

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

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended: **September 30, 2019**

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**

(State or other jurisdiction of incorporation or organization)

**14-1708544**

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

**2017 HIGH RIDGE ROAD, BOYNTON BEACH, FL**

(Address of principal executive offices)

**33426**

(Zip Code)

**(561) 547-9499**

(Registrant's telephone number, including area code)

**NOT APPLICABLE**

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
COMMON STOCK, PAR VALUE \$.001 PER SHARE	PFTI	NONE

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  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 69,016,468 shares of common stock are issued and outstanding as of November 13, 2019.

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### OTHER PERTINENT INFORMATION

Our corporate web site is [www.puradyn.com](http://www.puradyn.com). The information which appears on our web site is not part of this report.

When used in this report, the terms "Puradyn," the "Company," "we," "our," and "us" refers to Puradyn Filter Technologies Incorporated, a Delaware corporation. In addition, when used in this report, "third quarter of 2019" refers to the three months ended September 30, 2019, "third quarter of 2018" refers to the three months ended September 30, 2018, "2019" or "fiscal 2019" refers to the year ending December 31, 2019 and "2018" or "fiscal 2018" refers to the year ending December 31, 2018.

## CAUTIONARY STATEMENT 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 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,
- the significant decline in our net sales during 2019 and our ability to generate net sales in future periods in an amount sufficient to pay our operating expenses and satisfy our obligations as they become due;
- our dependence on sales to a limited number of customers;
- our need for additional financing and uncertainties related to our ability to obtain these funds,
- our ability to repay the outstanding secured debt of approximately \$8.3 million at September 30, 2019 due our Executive Chairman which matures on December 31, 2021, together with an additional \$983,000 of unsecured advances which are payable upon demand;
- the significant amount of deferred compensation owed to two of our executive officers and two former 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,
- potential dilution to our stockholders from the exercise of outstanding options and warrants, and
- the lack of sufficient liquidity in the market for 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 our Annual Report on Form 10-K for the year ended December 31, 2018, including the risks described in *Part I. Item 1A. Risk Factors* and our subsequent filings with the Securities and Exchange Commission in their entirety. 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 report, and you should not rely on these statements without also considering the risks and uncertainties associated with these statements and our business.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

PURADYN FILTER TECHNOLOGIES INCORPORATED  
CONDENSED BALANCE SHEETS

	September 30, 2019 (Unaudited)	December 31, 2018
<b>ASSETS</b>		
Current assets:		
Cash	\$ 72,549	\$ 112,769
Accounts receivable, net of allowance for uncollectible accounts of \$17,000 and \$17,000, respectively	15,434	293,994
Inventories, net	1,069,038	834,708
Prepaid expenses and other current assets	45,408	66,290
Total current assets	<u>1,202,429</u>	<u>1,307,761</u>
Property and equipment, net	57,423	78,642
Operating Right of use asset	776,189	—
Other noncurrent assets	434,085	483,974
Total assets	<u>\$ 2,470,126</u>	<u>\$ 1,870,377</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 454,975	\$ 416,790
Accrued liabilities	426,488	605,357
Operating lease liabilities	155,547	—
Deferred compensation	1,492,370	1,564,253
Notes Payable - stockholders	1,008,000	325,000
Total Current Liabilities	<u>3,537,380</u>	<u>2,911,400</u>
Long-term operating lease liabilities	697,568	—
Notes Payable - stockholders	8,385,132	7,989,622
Total Liabilities	<u>12,620,080</u>	<u>10,901,022</u>
<b>Commitments and contingencies (Note 11)</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 – 100,000,000;		
Issued and outstanding 69,016,468 and 69,016,468, respectively	69,016	69,016
Additional paid-in capital	53,719,010	53,678,000
Accumulated deficit	(63,937,980)	(62,777,661)
Total stockholders' deficit	<u>(10,149,954)</u>	<u>(9,030,645)</u>
<b>Total liabilities and stockholders' deficit</b>	<u>\$ 2,470,126</u>	<u>\$ 1,870,377</u>

See accompanying notes to unaudited condensed financial statements

**PURADYN FILTER TECHNOLOGIES INCORPORATED**  
**CONDENSED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	Three Months Ended September 30,		For the six months September 30,	
	2019	2018	2019	2018
Net sales	\$ 326,532	\$ 1,306,070	\$ 1,278,050	\$ 3,344,272
Cost of products sold	276,160	710,995	975,380	1,906,396
<b>Gross Profit</b>	<u>50,372</u>	<u>595,075</u>	<u>302,670</u>	<u>1,437,876</u>
<b>Costs and expenses:</b>				
Salaries and wages	192,968	247,363	621,597	637,081
Selling and administrative	147,763	172,194	500,532	497,777
Loss on impairment of patents	32,324	—	43,741	—
Total operating costs	<u>373,055</u>	<u>419,557</u>	<u>1,165,870</u>	<u>1,134,858</u>
(Loss) / Income from operations	(322,683)	175,518	(863,200)	303,018
<b>Other income (expense):</b>				
Interest expense	(108,968)	(85,763)	(297,119)	(241,134)
Total other expense, net	<u>(108,968)</u>	<u>(85,763)</u>	<u>(297,119)</u>	<u>(241,134)</u>
Net (loss) / income before income tax expense	(431,651)	89,755	(1,160,319)	61,884
Provision for income taxes	—	—	—	—
<b>Net (Loss) / Income</b>	<u>\$ (431,651)</u>	<u>\$ 89,755</u>	<u>\$ (1,160,319)</u>	<u>\$ 61,884</u>
Basic (loss) / income per common share	<u>\$ (0.01)</u>	<u>\$ 0.00</u>	<u>\$ (0.02)</u>	<u>\$ 0.00</u>
Diluted (loss) / income per common share	<u>\$ (0.01)</u>	<u>\$ 0.00</u>	<u>\$ (0.02)</u>	<u>\$ 0.00</u>
Weighted average common shares outstanding - basic	<u>69,016,468</u>	<u>69,016,468</u>	<u>69,016,468</u>	<u>69,016,468</u>
Weighted average common shares outstanding - diluted	<u>69,016,468</u>	<u>74,684,484</u>	<u>69,016,468</u>	<u>77,116,732</u>

*See accompanying notes to unaudited condensed financial statements*

**PURADYN FILTER TECHNOLOGIES INCORPORATED**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	September 30,	
	2019	2018
<b>Operating activities</b>		
Net (loss) / income	\$ (1,160,319)	\$ 61,884
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	37,447	31,611
Provision for slow moving inventory	(44,053)	13,611
Compensation expense on stock-based arrangements with employees and consultants	41,010	38,660
Impairment of capitalized patent costs	43,741	—
Amortization of Operating right of use asset	110,820	—
Changes in operating assets and liabilities:		
Accounts receivable	278,560	(406,059)
Inventories	(190,276)	(155,337)
Prepaid expenses and other current assets	20,882	(45,075)
Other assets	—	850
Sales incentives	—	(99,128)
Accounts payable	38,184	159,053
Accrued liabilities	291,327	201,527
Deferred compensation	(108,580)	(32,279)
Operating lease liabilities	(71,883)	—
Net cash used in operating activities	<u>(713,140)</u>	<u>(230,682)</u>
<b>Investing activities</b>		
Purchases of property and equipment	—	(18,026)
Capitalized patent costs	(10,080)	(55,279)
Net cash used in investing activities	<u>(10,080)</u>	<u>(73,305)</u>
<b>Financing activities</b>		
Proceeds from issuance of notes payable to stockholders	683,000	601,273
Repayment of note payable to stockholder	—	(250,000)
Payment of capital lease obligations	—	(2,814)
Net cash provided by financing activities	<u>683,000</u>	<u>348,459</u>
Net increase / (decrease) in cash	(40,220)	44,472
Cash at beginning of period	112,769	54,438
Cash at end of period	<u>\$ 72,549</u>	<u>\$ 98,910</u>
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ —	\$ 109,167
Cash paid for taxes	\$ —	\$ —
<b>Noncash investing and financing activities:</b>		
Conversion of accrued interest into note payable	\$ 395,510	\$ —
Operating right of use assets obtained in exchange for operating lease liabilities	\$ 890,009	\$ —
Addition to leasehold improvement as lease incentive	\$ —	\$ 35,690

*See accompanying notes to unaudited condensed financial statements*

**PURADYN FILTER TECHNOLOGIES INCORPORATED**  
**CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2019**  
**(UNAUDITED)**

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Deficit</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
<b>Balance at June 30, 2018 (unaudited)</b>	—	\$ —	69,016,468	\$ 69,016	\$ 53,623,892	\$ (62,589,150)	\$ (8,896,242)
Net income for the three months ended September 30, 2018	—	—	—	—	—	89,755	89,755
Compensation expense associated with unvested option awards	—	—	—	—	13,928	—	13,928
<b>Balance at September 30, 2018 (unaudited)</b>	<u>—</u>	<u>\$ —</u>	<u>69,016,468</u>	<u>\$ 69,016</u>	<u>\$ 53,637,820</u>	<u>\$ (62,499,395)</u>	<u>\$ (8,792,559)</u>

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Deficit</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
<b>Balance at June 30, 2019 (unaudited)</b>	—	\$ —	69,016,468	\$ 69,016	\$ 53,705,558	\$ (63,506,329)	\$ (9,731,755)
Net loss for the three months ended September 30, 2019	—	—	—	—	—	(431,651)	(431,651)
Compensation expense associated with unvested option awards	—	—	—	—	13,452	—	13,452
<b>Balance at September 30, 2019 (unaudited)</b>	<u>—</u>	<u>\$ —</u>	<u>69,016,468</u>	<u>\$ 69,016</u>	<u>\$ 53,719,010</u>	<u>\$ (63,937,980)</u>	<u>\$ (10,149,954)</u>

*See accompanying notes to unaudited condensed financial statements*

**PURADYN FILTER TECHNOLOGIES INCORPORATED**  
**CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT (CONTINUED)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2019**  
**(UNAUDITED)**

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Deficit</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
<b>Balance at December 31, 2017</b>	—	\$ —	69,016,468	\$ 69,016	\$ 53,599,160	\$ (62,561,279)	\$ (8,893,103)
Net income for the nine months ended September 30, 2018	—	—	—	—	—	61,884	61,884
Compensation expense associated with unvested option awards	—	—	—	—	38,660	—	38,660
<b>Balance at September 30, 2018 (unaudited)</b>	<u>—</u>	<u>\$ —</u>	<u>69,016,468</u>	<u>\$ 69,016</u>	<u>\$ 53,637,820</u>	<u>\$ (62,499,395)</u>	<u>\$ (8,792,559)</u>
	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Deficit</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
<b>Balance at December 31, 2018</b>	—	\$ —	69,016,468	\$ 69,016	\$ 53,678,000	\$ (62,777,661)	\$ (9,030,645)
Net loss for the nine months ended September 30, 2019	—	—	—	—	—	(1,160,319)	(1,160,319)
Compensation expense associated with unvested option awards	—	—	—	—	41,010	—	41,010
<b>Balance at September 30, 2019 (unaudited)</b>	<u>—</u>	<u>\$ —</u>	<u>69,016,468</u>	<u>\$ 69,016</u>	<u>\$ 53,719,010</u>	<u>\$ (63,937,980)</u>	<u>\$ (10,149,954)</u>

*See accompanying notes to unaudited condensed financial statements*

**PURADYN FILTER TECHNOLOGIES INCORPORATED**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**1. Basis of Presentation, Going Concern and Summary of 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<sup>®</sup> primarily to companies within targeted industries.

*Basis of Presentation*

The accompanying unaudited condensed 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-Q and Regulation S-K. 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, 2019 may not necessarily be indicative of the results that may be expected for the year ending December 31, 2019.

For further information, refer to the Company's financial statements and footnotes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2018.

*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. 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 unaudited condensed 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.

The Company accounts for revenue in accordance with Topic 606 which was adopted at the beginning of fiscal year 2018 using the modified retrospective method. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company did not recognize any cumulative-effect adjustment to retained earnings upon adoption as the effect was immaterial. The adoption of these standards did not have a material impact on the Company's condensed statements of operations during the nine months ended September 30, 2019 and 2018.

*Use of Estimates*

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

*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 September 30, 2019 and December 31, 2018, the Company did not have any cash equivalents.

**PURADYN FILTER TECHNOLOGIES INCORPORATED**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

*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 September 30, 2019 and December 31, 2018, 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.

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 net realizable value using the first in, first out (FIFO) method. Net realizable value is defined as sales price less cost of completion, disposable and transportation and a normal profit margin. 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 approximately 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.

**PURADYN FILTER TECHNOLOGIES INCORPORATED**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

*Sales Incentives and Consideration Paid to Customers*

The Company accounts for certain promotional costs such as sales incentives and cooperative advertising as a reduction of sales.

*Product Warranty Costs*

As required by FASB ASC 460, *Guarantor's 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 included in accrued liabilities in the accompanying condensed financial statements and is calculated as the gross sales multiplied by the historical warranty expense return rate. For the nine months ended September 30, 2019, there was no change to the reserve for warranty liability as the reserve balance was deemed sufficient to absorb any warranty costs that might be incurred from the sales activity for the period.

The following table shows the changes in the aggregate product warranty liability for the nine months ended September 30, 2019:

<b>Balance as of December 31, 2018</b>	\$ 20,000
Less: Payments made	—
Add: Provision for current period warranties	—
<b>Balance as of September 30, 2019 (unaudited)</b>	<u>\$ 20,000</u>

*Advertising Costs*

Advertising costs are expensed as incurred. During the three and nine months ended September 30, 2019 and 2018, advertising costs incurred by the Company totaled approximately \$3,742 and \$15,659 and \$4,117 and \$7,450, 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 three and nine months ended September 30, 2019 and 2018, engineering and development costs incurred by the Company totaled \$1,986 and \$4,664 and \$1,582, and \$4,395, 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 has been recognized as a component of cost of goods sold and general and administrative expenses in the accompanying financial statements for the three and nine months ended September 30, 2019.

**PURADYN FILTER TECHNOLOGIES INCORPORATED**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

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, and FASB ASC 718, *Compensation-Stock Compensation*, including related amendments and interpretations. The related expense is recognized over the period the services are provided.

*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 September 30, 2019 and December 31, 2018, 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 14 for further details.

*Basic and Diluted Income / (Loss) Per Share*

The Company uses ASC 260-10, *Earnings Per Share* for calculating the basic and diluted income (loss) per share. The Company computes basic income (loss) per share by dividing net income (loss) and net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding. As of September 30, 2019 and 2018, there were 11,925,836 and 13,113,336 shares, respectively, issuable upon the exercise of options and warrants, respectively.

Common stock equivalent shares are excluded from the computation of net loss per share if their effect is anti-dilutive. The Company had net income for the three month and nine-month period ended September 30, 2018. A separate computation of diluted earnings per share is presented using the treasury stock method and the common stock equivalents did not have any effect on net income per share.

*Leases*

In connection with our lease agreement for our Office in Boynton Beach, Florida, the Company adopted the provisions of ASU 2016-02, *Leases*. As such, the Company recorded an operating right of use asset and an operating lease liability as of September 30, 2019.

*Reclassifications*

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

*Recent Accounting Pronouncements*

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

**2. Going Concern**

The Company's unaudited condensed financial statements have been prepared on the assumption that it will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has sustained losses since inception and does not have sufficient revenues and income to fully fund the operations. During the nine months ended September 30, 2019 and 2018 the Company used net cash in operations of \$713,140 and \$230,682, respectively. As a result, the Company has had to rely on stockholder loans and related parties to fund its activities to date.

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These recurring operating losses, liabilities exceeding assets and the reliance on cash inflows from two stockholders led the Company's independent registered public accounting firm, Liggett & Webb, P.A., to include a statement in its audit report relating to the Company's audited financial statements for the year ended December 31, 2018 expressing substantial doubt as to the Company's ability to continue as a going concern. The financial statements do not include any adjustments that may result from the outcome of this uncertainty.

**3. Inventories**

Inventories consisted of the following at September 30, 2019 and December 31, 2018, respectively:

	September 30, 2019 (Unaudited)	December 31, 2018
Raw materials	\$ 383,473	\$ 1,053,147
Finished goods	1,117,574	257,623
Valuation allowance	(432,009)	(476,062)
Total inventory, net	<u>\$ 1,069,038</u>	<u>\$ 834,708</u>

**4. Prepaid Expenses and Other Current Assets**

At September 30, 2019 and December 31, 2018, prepaid expenses and other current assets consisted of the following:

	September 30, 2019 (Unaudited)	December 31, 2018
Prepaid expenses	\$ 45,408	\$ 27,854
Deposits	—	38,436
	<u>\$ 45,408</u>	<u>\$ 66,290</u>

**5. Property and Equipment**

At September 30, 2019 and December 31, 2018, property and equipment consisted of the following:

	September 30, 2019 (Unaudited)	December 31, 2018
Machinery and equipment	\$ 1,030,196	\$ 1,030,196
Furniture and fixtures	56,558	56,558
Leasehold improvements	188,012	188,012
Software and website development	88,842	88,842
Computer hardware and software	179,258	179,258
	1,542,866	1,542,866
Less accumulated depreciation and amortization	(1,485,443)	(1,464,224)
	<u>\$ 57,423</u>	<u>\$ 78,642</u>

Depreciation and amortization expense of property and equipment for the three and nine months ended September 30, 2019 and 2018 are \$6,828 and \$21,219, and \$6,817 and \$16,870, respectively.

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**6. Patents**

Included in other noncurrent assets at September 30, 2019 and December 31, 2018 are capitalized patent costs as follows:

	September 30, 2019	December 31, 2018
	(Unaudited)	
Patent costs	\$ 499,835	\$ 533,496
Less accumulated amortization	(100,721)	(84,429)
	<u>\$ 399,114</u>	<u>\$ 449,067</u>

Amortization expense for the three and nine months ended September 30, 2019 and 2018 are \$5,409 and \$16,228 and \$4,183 and \$14,741, respectively. During the nine months ended September 30, 2019 the Company impaired \$43,741 of patent costs as it was determined that it had no future economic value.

**7. Leases**

Operating right of use assets and operating lease liabilities are recognized at the lease commencement date. Operating lease liabilities represent the present value of lease payments not yet paid. Operating right of use assets represent our right to use an underlying asset and are based upon the operating lease liabilities adjusted for prepayments or accrued lease payments, initial direct costs, lease incentives, and impairment of operating lease assets. To determine the present value of lease payments not yet paid, we estimate incremental secured borrowing rates corresponding to the maturities of the leases. As we have outstanding secured debt, we used the rate based on loan of 4%.

Our office lease contains rent escalations over the lease term. We recognize expense for this office lease on a straight-line basis over the lease term. Additionally, tenant incentives used to fund leasehold improvements are recognized when earned and reduce our right-of-use asset related to the lease. These are amortized through the right-of-use asset as reductions of expense over the lease term.

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 September 30, 2019, a security deposit of \$34,970 is included in noncurrent assets in the accompanying balance sheet. On September 27, 2012 the Company entered into a non-cancellable six-year lease agreement for the same facilities commencing August 1, 2013 and expiring July 31, 2019. The total minimum lease payments over the remaining term of the current lease amount to \$853,116.

On June 29, 2018, the Company entered into a non-cancellable five-year lease for the same facilities commencing August 1, 2019 and expiring July 31, 2024. The lease will require an initial rent of \$14,899 per month, beginning August 1, 2019 for the first year, increasing by 3% per year to \$16,769 per month in the fifth year. In addition, the Company is responsible for all operating expenses and utilities. As part of the lease the landlord agreed to reimburse the Company \$58,000 towards the replacement of air conditioning units, upon written request. As of December 31, 2018 the Company had received all of the reimbursement.

In September 2018, the Company entered into a new capital lease for office equipment in the amount of \$559, which commenced in December 2018 for a term of 48 months.

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Supplemental balance sheet information related to leases was as follows:

Operating Leases	Classification	September 30, 2019
Right-of-use assets	Operating right of use assets	\$ 776,189
Current lease liabilities	Current operating lease liabilities	155,547
Non-current lease liabilities	Long-term operating lease liabilities	697,568
<b>Total lease liabilities</b>		<b>\$ 853,115</b>

Lease term and discount rate were as follows:

	September 30, 2019
Weighted average remaining lease term (years)	4.79
Weighted average discount rate	4%

The component of lease costs were as follows:

	Three months ended September 30, 2019
Operating lease cost	\$ 46,663
Variable lease cost (1)	26,953
<b>Total lease costs</b>	<b>\$ 73,616</b>

	Nine months ended September 30, 2019
Operating lease cost	\$ 139,989
Variable lease cost (1)	84,827
<b>Total lease costs</b>	<b>\$ 224,816</b>

(1) Variable lease cost primarily relates to common area maintenance, property taxes and insurance on leased real estate.

Supplemental disclosures of cash flow information related to leases were as follows:

	September 30, 2019
Cash paid for operating lease liabilities	\$ 87,277
Operating right of use assets obtained in exchange for operating lease liabilities	\$ 890,009

Maturities of lease liabilities were as follows as of September 30, 2019:

	Operating Leases
Remainder of 2019	\$ 46,490
2020	188,196
2021	193,627
2022	197,427
2023	197,807
2024	117,383
<b>Total</b>	<b>940,930</b>
Less: Imputed interest	(87,815)
<b>Present value of lease liabilities</b>	<b>\$ 853,115</b>

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**8. Accrued Liabilities**

At September 30, 2019 and December 31, 2018, accrued liabilities consisted of the following:

	September 30, 2019 (Unaudited)	December 31, 2018
Accrued wages and benefits	\$ 48,724	\$ 52,753
Accrued expenses relating to vendors and others	150,731	128,114
Accrued warranty costs	20,000	20,000
Accrued interest payable relating to stockholder notes	207,033	329,801
Deferred rent	—	74,689
	<u>\$ 426,488</u>	<u>\$ 605,357</u>

**9. Deferred Compensation**

Deferred compensation represents amounts owed to two current employees and two former 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 September 30, 2019 and December 31, 2018, the Company recorded deferred compensation of \$1,492,370 and \$1,564,253, respectively.

**10. Notes Payable to Stockholders – Related Party**

On March 28, 2002 the Company executed a binding agreement with one of its principal stockholders, who is also the Executive Chairman of the Board, to fund up to \$6.1 million. Under the terms of the agreement, 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 (4.046% and 3.89% per annum at September 30, 2019 and 2018, respectively), payable monthly and were to become due and payable on December 31, 2005 or upon a change in control of the Company or the 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, 2018. On May 9, 2018 he extended the maturity rate to December 31, 2019.

On March 25, 2019 we entered into a note exchange agreement with our Executive Chairman pursuant to which he exchanged \$7,989,622 of principal and \$395,510 of accrued interest which would have been due on December 31, 2019 under an unsecured loan for a secured promissory note in the principal amount of \$8,385,132. The secured note which matures on December 31, 2021, and bears interest at 4% per annum, payable monthly, is secured by a first position security interest in our assets.

From January 1, 2019 through September 30, 2019, the Company received additional loans in the amount of \$658,000 from the Company's Executive Chairman, as advances for working capital needs. The loans bear interest at the BBA Libor Daily Floating Rate plus 1.4 points. As of September 30, 2019 the total balance due was \$9,368,132.

In January 7, 2019, the Company received an additional loan in the amount of \$25,000 from a stockholder and former member of the Board of Directors. The loan bears interest at a rate of 5% per annum and is due January 7, 2020.

During the three and nine months ended September 30, 2019 and 2018, the Company incurred interest expense of \$94,483 and \$271,827, and \$85,309 and \$240,028, respectively, on its loan from the Executive Chairman of the Board, which is included in interest expense in the accompanying condensed statements of operations, as well as interest expense of \$315 and \$915, and \$139 and \$935 for the three and nine months ended September 30, 2019 and 2018, respectively, related to the loan from a former Board member. These amounts, in addition to interest expense of \$14,170 and \$24,377, and \$139 and \$1,421, for the three and nine months ended September 30, 2019 and 2018, respectively, are related to financing and late fees.

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Notes payable and operating lease liabilities consisted of the following at September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
Notes payable to stockholders	\$ 9,393,132	\$ 8,314,622
Less: current maturities	(1,008,000)	(325,000)
Long-term maturities	<u>\$ 8,385,132</u>	<u>\$ 7,989,622</u>

## 11. Commitments and Contingencies

### Agreements

On May 18, 2018 we entered into a letter agreement with Mr. Edward S. Vittoria pursuant to which he agreed to be employed by us as our Chief Executive Officer for an initial term ending May 31, 2019, which such term may be extended by mutual agreement upon terms and conditions to be mutually agreed upon prior to the expiration of such initial term. Under the terms of the letter agreement we agreed to pay him: (i) an annual base salary of \$200,000, payable in accordance with our normal payroll practices; (ii) an annual cash bonus to be awarded by our Board of Directors in January in a minimum amount of \$50,000; and (iii) granted him options to purchase 6,500,000 shares of our common stock, vesting one-third in arrears, at an exercise price equal to fair market value on the date of grant pursuant to the terms and conditions of our 2018 Equity Compensation Plan. He is also entitled to: (i) participate in all of our benefit programs currently existing or hereafter made available to executive and/or salaried; (ii) an amount of annual paid vacation consistent with his position and length of service to us; and (iii) reimbursement for all reasonable, out of-pocket expenses incurred by him.

On October 20, 2009, the Company entered into a consulting agreement for management and strategic development services with Boxwood Associates, Inc., pursuant to which the Company pays a \$2,000 monthly service fee. The contract remains in effect until terminated by either party providing 30 days written notice. A former member of our Board of Directors and a significant stockholder is President of Boxwood Associates, Inc. Refer to Note 13.

## 12. Stock Options and Warrants

For the three and nine months ended September 30, 2019 and 2018, respectively, the Company recorded non-cash stock-based compensation expense of \$13,452 and \$41,010, and \$13,928 and \$38,660, respectively, relating to employee stock options and warrants issued for consulting services.

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*. The related expense is recognized over the period the services are provided. Unrecognized expense remaining at September 30, 2019 and 2018 for the options is \$83,239 and \$180,650, respectively, and will be recognized through September 30, 2021.

On April 12, 2018 the Board of Directors approved the adoption of a 2018 Equity Compensation Plan. The Company has reserved 20,000,000 shares of our common stock for grants under this plan.

The 2018 Plan provides 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, 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 three years at 33.33% per annum unless the Board of Directors designates a different vesting schedule.

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On March 28, 2019, the Company filed a definitive information statement on Schedule 14C with the Securities and Exchange Commission to notify our common shareholders that effective March 27, 2019, the holders of 35,713,727 shares of our common stock, representing 51.7% of the outstanding shares of our common stock, executed a written consent in lieu of a special meeting of shareholders ratifying the adoption of our 2018 Equity Compensation Plan, as amended.

On August 26, 2019, the Company granted one director options to purchase 5,000 shares of the Company's common stock, at an exercise price of \$0.030 per share. The options vest over a two year period and expire August 25, 2024. The quoted market price of the common stock at the time of issuance of the options was \$0.030 per share. The fair value of the options totaled \$164 using the Black-Scholes option pricing model with the following assumptions: i) risk free interest rate of 1.43%, ii) expected life of 5 years, iii) dividend yield of 0%, iv) expected volatility of 255%.

A summary of the Company's stock option plans as of September 30, 2019, and changes during the nine-month period then ended is presented below:

	Number of Options	Weighted Average Exercise Price
Options outstanding at December 31, 2018	11,785,000	\$ 0.05
Options granted	5,000	0.03
Options exercised	—	—
Options forfeited	(233,333)	0.02
Options expired	(404,167)	0.14
Options at end of period	11,152,500	\$ 0.05
Options exercisable at September 30, 2019	4,987,505	\$ 0.08

Changes in the Company's non-vested options for the nine months ended September 30, 2019 are summarized as follows:

	Six Months Ended September 30, 2019	
	Number of Options	Weighted Average Exercise Price
Nonvested options at December 31, 2018	9,595,000	\$ 0.02
Granted	5,000	0.03
Vested	(3,201,672)	0.02
Forfeited	(233,333)	0.02
Nonvested options at September 30, 2019	6,164,995	\$ 0.02

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
\$0.017- \$0.30	11,152,500	7.63	\$0.05	4,987,505	\$0.08
Totals	11,152,500	7.63	\$0.05	4,987,505	\$0.08

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A summary of the Company's warrant activity as of September 30, 2019 and changes during the nine-month period then ended is presented below:

	Nine months ended September 30, 2019	
	Warrants	Weighted Average Exercise Price
Warrants outstanding at December 31, 2018	773,336	\$ 0.16
Granted	—	—
Expired	—	—
Warrants outstanding and exercisable at September 30, 2019	773,336	\$ 0.16

Range of Exercise Price	Warrants Outstanding and Exercisable		
	Number Outstanding	Remaining Average Contractual Life (In Years)	Weighted Average Exercise Price
\$0.05 - \$0.25	773,336	0.65	\$ 0.16
Totals	773,336	0.65	\$ 0.16

### 13. Related Party Transactions

On March 28, 2002 the Company executed a binding agreement with one of its principal stockholders, who is also the Executive Chairman of the Board, to fund up to \$6.1 million. Under the terms of the agreement, 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 (4.046% and 3.89% % per annum at September 30, 2019 and 2018, respectively), payable monthly and were to become due and payable on December 31, 2005 or upon a change in control of the Company or the 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, 2018. On May 9, 2018 he extended the maturity rate to December 31, 2019.

On March 25, 2019 we entered into a note exchange agreement with our Executive Chairman pursuant to which he exchanged \$7,989,622 of principal and \$395,510 of accrued interest which would have been due on December 31, 2019 under an unsecured loan for a secured promissory note in the principal amount of \$8,385,132. The secured note which matures on December 31, 2021, and bears interest at 4% per annum, payable monthly, is secured by a first position security interest in our assets.

From January 1, 2019 through September 30, 2019, the Company received additional loans in the amount of \$658,000 from the Company's Executive Chairman, as advances for working capital needs. The loans bear interest at the BBA Libor Daily Floating Rate plus 1.4 points. As of September 30, 2019 the total balance due was \$9,368,132.

In January 7, 2019, the Company received an additional loan in the amount of \$25,000 from a stockholder and former member of the Board of Directors. The loan bears interest at a rate of 5% per annum and is due January 7, 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 remains in effect until terminated by either party providing 30 days written notice. During each of the three- and nine-month periods ended September 30, 2019 and 2018, we paid Boxwood Associates, Inc. \$6,000 and \$18,000, respectively, under this agreement. A former member of our Board of Directors is President of Boxwood Associates, Inc.

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**14. Major Customers**

There are concentrations of credit risk with respect to accounts receivables due to the amounts owed by three customers at September 30, 2019 whose balances each represented approximately 22%, 11% and 10%, for a total of 42% of total accounts receivables. Comparatively, there are concentrations of credit risk with respect to accounts receivables due to the amounts owed by two customers at December 31, 2018 whose balances each represented approximately 53%, and 30%, for a total of 83% of total accounts receivables. Sales to two customers for the nine months ended September 30, 2019 were 33%, and 29% for total of 53% of sales. During the nine months ended September 30, 2018 sales from three customers represented 32%, 27% and 14% of total sales for total of 73% of sales. 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.

**15. Subsequent Events**

On October 24, 2019 we entered into a Business Loan Agreement with Kabbage® pursuant to which we borrowed \$43,100 under the terms of a one year secured loan. The terms of the loan provided for a loan fee of \$7,111.50 which results in an effective annual interest rate of 26.56%. We utilized these proceeds for working capital. We granted Kabbage® a security interest in our assets as collateral for this loan. The loan, which provides for monthly payments, may be prepaid by us at any time without penalty. The loan agreement includes customary events of default, as well as a cross default against any other loan and/or security agreement to which we are a party or if a judgment is entered against us in excess of \$250, subject to a 30 day cure period. This loan has been personally guaranteed by Mr. Edward S. Vittoria, our Chief Executive Officer.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion of our unaudited condensed financial condition and results of operations for the three and nine months ended September 30, 2019 and 2018 should be read in conjunction with the unaudited condensed financial statements and the notes to those statements that are included elsewhere in this report. Our discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on April 10, 2018 (the "2018 10-K"), and our subsequent filings with the SEC. We use words such as "anticipate," "estimate," "plan," "project," "continuing," "ongoing," "expect," "believe," "intend," "may," "will," "should," "could," and similar expressions to identify forward-looking statements. All information in this section for the three and nine months ended September 30, 2019 and 2018 is unaudited and derived from the unaudited condensed financial statements appearing elsewhere in this report; unless otherwise noted, all information for the year ended December 31, 2018 is derived from our audited financial statements appearing in the 2018 10-K.

### OVERVIEW

#### Our company

We design, manufacture, market and distribute worldwide the Puradyn® bypass oil filtration system for use with substantially all internal combustion engines and hydraulic equipment that use lubricating oil. Working in conjunction with the equipment's primary oil filter, the *Puradyn* system cleans oil by providing a second circuit of oil filtration and treatment to continually remove solid and liquid contaminants from the oil through a sophisticated and unique filtration and absorption process. The *Puradyn* system consists of a base filtration unit or housing that is connected via hoses or steel tubing to the engine or hydraulic system, along with filter elements that reside inside the filtration unit and are replaced periodically to maintain top performance. We believe that 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 and within engine manufacturers' specification, our system has been used effectively to safely and significantly extend oil-drain intervals and to extend the time between engine overhauls.

Our core product, the patented *Puradyn* bypass oil filtration system, is offered in two primary applications, MTS engine systems and custom-engineered MTS hydraulic systems, which can be attached to almost any engine or hydraulic application. 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. We are also the sole manufacturer and provider of *Puradyn* replacement filter elements for the *Puradyn* system. Our products are marketed to numerous industries that include hydraulic applications, and other users of engines or equipment that utilize up to 50 weight oil for lubrication. We focus our sales strategy on individual sales and distribution efforts as well as on the development of a global distribution network that will not only sell, but also install and support our product. DistributionNow (DNOW) joined the *Puradyn* distributor network in 2016 and became exclusive distributor for the oil and gas industry in September 2017. With 300 locations worldwide, DNOW provides the potential to reach to new markets and customers which we would otherwise not be able to effectively reach, and consistently support our product on a global basis. MNI Diesel, LLC (MNI) joined the *Puradyn* distributor network in 2012, and in August 2018, they became the exclusive distributor of *Puradyn* products to the commercial marine industry for the Ohio and Mississippi River Valleys and the U.S. Gulf Coast of Texas, Louisiana, Mississippi and Alabama. In addition to the DNOW network and MNI, we currently have approximately 45 distributors and dealers and manufacturer representatives that sell and/or service the *Puradyn* system in the U.S. and internationally. Today our products are found around the world in a number of industries, including oil and gas, power generation, construction and forestry, commercial marine, mining, and transportation.

### Third quarter of 2019 business highlights

- Revenues in the quarter were negatively impacted by the continued delays in expected orders, especially from new customers in the Oil & Gas category. Our sales in Oil & Gas were down 93% in the third quarter of 2019 compared to the third quarter of 2018 and are down 78% through the first nine months of 2019 vs the same period in 2018. Customers within the drilling and pressure pumping segments are reducing active equipment, which has a combined effect of reduced demand of replacement filters among existing customers and the pausing or extension of evaluation periods by prospective customers. While we believe these orders may eventually be received, it has become difficult to predict the timing.

Our exclusive distributor for the Oil & Gas segment, DNOW, has expanded the number of active salespeople supporting the promotion and sale of our product line by over 300%, and they share our belief that many customers will find even greater value in Puradyn products given their need to implement new cost savings measures.

- Our efforts to diversify our customer base continue to show promise as our Commercial Marine business grew 35% in the third quarter of 2019 compared to the third quarter of 2018 and is up 34% through nine months of 2019 versus the same period in 2018. In this quarter, we secured new business from industry leader, Campbell Transportation, who is equipping their entire fleet with Puradyn systems.

### Key strategies:

During the balance of 2019 and into 2020 we will continue to focus our sales and marketing efforts on:

- Diversifying our new customer sales efforts to counter weakness in the Oil & Gas segment
- Continuing to build on our sales momentum in commercial marine and power generation
- Re-opening efforts with operators of transit buses and other fleets

### Outlook

We attribute the decrease in sales in the third quarter of 2019 compared to the third quarter of 2018 to a virtual halt of new system orders from customers within the Oil & Gas industry. While volumes have slowed since the fourth quarter of 2018, the reduced sales activity in the current quarter reflected the continued anxiety and short-term actions to reduce capacity and expenses by Oil & Gas customers. Evaluations continue to increase, and while the results of these evaluations continue to prove our product performance, final decisions to proceed with roll-outs may be delayed due to CapEx freezes across the industry. Our focus on developing new business from within the pressure pumping and midstream segments, both of which we believe may provide more than double the opportunity of our existing onshore rig business, is now being further supported by a threefold expansion in DNOW salespeople actively promoting our product line. Our commercial marine business is growing as more prospective customers are made aware of our proven results at like companies, and we continue to explore new opportunities with bus and truck fleets and remote power generation.

### RESULTS OF OPERATIONS

The following table provides certain selected financial information for the periods presented:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	% change	2019	2018	% change
	(unaudited)			(unaudited)		
Net sales	\$ 326,532	\$ 1,306,070	(75%)	\$ 1,278,050	\$ 3,344,272	(62%)
Gross profit	\$ 50,372	\$ 595,075	(92%)	\$ 302,670	\$ 1,437,876	(79%)
Total operating costs	\$ 373,055	\$ 419,557	(11%)	\$ 1,165,870	\$ 1,134,858	3%
(Loss) / income from operations	\$ (322,683)	\$ 175,518	(284%)	\$ (863,200)	\$ 303,018	(385%)
Total other expense, net	\$ (108,968)	\$ (85,763)	27%	\$ (297,119)	\$ (241,134)	23%
Net (loss) / income	\$ (431,651)	\$ 89,755	(581%)	\$ (1,160,319)	\$ 61,884	(1,975%)
Basic and diluted earnings (loss) per share	\$ (0.01)	\$ 0.00	—	\$ (0.02)	\$ (0.00)	—

## **Gross profit**

Our gross profit margins for the three and nine months ended September 30, 2019 decreased by 92% and 79% as compared to the three and nine months ended September 30, 2018. The decrease in our gross profit margins for the three and nine months ended September 30, 2019 is attributable to reduced facility utilization due to decreased sales which was partial offset by a decrease in the reserve for slow moving inventory of \$(44,053) during the nine months ended September 30, 2019 compared to \$13,611 for the nine months ended September 30, 2018. We have been advised by several of our suppliers that prices for various raw materials are being increased as a result of the loss of some of their primary suppliers and higher prices with their secondary suppliers and the unknown impact of recently enacted tariffs by the current administration. However, we are exploring and implementing measures to help mitigate the impact on our costs. We notified our customers of pricing increases effective October 1, 2018 which varied by product, and we will continue to review cost of materials increases and adopt further pricing action in the future as warranted.

## **Total operating costs**

Our total operating costs, which include salaries and wages and selling and administrative expenses, increased slightly during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 due to increases in early 2019 of salary and advertising expenses which were then offset by cost-cutting measures, including staff reductions and an approximately 20% reduction in factory hours and office salaries that began late in the second quarter of 2019. The decrease in selling and administrative expenses during the third quarter of 2019 from the comparable period in 2018 is attributable to cost-cutting measures, including staff reductions and an approximately 20% reduction in factory hours and office salaries.

## **Total other expense, net**

Total other expense, net represents interest we pay to related parties on amounts advanced to us for working capital. The increase in the 2019 periods from the comparable periods in 2018 reflects our increased borrowings.

## **LIQUIDITY AND CAPITAL RESOURCES**

We had cash on hand of \$72,549 and a working capital deficit of \$2,334,951 at September 30, 2019 as compared to cash on hand of \$112,769 and a working capital deficit \$1,603,639 at December 31, 2018. Our current ratio (current assets to current liabilities) was .34 to 1 at September 30, 2019 as compared to .45 to 1 at December 31, 2018. The increase in negative working capital is primarily attributable to a decrease in accounts receivable and an increase in accounts payable and operating lease liabilities which were offset by decreases in accrued liabilities and deferred compensation and increase in inventory. We do not currently have any commitments for capital expenditures.

Historically, we have been materially reliant on working capital advances from our Executive Chairman to address our liquidity and working capital issues through the utilization of the borrowing agreement with him. On March 25, 2019 we entered into a note exchange agreement with our Executive Chairman pursuant to which he exchanged \$7,989,622 of principal and \$395,510 of accrued interest, which was due on December 31, 2019 under an unsecured loan, for a secured promissory note in the principal amount of \$8,385,132. The note, which matures on December 31, 2021, bears interest at 4% per annum, payable monthly, and is secured by a first position security interest in our assets. In addition, we owe him \$983,000 for other working capital advances which are due on demand.

In October 2019 we borrowed \$43,100 from a third party commercial lender under the terms of a 12 month secured loan agreement which is described later in this report under Part II, Item 5. We utilized these funds for working capital.

We also owe certain of our employees \$1,492,370 and \$1,564,253, respectively, in deferred cash compensation at September 30, 2019 and December 31, 2018, which represents 42% and 54%, respectively, of our current liabilities on that date. These current and former employees agreed to defer a portion of their compensation to assist us in managing our cash flow and working capital needs. As there is no written agreement with these current and former employees which memorializes the terms of salary deferral, only an election to do so, it is possible these individuals could demand payment in full at any time or elect to no longer defer their salaries, or reduce the amount they currently defer. We do not have sufficient funds to satisfy these obligations.

Our net sales are not sufficient to pay our operating expenses. Our capital requirements depend on a number of factors, including our ability to increase revenues, increase gross profit margins and control our expenses. Over the past few years we have not had any external sources of liquidity, and our discussions with third parties for potential investments have not been successful. We historically have encountered resistance from potential investors on a variety of fronts, including our revenue levels, operating losses, and the amount of debt due to our Executive Chairman. At September 30, 2019 we owe him in excess of \$9 million. He is not obligated to lend us any additional funds and a substantial amount of what we owe him is secured by our assets under the terms of a secured note which matures in December 2021. He has advised us that he does not expect to continue to provide working capital advances to the Company at historic levels, if at all. Accordingly, during October 2019 we obtained a one year \$43,100 principal amount high interest secured loan from a third party commercial lender to provide operating capital. While our Executive Chairman subordinated his first position security interest in our assets to accommodate our need to take out this loan, there are no assurances we will do so in the future should we be forced to seek additional third party loans. Given our declining revenues, history of losses and debt levels, we face a number of challenges in our ability to raise capital from third parties. Our ability to provide for our current working capital needs, pay our obligations as they become due, grow our company, and continue our existing business and operations is in jeopardy. If we are unsuccessful in our efforts to significantly increase our net sales over sustained quarters and/or raise significant outside capital, we will no longer be able to continue as a going concern. In that event, you would lose all of your investment in our company.

### Summary cash flows

	Nine Months Ended September 30,	
	2019 (unaudited)	2018 (unaudited)
Net cash (used) by operating activities	\$ (713,140)	\$ (230,682)
Net cash (used) by investing activities	\$ (10,080)	\$ (73,305)
Net cash provided by financing activities	\$ 683,000	\$ 348,459

During the first nine months of 2019 net cash used by our operating activities was principally related to increases in inventory, which were offset by reduced accounts receivable, and an increase in accounts payable. The increases in inventory and accounts payable were a result of the Company's expected increase in sales and timing of receiving raw materials. During the first nine months of 2018 net cash used by our operating activities was principally related to increases in inventory, accounts receivable and prepaid expenses offset by increase in accounts payable and accrued liabilities. The increases in accounts receivable as well as the corresponding increases in inventory and accounts payable were a result of the Company's expected increase in sales and timing of receiving raw materials.

During the first nine months of 2019 and 2018, net cash used by investing activities represented capitalized patent costs.

During the first nine months of 2019, net cash provided by financing activities represented loans from related parties. During the first nine months of 2018, net cash provided by financing activities represented loans from related parties, net of capital lease payments.

### Going concern

Our unaudited condensed 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 since inception and have relied on loans from related parties to fund our operations. The Company does not have sufficient revenues and income to fund the 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, 2018 and 2017 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 continue to generate profitable operations in the future.

## **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 unaudited condensed 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 our unaudited condensed financial statements appearing elsewhere in this report.

## **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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Not applicable for a smaller reporting company.

## **ITEM 4. CONTROLS AND PROCEDURES.**

### **Evaluation of Disclosure Controls and Procedures**

Our management, which includes our CEO and our principal financial and accounting 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 the end of the period covered by this report (the "Evaluation Date"). 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 on their evaluation as of the end of the period covered by this report, our CEO and our principal financial and accounting officer have concluded that our disclosure controls and procedures were effective such that the information relating to our company, required to be disclosed in our Securities and Exchange Commission reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our principal financial and accounting officer, to allow timely decisions regarding required disclosure.

### **Changes in Internal Control over Financial Reporting**

There have been no changes in our internal controls 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 controls over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

None.

### ITEM 1A. RISK FACTORS.

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A in our 2018 10-K and our subsequent filings with the SEC, which could materially affect our business, financial condition or future results.

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

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

### ITEM 4. MINE SAFETY DISCLOSURE.

Not Applicable.

### ITEM 5. OTHER INFORMATION.

On October 24, 2019 we entered into a Business Loan Agreement with Kabbage® pursuant to which we borrowed \$43,100 under the terms of a one year secured loan. The terms of the loan provided for a loan fee of \$7,111.50 which results in an effective annual interest rate of 26.56%. We utilized these proceeds for working capital. We granted Kabbage® a security interest in our assets as collateral for this loan. The loan, which provides for monthly payments, may be prepaid by us at any time without penalty. The loan agreement includes customary events of default, as well as a cross default against any other loan and/or security agreement to which we are a party or if a judgment is entered against us in excess of \$250, subject to a 30 day cure period. This loan has been personally guaranteed by Mr. Edward S. Vittoria, our Chief Executive Officer.

In order to permit us to take out this loan, we have entered into a Subordination Agreement (Affiliated Creditor) with Mr. Joseph V. Vittoria pursuant to which he subordinated to Kabbage® his first position security interest in our assets which serves as collateral under the Secured Note we issued him in the principal amount of \$9,129,430.15.

The foregoing descriptions of the terms and conditions of the Business Loan Agreement with Kabbage® and the Subordination Agreement (Affiliated Creditor) with Mr. Vittoria are qualified in their entirety by reference to these agreements which are filed as Exhibits 10.1 and 10.2, respectively, to this report.

**ITEM 6. EXHIBITS.**

No.	Exhibit Description	Incorporated by Reference			Filed or Furnished Herewith
		Form	Date Filed	Number	
3.1	<a href="#">Amended and Restated Certificate of Incorporation dated July 24, 1996</a>	10-SB	7/30/96	3.1	
3.2	<a href="#">Certificate of Amendment to Amended and Restated Certificate of Incorporation dated December 13, 1996</a>	8-K	1/9/97	3.(I)	
3.3	<a href="#">Certificate of Amendment to Amended and Restated Certificate of Incorporation dated February 3, 1998</a>	8-K/A	2/12/98	3.1	
3.4	<a href="#">Certificate of Amendment to Amended and Restated Certificate of Incorporation dated March 5, 2009</a>	8-K	3/16/09	3.4	
3.5	<a href="#">Certificate of Amendment to the Certificate of Incorporation dated July 7, 2011</a>	10-Q	8/15/11	3.4	
3.6	<a href="#">Bylaws</a>	10-SB	7/30/96	3.2	
10.1	<a href="#">Business Loan Agreement</a>				Filed
10.2	<a href="#">Subordination Agreement (Affiliated Creditor)</a>				Filed
31.1	<a href="#">Rule 13a-14(a)/15d-14(a) certification of Chief Executive Officer</a>				Filed
31.2	<a href="#">Rule 13a-14(a)/15d-14(a) certification of principal financial and accounting officer</a>				Filed
32.1	<a href="#">Section 1350 certification of Chief Executive Officer and principal financial and accounting officer</a>				Filed
101.INS	XBRL Instance Document				Filed
101.SCH	XBRL Taxonomy Extension Schema Document				Filed
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				Filed
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				Filed
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				Filed
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				Filed

**SIGNATURES**

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

**PURADYN FILTER TECHNOLOGIES INCORPORATED**

Date: November 13, 2019

By: /s/ Edward S. Vittoria  
Edward S. Vittoria, Chief Executive Officer, principal executive officer

Date: November 13, 2019

By: /s/ Martin Scott  
CFO Consultant, principal financial and accounting officer

**Kabbage® Business Loan Agreement**

Date: Oct 24, 2019 10:03 AM Eastern

**Borrower Information**

Account Number: 224874  
 Borrower: Puradyn  
 Borrower Address: 2017 High Ridge Road, Boynton Beach, FL 33426

**Lender:** Celtic Bank  
 Salt Lake City, Utah

**Fees**  
 Late Fee: Up to \$100  
 Returned Payment Fee: \$20

Business Representative/Guarantor: Edward Vittoria

Marketplaces: Bank of America - \*0649

Financial Transaction Channels: ACH Account: Bank of America - \*0649



Capital Comparison Tool

*This tool is provided to help you understand and assess the cost of your small business financing.*

*The calculations below involve certain key assumptions about this Loan, including that the Loan is paid off in its entirety according to the agreed payment schedule and that no repayments are missed.*

<b>Loan Amount</b>	<b>Disbursement Amount</b> (minus fees withheld) <sup>1</sup>	<b>Repayment Amount</b>	<b>Term</b> (repaid monthly)
<b>\$43,100.00</b>	<b>\$43,100.00</b>	<b>\$50,211.50</b>	<b>12 Months</b>
<b>METRIC</b>	<b>METRIC CALCULATION</b>		<b>METRIC EXPLANATION</b>
<b>Total Cost of Capital</b>  \$7,111.50	Interest Expense: <b>\$0.00</b> Loan Fee: <b>\$7,111.50</b> Origination Fee: <b>\$0.00</b> Other Fees: <b>\$0.00</b> <b>Total Cost of Capital: \$7,111.50</b>		This is the total amount that you will pay in interest or Loan Fees and other fees for the Loan.  The amount does not include fees and other charges you can avoid, such as late payment fees and returned payment fees. <sup>2</sup>
<b>Annual Percentage Rate (APR)<sup>3</sup></b>  26.56%	Your loan will have monthly payments of:  APR: <b>26.56%</b>	<b>See Specific Monthly Schedule below</b>	This is the cost of the Loan – including total interest or Loan Fees and other fees – expressed as a yearly rate. APR takes into account the amount and timing of capital you receive, fees you pay, and the periodic payments you make.  While APR can be used for comparison purposes, it is not an interest rate and is not used to calculate your interest expense or Loan Fee.
<b>Average Monthly Payment</b>  \$4,184.29	Repayment Amount: <b>\$50,211.50</b> Term (in months): <b>±12 Months</b> <b>Average Monthly Payment: \$4,184.29</b>  Specific Monthly Schedule (if available): Months 1-6: <b>\$4,238.17</b> Months 7-12: <b>\$4,130.42</b>		This is the average monthly repayment amount of the Loan, which does not include fees and other charges you can avoid, such as late payment fees and returned payment fees. <sup>2</sup> This is an estimate for comparison purposes only.
	Interest Expense or Loan Fee:	<b>\$7,111.50</b>	

<b>Cents on the Dollar (excluding fees)</b>	Loan Amount: <b>-\$43,100.00</b>	This is the total amount of interest or Loan Fee paid per dollar borrowed. This amount is exclusive of fees.
16.50¢	<b>Cents on the Dollar (excluding fees):</b> 16.50¢	
<b>Prepayment</b>	Does prepayment of this Loan result in any new fees or charges?	<b>No</b> (see Section 1.5)
	Does prepayment of this Loan decrease the total interest or Loan Fees owed?	<b>Yes</b>
<p><sup>1</sup>The Disbursement Amount is the amount of capital that a business receives and may be different from the Loan Amount. The Disbursement Amount is net of fees withheld from the Loan Amount. A portion of the Disbursement Amount may be used to pay off any amounts owed from a prior loan or an amount owed to a third party.</p> <p><sup>2</sup>Your business may incur other fees that are not a condition of borrowing, such as late payment fees, returned payment fees, or monthly maintenance fees. Those fees are not reflected here. See the agreement for details on these fees (see Sections 1.7 and 1.3).</p> <p><sup>3</sup>APR should be considered in conjunction with the Total Cost of Capital. APR may be most useful when comparing financing solutions of similar expected duration. APR is calculated here according to the principles of 12 C.F.R. § 1026 (Regulation Z), using twelve (12) payment periods per year.</p> <p>© 2016 Innovative Lending Platform Association. All rights reserved. Innovative Lending Platform Association is not responsible for any misuse of the SMART Box™ or any inaccuracies in the calculations or information included therein.</p>		

This Business Loan Agreement – ("Agreement") is made by and between **Celtic Bank**, its successors, assigns and representatives ("we," "us," "our" or "Bank") and the business listed above ("you" or "Borrower"), along with the individual who submitted the application on behalf of Borrower and provides a personal guarantee on this Loan ("Business Representative"), as of the date specified above. Celtic Bank, Borrower and Business Representative may be referred to as a "Party" or collectively as "Parties" herein.

By checking this box Borrower and Business Representative each understands that it has the responsibility to read this Agreement and has had an opportunity to do so.

By checking this box Borrower and Business Representative each also agrees that each party included in this Agreement intends to authenticate this writing, agrees to all its terms, and electronically signs this Agreement with the same force and effect as a manual signature.

**Consent to Electronic Disclosure.**

**By checking this box** the Borrower and Business Representative ("you" or "your" for purposes of this consent) each confirm that you can access transaction information by visiting [www.kabbage.com](http://www.kabbage.com) and logging in and each agree to receive this Agreement and subsequent disclosures and notices (collectively, "Subsequent Disclosures") electronically. Electronic copies of periodic statements and Subsequent Disclosures will be provided on the *Kabbage@* business loan website. To access, view and retain electronic disclosures on the *Kabbage@* business loan website, you must have a computer with Internet access and either a printer connected to your computer to print disclosures/notices or sufficient hard drive space available to save the information. The minimum software requirements include browser software that supports 128-bit security encryption and Adobe Reader® version 9.0 or higher. You acknowledge that you are able to access the *Kabbage@* business loan website ([www.kabbage.com](http://www.kabbage.com)) and print, or otherwise retain, electronic disclosures. You may request a paper copy of any legally required disclosure by contacting us at *Kabbage@Business Loan-Paper Disclosure Request, P.O. Box 77081, Atlanta, GA 30357*. You may also withdraw your consent to electronic disclosures by contacting us in the same manner. If you withdraw your consent to electronic disclosures, we may elect to terminate the relationship with you. You agree to provide us with your current e-mail address for notices. If your e-mail address changes, you must send us a notice of the new address by writing to us at least five days before the effective date of the change at *Kabbage@Business Loan Email Address Change, P.O. Box 77081, Atlanta, GA 30357*.

We are not a party to any purchase transaction between you and either a recipient of the proceeds of a Loan or a merchant accepting a payment card onto which the proceeds of a Loan was loaded (either, a "Recipient"). Consequently, any disputes or concerns you have regarding your purchases from/transactions with or the amounts you owe to the Recipient are to be solely resolved between you and the Recipient alone, and you understand and agree that to the greatest extent not prohibited by applicable law (a) the Recipient's actions or omissions have no bearing on, and will not give rise to any defense under, your agreement with us, and (b) we will have no liability to you in connection with such purchases or transactions.

***THIS IS A COMMERCIAL LOAN. YOU AGREE NOT TO USE ANY PORTION OF THE AMOUNT LOANED FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES AND NOT TO REPAY US FROM ANY CONSUMER ACCOUNT.***

**I. BUSINESS LOAN**

**1.1. Business Loan.** You agree to borrow, and we agree to lend to you, the Loan Amount set forth above. You promise to repay the

Repayment Amount shown above, plus Costs (as defined in Section 1.4 below), plus all other amounts that may become due us under this Agreement, according to the payment schedule set forth below. You will provide us, at all times during this Agreement, with sufficient access to view the activity in (a) your commercial transaction account(s), including, but not limited to, (i) your PayPal business account, the details of which you have provided to us (individually and collectively, as appropriate, your "Business Payment Account"), (ii) one or more designated business checking accounts, the details of which you have provided to us (individually and collectively, as appropriate, your "Bank Account"), (b) the marketplace(s) where you do business, and (c) such other accounts and sales and shipping data as we deem necessary and appropriate, for the purpose of monitoring your business activity and finances. You agree to repay us in U.S. dollars.

Borrower and Business Representative each understand, acknowledge and agree that Borrower is entering into this Agreement as a commercial transaction and that your agreement not to use any portion of the amount loaned for personal, family or household purposes and not to repay us from any consumer account means that certain important duties imposed upon transactions and communications for consumer purposes, and certain important rights conferred upon consumers, pursuant to federal or state law, will not apply to any aspect of this transaction. Borrower and Business Representative also understand, acknowledge, and agree that we may be unable to confirm whether, for example, any particular use of any amount loaned or any particular payment conforms to this section. Borrower and Business Representative understand, acknowledge, and agree that a breach by Borrower of the provisions of this section will not affect our right to (i) enforce this Agreement, regardless of the purpose for which any amount loaned is in fact used, or (ii) use any remedy legally available to us in a commercial transaction, even if that remedy would not have been available had any amount loaned been disbursed for consumer purposes or payment delivered from a consumer account.

You agree to notify us within five (5) business days if (i) the details of your Business Payment Account or Bank Account change, (ii) you open any new account that is similar or (iii) you close your Business Payment Account or Bank Account or any similar account. Furthermore, with regard to information about any marketplace or other service provider that you provided to us to determine the amount of your Loan, you agree to notify us promptly if (i) the details of your account with any such marketplace or other service provider change, (ii) you open a new account with any such marketplace or other service provider or (iii) you close your account with any such marketplace or other service provider.

**1.2. Distribution of Proceeds.** Proceeds of the Loan can be distributed to you in one of six methods that you hereby elect:

- a. via automated clearing house in one-to-three business days to a Bank Account, as defined in Section 1.1, registered on your established *Kabbage@* profile;
- b. to a Business Payment Account, as defined in Section 1.1, registered on your established *Kabbage@* profile;
- c. via a valid, non-expired debit card registered on your established *Kabbage@* profile that is linked to your Bank Account, as defined in Section 1.1, **subject to a Debit Card Express Fee of up to \$24.95 per disbursement** payable in full with your next Minimum Monthly Payment under Section 1.5 below;
- d. onto a prepaid debit card ("Card") issued pursuant to the *Kabbage@* Card Program Terms and Conditions found at <https://app.kabbage.com/CardRegistration/TermsAndConditions>. You must elect and qualify to participate in the *Kabbage@* Card Program and, if approved, disbursement of Loan proceeds via the Card will be subject to additional terms and conditions as set forth in the *Kabbage@* Card Program Terms and Conditions by and among you, *Kabbage@* and the Bank that issues the Card. In addition, participants in the *Kabbage@* Card Program will be subject to additional terms and conditions imposed by *Kabbage@* as set forth on the *Kabbage@* website. Each disbursement via a transaction under the *Kabbage@* Card Program will constitute a separate extension of credit, with each disbursement constituting a Loan for a separate six (6) month Term. Disbursements shall be, in the aggregate, limited to the total amount of the line of credit for which you are approved;
- e. via a wire transfer to your Bank Account, as defined in Section 1.1, subject to our prior approval. **This type of transaction is subject to a Wire Transfer Fee of \$45.00 per disbursement**, payable in full with your next Minimum Monthly Payment; or
- f. pursuant to your written instruction, directly to a third party.

**1.3. Term.** This Loan has a twelve (12) month term (the "Term"). Monthly payments are due as set forth in the payment schedule below.

**1.4. Cost.**

We will impose a fee ("Cost") for each month or partial month that any portion of Loan proceeds remains outstanding until maturity. The portion of Loan proceeds deemed to be outstanding is the amount of proceeds disbursed: (i) through ACH, (ii) PayPal, (iii) via a debit card, (iv) via the prepaid debit card issued under the *Kabbage@* Card Program, or (v) via a wire transfer. You may avoid additional Costs by repaying your outstanding Loan balance in full at any time without penalty. We may continue to impose additional Costs at the rate in effect immediately before maturity if any portion of the Loan remains unpaid.

**1.5. Cost Schedule.**

If the outstanding balance of your Loan is paid before the Anniversary Date, then, you will not be required to pay Costs for the subsequent months. The Anniversary Date is the date of the month on which you take the Loan and occurs monthly thereafter on the same date. However, if your Anniversary Date occurs on a date which does not repeat every month (e.g., the 31st), your Anniversary Date for that month will be the last day of that month.

**If you repay your loan in full before:**

**Your anticipated (total) Cost will be:**

First Monthly Anniversary Date	\$646.50
Second Monthly Anniversary Date	\$1,293.00
Third Monthly Anniversary Date	\$1,939.50
Fourth Monthly Anniversary Date	\$2,586.00
Fifth Monthly Anniversary Date	\$3,232.50
Sixth Monthly Anniversary Date	\$3,879.00

Seventh Monthly Anniversary Date	\$4,417.75
Eighth Monthly Anniversary Date	\$4,956.50
Ninth Monthly Anniversary Date	\$5,495.25
Tenth Monthly Anniversary Date	\$6,034.00
Eleventh Monthly Anniversary Date	\$6,572.75
Twelfth Monthly Anniversary Date	\$7,111.50

**1.6. Minimum Monthly Payments.** You agree to make minimum monthly payments (each a "Minimum Monthly Payment") in the amounts specified below on each scheduled monthly payment due date ("Payment Due Date") shown on your monthly statement(s). You may direct third parties to make all or partial payments on your behalf. The Minimum Monthly Payment for this Loan will be:

Payment Due Date	Scheduled Minimum Monthly Payment:	Monthly Fee %
First Payment Due Date	\$4,238.17*	1.50%
Second Payment Due Date	\$4,238.17*	1.50%
Third Payment Due Date	\$4,238.17*	1.50%
Fourth Payment Due Date	\$4,238.17*	1.50%
Fifth Payment Due Date	\$4,238.17*	1.50%
Sixth Payment Due Date	\$4,238.17*	1.50%
Seventh Payment Due Date	\$4,130.42*	1.25%
Eighth Payment Due Date	\$4,130.42*	1.25%
Ninth Payment Due Date	\$4,130.42*	1.25%
Tenth Payment Due Date	\$4,130.42*	1.25%
Eleventh Payment Due Date	\$4,130.42*	1.25%
Twelfth Payment Due Date	\$4,130.38*	1.25%

\*Or all amounts due under this Agreement if less than the amount shown

You may at any time pay more than the Minimum Monthly Payment without penalty. Any amounts due under this Agreement and remaining unpaid on the final scheduled Payment Due Date are due on that date.

**1.7. Total Minimum Monthly Payment.** At least 10 calendar days in advance of each Payment Due Date, we will notify you of the following for the Loan(s) listed on your monthly statement(s): (i) the current Minimum Monthly Payment, plus (ii) any previous Minimum Monthly Payment remaining unpaid, in whole or in part, plus (iii) any billed but unpaid fees [collectively, (i) through (iii) are your "Total Minimum Monthly Payment" for each monthly statement]. See Section 1.12 (Payments) below. You may receive more than one monthly statement from us. You are responsible for paying the "Total Minimum Monthly Payment" on each monthly statement on time.

**Late Fee.** If you fail to pay the Total Minimum Monthly Payment amount on time, you agree that we may assess a Late Fee of:

- **\$10** if the aggregate outstanding balance of the Loans listed on the monthly statement plus any Late Fees and Returned Payment Fees is equal to or greater than \$35 but less than \$500;
- **\$35** if the aggregate outstanding balance of the Loans listed on the monthly statement plus any Late Fees and Returned Payment Fees is equal to or greater than \$500 but less than \$5,000;
- **\$100** if the aggregate outstanding balance of the Loans listed on the monthly statement plus any Late Fees and Returned Payment Fees is equal to or greater than \$5,000.

**1.8. Application of Payments.** With regard to all loans listed on your monthly statement, payments received will be applied first to Late Fees and Returned Payment Fees to the extent included in your Total Minimum Monthly Payment due, then to Loans listed on your monthly statement, in order of the oldest Loan first, then the second oldest Loan, and so on; provided, however, that if one or more of your Loans is delinquent, we may apply payments first to delinquent Loans at our sole discretion. With respect to any particular Loan, payment will be applied as described in the Loan Agreement associated with that Loan. With respect to this Loan, payment will be applied first to any fees associated with this Loan, then to Cost, and finally to principal, each to the extent included in your Total Minimum Monthly Payment due. Payments will be applied based on fees and Costs posted as of the day of payment application which may be different from the fees and Costs listed on your monthly statement. Any amount received in excess of your Total Minimum Payment due will be applied in the same order as your Total Minimum Monthly Payment. Any payment in excess of the Total Minimum Monthly Payment due does not relieve you of your obligation to make your next scheduled Total Minimum Monthly Payment.

**1.9. Borrower's Contractual Covenants.** You agree:

- Not to use any amount loaned for personal, family or household purposes and not to repay us from any consumer account;
- Not to materially change the nature of the business that you conduct from the type of business originally disclosed to us in connection with this Agreement and, unless we are adequately notified in advance, to conduct your business substantially in accordance with past practices;
- To take all steps necessary to provide us with access to view the activity in your Business Payment Account, Bank Account and marketplaces where you do business and to such other accounts and sales and shipping data as we deem necessary and appropriate, for the purpose of monitoring your business activity and finances;
- Not to reduce or remove, or cause anyone to reduce or remove, our access, once granted, to your Business Payment Account, Bank Account, marketplaces where you do business and such other accounts and sales and shipping data as we have deemed necessary and appropriate;
- With regard to information about any marketplace or other service provider that you provided to us to determine the amount of your Loan, to notify us promptly if the details of your account with such marketplace or other service provider changes, you open a new account, or

- you close your account;
- vi. To use your Business Payment Account in a volume consistent with the level of transactions you processed through such account(s) when you received your Loan, or otherwise ensure that funds sufficient to satisfy your obligations under this Agreement are deposited into your Business Payment Account or Bank Account;
  - vii. To maintain a minimum balance in your Business Payment Account or Bank Account, as appropriate (as required by Section 1.12 below);
  - viii. To collect on your sales promptly, in compliance with all applicable federal, state and local laws, rules and regulations and consistent with your past collection practices;
  - ix. To make payments to us (in U.S. dollars) on the applicable "Payment Due Date";
  - x. Not to take any action to discourage the use of your Business Payment Account and not to permit any event to occur that could have an adverse effect on the use, acceptance or authorization of your Business Payment Account for the purchase of services and/or products by your customers;
  - xi. Not to open a new account other than the Business Payment Account or Bank Account (collectively, the "Accounts") into which your sales will be deposited and not to take any action to cause future sales to be settled or paid to any account other than the Accounts;
  - xii. Not to sell, dispose, convey or otherwise transfer your business or assets without our express prior written consent and the prior payment or assumption of all of your obligations under this Agreement pursuant to documentation reasonably satisfactory to us;
  - xiii. Not to take any intentional action that would substantially impair or reduce your generation or collection of accounts receivable adequate to satisfy your obligations under this Agreement without our prior written permission;
  - xiv. Not to terminate your authorization of scheduled debits in Section 1.12, stop payment on any debit authorized pursuant to Section 1.12, claim that a debit transaction pursuant to Section 1.12 is unauthorized, or seek a refund, return, chargeback or dispute of a credit card transaction related to a payment under Section 1.12; and
  - xv. To notify us promptly if, with regard to any Business Payment Account or Bank Account, the details of your account change, you open a new account, or you close your account.

Collectively, the preceding items (i) through (xv) are your "Borrower Contractual Covenants".

**1.10. Further Inquiries.** Borrower and Business Representative authorize Bank, its agents and representatives, and any credit reporting agency engaged by Bank, to (i) request information about and investigate Borrower and Business Representative and any references given or any other statements or data obtained from or about Borrower or Business Representative for the purpose of this Agreement and (ii) pull credit reports, whether in connection with Borrower's application for a loan or at any time thereafter for so long as Borrower and/or Business Representative continue to have any obligation owed to Bank.

**1.11. Business Representative's Personal Guarantee of Borrower's Performance of Borrower Contractual Covenants and Payment of Outstanding Loan Amounts.** Business Representative personally and unconditionally guarantees the performance of all of the covenants of Borrower in this Agreement, specifically including the Borrower Contractual Covenants above and Borrower's payment obligations herein. Specifically, Business Representative guarantees payment of all amounts owed by Borrower and that such payments will be made strictly in accordance with the terms of any and all Loans of Borrower. Business Representative's guarantee of payment hereunder is independent of the Borrower's obligation of payment and a separate Claim may be brought against the Business Representative to enforce this Loan, whether or not any Claim is made against Borrower. The liability of Business Representative hereunder is irrevocable, continuing, absolute and unconditional.

**1.12. Payments.**

- i. Automatic Payment Authorization. You authorize us to initiate, on each Payment Due Date, an automatic electronic debit from your Business Payment Account or Bank Account, as appropriate, in the amount of the Total Minimum Monthly Payment; provided, however, that if a Payment Due Date falls on a Saturday, Sunday or holiday, then the debit may be initiated on the next business day. Any separate payments that you make on or before a Payment Due Date will not affect this authorization. You understand that your Total Minimum Monthly Payment may vary from time to time but will in no event exceed the total outstanding Loans. We will not be liable for any fees that you may incur if we are unable to debit your Total Minimum Monthly Payment under this authorization. We also are not responsible for any fees imposed on you by the provider of any Business Payment Account or Bank Account as the result of any authorized debit or any payments made directly by you under this Agreement. You agree that Automated Clearing House transactions must comply with the provisions of U.S. law and you agree to be bound by the National Automated Clearing House Association Operating Rules, as in effect from time to time and to the extent applicable, in connection with all such transactions.
- ii. Payment Failure. If a debit is rejected or if you otherwise fail to pay your Total Minimum Monthly Payment when due, you agree that we may (A) terminate further automatic debits, in which case you will be responsible for making all further payments directly and in a timely manner, (B) debit your Business Payment Account and Bank Account, at any time and from time to time, for any amounts due us until paid in full, (C) subject to any right to notice of default and right to cure required by state law (which you agree to waive to the greatest extent possible), declare all outstanding Loans immediately due and payable and (D) pursue any and all other remedies available to us.
- iii. Account Maintenance. You agree to maintain in your Business Payment Account or Bank Account, as appropriate, sufficient funds to meet each Total Minimum Monthly Payment obligation. We may initiate a debit at any time on a Payment Due Date, including prior to the time that we open for business on any business day. Consequently, you understand that funds must be available by the end of the business day prior to the applicable Payment Due Date and maintained in your Business Payment Account or Bank Account until the debit is processed.
- iv. Terminating or Disputing Authorization; Stopping Payment. You may terminate your automatic electronic debit authorization by notifying us in writing at least three (3) or more business days before a scheduled Payment Due Date, and your termination will be effective three (3) business days after the date your notice is received by us. If you call us, we may ask you to send your request in writing to us within 14 calendar days of your call. Terminating this automatic debit authorization, stopping payment on a scheduled debit, or claiming that a

debit transaction pursuant to this Section 1.12 is unauthorized, is an event of default under this Agreement; as a result, we may initiate manually one or more debits to your Business Payment Account or Bank Account, at any time and from time to time, for all amounts due us. We may modify or terminate automatic debiting for any reason by notifying you in writing at your last known address in our records, or by email at the address associated with your *Kabbage@* profile. Following the date of any termination of automatic debits by you or by us, you will be responsible for making all further payments directly and in a timely manner.

- v. Alternative Payment. If for any reason we are unable to initiate an electronic debit, you agree that we may prepare and deposit a remotely created check in the same amount.
- vi. Credit Card Transactions. We do not accept payments from consumer accounts. If you choose to provide a credit card number as back-up funding for your Business Payment Account, you agree to waive any right of chargeback or dispute as to any commercial transaction involving us and your Business Payment Account. You agree that your obligation to pay under this Agreement is not related to any consumer transaction. There can be no ground for any refund or return. All payments to us are final. You agree that we may apply any credit balance to any outstanding Loan or other obligation you have with us or issue a check to you.
- vii. Other Payments. You may make additional or alternative payments at any time. Payments by postal mail should be sent, postage paid, to the following address: ***Kabbage@Business Loan Payments, P.O. Box 77081, Atlanta, GA 30357***. You may also call Customer Service to arrange payments by overnight delivery, telephone, or other acceptable method. Payments made to any other address than as specified by us may result in a delay in processing and/or crediting for which we will not be responsible. All payments must be made in good funds by check, money order, automatic payment from an account at a U.S. institution offering such service, or other instrument, in U.S. dollars. You are solely responsible for any costs associated with a payment. Payments received after 5:00 p.m. (ET) on any day will be credited on the next day. Credit to your account may be delayed up to five (5) calendar days if a payment (a) is not received at the above address, (b) is not made in U.S. dollars drawn on a U.S. financial institution located in the U.S., (c) contains more than one payment, or (d) includes staples, paper clips, tape, a folded check, or correspondence of any type.
- viii. Acceptance of Late and Partial Payments; Disputed Amounts. We may accept late or partial payments without losing any of our rights under this Agreement. You agree not to send us partial payments marked "paid in full," "without recourse," or similar language. If you send such a payment, we may accept it as an accommodation to you without losing or waiving any of our rights under this Agreement. **All written communications concerning disputed amounts, including any check or other instrument that indicates that the payment constitutes "payment in full" of your payment or fee obligations or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount, must be mailed or delivered to *Kabbage@Business Loan Dispute Resolution, P.O. Box 77081, Atlanta, GA 30357*.**

**1.13. Returned Payment Fee.** If a payment is rejected, returned or dishonored, for any reason, we may assess a **Returned Payment Fee** in the amount of **\$20**, which fee will be in addition to any Late Fee that may be due.

**1.14. Events of Default.** You will be in default if any of the following happen: (i) you fail to make any payment under this Agreement when due; (ii) you break any promise you have made to us, or you fail to comply with or to perform any term, obligation, covenant, or condition under this Agreement; (iii) you terminate your automatic scheduled debit authorization, stop payment on any authorized debit pursuant to Section 1.12 or claim that a debit transaction pursuant to Section 1.12 is unauthorized; (iv) you are in default under any loan, security agreement, or any other agreement, in favor of any other party to whom you owe debt; (v) any representation or statement made or furnished to us by you or on your behalf is false or misleading either now or at the time made or furnished; (vi) a material change occurs in your ownership or organizational structure (acknowledging that any change in ownership will be deemed material when ownership is closely held); (vii) you liquidate or dissolve, or enter into any consolidation merger, partnership, joint venture, or other combination without our prior written consent; (viii) you sell any assets except in the ordinary course of your business as now conducted, or sell, lease, assign, or transfer any substantial part of your business or fixed assets or any property or other assets necessary for the continuance of your business as now conducted, including, without limitation, the selling of any property or other assets accompanied by the leasing back of the same; (ix) any guaranty of performance given to us ceases to be in full force and effect or is declared to be null and void; or the validity or enforceability thereof is contested in a judicial proceeding; or Business Representative denies that Business Representative has any further liability under such guaranty; or Business Representative defaults in any provision of any guaranty, or any financial information provided by Business Representative is false or misleading; (x) if you are a sole proprietorship, the Business Representative dies; if you are a trust, a trustor dies; if you are a partnership, any general or managing partner dies; if you are a corporation, any principal officer or 10.00% or greater shareholder dies; if you are a limited liability company, any managing member dies; if you are any other form of business entity, any person(s) directly or indirectly controlling ten percent (10.00%) or more of the ownership interests of such entity dies; (xi) any creditor tries to take, by foreclosure, seizure, repossession, receivership, or otherwise, any of your property on or in which we have a lien or security interest; (xii) a judgment is entered against you or Business Representative in the aggregate amount of \$250 or more that is not satisfied within thirty (30) days or stayed pending appeal; (xiii) an involuntary lien is attached to any of your or Business Representative's assets or property and not satisfied within thirty (30) days or stayed pending appeal; or (xiv) any of the events described in this default section occurs with respect to Business Representative. Collectively, the preceding items (i) through (xiv) are "**Events of Default**."

**1.15. Our Rights upon Default.** Upon default, we may accelerate your obligations by demanding the immediate payment of all amounts due or to become due in the future, suspend your ability to obtain further Loans, and initiate a Claim against Borrower and Business Representative. We may also initiate one or more debits to your Business Payment Account or Bank Account, at any time and from time to time, for all amounts due us.

**1.16. Attorneys' Fees and Collection Costs.** To the extent not prohibited by applicable law, Borrower or Business Representative shall pay us, on demand, any and all expenses, including, but not limited to, arbitration filing and other fees, collection costs, attorneys' fees, and all other expenses of a like or unlike nature, which may be expended by us to obtain or enforce payment obligations of Borrower or guarantee obligations of Business Representative.

**1.17. Limitation of Liability.** In no event shall our aggregate liability for any Claim arising under this Agreement (whether in contract, tort,

warranty or otherwise) exceed the total of Costs and fees paid by Borrower in the twelve (12) months preceding the date that the most recent Claim arose. Notwithstanding anything contained in this Agreement to the contrary, and except as expressly prohibited by applicable law, no Party to this Agreement shall be liable to another Party for any indirect, special, incidental, consequential, punitive, or exemplary damages of any kind (including without limitation, lost revenues, loss of profits, or loss of business), arising from this Agreement or relating to the obligations hereunder, even if advised of such potential damages.

**1.18. Notice of Borrower or Business Representative Default.** You agree to furnish to us, immediately upon becoming aware of the existence of any condition or event which with the lapse of time or failure to give notice would constitute an event of default under this Agreement, written notice specifying the nature and period of the existence of such condition or event and any action which you are taking or propose to take with respect thereto.

## **II. CLAIMS RESOLUTION, AGREEMENT TO ARBITRATE**

**2.1. SIGNIFICANCE OF ARBITRATION; LIMITATIONS AND RESTRICTIONS. IN ARBITRATION, NEITHER YOU NOR WE WILL HAVE THE RIGHT TO (i) HAVE A COURT OR JURY DECIDE THE CLAIM BEING ARBITRATED, (ii) ENGAGE IN PRE ARBITRATION DISCOVERY (THAT IS, THE RIGHT TO OBTAIN INFORMATION FROM THE OTHER PARTY) TO THE SAME EXTENT THAT YOU OR WE COULD IN COURT, (iii) PARTICIPATE AS A REPRESENTATIVE OR MEMBER OF ANY CLASS OF CLAIMANTS IN A CLASS ACTION, IN COURT OR IN ARBITRATION, RELATING TO ANY CLAIM SUBJECT TO ARBITRATION OR (iv) JOIN OR CONSOLIDATE CLAIMS OTHER THAN YOUR OWN OR OUR OWN. OTHER RIGHTS AVAILABLE IN COURT MAY NOT BE AVAILABLE IN ARBITRATION. FOR PURPOSES OF THIS AGREEMENT TO ARBITRATE "YOU" OR "YOUR" INCLUDES THE BORROWER OR BUSINESS REPRESENTATIVE.**

**2.2. Broad Meaning of "Claims."** The term "Claims" in this Agreement is to be given the broadest possible meaning and includes (by way of example and without limitation) Claims arising from or relating to (i) this Agreement based upon contract, tort, fraud, statute, regulation, common law and equity, (ii) any transactions effected pursuant to this Agreement, (iii) terms of or change or addition of terms to this Agreement, (iv) collection of any obligation arising from this Agreement, (v) advertisements, promotions or oral or written statements relating to this Agreement or any transactions between us pursuant to this Agreement, including any Claims regarding information obtained by us from, or reported by us to, credit reporting agencies or others, (vi) Claims between you and us or our parent corporations, wholly or majority owned subsidiaries, affiliates, predecessors, successors, assigns, agents, independent contractors, employees, officers, directors or representatives arising from any transaction between us pursuant to this Agreement and (vii) Claims regarding the validity, enforceability or scope of this Arbitration section or this Agreement including but not limited to whether a given claim or dispute is subject to arbitration.

**2.3. Arbitration.** All Claims shall be resolved through arbitration pursuant to this section rather than by litigation. Claims will be decided by a neutral arbitrator. **No Party will have the right to participate in a representative capacity or as a member of any class pertaining to any Claim subject to arbitration.** Arbitration procedures are generally simpler than the rules that apply in court, and discovery is more limited. The arbitrator's decisions are as enforceable as any court order and are subject to very limited review by a court. Except as set forth below, the arbitrator's decision will be final and binding. Other rights you or we would have in court may also not be available in arbitration. The arbitrator's authority is limited to Claims in this Agreement. Claims may not be consolidated unless all Parties agree, in writing. Any arbitration award and any judgment confirming it will apply only to a specific Claim and cannot be used in any other case except to enforce the award. Arbitration herein is governed by the Federal Arbitration Act ("FAA") and the selected arbitration organization's rules in effect when the Claim is filed. Before beginning arbitration, the Party making a Claim shall send a Notice of Claim to the other. Claims will be referred to either JAMS ([www.jamsadr.com](http://www.jamsadr.com)) or American Arbitration Association ([www.adr.org](http://www.adr.org)) as selected by the party making the Claim. Claims may also be referred to another arbitration organization if you and we agree in writing or to an arbitrator appointed pursuant to section 5 of the FAA, 9 U.S.C. §§ 1-16.

If a Claim is for \$10,000 or less, Borrower or Business Representative may choose whether the arbitration will be conducted solely based on documents, through a telephonic hearing, or by an in-person hearing. The arbitrator will give a brief written explanation of the award. The arbitrator's award will be final and binding except for any appeal right provided for the FAA. A Party will have 30 days to appeal the award by notifying the arbitration organization and all Parties in writing. The organization will appoint a three-arbitrator panel to decide, anew, by majority vote based on written submissions, any aspect of the decision objected to. Judgment upon any award may be entered in any court having jurisdiction.

You will be responsible for paying your share of any initial arbitration fee (including filing, administrative, hearing or other fees), but only up to the amount of the filing fees you would have incurred if you had brought the Claim in court. We will be responsible for advancing any additional arbitration fees for an original Claim. We may seek reimbursement of any fees advanced as a cost or fee under Section 1.16 in the event we obtain an award against you or Business Representative. Any costs of an Appeal will be borne by each Party with no advancement from us and we will seek reimbursement of those fees under Section 1.16.

## **III. REPRESENTATIONS, WARRANTIES AND COVENANTS**

Each of Borrower and Business Representative represents, warrants and covenants the following as of the date hereof and at all times during the term of this Agreement:

**3.1. Representations.** You represent that as of the date of this Agreement (i) you have no present intention to close or cease operating your business, in whole or in part, temporarily or permanently, (ii) you are solvent and not contemplating any insolvency or bankruptcy proceeding, (iii) during the four (4) months preceding the date hereof, neither Borrower nor any Business Representative has discussed with or among Borrower's management, counsel, or any other advisor or creditor, any potential insolvency, voluntary or involuntary bankruptcy, receivership, or assignment for the benefit of creditors with respect to Borrower and no such action or proceeding has been filed or is pending, and (iv) no eviction or foreclosure is pending or threatened against Borrower.

**3.2. Covenant Representation.** Borrower shall comply with each of the Borrower Contractual Covenants as set forth herein.

**3.3. Business Information.** All information (financial and other) provided by or on behalf of Borrower to Bank in connection with the execution of or pursuant to this Agreement and during the term of this Agreement is and will be true, accurate and complete in all respects. Borrower shall furnish Bank such information as Bank may request from time to time.

**3.4. Reliance on Information.** Borrower and Business Representative acknowledge and agree that all information (financial and other) provided by or on behalf of Borrower and Business Representative either as of the date hereof or hereafter has been and may continue to be relied upon by Bank in connection with any decision that Bank makes to extend additional time to repay or to loan you future funds.

**3.5. Compliance with Laws and Regulations.** Borrower is in compliance with any and all federal, state and local laws and regulations and rules and regulations relating to (i) the operation of Borrower's business, including the collection of accounts receivable, and (ii) the provider of the Business Payment Account and Bank Account and any online sales channels (e.g., eBay) applicable to Borrower's business. Borrower possesses and is in compliance with all permits, licenses, approvals, consents, registrations and other authorizations necessary to own, operate and lease its properties and to conduct the business in which it is presently engaged.

**3.6. Authorization.** Borrower and Business Representative have full power and authority to enter into and perform the obligations under this Agreement, all of which have been duly authorized by all necessary and proper actions.

**3.7. Insurance.** Borrower shall maintain insurance in such amounts and against such risks as are consistent with past practice and shall show proof of such insurance upon the request of Bank.

**3.8. Change in Name or Location.** Borrower does not and shall not conduct Borrower's business under any name other than as disclosed to Bank and shall not change its place of business without advance written notice of at least seven (7) business days.

**3.9. Business Representative.** Business Representative shall cause Borrower to fulfill each of Borrower's covenants hereunder.

**3.10. Working Capital Funding.** Borrower shall not enter into any arrangement, agreement or commitment that relates to or involves Borrower's accounts receivable, whether in the form of a purchase of, a loan against, or the sale or purchase of credits against, Borrower's accounts receivable or future credit card or online sales with any party other than Bank.

**3.11. Unencumbered Accounts Receivable.** Borrower has good, complete and marketable title to all of its accounts receivable, free and clear of any and all liabilities, liens, claims, charges, restrictions, conditions, options, rights, mortgages, security interests, equities, pledges and encumbrances of any kind or nature whatsoever or any other rights or interests that may be inconsistent with the transactions contemplated with, or adverse to the interests of, Bank.

**3.12. Business Purpose.** Borrower is a valid business in good standing under the laws of the jurisdictions in which it is organized and/or operates, and Borrower is entering into this Agreement solely for business purposes and not as a consumer for personal, family or household purposes. Borrower's Business Payment Account and Bank Account are each specifically designated as business purpose accounts and are each used solely for sales of goods and or services sold or rendered by Borrower and not used for personal, family or household purposes.

#### **IV. ADDITIONAL TERMS**

**4.1. Security Interest.** Borrower grants to Bank, to secure Borrower's performance under this Agreement, a continuing security interest in any and all assets of Borrower, wherever found, that Borrower now owns or shall acquire, including, but not limited to: (a) all tangible and intangible personal property of Borrower, including, but not limited to, all cash or cash equivalents, accounts, deposit accounts, chattel paper, documents, equipment, general intangibles, instruments, inventory, investment property (including certificated and uncertificated securities, securities accounts, securities entitlements, commodity contracts and commodity accounts), letter of credit rights, commercial tort claims and as-extracted collateral (as those terms are defined in Article 9 of the Uniform Commercial Code ("UCC") in effect from time-to-time in the State of Utah); (b) all patents, patent applications, trademarks, trade names, service marks, logos, copyrights, and other sources of business identifiers, and all registrations, recordings and applications with the U.S. Patent and Trademark Office ("USPTO") and U.S. Copyright Office and all renewals, reissues and extensions thereof (collectively "IP"), together with any written agreement granting any right to use any IP; and (c) all accessions, attachments, accessories, parts, supplies and replacements, products, proceeds and collections with respect to the items described in (a) and (b) above, as those terms are defined in Article 9 of the UCC and all records and data relating thereto.

**4.2. Financing Statements.** Borrower understands and agrees that Bank may at any time file one or more (i) UCC-1 financing statements, lien entry form or other document to perfect, amend, or continue any interest granted in Section 4.1 above and (ii) assignments with USPTO and/or U.S. Copyright Office to perfect any security interest in IP described above. Borrower agrees to cooperate with Bank as may be necessary to accomplish said filing and authorizes Bank to sign Borrower's name to affect the filing or continuation of any such filings.

**4.3. Remedies.** In the event that any representation or warranty of Borrower or Business Representative contained in this Agreement is not true, accurate and complete, or in the event of a breach of any of the covenants contained in this Agreement, including the Borrower Contractual Covenants, Bank shall be entitled to all remedies available under law. The obligation of Business Representative in Section 1.11 of this Agreement is primary, direct, and unconditional, and Business Representative waives any right to require Bank to proceed first against Borrower before recovering damages from Business Representative. Borrower and Business Representative hereby waive any and all defenses to liability under this Agreement other than payment in full.

**4.4. Protection of Information.** Except for Confidential Information (as defined below), Borrower and Business Representative each authorize Bank to disclose to any third party information concerning Borrower's and Business Representative's business conduct. Borrower and Business Representative hereby waive to the maximum extent permitted by law any claim for damages against Bank or any of its affiliates relating to any (i) investigation undertaken by or on behalf of Bank as permitted by this Agreement or (ii) disclosure of information as permitted by this Agreement.

**4.5. Confidentiality.** Borrower understands and agrees that the terms and conditions of the products and services offered by Bank, including this Agreement and any other Bank documentation (collectively, "Confidential Information") are proprietary and confidential information of Bank. Accordingly, unless disclosure is required by law or court order, Borrower shall not disclose Confidential Information to any person other than an attorney, accountant, financial advisor or employee of Borrower who needs to know such information for the purpose of advising Borrower ("Advisor"), provided such Advisor uses such information solely for the purpose of advising Borrower and first agrees in writing to be bound by the terms of this Section 4.5. The foregoing covenants of Borrower shall exist for the duration of the relationship of the parties and,

with respect to all Confidential Information, that comprises a Trade Secret (under Georgia law) for so long as such information continues to constitute a Trade Secret and, otherwise, for three (3) years after termination of the relationship between the parties.

**4.6. Transfer and Assignment.** We reserve the right to sell, transfer, or assign all or any portion of our interest in this Agreement to another entity or person and Borrower and Business Representative hereby knowingly consent to such sale, transfer, or assignment. This Agreement, and the rights and obligations under this Agreement, may not be assigned by Borrower or Business Representative (including by operation of law) without our prior written consent and any purported assignment in violation of the foregoing shall be void *ab initio*.

**4.7. Publicity.** Borrower and Business Representative authorize Bank to use Borrower's or Business Representative's name in a listing of clients and in advertising and marketing materials.

## V. MISCELLANEOUS

**5.1. Modifications; Amendments; Construction.** No modification, amendment, or waiver of any provision of this Agreement shall be effective unless the same shall be in writing and signed by the parties affected, such execution by all parties being an express prerequisite to enforceability. The headings of the sections and subsections herein are inserted for convenience only and under no circumstances shall they affect in any way the meaning or interpretation of this Agreement. For purposes of this Agreement, "including" shall mean "including, without limitation."

**5.2. Notices.** Except as otherwise provided in this Agreement, any notice provided under this Agreement must be in writing but may be provided electronically. Notices will be deemed given when properly addressed and deposited in the U.S. mail, postage prepaid, First Class mail; delivered in person; or sent by registered mail; by certified mail; by nationally recognized overnight courier; or by electronic mail. Notice to you will be sent to your last known physical address or electronic mail address in our records. Notice to any of you will be deemed notice to all of you. Notice to us may be sent to [Kabbage@Program](mailto:Kabbage@Program), P.O. Box 77081, Atlanta, GA 30357. You agree to notify us immediately if you change your name, your postal or electronic mail address or other contact information, if there are any errors in the information regarding transactions on your account or information that you provide to us, or if any of you dies, is declared incompetent or is subject of a bankruptcy or insolvency proceeding. You agree that a notice of incompetence is not effective unless issued by a court having jurisdiction and we receive notice and instruction from the court. **Notwithstanding the above, we may, at our option, accept other evidence of incompetence acceptable to us. You agree to indemnify and hold us harmless from and against any and all claims relating to acceptance or non-acceptance of proof of incompetence in any transaction. This indemnity will survive termination of this Agreement.**

**5.3. Waiver; Remedies.** No delay on the part of Bank to exercise, and no delay in exercising, any right under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right under this Agreement preclude any other or further exercise of any other right. The remedies provided hereunder are cumulative and not exclusive of any remedies provided by law or equity.

**5.4. D/B/A's.** Borrower hereby acknowledges and agrees that Bank may be using "doing business as" or "d/b/a" names in connection with various matters relating to the transaction between Bank and Borrower, including the filing of UCC-1 financing statements and other notices or filings.

**5.5. Binding Effect.** This Agreement shall be binding upon and inure to the benefit of Borrower, Business Representative, Bank and their respective successors and permitted assigns.

**5.6. Governing Law Consent to Jurisdiction and Venue. With the exception of Section II above (which is to be governed exclusively by the FAA), this Agreement shall be governed by, and construed in accordance with, the internal laws of the State of Utah without regard to internal principles of conflict of laws.** Such laws will govern the legality, enforceability and interpretation of this Agreement. Borrower and Business Representative understand and agree that Bank is located in Utah and Loan is issued in Utah. Borrower and Business Representative agree that these laws apply no matter where Borrower or Business Representative lives, is domiciled, or made this Agreement.

**5.7. Term and Survival.** This Agreement shall continue in full force and effect until all obligations hereunder have been satisfied in full; provided, however, that any Section that, by its terms suggests survival beyond termination hereof, shall so survive until the natural expiration thereof.

**5.8. Severability.** In case any one or more of the provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby.

**5.9. Entire Agreement.** This Agreement contains the entire agreement and understanding among Borrower, Business Representative, and Bank and supersedes all prior agreements and understandings, whether oral or in writing, relating to the subject matter hereof unless otherwise specifically reaffirmed or restated herein.

**5.10. Jury Trial Waiver.** THE PARTIES HERETO WAIVE TRIAL BY JURY IN ANY COURT IN ANY SUIT, ACTION OR PROCEEDING ON ANY MATTER ARISING IN CONNECTION WITH OR IN ANY WAY RELATED TO THE TRANSACTIONS OF WHICH THIS AGREEMENT IS A PART OR THE ENFORCEMENT HEREOF, EXCEPT WHERE SUCH WAIVER IS PROHIBITED BY LAW OR DEEMED BY A COURT OF LAW TO BE AGAINST PUBLIC POLICY. THE PARTIES HERETO ACKNOWLEDGE THAT EACH MAKES THIS WAIVER KNOWINGLY, WILLINGLY AND VOLUNTARILY AND WITHOUT DURESS, AND ONLY AFTER EXTENSIVE CONSIDERATION OF THE RAMIFICATIONS OF THIS WAIVER WITH THEIR ATTORNEYS.

**5.11. Class Action Waiver.** THE PARTIES HERETO WAIVE ANY RIGHT TO ASSERT ANY CLAIMS AGAINST THE OTHER PARTY AS A REPRESENTATIVE OR MEMBER IN ANY CLASS OR REPRESENTATIVE ACTION, EXCEPT WHERE SUCH WAIVER IS PROHIBITED BY LAW AGAINST PUBLIC POLICY. TO THE EXTENT EITHER PARTY IS PERMITTED BY LAW OR COURT OF LAW TO PROCEED WITH A CLASS OR REPRESENTATIVE ACTION AGAINST THE OTHER, THE PARTIES HEREBY AGREE THAT: (1) THE PREVAILING PARTY SHALL NOT BE ENTITLED TO RECOVER ATTORNEYS' FEES OR COSTS ASSOCIATED WITH PURSUING THE CLASS OR REPRESENTATIVE ACTION (NOT WITHSTANDING ANY OTHER PROVISION IN THIS AGREEMENT); AND (2) THE PARTY WHO INITIATES OR PARTICIPATES AS A MEMBER OF THE CLASS WILL NOT SUBMIT A CLAIM OR OTHERWISE PARTICIPATE IN ANY RECOVERY SECURED THROUGH THE CLASS OR REPRESENTATIVE ACTION.

**5.12. Telephone Monitoring and Recording.** To ensure that you receive quality service and for training purposes, Borrower and Business

Representative agree that any phone call may be monitored and/or recorded.

**5.13. Communicating with You and Business Representative; Consent to Contact by Electronic and Other Means.** For purposes of this Section 5.13 "you" means Borrower, Business Representative, and any agent or representative of Borrower or Business Representative, collectively and individually, for purposes of communications between you and Bank regarding this Agreement and related commercial transactions. You agree that we may contact you as provided in this paragraph. We may contact you for any lawful reason, including for the collection of amounts owed to us and for the offering of products or services to Borrower in compliance with our Bank Privacy Policy in effect from time to time. No such contact will be deemed unsolicited. You specifically agree that we may (i) contact you at any address (including email) or telephone number (including wireless cellular telephone, ported landline, facsimile or VoIP telephone number) as you may provide to us from time to time, even if you asked to have your number added to any state or federal do-not-call registry; (ii) use any means of communication, including, but not limited to, postal mail, electronic mail, telephone, facsimile or other technology, to reach you; (iii) use automatic dialing and announcing devices which may play recorded messages; and (iv) send text messages to your telephone. Your consent to be contacted by us is provided as part of the consideration for this Loan, and, as such, is an essential term of this Agreement. Accordingly, such consent may be withdrawn only as part of a written modification of this Agreement in accordance with Section 5.1 above, unless applicable law restricts our enforcement of this provision, in which case this provision is to be applied to the fullest extent not prohibited by law.

**5.14. In Case of Errors or Questions about Your Monthly Statement**

If you think your monthly statement is wrong, or if you need more information about an item on your monthly statement, write as soon as possible to: Kabbage@Business Loan Account Inquiries, P.O. Box 77081, Atlanta, GA 30357. We must hear from you no later than 60 days after we sent you the first monthly statement on which the error or problem appeared.

In your letter, please give us the following information:

- Your name and email address,
- The dollar amount of the suspected error,
- A description of the error, and
- An explanation of why you believe there is an error.

If you need more information, describe the item you are unsure about. **You remain obligated to make any remaining Total Minimum Monthly Payment while we investigate.**

**SUBORDINATION AGREEMENT**  
**(Affiliated Creditor)**

This **SUBORDINATION AGREEMENT**, dated as of October 23, 2019 (this "**Agreement**"), is by and between Joseph V. Vittoria, an individual (the "**Subordinated Lender**"), and Puradyn Filter Technologies Incorporated, a Delaware corporation (the "**Subordinated Borrower**"). The Subordinated Lender and the Subordinated Borrower are sometimes collectively referred to as the "**Parties**."

**WHEREAS**, on March 25, 2019 the Subordinated Borrower issued the Subordinated Lender that certain Senior Secured Promissory Note in the principal amount of \$9,129,430.15 (the "**Secured Note**") which is secured in accordance with the terms of a Security Agreement of even date therewith by and between the Parties (the "**Security Agreement**").

**WHEREAS**, the Subordinated Borrower is desirous of borrowing \$43,100 from Kabbage® ("**Kabbage**") under the terms of a Business Loan Agreement (the "**Kabbage Loan**"), the terms of which will require the Subordinated Borrower to grant Kabbage a security interest in its assets.

**WHEREAS**, the Subordinated Borrower has requested that the Subordinated Lender subordinate his security interest pursuant to the terms of the Secured Note and the Security Agreement to Kabbage so as to permit the Subordinated Borrower to obtain the Kabbage Loan, and the Subordinated Lender has agreed to such request.

Accordingly, the Subordinated Lender and the Subordinated Borrower, hereby agree as follows:

**SECTION 1. SUBORDINATION.**

(a) The Subordinated Lender hereby agrees that all Subordinated Obligations (as defined below) and all of his right, title and interest in and to the Subordinated Obligations shall be subordinate and junior in right of payment to the Kabbage Loan and all rights of Kabbage in respect of the Kabbage Loan, including, in each case, the payment of principal, premium (if any), interest (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to the Kabbage Loan whether or not a claim for post-filing interest is allowed or allowable in any such proceeding), fees, charges, expenses, indemnities, reimbursement obligations and all other amounts payable thereunder or in respect thereof and all refinancings, replacements, substitutions and renewals of all of the foregoing (all of the above, collectively, the "**Senior Obligations**"). For purposes hereof, "**Subordinated Obligations**" means all obligations of the Subordinated Borrower to the Subordinated Lender in respect of the Secured Note and the Security Agreement.

(b) Upon any distribution of the assets of the Subordinated Borrower or upon any dissolution, winding up, liquidation or reorganization of the Subordinated Borrower, whether in bankruptcy, insolvency, reorganization, arrangement or receivership proceedings or otherwise, or upon any assignment for the benefit of creditors or any other marshalling of the assets and liabilities of the Subordinated Borrower, or otherwise:

(i) Kabbage shall first be entitled to receive indefeasible payment in full of all Senior Obligations (whenever arising) and only after the Senior Obligations have been paid in full shall the Subordinated Lender be entitled to receive any payment on account of the Subordinated Obligations of the Subordinated Borrower, whether of principal, interest or otherwise; and

(ii) any payment by, or on behalf of, or distribution of the assets of, the Subordinated Borrower of any kind or character, whether in cash, securities or other property, to which the Subordinated Lender would be entitled except for the provisions of this Section 1 shall be paid or delivered by the person making such payment or distribution (whether a trustee in bankruptcy, a receiver, custodian or liquidating trustee or otherwise) directly to Kabbage or its assigns, until all of the Senior Obligations have been paid in full.

(c) The Parties acknowledge that this Agreement is a “subordination agreement” under section 510(a) of Title 11 of the United States Code entitled “Bankruptcy,” as now and hereafter in effect, or any successor statute (the “**Bankruptcy Code**”), which will be effective before, during and after the commencement of an Insolvency or Liquidation Proceeding. All references in this Agreement to the Subordinated Borrower will include the Subordinated Borrower as a debtor-in-possession and any receiver or trustee for the Subordinated Borrower in an Insolvency or Liquidation Proceeding. For purposes of this Section 1(c), “**Insolvency or Liquidation Proceeding**” shall mean:

- (A) any voluntary or involuntary case or proceeding under the Bankruptcy Code with respect to the Subordinated Borrower;
- (B) any other voluntary or involuntary insolvency, reorganization or bankruptcy case or proceeding, or any receivership, liquidation, reorganization or other similar case or proceeding with respect to the Subordinated Borrower or with respect to a material portion of its assets;
- (C) any liquidation, dissolution, reorganization or winding up of the Subordinated Borrower whether voluntary or involuntary and whether or not involving insolvency or bankruptcy; or
- (D) any assignment for the benefit of creditors or any other marshalling of assets and liabilities of the Subordinated Borrower.

**SECTION 2. SENIOR OBLIGATIONS UNCONDITIONAL.** All rights and interests of the Subordinated Lender, and all agreements and obligations of the Subordinated Borrower hereunder, shall remain in full force and effect irrespective of:

- (a) any lack of validity or enforceability of the Security Agreement or the Secured Note;
- (b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Senior Obligations, or any amendment or waiver or other modification, whether by course of conduct or otherwise, of, or consent to departure from, the Kabbage Note;
- (c) any exchange, release or nonperfection of any lien in any collateral;
- (d) any refinancing, replacement or substitution of the Senior Obligations or any portion thereof regardless of whether the terms and conditions thereof are less beneficial to the Subordinated Borrower; or
- (e) any other circumstances that might otherwise constitute a defense available to, or a discharge of, the Subordinated Borrower in respect of the Senior Obligations, or of the Subordinated Lender or the Subordinated Borrower in respect of this Agreement.

**SECTION 3. NOTICES.** All notices, requests and demands to or upon any party hereto shall be in writing and shall be given in the manner provided in the Secured Note and Security Agreement.

**SECTION 4. COUNTERPARTS.** This Agreement may be executed by one or more of the parties on any number of separate counterparts, each of which shall be deemed an original, but all of which taken together shall be deemed to constitute but one instrument. Delivery of an executed signature page to this Agreement by facsimile transmission or electronic PDF delivery shall be as effective as delivery of a manually signed counterpart of this Agreement.

**SECTION 5. SEVERABILITY.** In case any one or more of the provisions contained in this Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision hereof in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The Parties hereto shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

**SECTION 6. SUCCESSORS AND ASSIGNS.** This Agreement shall be binding upon the successors and assigns of each of the Subordinated Borrower and the Subordinated Lender and shall inure to the benefit of the Secured Parties and their respective successors and assigns.

**SECTION 7. GOVERNING LAW; JURISDICTION.** THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HERETO HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF FLORIDA. THE PARTIES HERETO AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THIS AGREEMENT SHALL BE TRIED AND LITIGATED ONLY IN THE COUNTY OF PALM BEACH, STATE OF FLORIDA AND, TO THE EXTENT PERMITTED BY APPLICABLE LAW, FEDERAL COURTS LOCATED IN THE COUNTY OF PALM BEACH, STATE OF FLORIDA.

**IN WITNESS WHEREOF**, the parties hereto have caused this Agreement to be duly executed and delivered as of the day and year first above written.

**PURADYN FILTER TECHNOLOGIES INCORPORATED**

By /s/ Edward S. Vittoria  
Name: Edward S. Vittoria  
Title: Chief Executive Officer

/s/ Joseph V. Vittoria  
Joseph V. Vittoria

**EXHIBIT 31.1**

**Rule 13a-14(a)/15d-14(a) Certification**

I, Edward S. Vittoria, certify that:

1. I have reviewed this report on Form 10-Q for the period ended September 30, 2019 of Puradyn Filter Technologies Incorporated;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant'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
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant'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 registrant's internal control over financial reporting.

Dated: November 13, 2019

/s/ Edward S. Vittoria

Edward S. Vittoria, Chief Executive Officer, principal executive officer

**EXHIBIT 31.2**

**Rule 13a-14(a)/15d-14(a) Certification**

I, Martin Scott, certify that:

1. I have reviewed this report on Form 10-Q for the period September 30, 2019 of Puradyn Filter Technologies Incorporated;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant'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
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant'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 registrant's internal control over financial reporting.

Dated: November 13, 2019

/s/ Martin Scott  
Martin Scott, CFO Consultant, principal financial and  
accounting officer

**EXHIBIT 32.1**

**Section 1350 Certification**

In connection with the Quarterly Report of Puradyn Filter Technologies Incorporated (the "Company") on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission (the "Report"), I, Edward S. Vittoria, Chief Executive Officer of the Company, and Martin Scott, principal financial and accounting officer of the Company, each certify, pursuant to 18 U.S.C. SS. 1350, as adopted pursuant to SS. 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in the Report fairly presents, in all material respects, the financial conditions and results of operations of the Company.

Dated: November 13, 2019

/s/ Edward S. Vittoria  
Edward S. Vittoria,  
Chief Executive Officer, principal financial officer

Dated: November 13, 2019

/s/ Martin Scott  
Martin Scott,  
CFO Consultant, principal financial and accounting officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear 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.