

Edgar Filing: AIRTRAX INC - Form 10QSB/A

AIRTRAX INC
Form 10QSB/A
June 15, 2007

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

FORM 10-QSB/A

AMENDMENT NO. 2

(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, 2005.
- TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____.

Commission file number: 001-16237

AIRTRAX, INC.
(Name of Small Business Issuer in its charter)

----- New Jersey ----- (State or other jurisdiction of incorporation or organization	----- 22-3506376 ----- (IRS Employer Identification No.
--	--

200 Freeway Drive, Unit One, Blackwood, NJ 08012
(Address of principal executive offices)

(856) 232-3000
(Issuer's telephone number)

Check whether issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or 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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court: Yes No

Indicate by check whether the registrants is a shell company (as defined in rule 12b of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of October 31, 2005, the issuer had 21,928,674 shares of common stock, no par value, issued and outstanding.

Transitional Small Business Issuer Format (Check One): Yes No

Edgar Filing: AIRTRAX INC - Form 10QSB/A

EXPLANATORY NOTE

Certain errors effecting the September 30, 2005 financial statements have been discovered during an internal review. The corrections resulted in a change to the loss attributable to common shareholders, certain amounts on the statement of cash flows and balance sheet accounts and changes in components of stockholders equity, as of September 30, 2005. The corrections result from a determination that the issuance of the Company's preferred stock as payment of dividends in lieu of cash dividends on April 1, 2005 with respect to previously issued shares of preferred stock were issued in error. The Company's original Articles of Incorporation prohibit the issuance of additional shares of preferred stock as payment of dividends on shares of issued and outstanding preferred stock. Accordingly, the 100,000 shares of preferred stock, which were issued to the holder on April 1, 2005, were issued in error. Additionally, the Company's Articles of Incorporation, as amended, including on April 30, 2000, similarly do not support the calculation used by the Company in determining the number of shares of common stock used to pay preferred stock dividends.

The Company also concluded that the 8% Series A Convertible Promissory Notes ("Notes") and the Class A and Class B Warrants (collectively, the "Warrants") issued to certain accredited and/or qualified institutional purchasers pursuant to that certain Subscription Agreement (the "Subscription Agreement") dated as of February 11, 2005 contained embedded derivatives due to the registration rights and liquidated damages provisions contained in the Subscription Agreement. The embedded derivative provisions provided that the Company pay liquidated damages in connection with the delay in filing of a registration statement on Form SB-2 in the event that it did not file such registration statement which registers the shares of our common stock underlying the Notes and the Warrants, or cause the Securities and Exchange Commission to declare such registration statement effective, each within specified time frames as set forth in the Subscription Agreement.

The Company determined that a restatement of the Quarterly Reports on Form 10-QSB for the three and nine month periods ended September 30, 2005 was necessary in light of our review of our accounting for derivatives and based on recent interpretations of the accounting for certain financial instruments under SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") and the Emerging Issues Task Force No. 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" ("EITF No. 00-19").

The Company also has removed this Form 10-QSB/A, the Financial Statements of FiLCO GmbH, including the Pro Forma Financial Statements prepared in connection with the proposed acquisition of FiLCO, GmbH in 2005. FiLCO filed for bankruptcy in 2006.

For the convenience of the reader, this Form 10-QSB/A sets forth the original Form 10-QSB in its entirety, with the exception of the FiLCO financial statements mentioned above. However, this Form 10-QSB/A only amends our financial statements and the footnotes to our financial statements, along with the corresponding changes to our Management's Discussion and Analysis. We also corrected typographical errors and have revised our controls and procedures disclosure as a result of these restatements. No other information in the original Form 10-QSB is amended hereby. In addition, pursuant to the rules of the SEC, the original Form 10-QSB has been amended to contain currently dated certifications from our Principal Executive Officer and Principal Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of our Principal Executive Officer and Principal Financial Officer are attached to this Form 10-QSB/A as Exhibits 31.1, 31.2 and 32.1, respectively.

Edgar Filing: AIRTRAX INC - Form 10QSB/A

2

AIRTRAX, INC.
SEPTEMBER 30, 2005 QUARTERLY REPORT ON FORM 10-QSB/A
AMENDMENT NO. 2

TABLE OF CONTENTS

	PAGE

PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	
Balance Sheets	4
Statements of Operations and Deficit Accumulated During Development Stage	5
Statements of Cash Flows	7
Notes to Financial Statements	8
Special Note Regarding Forward Looking Statements	17
Item 2. Management's Discussion and Analysis or Plan of Operations	17
Item 3. Controls and Procedures	22
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings	23
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	23
Item 3. Defaults Upon Senior Securities	23
Item 4. Submission of Matters to a Vote of Security Holders	23
Item 5. Other Information	23
Item 6. Exhibits	23
SIGNATURES	26

3

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AIRTRAX, INC.

Edgar Filing: AIRTRAX INC - Form 10QSB/A

(A Development Stage Company)

BALANCE SHEETS

	September 30, 2005 (Unaudited) (Restated) -----	December 31, 2004 (Audited) (Restated) -----
ASSETS		
Current Assets		
Cash	\$ 40,682	\$ 641,477
Accounts receivable	2,421	-
Accrued interest receivable	361,912	86,667
Inventory	2,204,373	709,281
Prepaid expenses	-	5,113
Vendor advance	173,017	52,017
Deferred tax asset	596,252	224,414
	-----	-----
Total current assets	3,378,657	1,718,969
Fixed Assets		
Office furniture and equipment	162,051	90,714
Automotive equipment	21,221	21,221
Shop equipment	57,400	24,553
Casts and tooling	239,297	205,485
	-----	-----
	479,969	341,973
Less, accumulated depreciation	275,695	248,386
	-----	-----
Net fixed assets	204,274	93,587
Other Assets		
Advances to Filco GmbH	6,255,462	2,670,000
Patents - net	147,601	117,402
Utility deposits	65	65
	-----	-----
Total other assets	6,403,128	2,787,467
	-----	-----
TOTAL ASSETS	\$ 9,986,059	\$ 4,600,023
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 1,258,715	\$ 394,959
Accrued liabilities	1,504,195	459,565
Warrants and conversion liability	5,476,939	1,219,750
Shareholder deposits for stock	70,875	1,403,174
Shareholder notes payable	134,474	33,455
	-----	-----
Total current liabilities	8,445,198	3,510,903
Long Term Convertible Debt	500,000	-
	-----	-----
TOTAL LIABILITIES	8,945,198	3,510,903
	-----	-----
Stockholders' Equity		
Common stock - authorized, 100,000,000 shares without par value; issued and outstanding - 21,874,374 and 15,089,342, Respectively	21,102,014	10,822,854

Edgar Filing: AIRTRAX INC - Form 10QSB/A

Paid in capital - warrants	1,247,013	-
Preferred stock - authorized, 500,000,000 shares without par value; 275,000 issued and outstanding	12,950	12,950
Deficit accumulated during the development stage	(21,114,164)	(9,539,732)
Deficit prior to development stage	(206,952)	(206,952)
Total stockholders' equity	1,040,861	1,089,120
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 9,986,059	\$ 4,600,023

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

4

AIRTRAX, INC.
(A Development Stage Company)
STATEMENTS OF OPERATIONS AND DEFICIT
ACCUMULATED DURING DEVELOPMENT STAGE
For the Nine Month Periods Ended September 30,
(Unaudited)

	2005 (Restated)	2004
SALES	\$ 167,545	\$ -
COST OF GOOD SOLD	160,126	-
Gross Profit	7,419	-
OPERATING AND ADMINISTRATIVE EXPENSES	3,987,695	1,397,479
OPERATING LOSS	(3,980,276)	(1,397,479)
OTHER INCOME AND EXPENSE		
Interest expense	(77,528)	(23,716)
Conversion expense	(5,600,139)	-
Revaluation expense	(2,253,205)	-
Interest income	291,208	24,091
Other income	211	131
NET LOSS BEFORE INCOME TAXES	(11,619,729)	(1,396,973)
INCOME TAX BENEFIT (STATE):		
Current	371,838	119,226

Edgar Filing: AIRTRAX INC - Form 10QSB/A

Prior years	-	-
Total Benefit	371,838	119,226
NET LOSS BEFORE DIVIDENDS	(11,247,891)	(1,277,747)
DEEMED DIVIDENDS ON PREFERRED STOCK	(274,978)	-
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	(11,522,869)	(1,277,747)
PREFERRED DIVIDENDS DURING DEVELOPMENT STAGE	(51,563)	(91,868)
DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE	\$ (11,574,432)	\$ (1,369,315)
NET LOSS PER COMMON SHARE		
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (11,522,869)	\$ (1,277,747)
ADJUSTMENT FOR PREFERRED DIVIDENDS	(51,563)	(51,563)
LOSS ATTRIBUTABLE TO COMMON SHAREHOLDER	\$ (11,574,432)	\$ (1,328,980)
NET LOSS PER SHARE - basic and diluted	\$ (.64)	\$ (.12)
WEIGHTED AVERAGE SHARES OUTSTANDING	18,138,064	11,452,797

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

5

AIRTRAX, INC.
(A Development Stage Company)
STATEMENTS OF OPERATIONS AND DEFICIT
ACCUMULATED DURING DEVELOPMENT STAGE
For the Three Month Periods Ended September 30,
(Unaudited)

	2005 (Restated)	2004
SALES	\$ -	\$ -
COST OF GOODS SOLD	-	-
Gross Profit	-	-

Edgar Filing: AIRTRAX INC - Form 10QSB/A

OPERATING AND ADMINISTRATIVE EXPENSES	1,979,813	549,338
	-----	-----
OPERATING LOSS	(1,979,813)	(549,338)
OTHER INCOME AND EXPENSE		
Interest expense	(4,909)	(9,986)
Revaluation expense	(2,853,504)	-
Conversion expense	-	-
Interest income	118,908	13,964
Other income	-	37
	-----	-----
NET LOSS BEFORE INCOME TAXES	(4,719,318)	(545,323)
INCOME TAX BENEFIT (STATE):		
Current	147,392	51,456
Prior years	-	-
	-----	-----
Total Benefit	147,392	51,546
	-----	-----
NET LOSS BEFORE DIVIDENDS	(4,571,926)	(493,867)
DEEMED DIVIDENDS ON PREFERRED STOCK	-	-
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (4,571,926)	\$ (493,667)
PREFERRED DIVIDENDS DURING DEVELOPMENT STAGE	-	(17,188)
	-----	-----
DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE	\$ (4,571,926)	\$ (511,055)
	=====	=====
NET LOSS PER COMMON SHARE		
NET LOSS	\$ (4,571,926)	\$ (493,867)
ADJUSTMENTS FOR PREFERRED DIVIDENDS	(17,188)	(17,188)
	-----	-----
LOSS ATTRIBUTABLE TO COMMON SHAREHOLDER	\$ (4,589,114)	\$ (511,055)
	=====	=====
NET LOSS PER SHARE - basic and diluted	\$ (.21)	\$ (.04)
WEIGHTED AVERAGE SHARES OUTSTANDING	21,740,196	12,888,343

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

Edgar Filing: AIRTRAX INC - Form 10QSB/A

(A Development Stage Company)
 STATEMENTS OF CASH FLOWS
 ACCUMULATED DURING DEVELOPMENT STAGE
 For the Nine Month Periods Ended September 30,
 (Unaudited)

	2005 (Restated)	2004
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (11,522,869)	\$ (1,277,747)
Adjustments to reconcile net loss to net cash consumed by operating activities:		
Charges not requiring the outlay of cash:		
Depreciation and amortization	32,499	27,159
Equity securities issued for services	1,866,500	623,401
Provision for impairment loss	120,280	-
Conversion expense	5,600,139	-
Increase in accrual of deferred tax benefit	(371,838)	(119,226)
Deemed dividends on preferred stock	274,978	-
Interest accrued on shareholder loan	3,021	3,775
Revaluation expense	2,253,205	-
Changes in current assets and liabilities:		
Increase in accrued interest receivable	(275,245)	(24,081)
Increase in accounts receivable	(2,421)	-
Increase in vendor advances	(121,000)	-
Increase (decrease) in accounts payable and accrued liabilities	884,830	(225,888)
Increase in prepaid expenses	-	-
Increase in inventory	(1,495,092)	(131,842)
	-----	-----
Net Cash Consumed By Operating Activities	(2,753,013)	(1,124,449)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of equipment	(137,996)	(19,249)
Additions to patent cost	(35,389)	(37,686)
Advances to Filco GmbH	(3,247,171)	(1,230,000)
	-----	-----
Net Cash Consumed By Investing Activities	(3,420,556)	(1,286,935)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds of issuance of convertible debt	4,277,500	-
Net proceeds of common stock sales	55,000	2,696,462
Proceeds of convertible loan	409,913	-
Proceeds from exercise of warrants	718,486	-
Proceeds of stockholder loan	100,000	-
Proceeds of sales of preferred stock	-	-
Proceeds from exercise of options	13,877	5,944
Repayments of stockholder loans	(2,002)	(52,005)
Preferred stock dividends paid in cash	-	(91,868)
Principal payments on installation note	-	(5,546)
	-----	-----
Net Cash Provided By Financing Activities	5,572,774	2,552,987
Net (Decrease) Increase In Cash	(600,795)	141,603

Edgar Filing: AIRTRAX INC - Form 10QSB/A

Balance at beginning of period	641,477	37,388
	-----	-----
Balance at end of period	\$ 40,682	\$ 178,991
	=====	=====

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

7

AIRTRAX, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
September 30, 2005
(Unaudited)

1. BASIS OF PRESENTATION

The unaudited interim financial statements of AirTrax, Inc. ("the Company") as of September 30, 2005 and for the three month and nine month periods ended September 30, 2005 and 2004, respectively, have been prepared in accordance with accounting principals generally accepted in the United States of America. In the opinion of management, such information contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for such periods. The results of operations for the three and nine month periods ended September 30, 2005 are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2005.

Certain information and disclosures normally included in the notes to financial statements have been condensed or omitted as permitted by the rules and regulations of the Securities and Exchange Commission, although the Company believes the disclosure is adequate to make the information presented not misleading. The accompanying unaudited financial statements should be read in conjunction with the financial statements of the Company for the year ended December 31, 2004.

2. RESTATEMENTS

The Company determined that a restatement of the Quarterly Reports on Form 10-QSB for the three and nine month periods ended September 30, 2005 was necessary in light of our review of our accounting for derivatives and based on recent interpretations of the accounting for certain financial instruments under SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") and the Emerging Issues Task Force No. 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" ("EITF No. 00-19").

The Company concluded that the 8% Series A Convertible Promissory Notes ("Notes") and the Class A and Class B Warrants (collectively, the "Warrants") issued to certain accredited and/or qualified institutional purchasers pursuant to that certain Subscription Agreement (the "Subscription Agreement") dated as of February 11, 2005 contained embedded derivatives due to the registration rights and liquidated damages provisions contained in the Subscription Agreement. The embedded derivative provisions provided that the Company pay liquidated damages in connection with the delay in filing of a registration statement on Form SB-2 in the event that it did not file such registration statement which registers the shares of our common stock underlying the Notes and the Warrants, or cause

Edgar Filing: AIRTRAX INC - Form 10QSB/A

the Securities and Exchange Commission to declare such registration statement effective, each within specified time frames as set forth in the Subscription Agreement.

We also have restated our financial statements contained in this Quarterly Report to reflect the reduction in preferred stock outstanding, preferred stock dividend expense and deemed dividend expenses recorded in 2005. In addition, we have restated our financial statements contained in the Reports to reflect a liability in connection with issuance of the Notes and the Warrants that contained an embedded derivative and conversion privileges, as of September 30, 2005:

The effect on the Company's previously issued financial statements for the Three and Nine Month Periods Ended September 30, 2005 are summarized as follows:

The effect on the company's previously issued Balance Sheet as of September 30, 2005 is summarized as follows:

8

	Previously Reported	Increase (Decrease)
	-----	-----
Assets		
Bond discount	\$ 416,667	\$ (416,667)
Assets	10,402,726	(416,667)
	=====	=====
Liabilities		2,253,205
Warrant and conversion liability	-	1,219,750
Warrant and conversion liability	-	2,003,985
Total Liabilities	3,468,259	5,476,939
	-----	-----
Common stock	20,773,723	(3,269,231)
		3,596,154
		326,541
		(325,173)
Warrants	2,366,339	(944,500)
		(174,826)
Preferred stock	545,491	(532,541)
Deficit from Operations	(16,544,134)	206,000
		(5,600,139)
		(2,253,205)
		4,213,731
		83,333
		(1,219,750)
Stockholders equity	6,934,467	(5,893,606)

Edgar Filing: AIRTRAX INC - Form 10QSB/A

Total Liabilities and Shareholders	\$ 10,402,726	\$ (416,667)
	-----	-----
Equity		

The effect on the Company's previously issued statement of Operations for the nine Month period ended September 30, 2005 are summarized as follows:

	Previously Reported	Increase (decrease)
	-----	-----
Interest expense	\$ (4,374,592)	\$ 4,213,731
		83,333
Conversion expense	-	(5,600,139)
Revaluation expense	-	(2,253,205)
Deemed dividend	(480,978)	206,000
	-----	-----
Deficit accumulated	\$ (8,224,152)	\$ (3,350,280)
	-----	-----
	As Initially Reported	Adjustments
	-----	-----
LOSS PER SHARE- -basic and diluted	\$ (.45)	\$ (.19)

9

The effect on the Company's previously issued statement of Operations for the Three Month period ended September 30, 2005 are summarized as follows:

	Previously Reported	Increase (decrease)
	-----	-----
Expenses	\$ 1,981,664	\$ (1,851)
Revaluation expense	-	(2,853.504)
Interest expense	(86,391)	83,333
		(1,905)
	-----	-----
Deficit accumulated	\$ (1,801,755)	(2,770,171)
	-----	-----
	Previously Reported	Increase (decrease)
	-----	-----
LOSS PER SHARE--basic and diluted	\$ (.08)	\$ (.13)

The effect on the Company's previously issued statement of Operations for the period May 19,1997 through September 30, 2005 are summarized as follows:

Edgar Filing: AIRTRAX INC - Form 10QSB/A

	Previously Reported	Increase (decrease)
	-----	-----
Conversion expenses	\$ -	\$ (5,955,609)
Revaluation expense	-	(3,117,485)
Interest expense	(4,549,616)	83,333
		4,213,731
Deemed dividend expense	(669,390)	206,000

Deficit accumulated	\$ (16,544,134)	\$ (4,570,030)
	-----	-----

The effect on the Company's previously Statement of Cash Flows for the period May 19,1997 through September 30, 2005 are summarized as follows:

	Previously Reported	Increase (decrease)
	-----	-----
Net Loss	\$ (16,049,431)	\$ (3,350,000)
		(1,210,000)
Value of warrants issued for convertible debt	944,500	(94,000)
Conversion benefits associated with convertible debt	3,269,231	(3,260,000)
Amortization of bond discount	83,333	(8,000)
Conversion expense	-	5,950,000
Revaluation expense	-	3,110,000
Deemed dividend expense	669,390	(200,000)

Cash Consumed by Operations	\$ (7,478,397)	\$ (7,478,397)
	-----	-----

- (1) Adjustment to convert from EITF 98-5, which is no longer applicable as the principals of EITF 00-19 and FAS #133 are more appropriate.
- (2) Reflects revaluation expense for 2005
- (3) Reflects YTD conversion expense for both notes converted to equity or still in convertible notes.
- (4) Adjustment for 2005 deemed dividend expense to reflect its payment in common stock as apposed to preferred stock.
- (5) Roll forward of 2004 adjustment regarding conversion and revaluation of warrants

3. COMMON STOCK AND WARRANTS

The certificate of incorporation was amended on March 28, 2005 to increase the number of authorized shares to 100,000,000 for common no par stock, and to 5,000,000 for preferred no par stock.

Edgar Filing: AIRTRAX INC - Form 10QSB/A

On February 11, 2005, the Company issued \$5,000,000 of 8% convertible promissory notes, which were convertible into Company common stock and two classes of warrants to purchase Company common stock. The notes were to mature on August 10, 2005. The Company retained the right to require conversion of the notes at a price of \$1.30 per share. Conversion occurred on March 29, 2005 and 3,846,154 shares of common stock were issued. In addition, warrants to purchase common stock were issued in connection with this transaction, as follows: 1,923,077 Class A warrants and 961,538 Class B warrants. The Class A warrants were initially exercisable for a five year period at a price per share of \$1.85. The exercise price has subsequently been adjusted, first to \$ 1.56 and then to \$.45 per share in February, 2007 due to pricing of subsequent issues. The Class B warrants were initially exercisable for a five year period at a price of \$2.11. The exercise price has undergone similar adjustments as the Class "A" warrants, now set at \$.45/ per share. As partial compensation, the broker-dealer which arranged this transaction was awarded 384,616 warrants to purchase common stock at \$1.85 per share, and 100,000 warrants to purchase common stock at \$1.00 per share.

The issuance of convertible promissory notes and warrants was accounted for as required by Emerging Issues Task Force (EITF) 98-5 "Accounting For Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF 00-27 "Application of Issue no. 98-5 To Certain Convertible Investments." Accordingly, the Statement of Operations initially reflected expenses of \$944,500 representing the value of the warrants and \$3,269,231 representing the value of the conversion privilege. This restatement reflects the application of new guidance under EITF 00-19. "Accounting for Derivative Instruments Indexed To, and Potentially Settled, in a Company's Own Stock. Accordingly, the restatements reflects the reversal of amounts initially calculated and charged to interest expense and their replacement by amounts calculated under EITF 00-19 and SFAS #133.

On May 14, 2005, the Company issued a \$500,000 8% convertible note. The note is scheduled for maturity in two years. During that period, it was be convertible to stock at a rate of \$1.30 per share, which would translate to 384,615 shares. The conversion rate was adjusted to \$.45 per share due to the pricing of the February 20, 2007 issue. Accompanying the convertible note were 384,615 warrants to purchase common stock initially at \$ 2.11 per share exercisable over a five year period. The exercise price has subsequently been adjusted, first to \$ 1.56 per share and then to \$.45 per share due to the pricing of the February 20, 2007 issue. This issuance of the convertible note, and the accompanying warrants, was also accounted for under the guidance of EITF 98-5 and EITF 00-27. This treatment, when combined with the \$90,087 expenses of the issuance, resulted in a total cost of issuance of \$500,000, which was initially being amortized over the 24-month term of the notes. This treatment has also been reversed in the restatement due to the application of EITF 00-19 versus the previous guidance under EITF 98-5 and EITF 00-27.

A total of 8,536,298 warrants was outstanding at September 30, 2005, as follows:

	Class A	Class B	Warrants
Outstanding at December 31, 2004			5,537
Issued in connection with sale			
of \$5,000,000 in convertible notes	1,923,077	961,538	484
Issued in conjunction with			
\$500,000 of convertible debt		384,615	
Other warrants issued			37

Edgar Filing: AIRTRAX INC - Form 10QSB/A

Reductions:

Warrants exercised			(593)
Warrants voided			(200)
Outstanding, September 30, 2005	1,923,077	1,346,153	5,267

11

AIRTRAX, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS
September 30, 2005
(Unaudited)

3. COMMON STOCK AND WARRANTS (continued)

Shares of common stock were issued during the third quarter and first nine months of 2005 as follows:

	Third Quarter	Nine Months
Conversion of \$5,000,000 notes	-	3,846,
Private placement sales	-	68,
Shares issued based on warrants exercised	-	593,
Shares issued to purchase Filco third party debt	187,939	187,
Issuance of shares sold in prior year	-	1,749,
Shares issued for services	46,509	310,
Shares issued in settlement of interest due on convertible notes	-	28,
Total shares issued	234,448	6,785,

A schedule detailing stock issued during the nine months ended September 30, 2005 for consulting services and for other services is presented below.

	Number of Shares	Grant Date	Grant Date Price	Grant Date Value
Shares Issued for Consulting Services:				
Financial services	100,000	5/06/05	\$2.60	\$ 260,000 5,113(1)
Marketing services	20,000	5/01/05	2.55	51,000
Marketing services	15,000	4/01/05	2.25	36,000
Industrial relations	5,000	5/01/05	2.55	12,750
Consulting services	5,000	2/24/05	2.50	12,500
Consulting services	11,000	1/03/05	2.78	30,580

Edgar Filing: AIRTRAX INC - Form 10QSB/A

Marketing services	22,500	9/06/05	2.80	63,000
Marketing services	15,000	7/01/05	2.25	33,750
Marketing services	9,009	8/02/05	2.25	20,288
	-----			-----
Total shares issued for consulting services	202,509			524,981
Shares Issued for Other Services:				
In settlement of rent	19,200	4/25/05	2.50	40,500
Legal services	50,000	5/06/05	2.60	130,000
Employee options exercised	20,000	4/01/05		
In settlement of rent	19,200	4/23/05	2.63	50,522
	-----			-----
Total shares issued for services	310,909			746,003
	=====			
Value of options granted				1,120,497

Total value of equity securities issued for services				\$1,866,500
				=====

(1) Represents amortization of prior year expense.

12

AIRTRAX, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
September 30, 2005
(Unaudited)

4. CUMULATIVE STATEMENT OF CHANGE IN STOCKHOLDERS' EQUITY

May 19, 1997 to September 30, 2005

		COMMON SHARES		PREFERRED STOCK	
		Number	Amount	Number	Amount
		-----	-----	-----	-----
Shares to incorporators	1997	177,547	\$ 1,630		
Subsequent sale to incorporators	1997			275,000	2,750
Redemption of initial preferred stock	1997	88,340		(275,000)	
Stock issued in conjunction with merger	1997	3,127,500	214,768		

Edgar Filing: AIRTRAX INC - Form 10QSB/A

	2004	57,434			
		-----	-----		
		3,184,934	214,768		
		-----	-----		
Exchange of common stock for preferred stock	1997	(1,500,000)	(30,200)	275,000	10,200
Preferred stock issued in lieu of common stock re: dividends	2005			100,000	532,541
Stock sold in private placements	1997	83,213	148,984		
	1998	471,962	493,119		
	2004	614,552	872,268		
	2000	330,719	430,858		
	2001	235,999	348,600		
	2002	392,834	396,630		
	2003	715,000	659,000		
	2004	5,630,125	3,857,802		
	2005 re: 2004	1,749,827	1,401,172		
	2005	68,750	55,000		
		-----	-----		
		10,292,981	8,663,433		
		-----	-----		

13

AIRTRAX, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
September 30, 2005
(Unaudited)

		COMMON SHARES		PREFERRED STOCK	
		Number	Amount	Number	Amount
		-----	-----	-----	-----
Stock issued for services	1997	30,000			
	1998	79,708			
	1999	18,629	17,238		
	2000	65,331	62,767		
	2001	97,183	95,746		
	2002	423,659	413,899		
	2003	1,509,003	1,618,411		
	2004	687,665	661,306		
	2005	310,909	746,003		
		-----	-----		
		3,222,087	3,615,370		
		-----	-----		
Net losses during development stage	1997				
	1998				

Edgar Filing: AIRTRAX INC - Form 10QSB/A

	1999		
	2000		
	2001		
	2002		
	2003		
	2004		
	2005		
Stock split	1998	1,021,825	
Dividends paid in common stock	1999	305,737	120,366
	2000	95,558	56,751
	2003	246,731	269,161
		-----	-----
		648,026	446,278
		-----	-----
Share issued for convertible notes	2005	3,846,154	4,277,500
Conversion benefit re: convertible notes	2005		3,269,231
Conversion benefit on notes	2005		286,472

14

AIRTRAX, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
September 30, 2005
(Unaudited)

		COMMON SHARES		PREFERRED STOCK		WA
		Number	Amount	Number	Amount	
Shares issued re: interest on convertible notes	2005	28,453	36,987			
Dividends paid in cash	1998					
	1999					
	2004					
	2005					
Adjustment	2003	(21,912)				

Edgar Filing: AIRTRAX INC - Form 10QSB/A

Warrants exercised	2004	75,000	93,750		
	2005	593,000	718,333		
		-----	-----		
		668,000	812,083		
		-----	-----		
Warrants associated with converted notes	2005				9
Warrants associated with convertible notes	2005				1
Shares issued to purchase debt	2005	187,939	458,571		
Transfers from separate equity account re: exercised warrants	2005		181,000		(1
Allocate value of prior warrants to separate account	2005		(1,479,400)		1,4
Redemptions of promissory note	1997	30,000	20,000		
Balances, September 30, 2005		21,874,374	\$20,773,723	375,000	\$545,491 \$ 2,3
Adjustments					
Reverse conversion benefit recorded under EITF 98-5			(3,269,231)		(9
Record conversion benefit for Convertible stock, EITF 00-19			3,596,154		
Record conversion expense on other Debt not converted					
Prior year impact of revaluing derivatives as liabilities per EITF 00-19					
Conversion expense for the year					
Record Deemed Dividend in common stock Vs. preferred stock and reflect difference in valuation			326,541	(100,000)	(532,541)
Reverse amount recorded via EITF 98-5			(325,173)		(
Adjusted balance September 30, 2005		21,874,374	\$21,102,014	275,000	\$12,950 \$1,
		=====	=====	=====	=====

Edgar Filing: AIRTRAX INC - Form 10QSB/A

(Unaudited)

5. SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest was \$5, 803 and \$10,135, respectively, for the nine month periods ended September 30, 2005 and June 30, 2004. There was no cash paid for income taxes during either the 2005 or 2004 nine month periods.

There were no noncash investing activities during either the 2005 or 2004 periods. The following noncash financing activities occurred during these periods.

a. During the second quarter of 2005, the Company issued 24,853 shares in settlement of the interest obligation on its \$5,000,000 convertible issue prior to the conversion of the notes to stock.

b. Shares of common stock were issued for services in 2005 and 2004; these totaled 310,909 shares and 192,277 shares, respectively.

c. Shares were issued in 2005 and 2004 in settlement of shares paid for in prior years. These amounted to 1,749,827 shares and 30,000 shares, respectively.

d. The Company purchased third party debt of Filco for 187,939 shares in 2005.

6. OPERATING AND ADMINISTRATIVE EXPENSES

The following details expenses incurred during the nine month periods ended September 30, 2005 and 2004:

	2005	2004
	-----	-----
Options Expense	\$ 1,163,838	\$ -
Payroll	422,680	242,027
Marketing	243,761	67,922
Development Costs	234,639	51,529
Professional Fees	419,710	75,200
Consulting Expenses	524,981	614,079
Insurance	173,633	61,158
Penalties	199,149	-
Freight	107,275	3,195
Impairment	120,280	-
Other Expenses	377,749	282,369
	-----	-----
Total Expenses	\$ 3,987,695	\$ 1,397,479
	=====	=====

7. CONTINGENCY

The Company has a tentative agreement to purchase 75.1% of the stock of FiLCO GmbH (FiLCO), a German manufacturer of fork trucks with a manufacturing facility in Mulheim, Germany. During the pendency of the tentative agreement, the Company has agreed to make advances to FiLCO. Through September 30, 2005, advances totaling \$6,255,462 had been made. A portion of these advances may be converted to capital on the books of FiLCO. The seller, who will continue to own the remaining 24.9% of the FiLCO stock, has agreed that if the Company converts \$1,220,000 of its advances to capital he will also convert to FiLCO capital a loan of 1,225,000 Euros that FiLCO owes to him. As additional consideration for this FiLCO stock purchase, the Company has agreed to pay the seller 12,750 Euros and to issue to the seller 900,000 warrants to purchase Company stock; these warrants would be exercisable at \$.01 per share. The Company has appointed the

Edgar Filing: AIRTRAX INC - Form 10QSB/A

seller of the FiLCO stock a director of the Company and upon a closing of the acquisition would grant him as compensation for service as a director options to purchase 100,000 shares of Company stock for \$.01. Additionally, the Company agreed to advance funds, if needed, to FiLCO to provide for its working capital needs. Any advances made under the latter provision would be collateralized by the remaining 24.9% of FiLCO stock and would be repaid only from dividends paid on that stock.

As of September 30, 2005, the Company had not concluded the contract and had not issued any of the warrants or options contemplated by the tentative agreement.

16

Item 2. Management's Discussion and Analysis and Results of Operations Forward Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of such terms, or other comparable terminology. These statements are only predictions. Actual events or results may differ materially from those in the forward-looking statements as a result of various important factors. Although we believe that the expectations reflected in the forward-looking statements are reasonable, such should not be regarded as a representation by AIRTRAX, Inc., or any other person, that such forward-looking statements will be achieved. The business and operations of AIRTRAX, Inc. are subject to substantial risks, which increase the uncertainty inherent in the forward-looking statements contained in this report.

Overview

Since 1995, substantially all of our resources and operations have directed towards the development of the omni-directional wheel and related components for forklift and other material handling applications. Many of the components, including the unique shaped wheels, motors, and frames, have been specially designed by us and specially manufactured. Ten commercial omni-directional lift trucks carrying the UL Label have been delivered to customers in the United States and Canada as of October 25, 2005 and several others are ready to ship pending receipt of funds or consummation of letters of credit or other credit facilities. We believe that up to a total of 84 units could be manufactured and sold through the fourth quarter of 2005 pending receipt of parts from certain vendors.

We have commenced production and have most of the parts required for production of another 23 units of our Sidewinder ATX-3000 Omni-Directional Lift Truck during the 4th quarter of 2005. As of October 27, 2005 we do not have all of the parts required from every vendor for completion of the 23 trucks heretofore noted. The assembly and sale is dependent upon delivery of all of the required parts.

Omni-Directional means that vehicles designed and built by us can travel in any direction. Our Omni-directional vehicles are controlled with a joystick. The vehicle will travel in the direction the joystick is pushed. If the operator pushes the joystick sideways, the vehicle will travel sideways. If the operator were to twist the joystick the vehicle will travel in circles. Our omni-directional vehicles have one motor and one motor controller for each wheel. The omni-directional movement is caused by coordinating the speed and direction of each motor with joystick inputs which are routed to a

Edgar Filing: AIRTRAX INC - Form 10QSB/A

micro-processor, then from the micro-processor to the motor controllers and finally to the motor itself.

Complete assembly is conducted by us at our newly leased facilities at 200 Freeway Drive Unit One, Blackwood, NJ 08012. Approximately 50% of the frames are manufactured in the United States. These frames are shipped to the Blackwood plant for complete assembly. In addition to the assembly of vehicles at Blackwood, partially assembled vehicles are shipped to the Blackwood facility from the Filco plant in Germany. To date, partial assembly of approximately 19 lift trucks have been completed at the Filco plant, 14 of which and have been shipped to the USA for final assembly. To date, a total of approximately 80 lift truck frames will be shipped from Bulgaria to the Filco plant for partial assembly and shipped to the Blackwood plant for final assembly during the fourth quarter of 2005.

We have incurred losses and experienced negative operating cash flow since our formation. For the three months ended September 30, 2005 and 2004, we had a net loss of \$(4,571,826) and \$(493,867), respectively. For our fiscal years ended December 31, 2004 and 2003, we had a net loss of \$(2,272,200) and \$(2,282,946), respectively. We expect to continue to incur significant expenses. Our operating expenses have been and are expected to continue to outpace revenues and result in significant losses in the near term. We may never be able to reduce these losses, which will require us to seek additional debt or equity financing.

Our principal executive offices are located at 200 Freeway Drive, Unit One, Blackwood, NJ 08012 and our telephone number is (856) 232-3000. We are incorporated in the State of New Jersey.

17

Company History

We were incorporated in the State of New Jersey on April 17, 1997. On May 19, 1997, we entered into a merger agreement with a predecessor company that was incorporated on May 10, 1995. We were the surviving company in the merger.

Effective November 5, 1999, we merged with MAS Acquisition IX Corp ("MAS"), and were the surviving company in the merger. Pursuant to the Agreement and Plan of Merger, as amended, each share of common stock of MAS was converted to 0.00674 shares of our company. After giving effect to fractional and other reductions, MAS shareholders received 57,280 of our shares as a result of the merger.

In March 2004, we reached an agreement in principal, subject to certain closing conditions, with Fil Filipov to acquire 51% of the capital stock of Filco GmbH, a German corporation. In April 2003, Filco GmbH acquired substantially all of the assets of Clark Material Handling of Europe GmbH, which were located at Clark's facility in Rheinstrasse Mulheim a.d. Ruhr, Germany. These assets consisted of all of the tooling, machinery, equipment, inventory, intellectual property, office furniture and fixtures, and personnel necessary to build the entire Clark line of lift trucks, but excluded the building and land, as well as the rights to the Clark name. Further, Filco GmbH had entered into an 18-month lease agreement with the current property owner with an option to purchase the 200,000 square foot building and land for 4.7 million euros, and Filco GmbH has been operating this plant since July 1, 2003. Filco's option to purchase the 200,000 square foot building and land for 4.7 million euros expires on December 31, 2005.

In October 2004, Mr. Filipov and we agreed to modify our agreement in principal so as to increase the number of shares of the capital stock of Filco GmbH, which we will acquire, if we finalize the acquisition, from 51% to 75.1%. The purpose of this change is to give us control of Filco GmbH in accordance with US GAAP

Edgar Filing: AIRTRAX INC - Form 10QSB/A

and German law considerations regarding consolidation and capitalization. Further, this change was offered and accepted in consideration of our agreeing to advance Filco additional funds, in the form of a loan, to fund the start up of the Filco operation prior to the consummation of the transaction. All other conditions and terms of the agreement between the parties shall remain the same.

In 2005, the amounts loaned to Filco, in the aggregate amount to \$6,255,462 exclusive of interest at 8% per annum, pursuant to a series of secured and unsecured promissory notes. The loans were to have been repaid on or prior to December 31, 2006, however Filco did not repay the loans and subsequently filed for bankruptcy in February 2006.

We currently purchase a high percentage of our parts in Europe, including, but not limited to, the frames from Bulgaria, motors and controllers manufactured in the Czech Republic and Sweden, and transmissions, brakes and seats manufactured in Germany. The mast could be manufactured, the frames could be powder coated (painted), and European parts could have been assembled at the Filco plant. Partially assembled vehicles would be shipped to the United States for final assembly. Wheels and other parts for the vehicles may be sold in Europe or Middle Eastern countries could have been shipped from the United States for the completion of manufacturing at Filco. We believe we could cut manufacturing costs because our material handling equipment could be manufactured in the continent in which it is sold, i.e., Europe. With our manufacturing capabilities in the United States, this potential acquisition would have allowed a portion of the Sidewinder being assembled and manufactured in each of the two continents that purchase and use about 70% of all material handling equipment worldwide.

The primary objective that must be achieved to reach the aforementioned goal(s) is to secure the necessary financing required to fund the acquisition and manufacturing objectives of Filco and us. There can be no assurance that we will be able to raise sufficient capital necessary to complete the acquisition and fund the manufacturing objectives of Filco and us.

18

The amounts loaned to Filco, in the aggregate amount of \$6,255,462 exclusive of interest at 8% per annum, pursuant to a series of secured and unsecured promissory notes. The loans were to have been repaid on or prior to December 31, 2006, however Filco did not repay the loans and subsequently filed for bankruptcy in February 2006.

Restatement

Certain errors effecting the September 30, 2005 financial statements have been discovered during an internal review. The corrections resulted in a change to the loss attributable to common shareholders, certain amounts on the statement of cash flows and balance sheet accounts and changes in components of stockholders equity, as of September 30, 2005. The corrections result from a determination that the issuance of the Company's preferred stock as payment of dividends in lieu of cash dividends on April 1, 2005 with respect to previously issued shares of preferred stock were issued in error. The Company's original Articles of Incorporation do not provide for the issuance of additional shares of preferred stock as payment of dividends on shares of issued and outstanding preferred stock. Accordingly, the 100,000 shares of preferred stock, which were issued to the holder on April 1, 2005, were issued in error. Additionally, the Company's Articles of Incorporation, as amended, including on April 30, 2000, similarly do not support the calculation used by the Company in determining the number of shares of common stock used to pay preferred stock dividends.

The Company's Articles of Incorporation, as amended, including on April 30,

Edgar Filing: AIRTRAX INC - Form 10QSB/A

2000, similarly do not support the calculation used by the Company in determining the number of shares of common stock used to pay preferred stock dividends. The difference being the date used in determining the stock price at the end of each preferred dividend period, as opposed to the lowest common stock price during the preferred dividend period, subject to a 70% discount, for calculating the number of common shares issued as payment of the period's preferred stock dividend. Accordingly, the number of shares were greater than the number of shares required, and were issued in error resulting in increased preferred dividend expenses and preferred stock equity. The financial statements at December 31, 2004 reflect 275,000 shares of preferred stock outstanding and disclosed that an additional 100,000 shares of preferred stock were deemed the equivalent of 221,892 shares of common stock that would have been required to settle an equivalent amount of preferred dividends. On April 1, 2005, the preferred shares were issued. The Company has determined that the number of shares deemed the equivalent of the preferred stock dividend will be recalculated based on the Company's Articles of Incorporation, as amended, including on April 30, 2000.

The Company also concluded that the 8% Series A Convertible Promissory Notes ("Notes") and the Class A and Class B Warrants (collectively, the "Warrants") issued to certain accredited and/or qualified institutional purchasers pursuant to that certain Subscription Agreement (the "Subscription Agreement") dated as of February 11, 2005 contained embedded derivatives due to the registration rights and liquidated damages provisions contained in the Subscription Agreement. The embedded derivative provisions provided that the Company pay liquidated damages in connection with the delay in filing of a registration statement on Form SB-2 in the event that it did not file such registration statement which registers the shares of our common stock underlying the Notes and the Warrants, or cause the Securities and Exchange Commission to declare such registration statement effective, each within specified time frames as set forth in the Subscription Agreement.

The Company determined that a restatement of the Quarterly Report on Form 10-QSB for the three and nine month periods ended September 30, 2005 was necessary in light of our review of our accounting for derivatives and based on recent interpretations of the accounting for certain financial instruments under SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") and the Emerging Issues Task Force No. 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" ("EITF No. 00-19").

The Company also has removed this Form 10-QSB/A, the Financial Statements of FilCO GmbH, including the Pro Forma Financial Statements prepared in connection with the proposed acquisition of FilCO, GmbH in 2005. FilCO filed for bankruptcy in 2006.

RESULTS OF OPERATIONS - THREE MONTHS ENDED SEPTEMBER 30, 2005 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 2004.

We have been a development stage company for the periods ended September 30, 2005 and 2004 and have not engaged in full-scale operations for the periods indicated. During 2005, we expect to transition from a development stage company to an operating company as we begin production and sales of the Sidewinder Omni-Directional Lift Truck. Consequently, management believes that the year-to-year comparisons described below are not indicative of future year-to-year comparative results.

Revenues

For the three month period ended September 30, 2005, we had sales revenue of \$-0-. This compares to revenues of \$-0- for the three months ended September 30, 2004. The lack of sales revenue occurred as a result of moving the location of

Edgar Filing: AIRTRAX INC - Form 10QSB/A

operations to 200 freeway Drive, Unit One, Blackwood, NJ and that time required to get the plant situated and operational.

19

Cost of Goods Sold

Our cost of goods sold for the three months ended September 30, 2005 amounted to \$0-. For the three months ended September 30, 2004, our cost of goods sold was \$-0-.

We are entitled to a benefit for the effect on income taxes on the net operating loss. Accordingly, a benefit in the amount of \$147,392 has been recorded for the third quarter of 2005 and \$51,456 was recorded during the third quarter of 2004.

Operating and Administrative Expenses

Operating and administrative expenses includes administrative salaries and overhead. For the three months ended September 30, 2005, our operating and administrative expenses totaled \$1,979,813. Operating and administrative expenses totaled \$549,338 for the three months ended September 30, 2004. For the three months ended September 30, 2005 operating and administrative expenses increased \$1,430,474 compared with the same period of 2004. These changes are a result of the time and material costs preparing for production of the SIDEWINDER and other production related issues including labor and materials used to outfit the new Airtrax assembly plant in Blackwood NJ.

Research and Development

We had no research and development costs for the three months ended September 30, 2005.

Loss Before Income Taxes

Loss before income taxes for the three month period ended September 30, 2005 totaled \$4,719,318. For the three months ended September 30, 2004, loss before income taxes totaled \$545,323. The increase in loss before income tax for the three months ended September 30, 2005 compared with the same period of 2004 was caused by the time and material allocations preparing for production of the SIDEWINDER and other production related issues including labor and materials used to outfit the new Airtrax assembly plant in Blackwood NJ.

Preferred Stock Dividends

During the three months ended September 30, 2005, we paid \$-0- in dividends on preferred stock. During the three months ended September 30, 2004, we paid dividends on preferred stock in the amount of \$17,188. The preferred stock dividends are payable to a company that is owned by our President.

RESULTS OF OPERATIONS - NINE MONTHS ENDED SEPTEMBER 30, 2005 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 2004

We have been a development stage company for the nine months ended September 30, 2005 and 2004 and have not engaged in full-scale operations for the periods indicated. The limited revenues for the periods have been derived from the first sales of the Sidewinder Omni-Directional Lift Truck. During 2005, we expect to transition from a development stage company to an operating company as we begin production and sales of the Sidewinder Omni-Directional Lift Truck. Consequently, management believes that the year-to-year comparisons described below are not indicative of future year-to-year comparative results.

Edgar Filing: AIRTRAX INC - Form 10QSB/A

Revenues

For the nine-month period ended September 30, 2005, we had sales revenue of \$167,545. This compares to revenues of \$-0- for the nine months ended September 30, 2004. The lack of sales revenue occurred as a result of moving the location of operations to 200 Freeway Drive, Unit One, Blackwood, NJ and that time required to get the plant situated and operational.

Cost of Goods Sold

Our cost of goods sold for the nine months ended September 30, 2005 amounted to \$160,126. For the nine months ended September 30, 2004, our cost of goods sold was \$-0-. Our cost of goods sold reflects the cost of the lift trucks sold during the nine months ended September 30, 2005.

Operating and Administrative Expenses

Operating and administrative expenses includes administrative salaries and overhead. For the nine months ended September 30, 2005, our operating and administrative expenses totaled \$3,987,695. Operating and administrative expenses totaled \$1,397,479 for the nine months ended September 30, 2004. For the nine months ended September 30, 2005 operating and administrative expenses

20

increased \$2,590,216 compared with the same period of 2004. These changes are a result of the time and material costs preparing for production of the SIDEWINDER and other production related issues including labor and materials used to outfit the new Airtrax assembly plant in Blackwood NJ.

Income Tax Benefit-State

We are entitled to a benefit for the effect on income taxes on the net operating loss. Accordingly, a benefit in the amount of \$371,838 has been recorded for the nine months ended September 30, 2005 and \$119,226 was recorded during the nine months ended September 30, 2004.

Research and Development

We had no research and development costs for the nine months ended September 30, 2005.

Loss Before Income Taxes

Loss before income taxes for the nine month period ended September 30, 2005 totaled \$11,619,729. For the nine months ended September 30, 2004, loss before income taxes totaled \$1,396,973. The principal reason for the increase in loss before income taxes for the nine months ended September 30, 2005 compared with the same period of 2004 was the recording of conversion expense of \$5,600,139 and revaluation expense of \$2,253,205 in connection with expenses result the convertible bond issue and are described in Note 3 to the financial statements. Other factors contributing to the increase in the 2005 loss were time and materials devoted to preparing for production of the SIDEWINDER and preparing the new assembly plant in Blackwood, New Jersey.

Preferred Stock Dividends

During the nine months ended September 30, 2005, we paid \$ 51,563 on preferred stock. During the nine months ended September 30, 2004, we paid dividends on preferred stock in the amount of \$91,868 The preferred stock dividends are payable to a company that is owned by our President.

Liquidity and Capital Resources

As of September 30, 2005, our cash on hand was \$40,682 and working capital deficit was \$5,066,595, primarily a result of recording as liabilities the conversion expense of \$5,600,139 and revaluation expense of \$2,253,205 in connection with the convertible bond issue described in Note 3 to the financial statements. Since our inception, we have financed our operations through the private placement of our common stock. During the nine months ended September 30, 2005, we sold an aggregate of 68,750 shares of common stock to accredited and institutional investors. During the three months ended September 30, 2004, we sold an aggregate of 0 shares of common stock to accredited and institutional investors and issued an aggregate of 46,509 shares of common stock in consideration for services rendered.

We anticipate that our cash requirements for the foreseeable future will be significant. In particular, management expects substantial expenditures for inventory, production, and advertising in anticipation of the rollout of its omni-directional forklift. We expect that we will be required to raise funds through the private or public offering of our securities. We have offered common stock and convertible notes which have been converted in March 2005 through private placements at a discount to the market price of our common stock at the time of such issuance partially because of the fluctuation and volatility of our stock prices and the overall market conditions. We have also issued warrants at varying prices, some higher and some lower than the market price of our common stock at the time of such issuance. This has been done as an incentive for funds and accredited investors to invest in us. In addition, the securities have been priced lower than market because it is not freely tradable until registered. We intend to continue this practice for the near future. Currently we have not identified any specific additional sources of capital.

Our initial production run of ten SIDEWINDER Omni-Directional Lift Trucks was completed in the first quarter of 2005. We will need additional funds to support production requirements beyond the initial production run of our forklift which are estimated to be \$3,000,000. Of the total amount, approximately 25% is projected for parts and component inventory and manufacturing costs, with the balance projected as general operating expenditures. As of September 30, 2005, we had loaned to Filco a total of \$6,255,462, exclusive of interest at 8% per annum. The loans were to have been repaid on or prior to December 31, 2006, however Filco did not repay the loans and subsequently filed for bankruptcy in February 2006.. We leased facilities starting in the second quarter of 2005 as corporate headquarters. This building will also facilitate the assembly of the SIDEWINDER and other omni-directional products, warranty work, and product distribution.

As of September 30, 2005, our working capital deficit was \$5,066,595. Fixed assets, net of accumulated depreciation, and total assets, as of September 30, 2005, were \$204,274 and \$9,986,059, respectively. Current liabilities as of September 30, 2005 were \$8,445,252.

Item 3. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of September 30, 2005. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter

Edgar Filing: AIRTRAX INC - Form 10QSB/A

how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were not designed at a reasonable assurance level and were not effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

We determined that a restatement of our Quarterly Reports on Form 10-QSB for the three and nine months ended September 30, 2005 was necessary in light of our review of our accounting for derivatives and based on recent interpretations of the accounting for certain financial instruments under SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") and the Emerging Issues Task Force No. 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" ("EITF No. 00-19").

We concluded that our 8% Series A Convertible Promissory Notes ("Notes") and the Class A and Class B Warrants (collectively, the "Warrants") issued to certain accredited and/or qualified institutional purchasers pursuant to that certain Subscription Agreement (the "Subscription Agreement") dated as of February 11, 2005 contained embedded derivatives due to the registration rights and liquidated damages provisions contained in the Subscription Agreement. The embedded derivative provisions provided that we will pay liquidated damages in connection with the delay in filing of a registration statement on Form SB-2 in the event that we did not file such registration statement which registers the shares of our common stock underlying the Notes and the Warrants, or cause the Securities and Exchange Commission to declare such registration statement effective, each within specified time frames as set forth in the Subscription Agreement.

We also have restated our financial statements contained in this Quarterly Reports to reflect the reduction in preferred stock outstanding, preferred stock dividend expense and deemed dividend expenses recorded in 2005. In addition, we will restate our financial statements contained in the Reports to reflect a liability in connection with issuance of the Notes and the Warrants that contained an embedded derivative and conversion privileges, as of September 30, 2005 as follows:

The accounting for the embedded derivatives within the Notes and the Warrants was determined under the guidance of SFAS 133 and EITF No. 00-19. The embedded derivatives are classified as a current liability in accordance with SFAS 133, and are recorded at fair value.

(b) Changes in internal control over financial reporting.

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

We did not make any changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on

Edgar Filing: AIRTRAX INC - Form 10QSB/A

Form 10-QSB that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We did however, make such changes subsequent to the period covered by this Quarterly Report on Form 10-QSB as a result of the needed restatements described above. We have hired additional qualified staff with SEC experience in the financial reporting and analysis area. We believe that this will avoid the reoccurrence of our material weaknesses and will strengthen our internal controls related to the financial closing, review, and analysis process so that our controls and procedures are effective in future periods.

22

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

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

On July 1, 2005 we issued options to purchase an aggregate of 750,000 shares of our common stock at an exercise price of \$.85 per share to certain of our employees and consultants as compensation for services performed on our behalf.

On August 25, 2005 we issued an aggregate of 187,939 shares of our common stock in satisfaction of an aggregate of \$338,291 of debt owed by Filco GmbH.

On October 18, 2005, we entered into a 8% Series C Unsecured Convertible Debenture and Warrants Purchase Agreement with certain accredited investors pursuant to which we sold an aggregate of \$1,000,000 principal amount unsecured convertible debentures convertible into shares of our common stock, no par value, at a conversion price of \$2.00 per share, and an aggregate of 500,000 stock purchase warrants to purchase shares of our Common Stock at \$3.25 per share to certain accredited investors who are parties to the Purchase Agreement for an aggregate purchase price of \$1,000,000. Further, we issued 50,000 Warrants to the placement agent, a registered broker dealer firm, exercisable at \$3.25 per share, as consideration for services performed in connection with the issuance of the Debentures and Warrants to the Investors pursuant to the Purchase Agreement.

The issuance of the aforementioned securities was exempt from registration requirements of the Securities Act of 1933 pursuant to Section 4(2) of such Securities Act and Regulation D promulgated thereunder based upon the representations of each of the purchasers that it was an "accredited investor" (as defined under Rule 501 of Regulation D) and that it was purchasing such securities without a present view toward a distribution of the securities. In addition, there was no general advertisement conducted in connection with the sale of the securities.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Edgar Filing: AIRTRAX INC - Form 10QSB/A

Item 6. Exhibits

(a) Exhibits.

- 3.1 Certificate of Incorporation of Airtrax, Inc. dated April 11, 1997. (Filed as an exhibit to the Company's Form 8-K filed with the Securities and Exchange Commission on November 19, 1999).
- 3.2 Certificate of Correction of the Company dated April 30, 2000 (Filed as an exhibit to Company's Form 8-K filed with the Securities and Exchange Commission on November 17, 1999).
- 3.3 Certificate of Amendment of Certificate of Incorporation dated March 19, 2001 (Filed as an exhibit to Company's Form 8-K filed with the Securities and Exchange Commission on November 17, 1999).
- 3.4 Certificate of Amendment of Certificate of Incorporation dated April 1, 2005 (Filed as an exhibit to Company's Form 10-QSB filed with the Securities and Exchange Commission on May 16, 2005).
- 3.5 Amended and Restated By-Laws of the Company. (Filed as an exhibit to the Company's Form 8-K filed with the Securities and Exchange Commission on November 19, 1999).
- 4.1 Form of Common Stock Purchase Warrant issued to investors pursuant to the May 2004 private placement. (Filed previously)
- 4.2 Form of Common Stock Purchase Warrant dated as of November 22, 2004 and November 23, 2004. (Filed as an exhibit to the Company's Form 8-K filed with the Securities and Exchange Commission on November 30, 2004).

23

- 10.1 Agreement and Plan of Merger by and between MAS Acquisition IX Corp. and Airtrax, Inc. dated November 5, 1999. (Filed as an exhibit to the Company's Form 8-K filed with the Securities and Exchange Commission on January 13, 2000).
- 10.2 Employment agreement dated April 1, 1997 by and between the Company and Peter Amico. (Filed as an exhibit to the Company's Form 8-K/A filed with the Securities and Exchange Commission on January 13, 2000).
- 10.3 Employment agreement dated July 12, 1999, by and between the Company and D. Barney Harris. (Filed as an exhibit to the Company's Form 8-K/A filed with the Securities and Exchange Commission on November 19, 1999).
- 10.4 Consulting Agreement by and between MAS Financial Corp. and Airtrax, Inc. dated October 26, 1999. (Filed as exhibit to the Company's Form 8-K filed with the Securities and Exchange Commission on November 19, 1999).
- 10.5 Employment Agreement effective July 1, 2002 by and between the Company and Peter Amico (filed as an exhibit to the Company's Form 10-KSB for the period ended December 31, 2002)
- 10.6 Agreement dated July 15, 2002 by and between the Company and Swingbridge Capital LLC and Brian Klanica. (Filed as an exhibit to the Company's Form 8-K filed on August 7, 2002).
- 10.7 Purchase Agreement, dated November 22, 2004, by and among Airtrax, Inc. and Excalibur Limited Partnership, Stonestreet Limited Partnership, Whalehaven Capital Fund. (Filed as an exhibit to the Company's Form 8-K

Edgar Filing: AIRTRAX INC - Form 10QSB/A

- filed on November 30, 2004).
- 10.8 Joinder to the Purchase Agreement, dated November 23, 2004, by and among Airtrax, Inc. and Excalibur Limited Partnership, Stonestreet Limited Partnership and Linda Hechter. (Filed as an exhibit to the Company's Form 8-K filed on November 30, 2004).
 - 10.9 Registration Rights Agreement, dated November 22, 2004, by and among Airtrax, Inc. and Excalibur Limited Partnership, Stonestreet Limited Partnership, Whalehaven Capital Fund and First Montauk Securities Corp. (Filed as an exhibit to the Company's Form 8-K filed on November 30, 2004).
 - 10.10 Joinder to the Registration Rights Agreement, dated November 23, 2004, by and among Airtrax, Inc. and Excalibur Limited Partnership, Stonestreet Limited Partnership, Linda Hechter and First Montauk Securities Corp. (Filed as an exhibit to the Company's Form 8-K filed on November 30, 2004).
 - 10.11 Subscription Agreement, dated February 11, 2005, by and among Airtrax, Inc. and the investors named on the signature page thereto (Filed as an exhibit to the Company's Form 8-K filed on February 11, 2005).
 - 10.12 Form of Series A Convertible Note of Airtrax, Inc. dated as of February 11, 2005 (Filed as an exhibit to the Company's Form 8-K filed on February 11, 2005).
 - 10.13 Form of Class A Common Stock Purchase Warrant of Airtrax, Inc. dated as of February 11, 2005 (Filed as an exhibit to the Company's Form 8-K filed on February 11, 2005).
 - 10.14 Form of Class B Common Stock Purchase Warrant of Airtrax, Inc. dated as of February 11, 2005 (Filed as an exhibit to the Company's Form 8-K filed on February 11, 2005).
 - 10.15 Series B Unsecured Convertible Debenture and Warrants Purchase Agreement, dated May 31, 2005, by and between Airtrax, Inc. and the investor named on the signature page thereto (Filed as an exhibit to the Company's Form 8-K filed on June 6, 2005).
 - 10.16 Registration Rights Agreement dated May 31, 2005, by and between Airtrax, Inc. and the investor named on the signature page thereto (Filed as an exhibit to the Company's Form 8-K filed on June 6, 2005).
 - 10.17 Series B Unsecured Convertible Debenture of Airtrax, Inc. (Filed as an exhibit to the Company's Form 8-K filed on June 6, 2005).
 - 10.18 Form of Stock Purchase Warrant of Airtrax, Inc. (Filed as an exhibit to the Company's Form 8-K filed on June 6, 2005).
 - 10.19 Letter Agreement dated May 31, 2005 by and among Airtrax, Inc. and the investors named on the signature page thereto (Filed as an exhibit to the Company's Form 8-K filed on June 6, 2005).
 - 10.20 Series C Unsecured Convertible Debenture and Warrants Purchase Agreement, dated October 18, 2005 by and between Airtrax, Inc. and the investor named on the signature page thereto (Filed as an exhibit to the Company's Form 8-K filed on October 24, 2005).
 - 10.21 Registration Rights Agreement dated October 18, 2005, by and between Airtrax, Inc. and the investor named on the signature page thereto

Edgar Filing: AIRTRAX INC - Form 10QSB/A

(Filed as an exhibit to the Company's Form 8-K filed on October 24, 2005).

24

- 10.22 Series C Unsecured Convertible Debenture of Airtrax, Inc. (Filed as an exhibit to the Company's Form 8-K filed on October 24, 2005).
- 10.23 Form of Stock Purchase Warrant of Airtrax, Inc. (Filed as an exhibit to the Company's Form 8-K filed on October 24, 2005).
- 10.24 Amended and Restated Stock Acquisition Agreement effective as of February 19, 2004 by and between Airtrax, Inc. and Fil Filipov (incorporated by reference to our registration statement on Form SB-2 filed on November 3, 2005).
- 10.25 Promissory Note of Filco GmbH dated as of January 15, 2005 issued to Airtrax, Inc. (Filed as an exhibit to our registration statement on Form SB-2 filed on January 11, 2006).
- 10.26 Promissory Note of Filco GmbH dated as of June 5, 2005 issued to Airtrax, Inc. (Filed as an exhibit to our registration statement on Form SB-2 filed on January 11, 2006).
- 10.27 Assignment and Purchase Agreement dated as of August 25, 2005 by and between Werner Faenger and Airtrax, Inc. (Filed as an exhibit to our registration statement on Form SB-2 filed on January 11, 2006).
- 10.28 Promissory Note of Filco GmbH with Guarantees dated as of November 25,
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14 and Rule 15d 14(a), promulgated under the Securities and Exchange Act of 1934, as amended
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer)
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer)

25

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 14th day of June 2007.

AIRTRAX, INC.

By:/s/ Robert M. Watson

Robert M. Watson
Chief Executive Officer,
Acting Chief Financial Officer
(Principal Executive and Financial Officer)