable, net of allowance for uncollectible accounts of \$48,043 and \$47,513	419,959	497,888
Inventories	1,310,625	1,272,456
Prepaid expenses and other current assets	240,713	174,015
<b>Total current assets</b>	<b>2,075,075</b>	<b>1,999,534</b>
Property and equipment, net	163,848	193,832
Deferred financing costs, net	23,153	40,749
Other noncurrent assets	40,930	40,930
<b>Total assets</b>	<b>\$ 2,303,006</b>	<b>\$ 2,275,045</b>
<b>Liabilities and stockholders' deficit</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 384,357	\$ 316,716
Accrued liabilities	932,312	885,454
Current portion of capital lease obligation	2,305	5,593
Deferred revenue	119,966	99,915
<b>Total current liabilities</b>	<b>1,438,940</b>	<b>1,307,678</b>
Capital lease obligation, less current portion	7,542	-
Notes payable to stockholder	5,905,500	5,839,000
<b>Total Liabilities</b>	<b>7,351,982</b>	<b>7,146,678</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' deficit:</b>		
Preferred stock, \$.001 par value:		
Authorized shares – 500,000		
None issued and outstanding	-	-
Common stock, \$.001 par value:		
Authorized shares – 40,000,000		
Issued and outstanding – 29,400,638 and 27,310,352	29,401	27,310
Additional paid-in capital	41,320,599	39,774,531
Notes receivable from stockholders	(1,064,030)	(1,136,656)
Accumulated deficit	(45,119,214)	(43,384,109)
Accumulated other comprehensive (loss)/income	(215,732)	(152,709)
<b>Total stockholders' deficit</b>	<b>(5,048,976)</b>	<b>(4,871,633)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 2,303,006</b>	<b>\$ 2,275,045</b>

*See accompanying notes to condensed consolidated financial statements.*

Puradyn Filter Technologies Incorporated  
Condensed Consolidated Statements of Operations  
For the Three Months and Nine Months Ended September 30, 2007 and 2006  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net sales	\$ 818,682	\$ 641,303	\$ 2,371,869	\$ 2,319,362
Costs and expenses:				
Cost of products sold	713,222	545,105	2,073,082	1,800,109
Salaries and wages	251,595	351,619	777,168	1,044,010
Selling and administrative	262,899	260,055	818,048	942,753
	<u>1,227,716</u>	<u>1,156,779</u>	<u>3,668,298</u>	<u>3,786,872</u>
Loss from operations	(409,034)	(515,476)	(1,296,429)	(1,467,510)
Other income (expense):				
Interest income	9,776	13,011	31,694	37,698
Interest expense	(127,232)	(136,810)	(470,370)	(390,175)
Total other expense, net	<u>(117,456)</u>	<u>(123,799)</u>	<u>(438,676)</u>	<u>(352,477)</u>
Loss before income taxes	(526,490)	(639,275)	(1,735,105)	(1,819,987)
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net loss	<u>(526,490)</u>	<u>(639,275)</u>	<u>(1,735,105)</u>	<u>(1,819,987)</u>
Basic and diluted loss per common share	<u>\$ (.02)</u>	<u>\$ (0.03)</u>	<u>\$ (.06)</u>	<u>\$ (0.07)</u>
Weighted average common shares outstanding	<u>28,981,383</u>	<u>25,355,915</u>	<u>27,959,710</u>	<u>24,833,119</u>

*See accompanying notes to condensed consolidated financial statements.*

Puradyn Filter Technologies Incorporated  
Condensed Consolidated Statements of Cash Flows  
For the Nine Months Ended September 30, 2007 and 2006  
(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	2007	2006
<b>Operating activities</b>		
Net loss	\$ (1,735,105)	\$ (1,819,987)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	71,355	157,444
Gain on sale of assets	577	
Provision for bad debts	21,021	36,217
Provision for obsolete and slow moving inventory	(67,766)	(16,085)
Deposit on other assets	-	(15,000)
Amortization of deferred financing costs included in interest expense	17,596	38,712
Interest receivable from notes receivable from stockholders	72,626	(35,951)
Compensation expense on stock-based arrangements with employees, consultants, investors and vendors	44,659	205,338
Changes in operating assets and liabilities:		
Accounts receivable	56,907	112,253
Inventories	29,598	(69,196)
Prepaid expenses and other current assets	(66,698)	57,696
Accounts payable	67,642	91,336
Accrued liabilities	46,858	209,196
Deferred revenues	20,052	13,496
Net cash used in operating activities	(1,420,680)	(1,034,531)
<b>Investing activities</b>		
Proceeds from sale of property and equipment	5,458	-
Purchases of property and equipment	(36,971)	(9,562)
Net cash used in investing activities	(31,513)	(9,562)
<b>Financing activities</b>		
Proceeds from sale of common stock	1,475,000	1,210,000
Proceeds from exercise of stock options	28,500	2,600
Proceeds from notes payable to stockholder	846,500	822,000
Payment of notes payable to stockholder	(780,000)	(747,000)
Payment of capital lease obligations	(4,271)	(3,753)
Net cash provided by financing activities	1,565,729	1,283,847
Effect of exchange rate changes on cash and cash equivalents	(64,933)	(95,655)
Net increase in cash and cash equivalents	48,603	144,099
Cash and cash equivalents at beginning of period	55,175	155,557
Cash and cash equivalents at end of period	\$ 103,778	\$ 299,656
<b>Supplemental cash flow information</b>		
Cash paid for interest	\$ 373,234	\$ 344,855
<b>Noncash investing and financing activities</b>		
Common stock issued in settlement of accrued bonus	\$ -	\$ 30,000

*See accompanying notes to condensed consolidated financial statements.*

Puradyn Filter Technologies Incorporated  
Condensed Consolidated Statements of Changes in Stockholders' Deficit  
Nine Months ended September 30, 2007  
(Unaudited)

	Common Stock		Additional	Notes	Accumulated	Accumulated	Total
	Shares	Amount	Paid-in	Receivable	Deficit	Other	Stockholders'
			Capital	From Stockholders		Comprehensive	Deficit
						Income (Loss)	
Balance at December 31, 2006	27,310,352	\$ 27,310	\$ 39,774,531	\$ (1,136,656)	\$ (43,384,109)	\$ (152,709)	\$ (4,871,633)
Foreign currency translation adjustment						(63,023)	(63,023)
Net loss					(1,735,105)		(1,735,105)
Total comprehensive loss							(1,798,128)
Compensation expense associated with unvested options			9,258				9,258
Issuance of common stock in private placement, net	2,014,286	2,015	1,472,985				1,475,000
Warrants issued to investors			34,200				34,200
Exercise of stock options	76,000	76	28,424				28,500
Interest receivable related to notes receivable from stockholders				72,626			72,626
Compensation expense associated with option modification			1,201				1,201
Balance at September 30, 2007	29,400,638	\$29,401	\$41,320,599	\$ (1,064,030)	\$ (45,119,214)	\$ (215,732)	\$ (5,048,976)

*See accompanying notes to condensed consolidated financial statements.*

Puradyn Filter Technologies Incorporated  
Notes to Condensed Consolidated Financial Statements  
September 30, 2007  
(Unaudited)

**1. Basis of Presentation and Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim information and with the instructions to Form 10-QSB and Regulation S-B. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments consisting of a normal and recurring nature considered necessary for a fair presentation have been included. Operating results for the three-month and nine-month periods ended September 30, 2007 may not necessarily be indicative of the results that may be expected for the year ending December 31, 2007.

For further information, refer to Puradyn Filter Technologies Incorporated's (the Company) consolidated financial statements and footnotes thereto included in the Form 10-KSB for the year ended December 31, 2006.

**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 and has relied on the sale of its stock from time to time and loans from third parties and from related parties to fund its operations.

These recurring operating losses, liabilities exceeding assets and the reliance on cash inflows from an institutional investor and current stockholder have led the Company's independent registered accounting firm Webb & Company, P.A. to include a statement in its audit report relating to the Company's audited consolidated financial statements for the year ended December 31, 2006 expressing substantial doubt about the Company's ability to continue as a going concern.

The Company has been addressing the liquidity and working capital issues and continues to attempt to raise additional capital with institutional and private investors and current stockholders. Cost reductions were and continue to be implemented by the Company, including acquiring alternative suppliers for raw materials. The company expects to see results from these reductions, as well as from other cost reduction plans through 2007, including organizational changes, deferral of salaries and renegotiating creditor and collection arrangement. There can be no assurance that the Company will be able to raise the additional capital needed or reduce the level of expenditures in order to sustain operations.

**Use of Estimates**

The preparation of condensed consolidated 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 condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

**Basic and Diluted Loss Per Share**

SFAS No. 128, *Earnings Per Share*, requires a dual presentation of basic and diluted earnings per share. However, because of the Company's net losses, the effect of outstanding stock options and warrants would be anti-dilutive and, accordingly, is excluded from the computation of diluted loss per share. The number of such shares excluded from the computation of loss per share totaled 3,231,543 and 3,726,543 respectively

for the three-month and nine-month periods ended September 30, 2007 and 2,905,918 and 3,072,070 respectively for the three-month and nine-month periods ended September 30, 2006.

#### *Stock Compensation*

The Company adopted SFAS 123R 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, recognizing the amortized grant date fair value in accordance with provisions of SFAS 123R 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 periods ended September 30, 2006 and September 30, 2007 have been recognized as a component of cost of goods sold and general and administrative expenses in the accompanying Consolidated Financial Statements.

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 SFAS 123 and EITF 96-18, *Accounting for Equity Investments That are Issued to Other Than Employees for Acquiring or in Conjunction with Selling Goods or Services*, including related amendments and interpretations. The related expense is recognized over the period the services are provided.

#### *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 inventories at a rate based on estimated production capacity and any excess production costs are charged to cost of products sold. Provisions have been made to reduce excess or obsolete inventories to their net realizable values.

Inventories consisted of the following at September 30, 2007 and December 31, 2006:

Raw materials	\$	635,386	\$	913,034
Finished goods		752,927		504,876
Valuation allowance		(77,688)		(145,454)
	\$	<u>1,310,625</u>	\$	<u>1,272,456</u>

#### *Deferred Financing Costs*

The Company capitalizes financing costs and amortizes them using the straight-line method, which approximates the effective interest method, over the term of the related debt. Amortization of deferred financing costs is included in interest expense and totaled approximately \$5,000 and \$10,000 for the three-months ended September 30, 2007 and 2006, and \$18,000 and \$39,000 for the nine months ended September 30, 2007 and 2006 respectively. In March 2002, the Company recorded the initial deferred financing costs of \$318,000 for the shareholder loan with a maturity date of December 31, 2004. On March 14, 2003, as the maturity date was extended to December 31, 2005, an additional \$214,400 in deferred financing costs was recorded (see Note 2). On April 14, 2005 the maturity date was extended to December 31, 2006, resulting in the addition of approximately \$55,000 of related deferred financing costs. Accumulated amortization of deferred financing costs as of September 30, 2007 and 2006 was approximately \$658,000 and \$630,000, respectively.

#### *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 collectibility is reasonably assured in accordance with Staff Accounting Bulletin No. 104, *Revenue Recognition in Financial Statements* (SAB 104), 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 condensed consolidated 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.

#### Product Warranty Costs

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.

The following table shows the changes in the aggregate product warranty liability for the nine-months ended September 30, 2007:

Balance as of December 31, 2006	\$ 71,759
Less: Payments made	(8,793)
Change in prior period estimate	1,164
Add: Provision for current period warranties	<u>19,523</u>
Balance as of September 30, 2007	<u>\$ 83,653</u>

#### Comprehensive Income

SFAS No. 130, *Reporting Comprehensive Income* (SFAS 130) establishes rules for reporting and displaying of comprehensive income and its components. Comprehensive income is the sum of net loss as reported in the consolidated statements of operations and other comprehensive income transactions. Other comprehensive income transactions that currently apply to the Company result from changes in exchange rates used in translating the financial statements of its wholly owned subsidiary, Puradyn Filter Technologies, Ltd. (Ltd). Comprehensive loss as of September 30, 2007 and 2006 is not shown net of taxes because the Company's deferred tax asset has been fully offset by a valuation allowance.

Comprehensive loss consisted of the following for the three and nine-months ended September 30, 2007 and 2006:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>	<b>2006</b>	<b>September 30,</b>	<b>2006</b>
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net loss	(526,490)	(639,275)	(1,735,105)	(1,819,987)
Other comprehensive income:				
Foreign currency translation adjustment	(28,095)	30,974	(63,023)	89,623
Total other comprehensive income	(28,095)	30,974	(63,023)	89,623
Comprehensive loss	<u>(554,585)</u>	<u>(608,301)</u>	<u>(1,798,128)</u>	<u>(1,730,364)</u>

#### New Accounting Standards

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes," which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In accordance with FIN 48, the Company must adjust its financial

statements to reflect only those tax positions that are more-likely-than-not to be sustained as of the adoption date. The effective date of FIN 48 for the Company is January 1, 2007. The adoption of FIN 48 has not had a material impact on the Company's condensed consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which clarifies the definition of fair value, establishes guidelines for measuring fair value, and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 will be effective for the Company on January 1, 2008. The Company is currently evaluating the impact of adopting SFAS 157 on its financial position, cash flow, and results of operations.

In September 2006, the Securities and Exchange Commission ("SEC") released Staff Accounting bulletin No. 108, "considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108"). SAB 108 provides interpretive guidance on the SEC's views on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The provisions of SAB 108 were effective for the Company for the fiscal year ended December 31, 2006. The application of SAB 108 did not have a material effect on its financial position, cash flows and results of operations.

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*". This statement permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115 "*Accounting for Certain Investments in Debt and Equity Securities*" applies to all entities with available-for-sale and trading securities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provision of SFAS No. 157, "*Fair Value Measurements*". The adoption of this statement is not expected to have a material effect on the Company's financial statements.

## **2. Issues Affecting Liquidity and Management's Plans**

The Company's financial statements have been prepared assuming that the Company will continue as a going concern. The Company has sustained losses since inception in 1987 and used net cash in operations of approximately \$1,420,680 and \$1,034,531 during the nine-months ended September 30, 2007 and 2006, respectively. As a result, the Company has had to rely principally on private equity funding, including the conversion of debt into stock, as well as stockholder loans to fund its activities to date.

These recurring operating losses, liabilities exceeding assets and the reliance on cash inflows from an institutional investor and current stockholder led the Company's independent registered public accounting firm, Webb & Company, P.A. to include a statement in its audit report relating to the Company's audited consolidated financial statements for the year ended December 31, 2006 expressing substantial doubt about the Company's ability to continue as a going concern.

The Company has been addressing the liquidity and working capital issues and continues to attempt to raise additional capital with institutional and private investors and current stockholders. Cost reductions were and continue to be implemented by the Company, including acquiring alternative suppliers for raw materials and manufacturing and the Company expects to see results from these reductions, as well as other cost reduction plans through 2007.

Additionally, the Company continues to address liquidity concerns because of inadequate revenue growth. As a result, cash flow from operations is insufficient to cover our liquidity needs for the immediate future. The Company is in the process of aggressively seeking to raise capital and is exploring financing availability and options with investment bankers, funds, private sources, members of management and existing shareholders. The Company has implemented further measures to preserve its ability to operate, including organizational changes, deferral of salaries, reduction in personnel and renegotiating creditor and

collection arrangement. There can be no assurance that the Company will be able to raise the additional capital needed or reduce the level of expenditures in order to sustain operations.

On March 23, 2007, the stockholder amended the original loan agreements to extend the payback dates to December 31, 2008. The original loan agreements, dated March 28, 2002 and March 14, 2003, were due and payable on December 31, 2003 and December 31, 2004. Previously, the stockholder waived the funding requirement mandating maturity as such time as the Company raised an additional \$7.0 million over the \$3.5 million previously raised in the Company's private placement offering; or until such time as the Company is operating within sufficient cash flow parameters, as defined, to sustain its operations; or until a disposition of the Company occurs. As of September 30, 2007, the Company had drawn a total of \$5.906 million of the available funds.

The Company anticipates modest cash flows from the remaining 2007 sales activity and that additional cash will still be needed to support operations. If additional capital is not raised, budgeted sales levels are not achieved and/or significant unanticipated expenditures occur, the Company will have to modify its business plan, reduce or discontinue some of its operations or seek a buyer for part of its assets to continue as a going concern through 2007. There can be no assurance that the Company will be able to raise the additional capital needed to continue as a going concern.

### **3. Common Stock**

In June 2007, the Company received cash proceeds of \$975,000 from an accredited investor for the purchase of 1,300,000 shares of common stock at \$0.75 per share.

In August 2007, the Company converted \$500,000 previously received in the form of advances into purchases of 714,286 shares of common stock at \$0.70 per share.

### **4. Stock Options**

During the nine-months ended September 30, 2007, employees of the Company exercised 76,000 common stock options. The Company received \$28,500, in cash proceeds in exchange for the shares issued in 2007.

During the three-month and nine month periods ended September 30, 2007, the Company recognized compensation expense of approximately \$35,211 and \$66,164 respectively. During the three-month and nine-month periods ended September 30, 2006, the Company recognized compensation expense of approximately \$49,000 and \$205,000, respectively.

For the three-month and nine-month periods ended September 30, 2007, the Company recorded stock-based compensation expense of \$1,011 and \$9,258. For the three-month and nine-month periods ended September 30, 2006, the Company recognized an expense of approximately \$2,372 and \$4,996, respectively, of stock-based compensation expense under the intrinsic value method.

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 APB 25.

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 SFAS 123 and EITF 96-18, *Accounting for Equity Investments That are Issued to Other Than Employees for Acquiring or in Conjunction with Selling Goods or Services*. The related expense is recognized over the period the services are provided.

A summary of the Company's stock option plans as of September 30, 2007, and changes during the nine month period then ended is presented below:

	Nine Months Ended September 30, 2007	
	Number of Options	Weighted Average Exercise Price
Options outstanding at beginning of period	1,880,400	\$ 3.10
Options granted	115,000	.40
Options exercised	76,000	.38
Options cancelled	130,000	4.28
Options expired	62,500	8.75
Options at end of period	1,726,900	2.75
Options exercisable at end of period	1,523,150	\$ 3.03

A summary of the Company's stock option plans as of September 30, 2007, and changed during the three month period then ended is presented below:

	Three Months Ended September 30, 2007	
	Number of Options	Weighted Average Exercise Price
Options outstanding at beginning of period	1,741,900	\$ 3.02
Options granted	115,000	.40
Options exercised	-	-
Options cancelled	130,000	4.28
Options expired		
Options at end of period	1,726,900	2.75
Options exercisable at end of period	1,523,150	\$ 3.03

Changes in the Company's unvested options for the nine months ended September 30, 2007 are summarized as follows:

	Nine Months Ended September 30, 2007	
	Number of Options	Weighted Average Exercise Price
Options unvested at beginning of period	115,625	\$ .86
Options granted	115,000	.40
Options vested	16,875	.70
Options cancelled	17,500	.75
Options unvested at end of period	196,250	\$ .60

Changes in the Company's unvested options for the three months ended September 30, 2007 are summarized as follows:

	Three Months Ended September 30, 2007	
	Number of Options	Weighted Average Exercise Price
Options unvested at beginning of period	98,750	\$ .84
Options granted	115,000	.40
Options vested	10,000	.42
Options cancelled	7,500	.75
Options unvested at end of period	196,250	\$ .60

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Remaining Average Contractual Life (In Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ .21 – \$ 1.70	1,150,900	5.03	\$ .87	954,650	\$ .93
1.86 – 4.50	226,000	3.20	2.38	226,000	2.38
8.50 – 9.25	350,000	1.19	9.14	350,000	9.14
Totals	1,726,900	4.51	\$ 2.75	1,523,150	\$ 3.02

A Black-Scholes option-pricing model was used to develop the fair values of the options granted.

A summary of the Company's warrant activity as of September 30, 2007 and changed during the nine and three month periods then ended is presented below:

	2007	
	Weighted Average Exercise Price	Options Price
Nine months ended September 30, 2007		
Warrants outstanding at the beginning of period	1,589,643	\$ .99
Granted	380,000	1.25
Exercised	–	–
Expired	100,000	4.05
Warrants outstanding at end of period	1,869,643	\$ 1.25
	2007	
	Weighted Average Exercise Price	Options Price
Three months ending September 30, 2007		
Warrants invested at the beginning of period	1,489,643	\$ 1.24
Granted	380,000	1.25
Exercised	–	–
Vested	–	–
Warrants invested at end of period	1,869,643	\$ 1.25

Range of Exercise Price	Warrants Outstanding		
	Number Outstanding	Remaining Average Contractual Life (In Years)	Weighted Average Exercise Price
\$ .80 – \$1.25	1,594,643	3.93	\$ 1.10
2.00 – 2.25	275,000	.92	2.11
Totals	1,869,643	3.66	1.25

## 5. Notes Payable to Stockholder

As of September 30, 2007, the Company had drawn \$5.906 of the \$6.15 million from the available line-of-credit, provided by a stockholder, who is also a Board Member, of the Company (see Note 2). Amounts drawn bear interest at the prime rate minus one-quarter percent (7.25% as of September 30, 2007) payable

monthly and become due and payable on December 31, 2008; or until such time as the Company has raised an additional \$7.0 million over the \$3.5 million raised in the Company's recent private placement offering; or until such time as the Company is operating within sufficient cash flow parameters, as defined, to sustain its operations; or until a disposition of the Company occurs.

During the nine months ending September 30, 2007, the Company received advances totaling \$500,000 from five stockholders. During August 2007, the Company determined the equity terms of these shareholder advances and they were converted to common shares.

For the three-months ended September 30, 2007 and 2006, the Company recorded approximately \$120,000 and \$128,000, respectively; and for the nine-months ended September 30, 2007 and 2006, the Company recorded approximately \$373,000 and \$348,000, respectively, of interest expense related to the notes payable to stockholder, which is included in interest expense in the accompanying condensed consolidated statements of operations.

## **6. Commitments and Contingencies**

None.

## **7. Subsequent Events**

None.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

### **Cautionary Statements Regarding Forward-Looking Information**

Certain statements in this 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 the Company's actual results to differ materially from those in the forward-looking statements. These factors include, but are not limited to, the Company's ability to operate as a going concern and to raise sufficient capital to fund its operations, acceptance of the Company's products, the Company's dependence on distributors and a few significant customers, risks associated with international operations and international distribution and other factors. 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 report in its entirety. Except for the Company's 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 report and you should not rely on these statements without also considering the risks and uncertainties associated with these statements and our business.

### Going Concern

Our 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. We have incurred net losses each year since inception and have relied on the sale of its stock from time to time and loans from third parties and from related parties to fund its operations.

These recurring operating losses, liabilities exceeding assets and the reliance on cash inflows from institutional investors and current stockholders led our independent registered public accounting firm Webb & Company, P.A., to include a statement in its audit report relating to our audited consolidated financial

statements for the year ended December 31, 2006 expressing substantial doubt about our ability to continue as a going concern.

Additionally, we continue to address liquidity concerns because of inadequate revenue growth. As a result, cash flow from operations is insufficient to cover our liquidity needs for the immediate future. We are in the process of aggressively seeking to raise capital and exploring financing availability and options with investment bankers, funds, private sources and existing stockholders. We have implemented further measures to preserve its ability to operate, including organizational changes, a reduction and/or deferral of salaries, reduction in personnel and renegotiating creditor and collection arrangement. There can be no assurances that we will be able to raise the additional capital needed or reduce the level of expenditures in order to sustain operations.

#### General

Sales of our products will depend principally upon end user demand for such products and acceptance of the Company's products by original equipment manufacturers OEMs. The oil filtration industry has historically been competitive and, as is typically the case with innovative products, the ultimate level of demand for our products subject to a high degree of uncertainty. Developing market acceptance for our existing and proposed products will require 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.

Through industry data research, we have been able to identify the potential applications where management believes market penetration is most accessible. Currently no bypass oil filtration system has captured a substantial share of the estimated recurring \$15 billion potential industry. We believe we are in a unique position to capitalize on the growing acceptance of bypass oil filtration given that our product and our Company are positioned as, including, but not limited to:

- A competitively priced, value-added product offering a unique selling concept based on an advanced, patented technology
- An alternative solution to the rising costs and increasing dependence on foreign oil
- Providing an operational maintenance solution to end users in conjunction with existing and reasonable foreseeable federal environmental applications

We continue to incorporate the focus of our sales strategy on individual sales and distribution efforts as well as on the development of a strong nationwide distribution network that will not only sell but also install and support our product.

Additionally, we continue to focus our sales and marketing efforts to target areas and issues specific to the bypass oil filtration industry, cultivating an innovative outlook on oil maintenance, specifically, that oil does not need to be changed on a regular basis if kept in a clean state.

This strategy includes:

- The expansion of existing strategic relationships
- Continued development and expansion of our distribution network with qualified distributors in order to establish a sales- and service-oriented nationwide infrastructure
- Continuing to target existing and new medium-to-large sized fleets, industrial/construction business and major diesel engine and generator set OEMs
- Creating customer 'pull-through', a sustained level of request for our product on the OEM level
- Closely monitoring customer evaluations to ensure the salient aspects of our system are perceived and accepted on a timely basis
- Converting customer evaluations into sales, both immediate and long term

While this is a long-term and ongoing commitment, we believe we have achieved a limited amount of industry acceptance based on recent accomplishments:

- 2007 announcement that initial orders have been placed for the *puraDYN* system by one of the largest global providers of innovative mechanical solutions, technology, and services for the oil and gas industry.
- 2007 announcement that the *puraDYN* system has been approved by Cascade Sierra Solutions as a recommended product for inclusion in its outreach centers, which will provide information, technology and products geared toward conservation of oil and energy.
- 2007 announcement that Wastequip, Inc., the leading manufacturer of waste handling, recycling, and material handling equipment has been named exclusive distributor of the *puraDYN* system in the waste industry.
- 2006 announcement that the *puraDYN* system has been approved for use by one of the largest international diversified energy resource companies for retrofit of equipment used at one of its key coal mine facilities in the Southwestern U.S.
- 2006 final test results released by the US Department of Energy (DOE) estimating an 89% savings in oil using bypass oil filtration. Our system was used in this test conducted from 2002-2005 evaluating the benefits and cost savings of the technology.
- 2006 announcement that the U.S. Military has ordered the *puraDYN* system installed on new trucks that Freightliner LLC is supplying for foreign military sales.
- 2006 continued testing with the U.S. Military on use of the *puraDYN* system on several other applications.
- Recognition by several engine manufacturers for specific application concerning Puradyn's ability to safely extend drain intervals by providing acceptable clean oil as verified through oil analysis.

We believe that the renewed interest shown in the technology of bypass oil filtration as an economic alternative to rising oil prices, dependence upon foreign oil, with the added benefit of being environmentally beneficial, will timely and favorably position the Company as a manufacturer of a cost-effective 'green' product. We have seen that industry acceptance has increased in 2007 and expect this trend to continue into 2008; however, there can be no assurance that this industry acceptance will result in actual revenues.

Our sales effort not only involves educating the potential customer on the benefits of our product, but also allowing the customer to test and evaluate the *puraDYN* system on its fleet vehicles. While set for a specific period of time, typically ranging from three to twelve months, evaluations are often influenced by a number of variables including equipment applications downtime or servicing, which may extend the evaluation period. Consequently, the sales cycle can be relatively long. Management believes that this evaluation period will continue to be shortened as our products gain wider acceptance, support and usage from well-known customers and OEMs.

We utilize our wholly owned subsidiary, Puradyn Filter Technologies, Ltd. ("Ltd"), in the United Kingdom to sell our products in Europe, the Middle East and Africa.

International sales are especially well suited to our product given that environmental controls are not as regulated in countries outside North America. Certain applications representing a higher return on investment are more prevalent in use outside of North America and end-users consequently are more receptive to the total maintenance package, including the use of oil analysis, which the *puraDYN* system represents. In first nine months of 2007, total international sales accounted for approximately 53% of the Company's consolidated net sales as compared to approximately 44% for the nine months ending September 30, 2006.

We recognize revenue from product sales to customers, distributors and resellers when products that do not require further services or installation by us are shipped, when there are no uncertainties surrounding customer acceptance and for which collectibility is reasonably assured in accordance with Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition in Financial Statements*, as amended and interpreted. Cash that we received prior to shipment is recorded as deferred revenue. Sales are made to certain 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 condensed consolidated financial statements. Management believes, based on past experience and future expectations, that such limited return rights and warranties will not have a material adverse effect our financial statements.

Consistent with industry practices, the Company may accept limited product returns or provide other credits in the event that a distributor holds excess inventory of the Company's products. The Company's sales are made on credit terms, which vary depending on the nature of the sale. The Company believes it has established sufficient reserves to accurately reflect the amount or likelihood of product returns or credits and uncollectible receivables. However, there can be no assurance that actual returns and uncollectible receivables will not exceed the Company's reserves.

Sales of the Company's products will depend principally on end user demand for such products and acceptance of the Company's products by original equipment manufacturers or "OEMs". The oil filtration industry has historically been competitive and, as is typically the case with innovative products, the ultimate level of demand for the Company's products is subject to a high degree of uncertainty. Developing market acceptance, particularly worldwide, for the Company's existing and proposed products will require substantial marketing and sales efforts and the expenditure of a significant amount of funds to inform customers of the perceived benefits and saving advantages of its products.

### **Results of Operations for the Three-months Ended September 30, 2007 Compared to the Three-months Ended September 30, 2006**

The following table sets forth the amount of increase or decrease represented by certain items reflected in our condensed consolidated statements of operations in comparing the three-months ended September 30, 2007 to the three-months ended September 30, 2006:

	Three Months Ended September 30,		
	2007	2006	Change
(In thousands)			
Net sales	\$ 819	\$ 641	178
Costs and expenses:			
Cost of products sold	713	545	(168)
Salaries and wages	252	352	100
Selling and administrative	263	260	(3)
Total costs and expenses	1,228	1,157	(71)
Other (expense) income:			
Interest income	10	13	(3)
Interest expense	(127)	(136)	9
Total other expense	(117)	(123)	6
Net loss	(526)	\$ (639)	113

### **Net Sales**

Net sales increased by approximately \$178,000 or 28% from approximately \$641,000 in 2006 to approximately \$819,000 in 2007. The UK subsidiary's sales increased by approximately \$186,000 (120%), from approximately \$155,000 to approximately \$341,000 for the three-month period ended September 30, 2006 compared to the three-month period ended September 30, 2007.

Sales to two customers accounted for approximately 27% and 15% (for a total of 42%) of the consolidated net sales for the three-months ended September 30, 2007. For the three-months ended September 30, 2006, sales to three customers accounted for approximately 22%, 16% and 11% of the consolidated net sales.

### Cost of Products Sold

Cost of products sold increased by approximately \$168,000 or 31% from approximately \$545,000 in 2006 to approximately \$713,000 in 2007. Cost of products sold, as a percentage of sales, increased from approximately 85% in 2006 to approximately 87% in 2007. The increase is primarily due to increases in raw material sources.

### Salaries and Wages

Salaries and wages decreased approximately \$100,000, or 28%, as the result of a net reduction of three employees representing a reduction of \$106,000. This reduction was partially offset by cost of living wage increases.

### Selling and Administrative Expenses

Selling and administrative expenses increased by approximately \$3,000, or 1%.

### Interest Expense

Interest expense decreased by approximately \$9,000, or 7%, as a result of a decrease in the interest rate. Effective September 10, 2007, the lender decreased the rate at which we pay interest from prime rate to prime minus one-quarter percent. As of September 30, 2007 our rate was 7.25% as compared to 8.25% at September 30, 2006.

### Results of Operations for the Nine-months Ended September 30, 2007 Compared to the Nine-months Ended September 30, 2006

The following table sets forth the amount of increase or decrease represented by certain items reflected in the our condensed consolidated statements of operations in comparing the nine-months ended September 30, 2007 to the nine-months ended September 30, 2006:

(in thousands)	Nine Months ended September 30,		
	2007	2006	Change
Net sales	\$ 2,372	\$ 2,319	\$ 53
Costs and expenses:			
Cost of products sold	2,073	1,800	(273)
Salaries and wages	777	1,044	267
Selling and administrative	818	943	125
Total costs and expenses	3,668	3,787	119
Other income (expense):			
Interest income	31	38	(7)
Interest expense	(470)	(390)	80
Total other expense	(438)	(352)	86
Net loss	(1,735)	(1,820)	\$ 85

## **Net Sales**

Net sales increased by approximately \$52,000, or 2%, from approximately \$2,319,000 in 2006 to approximately \$2,372,000 in 2007. International sales increased approximately \$385,000, or 37% from approximately \$1,027,000 for the nine-month period ended September 30, 2006 as compared to approximately \$1,412,000 for the nine-month period ended September 30, 2007. This increase was partially offset by a decrease in Rentar sales which had decreased by approximately \$178,000 from sales of approximately \$210,000 during the nine month period ending September 30, 2006 to approximately \$32,000 for the period ending September 30, 2007. Additionally, one of our largest customers, which installs Puradyn product on most new equipment, over purchased their equipment in 2006, thus causing a decline in their equipment purchases for 2007. As a result, higher priced unit sales, as a percentage of total sales decreased from approximately 54% to approximately 48%, whereas filter sales increased from approximately 34% to approximately 42% of total sales.

Sales to two customers individually accounted for approximately 28% and 16% (for a total 44%) and 27% and 17% (for a total of 44%) of net sales for the nine-months ended September 30, 2007 and 2006, respectively. The UK subsidiary's sales increased by approximately \$425,000, or 75%, from approximately \$567,000 for the nine-month period ended September 30, 2006 compared to approximately \$993,000 for the nine-month period ended September 30, 2007. Sales to their top customer has increased during the nine months ending September 30, 2007 and were approximately 66% of their net sales, as compared to approximately 43% for the nine months ending September 30, 2006. This increase is attributable to an important acquisition made by our customer, significantly increasing their demand for our product.

In the first nine months of 2007, total international sales accounted for approximately 53% of the Company's consolidated net sales, as compared to approximately 44% for the nine months ending September 30, 2006.

## **Cost of Products Sold**

Cost of products sold increased by approximately \$273,000, or 15%, from approximately \$1,800,000 in 2006 to approximately \$2,073,000 in 2007. Cost of products sold, as a percentage of sales, increased from approximately 78% for the nine-months ended September 30, 2006 to approximately 87% for the nine-months ended September 30, 2007. The majority of this increase is attributable to increases in raw materials. Approximately \$12,000 and \$38,000, respectively, of this increase are attributable to an overall increase in reserves and disposal of slow moving and obsolete inventory and higher cost of labor, respectively. Effective January 1, 2008, the company will be increasing product prices, thereby alleviating a portion of this decrease in margins.

## **Salaries and Wages**

Salaries and wages decreased approximately \$267,000 or 26%. This decrease is the result of a net reduction of three employees, representing a decrease of approximately \$279,000. This reduction was partially offset by cost of living wage increases.

## **Selling and Administrative Expenses**

Selling and administrative expenses decreased by approximately \$125,000 or 13% from approximately \$943,000 for the nine months ended September 30, 2006 to approximately \$818,000 for the nine months ended September 30, 2007. This decrease was due primarily to a reduction in stock based compensation expense of approximately \$132,000. During the nine months ended September 30, 2006, we recorded an expense of approximately \$66,000 for the amortization of warrants issued to investors and an expense of approximately \$88,000 for extending the expiration of stock options of a former employee

## **Interest Expense**

Interest expense increased by approximately \$80,000, or 21%. This increase is attributable to a reserve established during the period ending September 30, 2007, toward the accumulation of interest recorded on a shareholder note receivable. We pay interest monthly on the notes payable to stockholder at the prime rate minus one-quarter percent, which was 7.75% as of September 30, 2007, as compared to 8.25% as of September 30, 2006.

## **Liquidity and Capital Resources**

As of September 30, 2007, we had cash and cash equivalents of approximately \$104,000. For the nine-month period ended September 30, 2007, net cash used in operating activities was approximately \$1,421,000, which primarily resulted from the net loss of approximately \$1,735,000. Net cash used in investing activities was approximately \$32,000 for the purchase of property and equipment. Net cash provided by financing activities was approximately \$1,566,000 for the period, due to net proceeds of \$1,475,000 in a private placement offering and \$28,500 from the exercise of employee stock options.

We have incurred net losses each year since its inception and have relied on the sale of our stock from time to time and loans from third parties and from related parties to fund our operations.

On March 28, 2002, we executed a binding agreement with one of our stockholders, who is also a Board Member, to fund up to \$6.1 million. On March 29, 2006, the maturity date of the loan was extended from December 31, 2006 to December 31, 2007 and on March 23, 2007 it was further extended to December 31, 2008. As of September 30, 2007, we had drawn \$5.906 million of the \$6.150 million of the available funds.

At September 30, 2007, we had working capital of approximately \$636,000 and our current ratio (current assets to current liabilities) was 1.44 to 1. We anticipate increased cash flows from 2007 sales activity; however, additional cash will still be needed to support operations and meet working capital needs.

In connection with our annual report for our fiscal year ending December 31, 2007 our management will be required to provide an assessment of the effectiveness of our internal control over financial reporting, including a statement as to whether or not internal control over financial reporting is effective. In order to comply with this requirement we will need to engage a consulting firm to undertake an analysis of our internal controls. We recently engaged such a consulting firm and at this time we expect the costs associated with our compliance with Section 404 of Sarbanes-Oxley Act of 2002 will not be material.

If budgeted sales levels are not achieved and/or significant unanticipated expenditures occur, and we do not have access to capital as necessary, we may have to modify our business plan, reduce or discontinue some of our operations or seek a buyer for part of our assets to continue as a going concern through 2007. There can be no assurance that we will be able to raise additional capital or that sales will increase to the level required to generate profitable operations to provide positive cash flow from operations.

## **Critical Accounting Policy**

### **New Accounting Standards**

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes," which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In accordance with FIN 48, the Company must adjust its financial statements to reflect only those tax positions that are more-likely-than-not to be sustained as of the adoption date. The effective date of FIN 48 for the Company is January 1, 2007. The adoption of FIN 48 has not had a material impact on the Company's condensed consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which clarifies the definition of fair value, establishes guidelines for measuring fair value, and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 will be effective for the Company on January 1, 2008. The Company is currently evaluating the impact of adopting SFAS 157 on its financial position, cash flow, and results of operations.

In September 2006, the Securities and Exchange Commission ("SEC") released Staff Accounting bulletin No. 108, "considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108"). SAB 108 provides interpretive guidance on the SEC's views on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The provisions of SAB 108 were effective for the Company for the fiscal year ended December 31, 2006. The application of SAB 108 did not have a material effect on its financial position, cash flows and results of operations.

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*". This statement permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115 "*Accounting for Certain Investments in Debt and Equity Securities*" applies to all entities with available-for-sale and trading securities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provision of SFAS No. 157, "*Fair Value Measurements*". The adoption of this statement is not expected to have a material effect on the Company's financial statements.

#### Impact of Inflation

Inflation has not had a significant impact on our operations. However, any significant decrease in the price for oil or labor, environmental compliance costs, and engine replacement costs could adversely impact the end users cost/benefit analysis as to the use of our products. The impact of fluctuations in foreign currency has not been significant. The exchange rate, the Great British pound to the U.S. dollar fluctuated from 1.93 on December 31, 2006 to 2.05 on September 30, 2007 as compared to 1.72 on December 31, 2005 to 1.87 on September 30, 2006.

### ITEM 3. CONTROLS AND PROCEDURES

Our management, which includes our CEO and our Chief Financial Officer, have conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-14(c) promulgated under the Securities and Exchange Act of 1934, as amended) as of a date (the "Evaluation Date") as of the end of the period covered by this report. Our management does not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, 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, 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. The design of any system of controls 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.

Based upon that evaluation, our management has concluded that our disclosure controls and procedures are effective for timely gathering, analyzing and disclosing the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934, as amended.

There have been no changes in our internal control over financial reporting identified in connection with the evaluation that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **Part II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

None

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On August 23, 2007, the Company converted \$500,000 in shareholder loans to the sale of 714,286 shares of common stock at \$.70 per share to accredited investors. The funds were previously received as notes payable to stockholders, until the equity terms were determined. Inasmuch as the accredited investors was highly sophisticated, had access to current public information concerning the Company, could bear the financial risk of the investments, and had agreed to acquire the shares for investment purposes, the transaction was exempt from registration under Section 3(a)9 of the Securities Act of 1933.

### **ITEM 3. DEFAULT UPON SENIOR SECURITIES**

None

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None

### **ITEM 5. OTHER INFORMATION**

None

### **ITEM 6. EXHIBITS**

- 31.1 Rule 13a-14(a)/15d-14(a) certification of Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) certificate of Chief Financial Officer
- 32.1 Section 1350 certification of Chief Executive Officer
- 32.2 Section 1350 certification of Chief Financial Officer

## **SIGNATURES**

In accordance with the requirements of the Exchange Act, Puradyn Filter Technologies Incorporated caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**PURADYN FILTER TECHNOLOGIES INCORPORATED**  
(Registrant)

By /s/ Cindy Lea Gimler

Date: November 14, 2007

-----  
Cindy Lea Gimler, Chief Financial Officer

Exhibit 31.1

Rule 13a-14(a)/15d-14(a) certification of Chief Executive

I, Joseph V. Vittoria, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-QSB for the nine months ended September 30, 2007 of Puradyn Filter Technologies Incorporated (the "Company");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this quarterly report;
4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), for the small business issuer and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared; and
  - b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this quarterly report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal controls over financial reporting.

Date: November 14, 2007

/s/ Joseph V. Vittoria

---

Joseph V. Vittoria  
Chairman and Chief Executive Officer

Exhibit 31.2

**Rule 13a-14(a)/15d-14(a) certification of Chief Financial Officer**

I, Cindy Lea Gimler, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-QSB for the nine months ended September 30, 2007 of Puradyn Filter Technologies Incorporated (the "Company");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this quarterly report;
4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), for the small business issuer and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared; and
  - b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this quarterly report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of small business issuer's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal controls over financial reporting.

Date: November 14, 2007

/s/ Cindy Lea Gimler

---

Cindy Lea Gimler  
Chief Financial Officer

Exhibit 32.1

**Section 1350 certification of Chief Executive Officer**

I, Joseph V. Vittoria, Chief Executive Officer of Puradyn Filter Technologies Incorporated (“the Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The quarterly Report on Form 10-QSB of the Company for the nine months ended September 30, 2007 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C.78m); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 14, 2007

/s/ Joseph V Vittoria

---

Name: Joseph V. Vittoria  
Title: Chairman and Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

**Section 1350 certification of Chief Financial Officer**

I, Cindy Lea Gimler, Chief Financial Officer of Puradyn Filter Technologies Incorporated (“the Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The quarterly Report on Form 10-QSB of the Company for the quarter ended September 30, 2007 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C.78m); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 14, 2007

/s/ Cindy Lea Gimler

---

Name: Cindy Lea Gimler  
Title: Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.