

Edgar Filing: AIRTRAX INC - Form 10KSB/A

AIRTRAX INC
Form 10KSB/A
November 04, 2005

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

FORM 10-KSB/A

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR FISCAL YEAR ENDED DECEMBER 31, 2004

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM ___ TO ___

001-16237
Commission File Number

AIRTRAX, INC.

(Name of small business issuer in its charter)

New Jersey

State or other jurisdiction
of incorporation

22-3506376

IRS Employer
Identification No.

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

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

Securities registered under Section 12(b) of the Exchange Act: None.

Securities registered under Section 12(g) of the Exchange Act: Common Stock, no
par value.

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

Check if disclosure of delinquent filers in response to Item 405 of Regulation
S-B is not contained in this form, and no disclosure will be contained, to the
best of registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-KSB or any amendment to
this Form 10-KSB. []

State the registrant's revenues for its most recent fiscal year: \$0 for the year
ended December 31, 2004.

State the aggregate market value of the voting and non-voting common equity held
by non-affiliates computed by reference to the price at which the common equity
was sold, or the average bid and asked price of such common equity, as of a
specified date within the past 60 days: \$94,474 as of March 24, 2005.

Edgar Filing: AIRTRAX INC - Form 10KSB/A

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

APPLICABLE ONLY TO CORPORATE REGISTRANTS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. As of March 31, 2005, the registrant had 21,256,215 shares of common stock, no par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE NONE.

Transitional Small Business Disclosure Format (check one): Yes [] No [X]

TABLE OF CONTENTS

	Page
PART I	
Item 1. Description of Business.....	3
Item 2. Description of Property.....	14
Item 3. Legal Proceedings.....	15
Item 4. Submission of Matter to Vote of Security Holders	15
PART II	
Item 5. Market for Common Equity and Related Stockholder Matters.....	16
Item 6. Management's Discussion and Analysis or Plan of Operation	19
Item 7. Financial Statements	F-1 to F-26
Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	31
Item 8A. Controls and Procedures	31
Item 8B. Other Information	31
PART III	
Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act	32
Item 10. Executive Compensation	33
Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	37
Item 12. Certain Relationships and Related Transactions	38
Item 13. Exhibits	40
Item 14. Principal Accountant Fees and Services	41

Edgar Filing: AIRTRAX INC - Form 10KSB/A

Signatures and Certifications.....42

2

PART I

NOTE REGARDING FORWARD LOOKING INFORMATION

Various statements in this Form 10-KSB and in future filings by us with the Securities and Exchange Commission, in our press releases and in oral statements made by or with the approval of authorized personnel constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on current expectations and are indicated by words or phrases such as "anticipate," "could," "currently envision," "estimate," "expect," "intend," "may," "project," "seeks," "we believe," "will," and similar words or phrases and involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by those forward-looking statements.

These forward-looking statements are based largely on our expectations and are subject to a number of risks and uncertainties, many of which are beyond our control. Actual results could differ materially from these forward-looking statements as a result of the facts described in "Risk Factors." We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, we cannot assure you that the forward-looking information contained in this Form 10-KSB will, in fact, transpire.

Our fiscal year ends on December 31. References to a fiscal year refer to the calendar year in which such fiscal year ends.

ITEM 1. DESCRIPTION OF BUSINESS

INTRODUCTION

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. Omni-directional technology creates vehicles which 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. Such joystick movements are first routed to a micro-processor, from the micro-processor to the motor controllers, and finally to the motor. Many of the components, including the unique shaped wheels, motors, and frames, have been specially designed by us and specially manufactured. Four pilot models of the commercial omni-directional lift truck are currently operational.

We have commenced and are near completion of getting the parts together for our initial production run consisting of 10 units of our Sidewinder ATX-3000 Omni-Directional Lift Truck. Substantially all of the parts including frames, motors, controllers, and micro-processors have been ordered and received by us, and are partially assembled. The initial production run will be completed upon receipt of wheels and other components from suppliers which is expected in the first quarter of 2005. Unit assembly is undertaken by us at the H&R Industries facility at 100 Park Avenue, Warminster, PA 18974. UL and final ANSI testing is expected to be completed from 30 to 90 days from production completion.

Edgar Filing: AIRTRAX INC - Form 10KSB/A

Following required testing, we expect to sell these units to select dealers in the United States. We have received orders for our initial run production run of 10 units.

We have incurred losses and experienced negative operating cash flow since our formation. For the 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 870B Central Avenue, Hammonton, NJ 08037 and our telephone number is (609) 567-7800. We are incorporated in the State of New Jersey.

3

OMNI-DIRECTIONAL TECHNOLOGY

PRIOR HISTORY

Omni directional vehicle technology has been the subject of research and development by universities, the Department of Defense, and industry for over 25 years. 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 micro-processor, then from the micro-processor to the motor controllers and finally to the motor itself. A Swedish inventor patented an early stage omni-directional wheel. Thereafter, the technology was purchased by the United States Navy and was advanced at the Naval Surface Warfare Center. The US Navy held the patent until its expiration in 1990. In 1996, the Navy transferred this technology to us for commercialization through a Cooperative Research and Development Agreement (CRADA).

TECHNOLOGY DESCRIPTION

Since the technology transfer under the CRADA agreement, we have examined and redesigned many aspects of the system for use in various applications including forklifts and other material handling equipment. In this regard, we refined control software and hardware, and tested a variety of drive component features on our pilot omni directional lift trucks and scissor-lifts. Extensive demonstrations of prototype vehicles for commercial and military users in combination with market research enabled us to direct our initial development efforts towards the material handling products, offering the best probability for successful market entry. Our management designed other aspects of our machine to complement the unique functionality of our omni-directional technology. In so doing, we achieved a virtually maintenance free unit which allows the operator free and unrestricted movement during operation. Each vehicle is powered with AC motors eliminating brushes and commutators of conventional DC motors. The AC motors also are lubricated for life thereby eliminating the need for additional greasing and fittings. The transmission uses a synthetic lubricant, and is sealed for life. The joystick controls all vehicle movement; therefore conventional drive trains, steering racks, hydraulic valve levers, and foot pedals for braking and acceleration are all non-existent.

On a four-wheel omni-directional vehicle employing our technology, each wheel

Edgar Filing: AIRTRAX INC - Form 10KSB/A

has a separate electric motor, making the vehicle capable of traveling in any direction. The motion of the vehicle is controlled by coordinating all four wheels through a microprocessor that receives input from an operator-controlled joystick. The joystick controls all vehicle movement (starting, steering, and stopping). The framework of our omni-directional lift truck consists primarily of a steel frame mobilized with four omni-directional wheels. The AC electric motor for each wheel turns its own wheel hub. Each wheel hub is encircled with multiple tapered rollers that are offset 45 degrees. The tapered rollers, covered with polyurethane, are extremely durable. By independently controlling the forward or rearward rotation of each wheel, the vehicle has the capability of traveling in any direction. The technology allows the vehicle to move forward, laterally, diagonally, or completely rotate within its own footprint, thereby allowing it to move into confined spaces without difficulty. The navigational options of an omni-directional vehicle are virtually limitless. The omni-directional wheel can be manufactured in different sizes depending upon the application. For instance, our management believes the wheel can be used on miniature vehicles or massive load-carrying vehicles.

EXISTING AND PROPOSED PRODUCTS

Sidewinder Omni-Directional Lift Truck. We anticipate that our Sidewinder Omni-Directional lift truck will be available with rated lift capacities ranging from 3000 pounds and higher. Our SIDEWINDER ATX-3000 Omni-Directional lift truck, which is our 3,000-pound model, features our revolutionary omni-directional technology. Conventional steering racks and foot pedals are non-existent allowing impediment free ingress and egress. This lift truck will deliver unequalled maneuverability providing significantly improved operating efficiencies in the materials handling industry. The dealer price is expected to retail at prices similar to or slightly higher than high-end, comparably sized standard forklifts. The "street prices" of similar rated, standard (non-omni-directional) forklifts range from \$16,000 to \$31,000 per unit. Other specialty forklifts, that are multi-directional sell for \$42,000 and greater, and vehicles considered very narrow aisle (VNA), are priced from \$75,000 and higher per unit. We believe that, due to its unique features, the omni-directional lift truck will support a price slightly higher than the average selling price of a conventional forklift.

4

Airtrax Conventional Forklift. In the event of the successful acquisition of Filco GmbH, we expect to use the Filco plant and operations to produce and sell a line of conventional forklifts manufactured under the Airtrax or Filco name for distribution in the United States and other geographical markets. It also is contemplated that the SIDEWINDER Omni-Directional lift truck will be assembled or partially assembled at the Filco plant and distributed by Filco or us to European or Middle East markets or partially assembled at Filco for distribution to the United States for final assembly.

Omni-Directional Aerial Work Platform. In late February 2004, we, in collaboration with MEC Aerial Platform Sales Corporation of Fresno, California ("MEC"), introduced a concept version of a scissor lift at the American Rental Association trade show in Atlanta. The scissor lift called the "Phoenix" incorporated our omni-directional technology along with an MEC platform and lift mechanisms. The vehicle contains features presently unavailable on conventional aerial work platforms. For example, similar to our lift truck, the aerial work platform's movement is controlled by a joystick. Movement to a particular spot or location at a job site can be accomplished easily due to the omni-directional technology, thereby eliminating the back and forth positioning typically associated with conventional platforms. Our designed control systems allow the operator to move at very regulated and easily controlled acceleration and speed, virtually eliminating operator error. The machine can climb over obstacles that would impede other machines. Our aerial work platform has the ability to climb

Edgar Filing: AIRTRAX INC - Form 10KSB/A

over obstacles up to a height of one-third the overall wheel diameter. The wheel used on the aerial work platform has a 17" total diameter. Accordingly, this vehicle can climb over obstacles more than 5.66" high. The ability to "climb over" obstacles is an inherent advantage of our omni-directional technology. This is a feature which we believe no other aerial work platform can perform, or if another aerial work platform can perform, it is to a very limited degree. Generally, any "wheeled" vehicle can "climb" over some obstacles, however, other "wheeled" vehicles cannot climb over obstacles as high as the one-third of the wheel's diameter. We believe that, similar to our lift truck, the improved functionality of the aerial work platform will result in increased productivity at the job-site.

On March 13, 2004, we entered into a draft Product Development, Sales and Representation Agreement with MEC. The draft agreement calls for the joint development of a proto-type and production versions of an omni-directional aerial work platform called the "Phoenix". During the development stage, each party will provide the parts, which apply to that party's area of responsibility. We will provide all of the parts required for the omni-directional traction system and related control systems, and MEC will provide all of the parts required for the scissor lift and lifting apparatus. After development of the prototype version, the parties will establish the cost of a commercial product, and if the cost of a commercial product is considered commercially viable, the parties will jointly develop a commercial version of the aerial work platform. If commercial production results, we will be responsible for product manufacturing, the traction system and frame, and MEC will manufacture the scissors lifting and upper frame sections. MEC or its affiliate will be responsible to promote, market and sell the product to their network of approximately 200 distributors. This product will also be manufactured under the COBRA name and distributed exclusively by us. Aerial work platform sales made by MEC will be subject to a royalty to us and, likewise sales made by us will be subject to a royalty to MEC. The amount of the respective royalties will be subject to agreement by the parties. Orders placed by MEC will be financed by MEC subject to agreed production schedules. The parties expect to enter into a more formal agreement to further define the relationship of the parties. At this time, we cannot predict whether a formal agreement will be entered into between the parties, or whether any sales will result from the aerial work platform to be developed by the parties.

Omni-directional Wheelchair. Over 43 million disabled and aging Americans are protected by the Americans with Disabilities Act of 1990 (ADA). This law became effective in 1991, and now requires businesses with over 15 employees to comply with specifications which enable persons with disabilities access buildings. As a result of increased physical access, we believe that persons with disabilities will experience an increased number of employment and other opportunities. We have conducted a preliminary design of an omni-directional wheel for wheelchair applications. Based upon the preliminary design, we believe that we can retail an omni-directional wheelchair for under \$6,000. Wheelchair pricing ranges from \$3,500 for a standard unit to \$30,000 for units with improved functionality such as stair climbing capability.

We will require additional funds to complete a structural and ergonomic design of a proto-type wheelchair, and to construct the proto-type for further evaluation and testing. We cannot predict whether we will be able to successfully develop this product.

Military Products. During 1999, we were awarded a Phase I research contract under the Department of Defense's Small Business Innovation Research program (SBIR) to develop an omni-directional Multiple Purpose Mobility Platform (MP2). Under the Phase I base contract, we studied the application of the

Edgar Filing: AIRTRAX INC - Form 10KSB/A

omni-directional technology for military use and were supervised by the Naval Air Warfare Center Aircraft Division (NAWC-AD) in Lakehurst, New Jersey. The contemplated use includes the installation of jet engines on military aircraft and the transportation of munitions and other military goods. We completed the Phase I base contract in 1999 and were subsequently awarded a Phase I option from NAWC-AD to further define the uses of the MP2. In July 2000, we were awarded a Phase II research contract under the SBIR program. Under the Phase II contract, we are studying the feasibility of the MP2 for military purposes, and will culminate with the construction of one or more proto-type devices. This contract (with the option) was extended twice for 6 months each past the 42-month contract time period. Contract revenues were \$750,000. Through December 31, 2003 we completed the vehicle concept design of the MP2. A completed proto-type MP2 was delivered to the US Navy during the end of the first quarter of 2004 for testing purposes. A second vehicle, an omni-directional jet engine installation machine is being constructed for the US Navy. We have been advised by the US Navy that a non-SBIR sponsor for the MP2 program must be identified before a Phase II option is exercised. A Phase III contract could be awarded without such a sponsor. Although our management believes the underlying omni-directional technology for the proposed MP2 has significant potential for both commercial and military applications, we cannot predict whether any sales beyond the Phase II contract will result from the SBIR program. It is the belief of management that sales to the military for products such as the MP2 or the MHU-110 engine handler will not materialize until the omni-directional technology achieves commercial acceptance. We do believe, however, that products such as the ATX-3000 or the Cobra AWP can and will be sold to the US government, possibly including the military.

In connection with the MP2, on December 11, 2003, we entered into a Teaming Agreement with United Defense, L.P., Arlington, Virginia. Under the agreement, United Defense agreed to provide the exclusive manufacture, marketing and support for the MP2 and any derivative products in respect to any contracts awarded to us by U.S. Department of Defense and any international military customers under the SBIR arrangement.

We have also developed a traditional helicopter ground handling machine which has been marketed by us on a limited basis. This vehicle, Helitrax, was a patented design using technology that we purchased in 1995 under our predecessor company, Air Track Inc. The patented device was redesigned by us to include many features which we believe are needed by industry maintenance crews and by pilots. Helitrax was sold from 1995 through 2001 in limited amounts, in no more than approximately 30 units total, and sales were discontinued because of time constraints required getting the Sidewinder Omni-Directional lift truck to market.

CURRENT OPERATIONS

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 its components, including the unique shaped wheels, motors, and frames, have been specially designed by us and specially manufactured. Four pilot models of the commercial omni-directional lift truck are currently operational.

We have commenced and are near completion of our initial production run consisting of 10 units of our Sidewinder ATX-3000 Omni-Directional Lift Truck. Substantially all of the parts including frames, motors, controllers, and micro-processors have been ordered and received by us, and are partially assembled. The initial production run will be completed upon receipt of wheels and other components from suppliers which is expected in the first quarter of 2005. Unit assembly is undertaken by us at H&R Industries for the first 10 units. We will conduct future assembly in the United States in facilities to be

Edgar Filing: AIRTRAX INC - Form 10KSB/A

leased early in the second quarter of 2005. ANSI's (American National Standards Institute) testing was completed in the first quarter of 2005 and UL (Underwriters Laboratories) testing is expected to be completed at the end of the first quarter, or in the beginning of the second quarter of 2005. Following required testing, we expect to sell these units to select dealers in the United States. We have received purchase orders for our initial production run of 10 units.

6

ANSI testing refers to a series of tests including tilt testing the vehicle with each of the masts it will use to make certain that it will not fall over with a raised load at specified tilt angles. In addition, ANSI testing includes drop testing specified loads on the overhead guard to make certain that the overhead guard will not fail and crush the operator. These tests require us to turn the vehicle over to prove that the battery door lock will contain the battery in the event the vehicle is overturned. ANSI testing is performed by us and we must certify and document that the tests have been completed and the vehicle has passed in all respects. This testing is required prior to the vehicle being sold to the public in the United States.

UL testing is completed on lift trucks because we believe it is more productive to sell vehicles that have passed the extra safety and performance test requirements mandated by UL. Generally UL testing hinges around electrical issues that could cause fires to the vehicles and/or property. Most of the more prominent lift truck manufacturers complete UL testing on electrically operated lift trucks. Completion of UL testing is generally considered the mark of companies who will take extra steps and precautions to protect their customers. UL approval is a feature that salespersons can use to their advantage when selling vehicles because many insurers will not insure premises that use lift trucks that are not UL rated.

TRANSACTION WITH FILCO GMBH

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 has 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.

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 USGAAP 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.

The consideration for the proposed acquisition consists of the issuance of options to Mr. Filipov to purchase 900,000 shares of our common stock at an exercise price of \$0.01. No more than 12.5% of such options can be exercised during any one year. Accordingly, Mr. Filipov cannot exercise the options to

Edgar Filing: AIRTRAX INC - Form 10KSB/A

receive more than an aggregate of 112,500 shares of our common stock per year. Any increase on this exercise limit is subject to the approval of our board of directors. It is anticipated that the option's three year exercise period will be extended to allow 100% of the options to be exercised at the 12.5% exercise limit permitted each year. In addition, we agreed to loan Filco GmbH approximately \$1,300,000, which, if the acquisition is completed, may, at our exclusive election, be converted into equity of Filco GmbH along with approximately 1,300,000 Euros currently owed to Fil Filipov by Filco GmbH. Finally, the agreement in principal provided for Mr. Filipov to be appointed a director of our company and to receive an additional 100,000 options of our common stock for serving as a director. In December 2004, Mr. Filipov was appointed as a director of our company. Although the proposed acquisition with Filco has not yet been completed, we have appointed Mr. Filipov a director of our company because management believes that his credentials are extremely viable and valuable to our credibility in the investment and materials handling communities, particularly in Europe. Mr. Filipov has been employed in the materials handling industry virtually all of his life. We believe that his associations and relations in this industry can and will aid us as we pursue our business objectives.

7

The agreement in principal provides that we will register with the Securities and Exchange Commission all of the shares issuable to Mr. Filipov, including those underlying the described stock options.

We have not yet finalized nor executed the acquisition agreement but have loaned Filco GmbH an aggregate principal amount of \$2,700,000 pursuant to a series of unsecured promissory notes. We have used proceeds from the private placement offerings that we completed during 2004 to fund such loans. Filco GmbH has informed us its estimated working capital needs during the next year will be approximately \$5,000,000, with \$1,500,000 needed during the first quarter of 2005, in order for it to achieve profitable operations. We intend to provide another \$5 million to Filco, either in the form of guaranteed credit lines or through additional sales our securities. Prior to the completion of the acquisition, we remain a creditor until we could guarantee sufficient funding sources and to provide an adequate line of credit for Filco's operations. In addition to funding and the procuring a line of credit, the closing of the acquisition is contingent upon the completion of a final definitive agreement. Should we complete the acquisition of Filco GmbH, we will need to raise additional capital or secure sufficient credit lines in order to fund the working capital needs of Filco GmbH.

The amounts loaned to Filco to date, even if unrecoverable, would not prevent us from commencing the manufacture of the Sidewinder Omni-Directional Lift Truck. The manufacture and sale of omni-directional material handling equipment is our primary goal. During the second quarter of 2005, we realized limited revenues from the first sales of the Sidewinder Omni-Directional Lift Truck.

We believe that our unsecured loans to Filco are recoverable if the proposed acquisition is not completed. Should Filco default with loan repayment, if such payment were due and requested, it would be much easier to put Filco into bankruptcy in Germany than it would be in the United States. Should Filco be put into bankruptcy, we, as the largest creditor, would be in position to do a legal takeover through bankruptcy administrators.

We loaned Filco approximately \$2.7 million through the end of 2004 and loaned an additional \$1.5 million during the first quarter of 2005. We intend to provide another \$5 million to Filco, either in the form of guaranteed credit lines or through additional sales our securities.

There are a number of business purposes for our consideration of a potential

Edgar Filing: AIRTRAX INC - Form 10KSB/A

acquisition of Filco GmbH. Clark Material Handling Co., one of the largest forklift manufacturers in Europe, owned approximately 50% of the assets and completed 50% of the sales of Clark Forklift. Clark was bought by Terex in 1994 and sold for \$140 million in 1996. During that period, Terex was managed by Fil Filipov, who negotiated and completed acquisitions for Terex. Clark declared bankruptcy in 2003. Filco GmbH was formed by Fil Filipov in May of 2003 and Filco purchased the assets of Clark Europe. The term "assets" included intellectual property, inventory, machinery and equipment, existing cliental and a trained workforce. Since that time Filco has operated with very limited operating capital and has had problems with its employee's unions. As a result, Filco has not operated profitably. We have been knowledgeable of the transaction involving the Filco purchase of Clark assets and subsequent operations since. Should the acquisition be completed, Filipov will maintain 24.9% ownership and we will maintain a 75.1% ownership interest.

8

The proposed acquisition of Filco, if completed, would include a leased manufacturing facility, with an experienced workforce, inventory, intellectual property, and machinery sufficient to fill 200,000 square feet of assembly and manufacturing. It is anticipated that the potential acquisition will also include cliental throughout Europe and the Middle East. We believe that the proposed acquisition could provide us with the ability to sell a complete line of lift trucks beyond the limited sized Sidewinder Omni-Directional Lift Truck. This is a huge advantage when selling to regular customers. The potential acquisition could also give us the ability to provide manufacturing or assembly for our products. In addition to the Sidewinder, this includes MEC's and our aerial work platforms. Currently, we purchase certain parts in Europe. These include 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 for us at the Filco plant. The frames will be powder coated at Filco, then partially assembled vehicles would be shipped to the United States for final assembly. Wheels and other parts for vehicles to be sold in Europe or Middle Eastern countries will be shipped from the United States to complete the manufacturing at Filco.

Accordingly, we believe that if completed, this acquisition would give us a financial tie to Mr. Filipov and to some extent, companies with whom he is affiliated. It could give us complete manufacturing capabilities in Europe and the United States which would compliment existing vehicle part suppliers. The proposed acquisition could provide us with the ability to move into the top 20 of forklift manufactures in the world in the current year. This potential acquisition has given a lot of credibility to our financial capabilities and future outlook.

No assurance can be given that the acquisition agreement will be finalized, or that if the agreement is finalized, that the conditions to closing will be satisfied, or that we will raise sufficient funds or secure sufficient credit lines to finance Filco operating capital needs to warrant completing the acquisition agreement. Further, in the event that we consummate the acquisition agreement, no assurance can be given that we will be able to continue to raise sufficient funds to meet the working capital needs of Filco, as well as our own working capital needs. Our inability to raise sufficient capital as discussed herein may impair Filco's operations as well as our own operations.

HISTORY OF FILCO GMBH AND HISTORY OF OUR RELATIONSHIP WITH FILCO

Clark Material Handling Co. was the largest forklift manufacturer in the world in the 1980's. Clark Material Handling Co. of Europe owned approximately 50% of the assets and completed an estimated 50% of the sales of Clark forklifts. Clark was bought by Terex in 1994 and sold for \$140 million in 1996. During that

Edgar Filing: AIRTRAX INC - Form 10KSB/A

period it was managed by Fil Filipov, who was responsible for finding and completing acquisitions for Terex. Clark declared bankruptcy in 2003. Filco GmbH was formed by Fil Filipov in May of 2003 and Filco GmbH thereafter purchased the assets of Clark Europe. The "assets" of Clark Europe included intellectual property, inventory, machinery and equipment, existing cliental and a trained workforce. The transaction by Mr. Filipov to acquire the Clark assets was a purchase through the bankruptcy administrator which left all assets under his control and ownership. Mr. Filipov paid approximately 500,000 Euros and had to advance other fees to guarantee lease and other payments. This resulted in a total purchase by Mr. Filipov in the amount of approximately 1,300,000 Euros.

Since that time, Filco has operated with very limited operating capital, and has unresolved union issues. As a result, Filco has not operated profitably, or at all.

9

Our President, Peter Amico, has maintained a working relationship with Mr. Filipov since 2002.

BUSINESS PURPOSES OF THE PROPOSED ACQUISITION OF FILCO GMBH

In general, the Filco proposed acquisition could provide us access to strategic partnerships in personnel and successful business ventures, sales and market exposure in Europe.

The proposed acquisition of Filco may include a leased manufacturing facility, with an experienced workforce, inventory, intellectual property, and machinery sufficient to fill 200,000 square feet of assembly and manufacturing. Filco could provide us with cliental throughout Europe and the Middle East. This could provide us with the ability to sell a complete line of lift trucks beyond the limited sized Sidewinder Omni-Directional Lift Truck. It would provide manufacturing or assembly for our products, including, but not limited to, the aerial work platforms or any other products we develop or can contract to assemble with other companies.

In addition, if the acquisition is completed we anticipate that we will establish manufacturing capability in Europe, to complement our manufacturing in the United States. 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 be 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 be 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 allow a portion of the Sidewinder becoming 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.

MANUFACTURING AND SUPPLIERS

Edgar Filing: AIRTRAX INC - Form 10KSB/A

The initial production run of our lift truck is being assembled by us at H&R Industries for the first 10 units. We will be conducting future assembly in the United States in facilities to be leased early in the second quarter of 2005. Schaeff Forklift also has constructed the frames and overhead guards for this production run in accordance with our specifications. The parties operate under the terms of written purchase orders. Parts and assemblies for the first commercial models have been ordered and/or procured from other vendors. The initial production run will be completed upon receipt of wheels manufactured for us by The Timken Corporation and components from other suppliers. The initial run will refine the assembly line, help develop procedures, and incorporate inventory control and quality assurance. Management anticipates that the initial run of forklifts should be completed in the first quarter of 2005. We plan to create the framework for rapidly scalable production capacity at facilities which we anticipate leasing early in the second quarter of 2005, and which will be capable of ramping up for anticipated demand before year's end. We also plan to complete partial assembly, or subcontract to certain vendors of the omni-directional lift truck at the Filco GmbH facility for European and Middle Eastern sales for full assembly in the United States.

10

Components for our forklifts consist of over the counter products and proprietary products that have been specially designed and manufactured by various suppliers in collaboration with us. We believe that continual refinements of certain components will occur during continued production in response to user feedback and additional product testing. We will strive to improve product functionality which may require additional refinements in the future. The need for additional refinements on a continuing basis may slow projected product sales.

We consider the specially designed and manufactured products proprietary, and have entered into exclusive contractual agreements with certain suppliers to protect the proprietary nature of these products. These arrangements prohibit the supplier from producing the same or similar products for other companies. In addition, while we maintain single sources for the over the counter components, we believe that other sources are available if necessary.

DISTRIBUTION AND PRODUCT MARKETING

We intend to establish a national and international dealer network to sell our forklift product line to existing equipment dealers. However, we may sell directly to select national and international accounts and retailers. National and international accounts or retailers include, but are not limited to, nationally recognized businesses with national or international locations having facilities in numerous states or countries.

During the past two years, in anticipation of commercial production, we solicited interest from targeted dealers nationwide, and in certain instances, received contracts from a number of these dealers. Due to the delay in establishing commercial production, the contracts were not fulfilled. In 2004, we began soliciting dealers for distribution and during the first quarter of 2004 have reached an agreement with approximately 40 dealers nationwide. Principal terms of the agreement reached is that these dealers will purchase our products which include the ATX-3000, the Cobra AWP (scissor lift) and conventional lift trucks and thereafter sell these products to their clients. Certain of the dealers were given "exclusive" territories, such as Airtrax Canada (Airtrax Canada is not owned or operated by us but we have authorized their use of the Airtrax Name.) Airtrax Canada is required to purchase a minimum of 250 units of the Airtrax Sidewinder or Cobra AWP or Filco trucks to maintain the "exclusivity" portion of the agreement between firms. They cannot lose their

Edgar Filing: AIRTRAX INC - Form 10KSB/A

exclusivity because we cannot meet their sales requirements. This same type arrangement was reached with Lakeland in New Zealand for 125 vehicles each year, Airtrax Africa for 125 units each year, Omnilink in Greece and the Balkans for 125 units each year and others. The dealers in the US have not been given exclusive territorial rights. They are required to purchase one or more vehicles, however, to become a dealer. Credit is not authorized to any dealers or foreign representatives. All sales are paid in advance, under terms of an irrevocable letter of credit or COD. Not all dealers have agreed to represent the conventional lift trucks line as some are established with other lift truck manufacturers and representing a competing product could be a violation of their existing agreement(s). Targeted dealers will consist of selected premier forklift dealers, currently selling other forklift products. The dealer network will consist of dealers who have substantial market share in the US, with a history of being able to sell and repair forklifts and/or related material handling solutions. Several of the targeted dealers are significant sized entities, having annual sales in excess of \$100 million. We expect to provide a sales incentive to dealers through an aggressive pricing structure. Typically, a dealer will earn a commission ranging from \$500 to \$1,000 on the sale of a competitive forklift. Our pricing structure will enable the dealer to receive commissions from \$3,500 to \$4,000 per sale of the SIDEWINDER ATX-3000.

In the materials handling industry, distributors of products like ours finance their respective inventories in several different ways. The arrangement for distributor financing varies, depending upon the credit worthiness, financial capability and size of the distributor. Floor planning, which is arranged by the dealer or by the manufacturer, usually consists of financing from 6 to 12 months whereby the distributor pays interest only during the finance period. If at any time during the finance period the distributor sells the product, or if the finance period expires, the distributor is required to pay the principal. Many dealers buy vehicles to lease or rent to consumers and finance the vehicle much the same manner as a standard consumer. Under certain arrangements, the dealer applies receipts against principal and interest.

11

In May 2003, we entered into contracts with two Alaskan Native Corporation (ANC) whose primary purpose is to manage assets and conduct business for the benefit of its nearly 3,000 Alaskan Native shareholders. The two corporations have been granted Section 8(a), small disadvantaged business status, under the Small Business Administration. Under their Section 8(a) status, the two corporations can provide sole source bid to provide services and products, such as those developed by us, for resale to the United States Government. During fiscal 2003, we did not effect any sales through this re-seller channel, and can not predict whether we will be able to do so in the future. A primary reason, for the non-sales is, of course, that we have not been in production.

In addition to establishing our own dealer network, we will attempt to capitalize on the existing distribution network of MEC if we are able to reach a formal agreement with MEC and successfully develop the omni-directional aerial work platform discussed above. We would seek to include our omni-directional forklift, and the Filco truck line, if the proposed acquisition is completed, into the distribution network of MEC, which consist of approximately 200 dealers nationwide. We cannot predict whether a formal agreement will be entered into between the parties, or whether any sales will result form the aerial work platform to be developed by the parties.

We also intend to use trade shows and print and television media to advertise and promote our omni-directional products. Print media will include advertisements in national and international publications such as major material handling equipment magazines, and direct mailings to targeted distributors and end-users. Heavy equipment is rarely, if at all, advertised on television. However, we believe that television will provide an effective media for our

Edgar Filing: AIRTRAX INC - Form 10KSB/A

product, due to its unique attributes. We believe that due to the current economic conditions, we will be able to capitalize on favorable advertising pricing. We also expect to be an exhibitor at industry trade shows from time to time, including the bi-annual ProMat show located in Chicago, Illinois.

PRODUCT WARRANTY POLICIES

Our product warranty policy is similar to the warranty policies of other major manufacturers, i.e., one-year warranties on all parts and labor, and two years on major parts. However, our vehicles have very few parts to warranty. In addition, manufacturers of our parts and vehicles have their own warranty policies that, in effect, take the financial exposure from our company. There are exceptions to this rule, such as the frame and significantly, the motors and controllers. These parts have an eighteen-month guarantee or warranty, but the coverage begins when the product is shipped to us and not when the product is purchased. As a result of this policy Danaher has increased the warranty from 12 to 18 months for us.

FACILITIES

We maintain our administrative offices at 870B Central Avenue, Hammonton, New Jersey 08361 on premises owned by our President. As of December 31, 2003, the arrangement between the parties has been rent-free. In addition, we maintain limited offices at H&R Industries, Inc. ("H&R Industries"), located at 100 Park Avenue, Warminster, Pennsylvania 18974. H&R Industries provides contract manufacturing and assembly services to us, including, but not limited to, the rental of offices used for the engineering and manufacturing of our prototype machines, rental space to test prototypes and for the storage of production-readied parts. Through December 31, 2002, the arrangement between the parties has been rent-free. Effective January 1, 2003, we agreed to pay H&R Industries a rental fee of \$3,000 per month and have the option to pay in cash or in the form of common stock. The arrangement is on a month-to-month basis. We also rent space at Flemington, NJ from Hall's Warehouse Corp. wherein we conduct product testing and evaluation. We pay a rental fee of \$3,500 per month on a month-to-month basis. We are investigating the possibility of a lease for assembly and distribution facilities in the second quarter of 2005.

12

MARKETS

FORKLIFTS

Our initial market focus will be directed to the forklift market. We believe the commercial version of the omni-directional forklift will revolutionize the materials handling and warehousing industries creating potential markets globally. Industry data shows that during 2003 approximately 174,000 and 550,000 units were sold in the United States and worldwide, respectively (Modern Materials Handling). Based upon an average per unit sale price of \$28,500 (Modern Materials Handling estimate), the total market in the United States would approximate \$5 billion in 2003. This amount represents sales of a broad range of vehicles with price ranges from \$18,000 to \$31,000 for a standard 3000-pound rated vehicle to \$75,000 or greater for specialty narrow aisle or side loader vehicles. Of the total market, management expects to compete with mid-range electrical and gas powered riders, and some specialty narrow aisle or side loader vehicles.

AERIAL WORK PLATFORMS

Aerial Work Platforms are used in the construction and warehousing industries, and are ideally suited for omni directional technology. According to data

Edgar Filing: AIRTRAX INC - Form 10KSB/A

provided by the United States Department of Commerce, this market consists of approximately \$1.2 billion in annual sales. Aerial Work Platforms and man lifts range in size from single user lifts to large off road machines. Of the total market, we expect to compete with a range of indoor man lifts.

COMPETITION

We expect to confront competition from existing products, such as standard and "very narrow aisle" forklifts, and from competing technologies. Competition with standard forklifts, which retails from \$16,000 to \$31,000, will be on the basis of utility, price, and reliability. We believe that we will compete favorably with a standard forklift for reliability, and that a purchase decision will be based upon weighing the operational advantages of our products against its higher purchase price. VNA and sideloader forklifts retail at \$75,000 or greater. While our SIDEWINDER omni-directional lift truck cannot be considered "very narrow aisle", it can perform "narrow aisle" functions at a significantly less cost. We also are aware of multi-directional forklifts now being offered by other manufacturers that retail from \$42,000 and higher for the standard version. These newer products have improved operational features, however, they are unable to travel in all directions, and hence are not omni-directional. These machines have to stop, turn all four wheels, and then proceed to drive in the sideward direction. Despite these improved operational features, management believes these manufacturers have adhered to older conventional methods and have added a substantial amount of parts to their forklifts to achieve improved functionality, which contrasts with the design and features of our product as discussed previously herein. Therefore, to that extent, we believe that we maintain a competitive advantage to these newer products.

We recognize that many of these manufacturers are subsidiaries of major national and international equipment companies, and have significantly greater financial, engineering, marketing, distribution, and other resources than us. In addition, the patent on omni-directional technology expired in 1990. Although we have received patent protection for certain aspects of our technology, no assurances can be given that such patent protection will effectively thwart competition.

PATENTS AND PROPRIETARY RIGHTS

A form of our omni-directional technology was originally patented in 1973. The original patents were sold to the US Navy. We secured a transfer of this technology from the Navy in 1996 under the terms of a CRADA Agreement (Cooperative Research and Development Agreement) and have worked since that time to commercialize omni-directional products. During this period of time, we became the only company to "drive" these vehicles instead of moving them at walking speeds with a "tethered" joystick. As a result, we discovered that certain features were required to make these driven vehicles usable in a "commercial" environment." Many of the same features required with "driven" vehicles, were common to vehicles that were used at much slower speeds.

13

We received 3 patents regarding the "redesign" of the wheel. We have received patent protection regarding the algorithms used to control vehicular movement. We have also applied for patents with respect to a movable operator's control station and a munitions handler, among others. We are satisfied that it is patent protected against infringement by other companies, most especially with vehicles that use a wheel type such as those used and patented by us. However, some of our competitors could reverse engineer our technology to build similar products. In addition, omni-directional technology was invented in 1973. Therefore, certain variations to the technology could be made whereby other companies may find ways to circumvent our patents or use the technology without infringing upon our intellectual property rights.

Edgar Filing: AIRTRAX INC - Form 10KSB/A

On January 22, 2002, we received US patent #6,340,065 relating to our low vibrations wheels. On May 28, 2002, we received US patent #6,394,203 encompassing certain aspects of the omni-directional wheel with some features specific to the forklift, and in April 15, 2003 we received US patent #6,394,203 relating to methods for designing low-vibration wheels. We also have several patent applications pending relating to other aspects of our technology. We expect to make future patent applications relating to various other aspects of our omni-directional technology. We also have filed a patent application for our hybrid power module. At this time, no foreign patents have been issued for any of our technology. In December 1997, we were awarded a patent for an omni-directional helicopter ground-handling device.

We also seek to protect our proprietary technology through exclusive supply contracts with manufacturers for specially designed and manufactured components.

PRODUCT LIABILITY

Due to nature of our business, we may face claims for product liability resulting from the use or operation of our forklifts or other products.

Presently, we do not maintain any product liability insurance. We intend to obtain such insurance commensurate with the initial shipment of our omni-directional forklifts

EMPLOYEES

As of April 15, 2005, we have six full time employees which includes our President, two part time employees, and engage consultants from time to time. We have no collective bargaining agreements with our employees and believe our relations with our employees are good.

ITEM 2. DESCRIPTION OF PROPERTY

We maintain our administrative offices at 870B Central Avenue, Hammonton, New Jersey 08361 on premises owned by our President. As of December 31, 2003, the arrangement between the parties has been rent-free. In addition, we maintain limited offices at H&R Industries, Inc. ("H&R Industries"), located at 100 Park Avenue, Warminster, Pennsylvania 18974. H&R Industries provides contract manufacturing and assembly services to us. As of December 31, 2002, the arrangement between the parties has been rent-free. Effective February 1, 2003 we agreed to pay H&R Industries a rental fee of \$3,000 per month and have the option to pay in cash or in the form of common stock. The arrangement is on a month-to-month basis. We also rent space at Flemington, NJ from Hall's Warehouse Corp. wherein we conduct product testing and evaluation. We pay a rental fee of \$3,500 per month on a month-to-month basis. We are investigating the possibility of a lease for assembly and distribution facilities in the second quarter of 2005

14

ITEM 3. LEGAL PROCEEDINGS.

We are not currently a party to, nor is any of our property currently the subject of, any pending legal proceeding. None of our directors, officers or affiliates is involved in a proceeding adverse to our business or has a material interest adverse to our business.

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

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

MARKET FOR OUR COMMON SHARES

Our common stock has been traded on the Over-The-Counter Bulletin Board under the symbol "AITX". The table below sets forth, for the periods indicated, the high and low closing prices per share of the common stock as reported on the Over-The-Counter Bulletin Board. These quotations reflect prices between dealers, do not include retail mark-ups, markdowns, and commissions and may not necessarily represent actual transactions. The prices are adjusted to reflect all stock splits.

		High	Low
		----	---
2004	First Quarter	1.60	0.65
	Second Quarter	1.45	0.75
	Third Quarter	1.15	0.61
	Fourth Quarter	3.35	0.81
2003	First Quarter	1.50	0.80
	Second Quarter	1.68	0.87
	Third Quarter	1.20	0.80
	Fourth Quarter	1.01	0.65

As of March 31, 2005, there were 21,256,215 shares of common stock outstanding.

As of March 31, 2005, there were approximately 974 stockholders of record of our common stock, respectively. This does not reflect those shares held beneficially or those shares held in "street" name.

We have not paid cash dividends in the past, nor do we expect to pay cash dividends for the foreseeable future. We anticipate that earnings, if any, will be retained for the development of our business.

EQUITY COMPENSATION PLAN INFORMATION

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	-0-	-0-	-0-

Edgar Filing: AIRTRAX INC - Form 10KSB/A

Equity compensation plans not approved by security holders	-0-	-0-	-0-
Total	-0-	-0-	-0-

16

We currently do not have an equity compensation plan for our officers, directors, employees or consultants. However, certain of our officers are compensated with stock options to purchase shares of our common stock. A description of these options can be found in this annual report under the heading "Item 10", "Executive Compensation".

RECENT SALES OF UNREGISTERED EQUITY SECURITIES

In February and May of 2005, 30,000 shares of common stock to two public relations consulting firm as compensation for services performed on our behalf.

On February 11, 2005, we entered into a Subscription Agreement pursuant to which we sold an aggregate of \$5,000,000 of principal amount promissory notes convertible into shares of our common stock, no par value, and an aggregate of 2,884,615 Class A and Class B share purchase warrants to purchase shares of our common stock to certain purchasers who are a party to the Subscription Agreement. First Montauk Securities Corp. acted as selling agent in connection with the offering. We issued a total of 384,616 warrants on February 11, 2005 to the selling agent as partial consideration for services performed in connection with the offering. The Class A warrants are exercisable at a price equal to \$1.85 from the date of issuance until 5 years after the closing date. The Class B warrants are exercisable at a price equal to \$2.11, representing 101% of the 3 day average closing bid prices of our common stock on the trading day immediately preceding the closing date, from the date of issuance until 5 years after the closing date. The Class A and Class B warrants both have a cashless feature.

On November 22, 2004, we entered into a Purchase Agreement (the "Purchase Agreement") pursuant to which we sold and issued 1,125,000 shares of common stock, no par value, and common stock purchase warrants to purchase 562,500 shares of our common stock to several accredited investors who are a party to the Purchase Agreement for an aggregate purchase price of \$900,000. Thereafter, on November 23, 2004, we entered into Joinders to the Purchase Agreement pursuant to which we sold and issued an additional 515,000 shares of common stock and warrants to purchase an additional 257,500 shares of our common stock to several accredited investors who are a party to the Joinders to the Purchase Agreement for an aggregate purchase price of \$412,000. First Montauk Securities Corp. acted as placement agent in connection with the offering. We issued 125,000 warrants on November 22, 2004 and 51,500 warrants on November 23, 2004 to the placement agent and to certain partners of the placement agent as partial consideration for services performed in connection with the issuance of common stock and warrants to the purchasers pursuant to the Purchase Agreement to purchase 62,500 and 25,750 shares of our Common Stock, respectively. The warrants are exercisable from November 22, 2004 until November 22, 2009 and from November 23, 2004 until November 23, 2009, each at an exercise price of \$1.25 per share.

In October 2004, we issued an aggregate of 114,324 shares of common stock to 6 of our directors as compensation for services performed on our behalf in each of their capacities as directors of our company.

In October 2004, we issued an aggregate of 86,050 shares of common stock to a

Edgar Filing: AIRTRAX INC - Form 10KSB/A

certain investor relations consulting firm as compensation for services performed on our behalf.

In October 2004, we issued an aggregate of 24,000 shares of common stock to a certain public relations consulting firm as compensation for services performed on our behalf.

Between September 8, 2004 and December 20, 2004, we received subscriptions for an aggregate of 1,812,403 shares of our common stock and an aggregate of 906,200 shares of common stock issuable upon exercise of common stock purchase warrants to 33 accredited investors pursuant to a private placement offering. The warrants are exercisable at a price equal to \$1.25 for a period of 5 years from the date of issuance.

17

In June and October 2004, we issued an aggregate of 47,850 shares of common stock to a certain vendor as compensation for dealer account solicitation services performed on our behalf.

In May 2004, we and several accredited investors entered into a Subscription Agreement whereby the investors agreed to purchase an aggregate of 3,600,125 shares of common stock at a price of \$0.80 per share for an aggregate purchase price of \$2,855,100. In addition, the investors received warrants, exercisable at \$1.25 per share, to purchase 50% of the shares issued.

On April 15, 2004, we issued an aggregate of 10,767 shares of common stock to Basile & Testa, PA, as compensation for legal services performed on our behalf. One of our former directors, Mr. Frank Basile, was a partner at this firm.

On March 31, 2004, we issued an aggregate of 14,529 shares of common stock to a certain engineering firm as compensation for electrical engineering services performed on our behalf.

In October 2003, we issued an aggregate of 345,000 shares of common stock to a certain consulting firm as compensation for services performed on our behalf.

In August 2003 and February 2004, we issued an aggregate of 12,500 shares of common stock to an employee as compensation for services performed on our behalf.

From July to September 2003, we issued an aggregate of 91,020 shares of common stock to a certain investor relations consulting firm as compensation for services performed on our behalf.

In June and September 2004, we issued an aggregate of 6,174 shares of common stock to certain consultants for computer programming services performed on our behalf.

On June 10, 2003, we issued an aggregate of 30,000 shares of common stock to a certain investor relations consulting firm as compensation for services performed on our behalf.

On May 8, 2003, we issued an aggregate of 350,000 shares of common stock to third parties pursuant to certain sales agreements.

In April and November of 2003, we issued an aggregate of 57,139 shares of common stock to a certain financial consultant as compensation for services performed on our behalf.

In April and June of 2003, we issued an aggregate of 60,000 shares of common stock to 6 of our directors as compensation for services performed on our behalf.

Edgar Filing: AIRTRAX INC - Form 10KSB/A

in each of their capacities as directors of our company.

On January 20, 2003, we issued options to purchase an aggregate of 180,000 shares of common stock to our President, Peter Amico, as compensation for services performed on our behalf under Mr. Amico's Original Employment Agreement. Of the options, 1/5 of the options were exercisable for a total consideration of a \$1.00, of the options were exercisable at 30% of the lowest price paid for the stock in the 30 day period preceding exercise for each year of the contract, and the remaining options were exercisable at 15% of the lowest price paid for the stock in the 30 day period preceding exercise.

From October 2002 through April 2005, we issued an aggregate of 127,500 shares of common stock to two of our employees as compensation for services performed on our behalf, and as employee incentive bonuses.

In August 2002, we issued an aggregate of 25,000 shares of common stock to one of our directors, and options to purchase 5,000 shares of common stock to our Secretary, each as compensation for services performed on our behalf in their respective capacities.

On July 23, 2002, we issued an aggregate of 160,000 shares of common stock to a certain investor relations consulting firm as compensation for services performed on our behalf.

In April 2002, we issued an aggregate of 1,930 shares of common stock to a certain engineering firm as compensation for electrical engineering services performed on our behalf.

18

From January 2002 through April 2005, we issued an aggregate of 60,200 shares of our common stock to Harry Schmidt Associates, PA as rental payments for our equipment under certain leases which we entered into with said firm.

* All of the above offerings and sales were deemed to be exempt under rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors, business associates of Airtrax or executive officers of Airtrax, and transfer was restricted by Airtrax in accordance with the requirements of the Securities Act of 1933. In addition to representations by the above-referenced persons, we have made independent determinations that all of the above-referenced persons were accredited or sophisticated investors, and that they were capable of analyzing the merits and risks of their investment, and that they understood the speculative nature of their investment. Furthermore, all of the above-referenced persons were provided with access to our Securities and Exchange Commission filings.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Some of the information in this annual report contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "may", "will", "expect", "anticipate", "believe", "estimate" and "continue", or similar words. You should read statements that contain these words carefully because they:

- o discuss our future expectations;
- o contain projections of our future results of operations or of our financial condition; and

Edgar Filing: AIRTRAX INC - Form 10KSB/A

o state other "forward-looking" information.

We believe it is important to communicate our expectations. However, there may be events in the future that we are not able to accurately predict or over which we have no control. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors," "Business" and elsewhere in this prospectus. See "Risk Factors."

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. Four pilot models of the commercial omni-directional lift truck are currently operational.

We have commenced and are near completion of getting the parts together for our initial production run consisting of 10 units of our Sidewinder ATX-3000 Omni-Directional Lift Truck. Substantially all of the parts including frames, motors, controllers, and micro-processors have been ordered and received by us, and are partially assembled. The initial production run will be completed upon receipt of wheels and other components from suppliers which is expected in the third and fourth quarters of 2004. Unit assembly for the first 10 units will be completed by us at the H&R Industries facility in Warminster, PA. UL and final ANSI testing is expected to be completed from 30 to 90 days from production completion, although some parts of the final UL testing must be completed at the plant of final assembly. Following required testing, we expect to sell these units to select dealers in the United States. We have received orders for our initial run production run of 10 units.

19

We have incurred losses and experienced negative operating cash flow since our formation. 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 870B Central Avenue, Hammonton, NJ 08037 and our telephone number is (609) 567-7800. We are incorporated in the State of New Jersey.

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

Edgar Filing: AIRTRAX INC - Form 10KSB/A

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 has 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.

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 USGAAP 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.

We have not yet finalized nor executed the acquisition agreement but have loaned Filco GmbH an aggregate principal amount of \$2,700,000 pursuant to a series of unsecured promissory notes. We have used proceeds from the private placement offerings that we completed during 2004 and 2005 to fund such loans. Filco GmbH has informed us its estimated working capital needs during the next year will be approximately \$5,000,000, with \$1,500,000 needed during January 2005, in order for it to achieve profitable operations. Should we complete the acquisition of Filco GmbH, we will need to raise additional capital in order to fund the working capital needs of Filco GmbH.

In general, the Filco transaction could provide us access to strategic partnerships in personnel and successful business ventures, sales and market exposure in Europe.

The proposed acquisition of Filco may include a leased manufacturing facility, with an experienced workforce, inventory, intellectual property, and machinery sufficient to fill 200,000 square feet of assembly and manufacturing. Filco could provide us with cliental throughout Europe and the Middle East. This could provide us with the ability to sell a complete line of lift trucks beyond the limited sized Sidewinder Omni-Directional Lift Truck. It would provide manufacturing or assembly for our products, including, but not limited to, the aerial work platforms or any other products we develop or can contract to assemble with other companies.

20

In addition, if the acquisition is completed we anticipate that we will establish manufacturing capability in Europe, to complement our manufacturing in the United States. 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 be 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 be 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 allow a portion of the Sidewinder becoming assembled and manufactured in each of the two continents that purchase and use about 70% of all material handling equipment worldwide.

Edgar Filing: AIRTRAX INC - Form 10KSB/A

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.

Loans to Filco GmbH

From May 5, 2003 through September 2, 2003, we loaned Filco \$365,435 to acquire our initial interest in Filco. Such funds were provided in the form of a loan because we were not able to come up with sufficient funding to acquire our initial interest. Filco repaid principal and interest under this loan to us.

In March of 2004, a tentative agreement was negotiated with the principals of Filco in connection with the proposed acquisition. Our management determined to provide Filco limited funding in the form of loans, until financing could be obtained which would help guarantee that the operating capital needed for Filco operations could, in fact, be obtained. The tentative agreement reached with Filco provided that we would take a 51% controlling ownership interest in Filco. The tentative agreement required that we provide sufficient funding, which the parties estimated would be approximately \$1.3 million to be allocated in the form of equity in Filco. The tentative agreement required that we secure a guaranteed credit line for Filco of not less than \$5 million to be used as operating capital. A later addendum to the tentative agreement stated that we would acquire 75.1% controlling ownership interest in Filco.

The amounts loaned to Filco to date, even if unrecoverable, would not prevent us from commencing the manufacture of the Sidewinder Omni-Directional Lift Truck. The manufacture and sale of omni-directional material handling equipment is our primary goal. During the second quarter of 2005, we realized limited revenues from the first sales of the Sidewinder Omni-Directional Lift Truck.

We believe that our unsecured loans to Filco are recoverable if the proposed acquisition is not completed. Should Filco default with loan repayment, if such payment were due and requested, it would be much easier to put Filco into bankruptcy in Germany than it would be in the United States. Should Filco be put into bankruptcy, we, as the largest creditor, would be in position to do a legal takeover through bankruptcy administrators.

We loaned Filco approximately \$2.7 million through the end of 2004 and loaned an additional \$1.5 million during the first quarter of 2005. We intend to provide another \$5 million to Filco, either in the form of guaranteed credit lines or through additional sales of our securities.

Filco GmbH's Financial Condition

The improvement of Filco's financial condition and results of operations, as set forth below, furthers our belief that we would be able to recover principal and interest due under our unsecured loans to Filco in the event that the proposed acquisition is not completed.

Filco manufactured approximately 550 lift trucks in 2003 and very limited numbers in 2004. In 2004, Filco did not have adequate operating capital to conduct business operations and had numerous issues with its worker's union to resolve. It was and is considered by Filco's management, a better long term negotiating tactic with unions to threaten to close the facility completely than to attempt to run the facility during negotiations. Accordingly, for this reason as well as the lack of funding, Filco's plant was closed for much of 2004 and the beginning of 2005.

Edgar Filing: AIRTRAX INC - Form 10KSB/A

Filco reached accord with the union on March 30, 2005. Employees will be required to work a 40-hour week instead of 35 prior to additional hires. Wages have been decreased 20%. The resolution of the problems Filco was experiencing with its union is critical to the future success of the company. In addition, the loans that we granted to Filco as of the date hereof have created considerable improvements in Filco's financial condition and results of operations.

As a result of the above, Filco recommenced production of standard forklifts during the second quarter of 2005. In April 2005, Filco shipped new trucks and at least 14 re-conditioned vehicles. In addition, Filco began the assembly of a Russian tractor for distribution in Europe. This agreement calls for the production of 700 units to be assembled each year at a price of 2,800 Euros each. The Russian company will supply all parts. It is anticipated that Filco will be in full forklift production late in the third quarter of 2005. The final production schedule is contingent upon supply of parts from various vendors.

CRITICAL ACCOUNTING POLICIES

The Securities and Exchange Commission ("SEC") defines "critical accounting policies" as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

Not all of the accounting policies require management to make difficult, subjective or complex judgments or estimates. However, the following policies could be deemed to be critical within the SEC definition.

REVENUE RECOGNITION

Revenue on product sales is recognized when persuasive evidence of an arrangement exists, such as when a purchase order or contract is received from the customer, the price is fixed, title to the goods has changed and there is a reasonable assurance of collection of the sales proceeds. We obtain written purchase authorizations from our customers for a specified amount of product at a specified price and consider delivery to have occurred at the time of shipment. Revenue is recognized at shipment and we record a reserve for estimated sales returns, which is reflected as a reduction of revenue at the time of revenue recognition.

Revenues from research and development activities relating to firm fixed-price contracts are generally recognized as billing occurs. Revenues from research and development activities relating to cost-plus-fee contracts include costs incurred plus a portion of estimated fees or profits based on the relationship of costs incurred to total estimated costs. Contract costs include all direct material and labor costs and an allocation of allowable indirect costs as defined by each contract, as periodically adjusted to reflect revised agreed upon rates. These rates are subject to audit by the other party. Amounts can be billed on a bi-monthly basis. Billing is based on subjective cost investment factors.

22

YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003

RESULTS OF OPERATIONS

We have been a development stage company for the 2004 and 2003 periods and have not engaged in full-scale operations for the periods indicated. The limited

Edgar Filing: AIRTRAX INC - Form 10KSB/A

revenues for the periods have been derived from the sales of a non-omni-directional product and from contracts with the United States Navy that relate to the research and potential application of omni-directional technology for military use. The available dollar limits of contracts with the United States Navy were substantially completed during 2002, and we recognized limited revenues from the United States Navy contract during 2003. During 2005, we expect to transition from a development stage company to an operating company as it completes the initial run of its forklifts. Consequently, management believes that the year-to-year comparisons described below are not indicative of future year-to-year comparative results.

There was no billing for the Navy MP2 project in 2004. The MP2 munitions carrier was delivered to the Navy on/or about April 1, 2004 for their evaluation and testing. An Omni-Direction engine handler developed for and with the Navy is expected to be "loaned" to the Navy during 2005 for an evaluation. An ETU-110 engine handler was delivered to us by the Navy and is US government property. The ETU-110 was cleaned, re-painted, and placed in working condition by us. We provided all required parts, labor and technology to make this vehicle omni-directional. The cost for the parts and labor was allocated to "Cost Of Goods Sold" in our financial statements for fiscal 2003. Since these funds exceeded the amount contracted with the Navy, and an option for additional services was not agreed upon, the labor and materials provided to the Navy for building the ETU-110 engine handler remains our property. This piece of equipment is therefore owned jointly by the US Navy and us and will be used to demonstrate this technology to the US government and other military services.

We believe that the joint cooperation between us and the Navy with the MP2 contract, including the building of the ETU-110 omni-directional engine handler, has bolstered the potential use of our technology within the military. We do not intend to incur additional costs with the US Navy unless we incur potential expenses in demonstrating the ETU-110 omni-directional engine handler, or other omni-directional vehicles.

REVENUES

Revenues for fiscal 2004 were \$0, representing a decrease of \$21,879 from revenues of \$21,879 for the 2003 period. This decrease in revenue can be attributed to completion of our contract with the US Navy.

COST OF GOODS SOLD

Cost of sales for 2004 was \$0 which reflects a \$91,283 decrease from \$91,283 in fiscal 2003. This decrease in cost of goods sold can be attributed to completion of our contract with the US Navy.

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses which includes administrative salaries, depreciation and overhead for the 2004 period totaled \$2,529,775 which represents an increase of \$421,405 from \$2,108,370 incurred in 2003. The increase is due primarily to consulting fees paid to various third parties in the form of common stock which totaled \$1,332,989, including, (i) \$447,210 to consulting firms; (ii) \$55,870 for payment of legal services performed by our legal counsel; (iii) \$33,350 for the payment of rental expenses; (iv) \$145,000 in consideration for public relations services including brochures, website, and company videos; (v) \$260,050 for services performed by our accounting consultant; (vi) \$50,500 to our directors as compensation for services performed; (vii) \$95,899 in employee stock options and bonuses; (viii) \$0 in options to our CEO; and (ix) \$146,892 as compensation for public relations services. In addition, the increase is due to costs related to the further development of our omni-directional technology, which included preparations for the ANSI (American National Standards Institute), compliance testing, UL

Edgar Filing: AIRTRAX INC - Form 10KSB/A

(Underwriters Laboratories) compliance and preparation for initial production. Interest expense payable to third party suppliers totaled \$30,894 for the 2004 period, representing a \$13,044 decrease from \$43,938 for the 2003 period. In 2004, we posted \$86,667 in other income from interest payments due from Filco GmbH, which contrasts with \$7,914 for the prior year end. Net loss before taxes in 2004 was \$2,471,023 which reflects an increase of \$257,225 from \$2,213,798 in net loss before taxes for the 2003 period.

In 2004, we recorded \$175,413 as the expected sale of our net operating losses and tax credits under a New Jersey program described further in Liquidity and Capital Resources below. This amount contrasts with \$210,553 recorded during 2003.

23

Loss attributable to shareholders for 2004 was \$2,272,200 which represents a decrease of \$80,543 from \$2,191,657 during the 2003 period. During 2004, we paid dividends on our preferred stock to a controlling shareholder of our company in the amount of \$131,771. For the year ended December 31, 2003, we paid dividends on our preferred stock to a controlling shareholder of our company in the amount of \$80,749. Deficit accumulated during development stage during 2004 was \$2,403,971 (or a loss per share of \$0.19 for common stockholders) which represents an increase of \$131,565 from \$2,272,406 (or a loss per share of \$0.29 for common stockholders) for the 2003 period.

RESEARCH AND DEVELOPMENT

We incurred \$519,804 and \$297,862 in research and development expenses during the year ended December 31, 2004 and 2003, respectively. Research and development activities during fiscal 2004 primarily involved continued testing and evaluation of omni-directional components and preparing these components for production in 2005. Our wheel design was changed from the "concept" to "production" phase. This was and is an ongoing process between our and Timken's engineers to insure manufacturability. The motors and controllers were designed and/or changed in design in order to meet ANSI (American National Standards Institute) and UL (Underwriters Laboratories) testing requirements. Danaher and us revised the algorithms used in the motor controllers as well the microprocessor that runs the machines. Research and development activities also included further changes to existing designs and new designs that were patented or for those patents with pending applications. Portions of the costs we incurred due to testing and research and development were charged to the US Navy contract as provided therein.

LIQUIDITY AND CAPITAL RESOURCES

Since our inception, we have financed our operations through the private placement of our common stock and from loans from our President. During 2004 and 2003 we raised net of offering costs \$5,103,103 and \$789,000, respectively, from the private placement of our securities.

During 2000, we were approved by the State of New Jersey for our technology tax transfer program pursuant to which we could sell our net operating losses and research and development credits as calculated under state law. During 2004 and 2003, we recorded credits of \$198,823 and \$210,553, respectively from the sale of our losses and credits (see Note 6 to financial statements).

We have experienced negative cash flows from operations of \$1,614,687 during 2004 and \$705,790 during 2003. These negative results stem primarily from operating losses of \$2,272,200 in 2004 and \$2,191,657 in 2003. These results are not unusual for a company in the development state; it is noteworthy that significant portions of the losses result from non cash charges, primarily from equity securities issued for services.

Edgar Filing: AIRTRAX INC - Form 10KSB/A

We have consistently demonstrated our ability to meet our cash requirements through private placements of its common stock. We have continued to similarly satisfy those requirements during the year ended December 31, 2004.

24

We anticipate that our cash requirements for the foreseeable future will be significant. In particular, management expects substantial expenditures for inventory, product production, and advertising in anticipation of the rollout of its omni-directional forklift. On January 13, 2004, we entered into a placement agency agreement with a NASD registered broker-dealer for the private placement offering of our securities. Our securities consist of units comprised of one share of common stock and a stock warrant to purchase 50% of an additional share of common stock at a unit-offering price of \$0.80. The warrant is exercisable at \$1.25 per share during a five-year term. The offering is being made on a best efforts basis, for a total minimum amount of \$1,000,000 and a total maximum amount of \$4,000,000, terminating May 7, 2004. During the first and second quarters of 2004, we received \$2,880,108 net of offering costs and expenses from the offering. The offering is made pursuant to exemptions under the Securities Act of 1933, as amended. We completed our initial production run of the SIDEWINDER Lift Truck in the fourth quarter of 2004. We received sufficient funds from the offering to complete the initial production run and to complete ANSI and UL testing, as well as some special tooling costs.

We will require additional funds to continue our operations beyond the initial production run. These funds are in addition to the funds required by Filco GmbH as discussed above. We anticipate that operating capital in the amount of \$5 million will be required during calendar year 2005 to sufficiently fund Filco operations. Of the total amount, approximately 70% is projected for parts and component inventory and manufacturing costs, with the balance projected as general operating expenditures, which includes overhead and salaries. We expect to recognize lower per unit manufacturing and part costs in the future due to volume discounts, as well as lower per unit shipping costs as we transition from the initial production run to full-scale production. We intend to fund these additional cash requirements through the issuance of equity and/or debt securities which may include the offering described above. We cannot predict whether we will be successful in obtaining sufficient capital to fund continuing operations. If we are unable to obtain sufficient funds in the near future, such event will delay the rollout of its product and likely will have a material adverse impact on us and our business prospects.

As of December 31, 2004, our working capital deficit was \$(572,184). Fixed assets, net of accumulated depreciation, and total assets, as of December 31, 2004, were \$93,587 and \$4,600,023, respectively. Current liabilities as of December 31, 2004 were \$2,291,153.

SUBSEQUENT EVENTS

We have incurred penalties payable to the investors of our November 2004 private placements because we did not file a registration statement on Form SB-2 within the timeframe specified pursuant to the Registration Rights Agreement we entered into with the investors on November 23, 2004. We were required to file the registration statement on or prior to January 6, 2005, but it was not filed until February 14, 2005. We have not yet accounted for these penalties, as they were not incurred until 2005. We will account for such penalties in the first quarter of 2005.

RISK FACTORS

In addition to other information contained in this Form 10-KSB, the following Risk Factors should be considered when evaluating the forward-looking statements

Edgar Filing: AIRTRAX INC - Form 10KSB/A

contained in this Form 10-KSB:

RISKS RELATED TO OUR FINANCIAL CONDITION AND BUSINESS

WE MAY NEVER BECOME PROFITABLE AND CONTINUE AS A GOING CONCERN BECAUSE WE HAVE HAD LOSSES SINCE OUR INCEPTION.

We may never become profitable and continue as a going concern because we have incurred losses and experienced negative operating cash flow since our formation. 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. If such financing is available you may experience significant additional dilution.

25

WE HAVE A LIMITED OPERATING HISTORY

We are development stage company, and, together with our predecessor, have been in operation since 1995. However, since 1995, our operations have been limited to the development of our omni-directional products, and limited revenue has been generated during this period. Consequently, our business may be subject to the many risks and pitfalls commonly experienced by development stage companies.

OUR BUSINESS OPERATIONS WILL BE HARMED IF WE ARE UNABLE TO OBTAIN ADDITIONAL FUNDING.

Our business operations will be harmed if we are unable to obtain additional funding. We believe that our available short-term assets and investment income will be sufficient to meet our operating expenses and capital expenditures through the end of fiscal year 2005. We do not know if additional financing will be available when needed, or if it is available, if it will be available on acceptable terms. Insufficient funds may prevent us from implementing our business strategy or may require us to delay, scale back or eliminate certain opportunities for the provision of our technology and products. In addition to our own need of working capital, we also will need working capital to fund the operations of Filco GmbH. Filco has informed us that it needs working capital in the amount of \$5,000,000 in the beginning of 2005 in order for it to achieve profitable operations. This excludes the \$1,300,000 required under the Filco agreement. As of December 31, 2004, we have loaned \$2,699,999 to Filco. If we are unable to complete the terms of the Filco agreement and loan Filco the required amounts necessary to fund its operations, Filco may be unable to continue its operations and the repayment of amounts loaned to Filco by us may be jeopardized.

FINAL TESTING OF OUR PRODUCT COULD RESULT IN COMPONENT REFINEMENT OR REDESIGN, WHICH COULD DELAY THE COMMERCIAL INTRODUCTION OR CONTINUED SALE OF THE FORKLIFT.

We have developed pilot versions of our unique, omni-directional forklift. The commercial introduction of the product is subject, however, to additional testing and component refinement. Due to the unique performance attributes of the forklift, the forklift will undergo a series of unprecedented tests relating to these attributes. Although management has performed substantially all of these tests or is otherwise confident of the performance capabilities of the forklift, final testing has not been completed. In addition, our product must be sufficiently durable to withstand the day-to-day rigors of its anticipated work environment. As stated above, although we have conducted numerous tests, the product has not been subjected to the normal day-to-day usage typically required of forklifts. Therefore, it is conceivable that final testing, or durability

Edgar Filing: AIRTRAX INC - Form 10KSB/A

issues after prolonged use, could result in component refinement or redesign, which could delay the commercial introduction or continued sale of the forklift.

THE PRICING POLICY FOR OUR FORKLIFTS MAY BE SUBJECT TO CHANGE, AND ACTUAL SALES OR OPERATING MARGINS MAY BE LESS THAN PROJECTED.

We are assessing present and projected component pricing in order to establish a pricing policy for the SIDEWINDER Lift Truck. We have not finalized our assessment as current prices for certain forklift components reflect special development charges which are expected to be reduced as order volume for such components increase and as manufacturing efficiencies improve. We intend to price our forklifts so as to maximize sales yet provide sufficient operating margins. Given the uniqueness of our product, we have not yet established final pricing sensitivity in the market. Consequently, the pricing policy for its forklifts may be subject to change, and actual sales or operating margins may be less than projected.

WE HAVE RECEIVED LIMITED INDICATIONS OF THE COMMERCIAL ACCEPTABILITY OF OUR OMNI-DIRECTIONAL FORKLIFT. ACCORDINGLY, WE CANNOT PREDICT WHETHER OUR OMNI-DIRECTIONAL PRODUCTS CAN BE MARKETED AND SOLD IN A COMMERCIAL MANNER.

26

Our success will be dependent upon our ability to sell omni-directional products in quantities sufficient to yield profitable results. To date, we have received limited indications of the commercial acceptability of our omni-directional forklift. Accordingly, we cannot predict whether the omni-directional product can be marketed and sold in a commercial manner.

WE CANNOT ASSURE THAT WE WILL HAVE IN PLACE PATENT PROTECTION AND CONFIDENTIALITY AGREEMENTS FOR OUR PROPRIETARY TECHNOLOGY. IF WE DO NOT ADEQUATELY PROTECT OUR INTELLECTUAL PROPERTY RIGHTS, THERE IS A RISK THAT THEY WILL BE INFRINGED UPON OR THAT OUR TECHNOLOGY INFRINGES UPON ONE OF OUR COMPETITOR'S PATENTS. AS A RESULT, WE MAY EXPERIENCE A LOSS OF REVENUE AND OUR OPERATIONS MAY BE MATERIALLY HARMED.

Our success will be dependent, in part, upon the protection of our proprietary omni-directional technology from competitive use. A form of our omni-directional technology was originally patented in 1973 and was sold to the US Navy. We secured a transfer of this technology from the Navy in 1996 under the terms of a CRADA agreement (Cooperative Research and Development Agreement) and we have worked since that time to commercialize omni-directional products. We received 3 patents regarding the "redesign" of the wheel. In addition, we have received patent protection regarding the algorithms used to control vehicular movement. Further, we have applied for patents for a movable operator's control station and a munitions handler. Notwithstanding the foregoing, we believe our lack of patent protection is a material competitive risk. Our competitors could reverse engineer our technology to build similar products. Also, certain variations to the technology could be made whereby our competitors may use the technology without infringing upon our intellectual property. The patent for the omni-directional wheel expired in 1990. We, however, have received patent protection of certain other aspects of its omni-directional wheel, and for features specific to our forklift. In addition to the patent applications, we rely on a combination of trade secrets, nondisclosure agreements and other contractual provisions to protect our intellectual property rights. Nevertheless, these measures may be inadequate to safeguard our underlying technology. If these measures do not protect the intellectual property rights, third parties could use our technology, and our ability to compete in the market would be reduced significantly. In addition, if the sale of our product extends to foreign countries, we may not be able to effectively protect its intellectual property rights in such foreign countries.

In the future, we may be required to protect or enforce our patents and patent rights through patent litigation against third parties, such as infringement suits or interference proceedings. These lawsuits could be expensive, take significant time, and could divert management's attention from other business concerns. These actions could put our patents at risk of being invalidated or interpreted narrowly, and any patent applications at risk of not issuing. In defense of any such action, these third parties may assert claims against us. We cannot provide any assurance that we will have sufficient funds to vigorously prosecute any patent litigation, that we will prevail in any of these suits, or that the damages or other remedies awarded, if any, will be commercially valuable. During the course of these suits, there may be public announcements of the results of hearings, motions and other interim proceedings or developments in the litigation. If securities analysts or investors perceive any of these results to be negative, it could cause the price of our common stock to decline.

27

WE CURRENTLY LACK ESTABLISHED DISTRIBUTION CHANNELS FOR OUR FORKLIFT PRODUCT LINE

We do not have an established channel of distribution for our forklift product line. We have initiated efforts to establish a network of designated dealers throughout the United States. Although we have received indications of interest from a number of equipment distributors, to date, such indications have been limited. We cannot predict whether we will be successful in establishing our intended dealer network.

If we are unable to retain the services of our President and Chairman of the Board, Mr. Peter Amico, or if we are unable to successfully recruit qualified personnel, we may not be able to continue operations.

Our ability to successfully conduct our business affairs will be dependent upon the capabilities and business acumen of current management including Peter Amico. Accordingly, shareholders must be willing to entrust all aspects of our business affairs to our current management. Further, the loss of any one of our management team could have a material adverse impact on our continued operation.

OUR INDUSTRY AND PRODUCTS ARE CONSIDERED TO BE HIGH-RISK WITH A HIGH INCIDENCE OF SERIES PERSONAL INJURY OR PROPERTY LOSS WHICH COULD HAVE A MATERIAL ADVERSE IMPACT ON OUR BUSINESS.

The manufacture, sale and use of omni-directional forklifts and other mobility or material handling equipment is generally considered to be an industry of a high risk with a high incidence of serious personal injury or property loss. In addition, although we intend to provide on-site safety demonstrations, the unique, sideways movement of the forklift may heighten potential safety risks. Despite the fact that we intend to maintain sufficient liability insurance for the manufacture and use of our products, one or more incidents of personal injury or property loss resulting from the operation of our products could have a material adverse impact on our business.

If we do not successfully distinguish and commercialize our developed proprietary products and services, we will not attract a sufficient number of customers. Accordingly, we may be unable to compete successfully with our competitors or to generate revenue significant to sustain our operations.

Although management believes our product will have significant competitive advantages over conventional forklifts, we are competing in an industry populated by some of the foremost equipment and vehicle manufacturers in the world. All of these companies have greater financial, engineering and other

Edgar Filing: AIRTRAX INC - Form 10KSB/A

resources than us. No assurances can be given that any advances or developments made by such companies will not supersede the competitive advantages of our omni-directional forklift. In addition, many of our competitors have long-standing arrangements with equipment distributors and carry one or more of competitive products in addition to forklifts. These distributors are prospective dealers for our company. It therefore is conceivable that some distributors may be loath to enter into any relationships with us for fear of jeopardizing existing relationships with one or more competitors.

RISKS RELATING TO OUR COMMON STOCK

THE MARKET PRICE OF OUR COMMON STOCK MAY DECLINE BECAUSE THERE ARE WARRANTS THAT MAY BE AVAILABLE FOR FUTURE SALE AND THE SALE OF THESE SHARES MAY DEPRESS THE MARKET PRICE.

The market price of our common stock may decline because there are a large number of warrants that may be available for future sale, and the sale of these shares may depress the market price. As of March 31, 2005, we had approximately 21,256,215 shares of common stock issued and outstanding and 7,725,238 outstanding options and warrants to purchase up to 7,725,238 shares of common stock. The sale of these shares may adversely affect the market price of our common stock.

OUR COMMON STOCK IS SUBJECT TO THE "PENNY STOCK" RULES OF THE SEC AND THE TRADING MARKET IN OUR SECURITIES IS LIMITED, WHICH MAKES TRANSACTIONS IN OUR STOCK CUMBERSOME AND MAY REDUCE THE VALUE OF AN INVESTMENT IN OUR STOCK.

28

The Securities and Exchange Commission has adopted Rule 15c-9 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

- o that a broker or dealer approve a person's account for transactions in penny stocks; and

- o the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- o obtain financial information and investment experience objectives of the person; and

- o make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Commission relating to the penny stock market, which, in highlight form:

- o sets forth the basis on which the broker or dealer made the suitability determination; and

- o that the broker or dealer received a signed, written agreement from the

Edgar Filing: AIRTRAX INC - Form 10KSB/A

investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

ITEM 7. FINANCIAL STATEMENTS

AIRTRAX, INC.
(A Development Stage Company)

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004
DECEMBER 31, 2003

	Page

Report of Independent Certified Public Accountants.....	F - 1
Balance Sheet.....	F - 2
Statements of Operations and Deficit Accumulated During Development Stage.....	F - 3
Statements of Changes in Stockholder's Equity.....	F - 4
Statements of Cash Flows.....	F - 5
Notes to Financial Statements.....	F - 6

ROBERT G. JEFFREY
CERTIFIED PUBLIC ACCOUNTANT
61 BERDAN AVENUE
WAYNE, NEW JERSEY 07470

LICENSED TO PRACTICE	TEL: 973-628-0022
IN NEW YORK AND NEW JERSEY	FAX: 973-696-9002
MEMBER OF AICPA	E-MAIL: rgjcpa@erols.com
PRIVATE COMPANIES PRACTICE SECTION	

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
AirTrax, Inc.

I have audited the accompanying balance sheet of AirTrax, Inc. (a development

Edgar Filing: AIRTRAX INC - Form 10KSB/A

stage company) as of December 31, 2004, and the related

statements of operations and deficit accumulated during development stage, changes in stockholders' equity, and cash flows for the years ended December 31, 2004 and 2003, and for the period from May 19, 1997 (inception) to December 31, 2004. These financial statements are the responsibility of the Company management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted the audit in accordance with the standards of Public Company Accounting Oversight Board (United States). Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor was I engaged to perform, an audit of its internal control over financial reporting. My audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, I express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AirTrax, Inc. as of December 31, 2004, and the results of its operations and its cash flows for the years ended December 31, 2004 and 2003, and for the period from May 19, 1997 (inception) to December 31, 2004, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the financial statements, certain errors were discovered in the financial statements of the year ended December 31, 2003. Accordingly, the 2003 statement of operations and deficit accumulated during development stage has been restated to correct the errors and the balances of common stock and deficit accumulated during development stage of 2004 have been restated to correct the opening balances.

Robert G. Jeffrey
Certified Public Accountant

Wayne, New Jersey
October 3, 2005

F-1

AIRTRAX, INC.
(A Development Stage Company)
BALANCE SHEET
December 31, 2004

ASSETS

Current Assets		
Cash	\$	641,477
Accrued interest receivable		86,667
Inventory		709,281

Edgar Filing: AIRTRAX INC - Form 10KSB/A

Prepaid expenses	5,113
Vendor advance	52,017
Deferred tax asset	224,414

Total current assets	\$ 1,718,969
Fixed Assets	
Office furniture and equipment	90,714
Automotive equipment	21,221
Shop equipment	24,553
Casts and tooling	205,485

	341,973
Less, accumulated depreciation	248,386

Net fixed assets	93,587
Other Assets	
Advances to Filco GmbH	2,670,000
Patents - net	117,402
Utility deposits	65

Total other assets	2,787,467

TOTAL ASSETS	\$ 4,600,023
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities	
Accounts payable	\$ 394,959
Accrued liabilities	459,565
Shareholder deposits for stock	1,403,174
Shareholder notes payable	33,455

Total current liabilities	\$ 2,291,153

Stockholders' Equity	
Common stock - authorized, 20,000,000 shares without par value; 15,089,342 issued and outstanding	10,822,854
Preferred stock - authorized, 500,000 shares without par value; 275,000 issued and outstanding	12,950
Deficit accumulated during the development stage	(8,319,982)
Deficit prior to development stage	(206,952)

Total stockholders' equity	2,308,870

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,600,023
	=====

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

F-2

AIRTRAX, INC.
(A Development Stage Company)
STATEMENTS OF OPERATIONS AND DEFICIT

Edgar Filing: AIRTRAX INC - Form 10KSB/A

ACCUMULATED DURING DEVELOPMENT STAGE
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	YEAR 2004 -----	YEAR 2003 -----	May 19, 1997 (Date of Inception) to December 31, 2004 -----
CONSULTING REVENUE	\$ --	\$ 21,879	\$ 1,023,123
COST OF PROVIDING CONSULTING REVENUE	--	91,283	470,371
Gross Profit (Loss)	--	(69,404)	552,752
OPERATING AND ADMINISTRATIVE EXPENSES	2,529,775	2,108,370	(8,948,221)
OPERATING LOSS	(2,529,775)	(2,177,774)	(8,395,469)
OTHER INCOME AND (EXPENSE)			
Interest expense	(30,894)	(43,938)	(175,064)
Interest income	86,667	7,914	86,667
Other income	2,979	--	78,294
NET LOSS BEFORE INCOME TAXES	(2,471,023)	(2,213,798)	(8,405,572)
INCOME TAX BENEFIT (STATE):			
Current	198,823	210,553	198,823
Prior years	--	--	518,319
Total Benefit	198,823	210,553	717,142
NET LOSS BEFORE DIVIDENDS	(2,272,200)	(2,003,245)	(7,688,430)
DEEMED DIVIDENDS ON PREFERRED STOCK	--	188,412	188,412
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	(2,272,200)	(2,191,657)	(7,876,842)
PREFERRED STOCK DIVIDENDS DURING DEVELOPMENT STAGE	(131,771)	(80,749)	(443,140)
DEFICIT ACCUMULATED	\$ (2,403,971) =====	\$ (2,272,406) =====	\$ (8,319,982) =====
EARNINGS PER SHARE:			
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (2,272,200)	\$ (2,191,657)	
ADJUSTMENT FOR PREFERRED SHARE DIVIDENDS ACCUMULATED BUT UNPAID	68,750	68,750	
LESS ALLOCABLE TO COMMON SHAREHOLDERS	\$ (2,340,950) =====	\$ (2,260,407) =====	

Edgar Filing: AIRTRAX INC - Form 10KSB/A

NET LOSS PER SHARE - Basic and Diluted	\$	(.19)	\$	(.29)
	=====		=====	
WEIGHTED AVERAGE SHARES OUTSTANDING		12,075,448		7,818,400
	=====		=====	

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

F-3

AIRTRAX, INC.
(A Development Stage Company)
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Year Ended December 30, 2004

	COMMON STOCK		PREFERRED STOCK		DEFICIENCY ACCUMULATED DURING DEVELOPMENT STAGE
	Shares	Amount	Shares	Amount	
Balance, December 31, 2002	6,247,730	\$ 3,663,424	275,000	\$ 12,950	\$ (3,643,600)
Adjustment	(21,912)				
Sales of stock under Regulation D offering	715,000	659,000			
Shares issued for services	1,509,003	1,618,411			
Shares in lieu of preferred dividends	246,731	269,161			(80,700)
Net loss for the period					(2,191,600)
Balance, December 31, 2003	8,696,552	6,209,996	275,000	12,950	(5,916,000)
Issuance of shares sold in the prior year	130,000	130,000			
Sales of stock under Regulation D offering	5,500,125	3,727,802			
Exercise of warrants	75,000	93,750			
Shares issued for services	687,665	661,306			
Dividends - outstanding					(131,000)
Dividends paid					
Net loss for the period					(2,272,000)
Balance, December 31, 2004	15,089,342	\$ 10,822,854	275,000	\$ 12,950	\$ (8,319,000)

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

Edgar Filing: AIRTRAX INC - Form 10KSB/A

F-4

AIRTRAX, INC.
(A Development Stage Company)
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2004 and 2003

	Year 2004	Year 2003	May 1 (Date of to Decemb
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Loss	\$ (2,272,200)	\$ (2,191,657)	\$ (7,8
Adjustments to reconcile net income to net cash consumed by operating activities:			
Charges not requiring the outlay of cash:			
Depreciation and amortization	100,507	36,214	3
Value of equity securities issued for services	812,643	1,332,989	2,9
Deemed dividends on preferred stock		188,412	1
Interest accrued on shareholder loan	4,566	11,478	
(Increase) decrease in accrual of deferred tax benefit	(23,409)	(150,262)	(2
Changes in current assets and liabilities:			
Decrease (increase) in inventory	(324,527)	(197,914)	(7
(Increase) decrease in receivables	(138,684)	50,936	(1
Increase (decrease) in accounts payable and accrued liabilities	226,417	214,014	9
Increase in prepaid expense	--	--	(1
	-----	-----	-----
Net Cash Consumed By Operating Activities	(1,614,687)	(705,790)	(4,7
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of equipment	(49,306)	(90,045)	(3
Additions to patent cost	(80,939)	(9,385)	(1
Advances to Filco GmbH	(2,670,000)		(2,6
	-----	-----	-----
Net Cash Consumed By Investing Activities	(2,800,245)	(99,430)	(3,1
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds of common stock sales	5,103,103	789,000	8,5
Proceeds from exercise of warrants	93,750	--	
Proceeds of option exercises	5,944	5,900	
Proceeds of sales of preferred stock	--	--	
Proceeds (repayment) of stockholder loans	(52,005)	(3,298)	
Preferred stock dividends paid in cash	(131,771)	--	(1
Partial repayment of equipment note	--	(425)	
	-----	-----	-----
Net Cash Provided By Financing Activities	5,019,021	791,177	8,5
	-----	-----	-----
Net Increase (Decrease) In Cash	604,089	(14,043)	6
Balance at beginning of period	37,388	51,431	

Edgar Filing: AIRTRAX INC - Form 10KSB/A

Balance at end of period

\$ 641,477
=====

\$ 37,388
=====

\$ 6
=====

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

F-5

AIRTRAX, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

The Company was formed April 17, 1997. It has designed a forklift vehicle using omni-directional technology obtained under a contract with the United States Navy Surface Warfare Center in Panama City, Florida. The right to exploit this technology grew out of a Cooperative Research and Development Agreement with the Navy. Significant resources have been devoted during the past four years to the construction of a prototype of this omni-directional forklift vehicle.

The Company has also developed a traditional helicopter ground handling machine which has been marketed by the Company on a limited basis.

Development Stage Accounting

The Company is a development stage company, as defined in Statement of Financial Accounting Standards No. 7. Generally accepted accounting principles that apply to established operating enterprises govern the recognition of revenue by a development stage enterprise and the accounting for costs and expenses. From inception to May 19, 1997, the Company has been in the development stage and all its efforts have been devoted to the development of a forklift vehicle with omni-directional technology that is suitable for market. Only relatively small amounts of revenue have been realized through December 31, 2004.

Basis of Presentation

The Company has incurred losses from inception of the development stage to May 19, 1997 of \$7,876,842. Activities have been financed primarily through private placements of equity securities. The Company may need to raise additional capital through the issuance of debt or equity securities to fund its operations.

Cash

For purposes of the statements of cash flows, the Company considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Inventory

Inventory consists principally of component parts and supplies which will be used to assemble forklift vehicles. Inventories are stated at the lower of cost (determined on a first in-first out basis) or market.

F-6

AIRTRAX, INC.
(A Development Stage Company)

Edgar Filing: AIRTRAX INC - Form 10KSB/A

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

1. (continued)

Fixed Assets

Fixed assets are recorded at cost. Depreciation is computed by using accelerated methods, with useful lives of seven years for furniture and shop equipment and five years for computers and automobiles.

Income Taxes

Deferred income taxes are recorded to reflect the tax consequences or benefits to future years of temporary differences between the tax bases of assets and liabilities, and of net operating loss carryforwards.

Intangible Assets

Patents

The Company incurred costs to acquire certain patent rights. These costs were capitalized and are being amortized over a period of fifteen years on a straight-line basis.

Prototype Equipment

The cost of developing and constructing the prototype omni-directional helicopter handling vehicle and the omni-directional forklift vehicle is expensed as incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimated.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, which include cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate their fair values at December 31, 2004.

Research and Development Cost

The Company expenses all research and development cost unless the criteria required by FASB #2 are met. To date there have been no research and development cost capitalized. During the years 2004 and 2003 a total of \$519,804 and \$297,862, respectively, was spent on development activity.

Advertising Costs

The Company expenses advertising costs when the advertisement occurs. There were no advertising costs incurred during 2004 and 2003.

F-7

AIRTRAX, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

1. (continued)

Stock Options

Stock options are awarded to employees as compensation for services. Such awards have been immediately exercisable. The Company accounts for stock-based

Edgar Filing: AIRTRAX INC - Form 10KSB/A

compensation under the intrinsic method permitted by Accounting Principles Board Opinion No. 25. The following represents information about net loss and loss per share as if the Company had applied the provisions of Statement of Financial Accounting Standards ("SFAS")123. Accounting for Stock Based Compensation, to all options granted.

	Year Ended December 31, (\$000's)	
	2004	2003
	----	----
Net loss as reported	\$(2,272)	\$(2,192)
Less Stock-based employee compensation determined under the Intrinsic Method	223	35
Add: Stock based compensation determined under the Fair Value Method	-260	-35
Pro forma net loss	\$(2,309)	\$(2,192)
	-----	-----
Loss per share:		
Basic and diluted as reported	\$ (.19)	\$ (.29)
	=====	=====
Basic and diluted-pro forma	\$ (.19)	\$ (.29)
	=====	=====

Pursuant to the requirements of SFAS 123, the weighted average fair value of options granted during 2004 and 2003 were \$.49 and \$.98, respectively, on the dates of grant. The fair values were determined using a Black Scholes option-pricing model, using the following major assumptions:

	2004	2003
	----	----
Volatility	91.45%	130.4%
Risk-free interest rate	3.63%	2.51%
Expected Life - years	4.33	3.89

F-8

AIRTRAX, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

In December 2004, the FASB issued SFAS 123 (revise 2004), Share-Based Payment ("SFAS 123R"), which revised SFAS 123, Accounting for Stock-Based Compensation. SFAS 123R also supersedes APB 25, Accounting for Stock Issued to Employees, and amends SFAS 95, Statement of Cash Flows. In general, the accounting required by SFAS 123R is similar to that of SFAS 123. However, SFAS 123 gave companies a choice to either recognize the fair value of stock options in their income statements or to disclose the pro forma income statement effect of the fair value stock options in the notes to the financial statements. SFAS 123R eliminates that choice and requires the fair value of all share-based payments

Edgar Filing: AIRTRAX INC - Form 10KSB/A

to employees, including the fair value of grants of employee stock options, be recognized in the income statement, generally over the option vesting period. SFAS 123R must be adopted no later than July 1, 2005.

SFAS 123R permits adoption of its requirements using one of two transition methods:

1. A modified prospective transition ("MPT") method in which compensation cost is recognized beginning with the effective date (a) for all share-based payments granted after the effective date and (b) for all awards granted to employees prior to the effective date that remain unvested on the effective date.

2 A modified retrospective transition ("MRT") method which includes the requirements of the MPT method described above, but also permits restatement of financial statements based on the amounts previously disclosed under SFAS 123's pro forma disclosure requirements either for (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company is currently evaluating the timing and manner in which it will adopt SFAS 123R.

As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using APB 25's intrinsic value method and, as such, has recognized no compensation cost for employee stock options. Accordingly, adoption of SFAS 123R's fair value method will have a slight effect on results of operations, although it will have no impact on overall financial position. The impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future.

Segment Reporting

Management treats the operations of the Company as one segment.

Revenue Recognition

Revenue will be realized from product sales. Recognition will occur upon shipment to customers, and where the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred; the sales price is fixed or determinable; and collectability is reasonably assured. Some revenue has been realized from performing services. Revenue from services is recognized when the service is performed and where the following criteria are met: persuasive evidence of an arrangement exists; the contract price is fixed or determinable; and collectability is reasonably assured.

Common Stock

Common stock is often issued in return for product, services, and as dividends on the preferred stock. These issuances are assigned values equal to the value of the common stock on the dates of issuance.

F-9

AIRTRAX, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

2. RESTATEMENTS

Certain errors affecting the 2003 financial statements have been discovered during an internal review. Correcting these errors resulted in changes in the net loss attributable to common shareholders with a resultant increase in the

Edgar Filing: AIRTRAX INC - Form 10KSB/A

deficit accumulated during development stage, an increase in common stock, and certain changes in the statement of cash flows as of December 31, 2003 and for the year then ended. The 2003 financial statements have, therefore, been restated to correct these errors. The restated amounts are compared with the amounts previously reported, in the following table.

STATEMENT OF OPERATIONS AND DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE

	As Originally Presented	Adjustments	As Restated
Operating and Administrative Expenses	\$ 2,199,659	\$ 91,289 (1)	\$ 2,108,370

Loss Accumulated During Development Stage	\$ (2,282,946)	\$ 91,289	\$ (2,191,657)
		=====	

STATEMENT OF CASH FLOWS

	As Originally Presented	Adjustments	As Restated
Operating Activities			
Net Loss	\$ 2,282,946	\$ 91,289 (2)	\$ (2,191,657)
Value of equity securities issued for services	1,424,278	(91,289) (1)	1,332,989

Net Cash Consumed By Operating Activities	\$ (705,790)	\$ -	\$ (705,790)
		=====	

(1) Correction of recording expenses of stock options and stock grants.

(2) Net amount of Changes on Statement of Operations and Deficit Accumulated During Development Stage.

These corrections caused changes in the opening balances of the deficit accumulated during development stage, as follows:

	2004	2003
Retained Deficit At Beginning of year:		
As previously reported	\$ (5,804,156)	\$ (3,440,461)
Adjustment to correct accounting for stock options and stock grants	(111,855)	(203,144)
Balance at beginning of year, as Restated	(5,916,011)	(3,643,605)
Net loss, as restated	(2,272,200)	(2,191,657)
Dividends on preferred stock	(131,771)	(80,749)
	-----	-----
Retained Deficit at End of Year	\$ (8,319,982)	\$ (5,916,011)
	=====	=====

F-10

AIRTRAX, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

3. RELATED PARTY TRANSACTIONS

Edgar Filing: AIRTRAX INC - Form 10KSB/A

The majority shareholder corporation and the Company president make loans to the Company from time to time. The related notes accrue interest at 12% and are due on demand. The combined unpaid balance of principal and interest on these notes was \$33,455 at December 31, 2004.

During 2003, two Company employees exercised options, receiving a total of 7,500 shares of common stock in return for \$877. The same two employees each received bonuses of 15,000 shares. Each member of the Board of Directors was awarded 10,000 shares for services as directors; these shares were valued at a total of \$47,500. One director purchased 10,000 shares in return for \$5,000; an additional \$5,000 was treated as compensation of the director. An affiliate of a director received \$3,940 for legal services. The Company president exercised options for 180,000 shares (see Note 9) in return for \$25,202.

During 2004, each member of the Board of Directors received 10,000 shares for services as directors; these were valued at \$50,500, reflecting the stock price at time of award.

In 2004, the president of the Company was granted 550,000 options, valued at \$187,500.

Three employees were previously entitled under their employment contracts to 25,000 options each for each year of their contracts. One of these employees retired during 2004, exercising his remaining options. Another employee exercised his prior options and his 2004 options, for a total cost of \$5,943. The last employee has outstanding options granted during 2002, 2003, and 2004.

Since June 1999 the Company has made its headquarters in premises owned by the company president which to date has been rent free. If rent was charged for this space, it would be insignificant.

F-11

AIRTRAX, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

4. STOCK OPTIONS

The Company has awarded options under employment contracts with four employees. These options entitle the employees to purchase Company stock at discounted prices. These options have been immediately exercisable. There are no expiration dates to these options; and none was forfeited during either year. A summary of option activity is presented below.

	2004		2003	
	-----		-----	
	Weighted Average Exercised		Weighted Average Exercised	
	-----	-----	-----	-----
	Shares	Price	Shares	Price
	-----	-----	-----	-----
Options outstanding at beginning of year	115,000	\$.38	247,500	\$.20
Options granted during year	600,000	.74	50,000	.41
Options exercised during year	(95,000)	.39	(182,500)	.14
	-----	-----	-----	-----
Options outstanding at end of year	620,000	\$.73	115,000	\$.38

Edgar Filing: AIRTRAX INC - Form 10KSB/A

	=====	=====
Weighted average Fair Value of options granted	\$.47	%.92
Weighted average remaining life of outstanding options	4.33	3.89

5. PRIVATE PLACEMENT OFFERINGS

The Company conducted private placement offerings during 2004 and 2003, primarily through an NASD registered broker dealer. These offerings were exempt under the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder. A total of 7,218,687 shares of common stock was sold under the offerings during 2004, and 845,000 shares were sold during 2003. These sales resulted in net proceeds of \$5,103,103 and \$789,000, respectively. Of the shares sold during 2004, 1,718,562 had not been issued at year end. There were 130,000 shares which had similarly not been issued at the end of 2003; these were issued in 2004.

Included in the funds raised during 2004 through stock sales was \$1,312,000 raised through the sale of 1,640,000 shares under a Purchase Agreement dated November 22, 2004. That agreement required, among other things, that a registration statements be filed with the SEC and that the registration statement be declared effective by the SEC within a prescribed time. The Company did not fulfill these obligations. As a result, it is subject to penalties equal to 2% of the amount invested for each 30 day period following the default date. On May 31, 2005, the Company entered into a letter agreement with a representative of this shareholder group under which \$120,429 was paid to settle the penalties which had accrued. These penalties will be charged to expense during 2005. Under the May 31, 2005 agreement, no further penalties will accrue until after June 30, 2005. The obligation concerning effectiveness of the registration statement has not been satisfied and penalties have accrued since June 30, 2005.

On February 11, 2005, the Company issued \$5,000,000 of 6% 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 the sale of the promissory notes, as follows: 1,923,077 Class A warrants and 961,538 Class B warrants. The Class A warrants are exercisable for a five year period at a price per share of \$1.85. The Class B warrants are exercisable for a five year period at a price per share of \$2.11. As partial compensation, the broker-dealer which arranged this transaction was awarded 484,616 warrants to purchase common stock, 384,616 at \$1.85 per share, and 100,000 at \$1.00 per share. These transactions will be accounted for under the requirements of Emerging Issues Task Force (EITF) 98-5,

F-12

AIRTRAX, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

"Accounting for Convertible 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, expense will be increased by \$944,500 representing the value of the warrants and by \$3,269,231 representing the value of the conversion privilege.

Edgar Filing: AIRTRAX INC - Form 10KSB/A

The shares issued through the registered broker dealer were sold as units, with each unit consisting of one share of stock and a warrant to purchase 50% of an additional share of stock. Other warrants were issued as compensation to the broker dealer. At December 31, 2004, there were 5,537,763 warrants outstanding at exercise price ranging between \$1.00 and \$2.50 per share.

A schedule of changes in the outstanding warrants is presented below.

Warrants outstanding, December 31, 2003	845,000
Warrants issued during 2004	4,767,763

	5,612,763
Warrants exercised during 2004	75,000

Warrants outstanding, December 31, 2004	5,537,763
	=====

A total of 3,388,882 shares were reserved for options and warrants at December 31, 2004.

F-13

AIRTRAX, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

6. PREFERRED STOCK

The Company is authorized to issue 500,000 shares of preferred stock, without par value. At December 31, 2004, 275,000 of these shares had been issued. Each of these shares entitles the holder to a 5% cumulative dividend based on a \$5 per share stated value. If sufficient cash is not available, or at the option of the shareholder, these dividends may be paid in common stock. If payment is in stock, it is to be valued at a price calculated at thirty percent of the lower of the last price traded in either a public or private transaction during the applicable quarter. This issue of preferred stock also provides a voting right of 10 votes for each share. The holder of this preferred stock is a corporation wholly owned by the Company president and chairman.

At December 31, 2000, \$11,999 of dividends had accrued on the preferred stock but remained unpaid. An additional \$68,750 of dividends accrued during 2001. The \$80,749 combination of these two amounts was satisfied in March 2003 through the issuance of 246,731 shares of common stock. Additional dividends of \$68,750 accrued during each of the years 2002, 2003, and 2004. Cash dividends of \$131,771 were paid during 2004, leaving a balance of unpaid dividends of \$74,479 at December 31, 2004.

The majority shareholder had the right at December 31, 2004 to acquire 248,263 shares of common stock as accrued and unpaid dividends under the features of the preferred stock issue.

A deemed dividend in the amount of \$188,412 was charged to operations during 2003. This deemed dividend is the excess of the fair market value of the 246,731 shares issued in satisfaction of dividends on the preferred stock during 2003 over the discounted amount at which they were issued. This deemed dividend was added to paid in capital.

The characteristics of the remaining 225,000 preferred shares authorized have not been specified.

Edgar Filing: AIRTRAX INC - Form 10KSB/A

During December 2004 the Board of Directors approved the issuance of 100,000 shares of preferred stock to satisfy the remaining balance of unpaid preferred dividends. On advice of Company attorneys, the stock has not been issued pending stockholder approval. The 100,000 shares authorized by the Board would have characteristics identical to those of the currently outstanding preferred stock.

F-14

AIRTRAX, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

7. EQUITY TRANSACTIONS

A schedule detailing equity transactions of the Company in non-cash transactions during the years 2004 and 2003 is presented below.

YEAR ENDED DECEMBER 31, 2003

	Number of shares -----	Grant Date -----	Grant Date Price -----	Grant Date Value -----
CONSULTANTS:				
Financial consulting services	35,999	3/14	1.02	\$ 36,719
Marketing services	200,000	1/28	1.20	240,000
Financial consulting services	200,000	4/1	0.95	190,000 40,480 (1)
Legal award	50,000	4/1	0.95	47,500
Marketing services	70,000	4/2	1.00	70,000 33,754 (1)
Stock in lieu of legal services	15,700	1/7	0.53	8,370
Marketing services for government contract	350,000	5/8	1.50	525,000 (184,020) (2)
Marketing services	30,000	7/23	1.05	31,500
Contractor services	2,500	8/25	1.00	2,500
Investor relations	30,000	8/4	1.00	30,000 72,658 (1)
Financial consulting services	21,165	12/30	0.68	9,124
Consulting services	17,139	12/30	.068	11,655
Marketing services	165,000	10/20	0.90	148,500 (130,600) (2)
Marketing services	15,000	12/30	0.68	13,500

Edgar Filing: AIRTRAX INC - Form 10KSB/A

-----	-----	-----	-----	-----
Total value of shares issued	1,202,503			1,196,640
to consultants				
OTHER:				
Employee options exercised	187,500			- (3)
Value of employee options issued				27,999
Grants of shares to employees	30,000	12/30	0.68	20,400
Grants of shares to directors	50,000	4/1	0.95	47,500
Discount purchase by director	10,000	5/28	.71 (4)	7,100
Shares in lieu of rent	29,000	1/7	1.15	33,350
Total equity instruments issued	-----			-----
for services	1,509,003			\$1,332,989
	=====			=====

- (1) Amortization of the cost of grants made in prior periods.
(2) Grants were issued for commitments for future service; these are the expenses allocated to future periods.
(3) The expense associated with these options was recognized when options were issued.
(4) This is the amount of the discount per share.

F-15

AIRTRAX, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

YEAR ENDED DECEMBER 31, 2004

	Number of shares	Grant Date	Grant Date Price	Grant Date Value
	-----	-----	-----	-----
CONSULTANTS:				
Consulting services	10,000	1/2	\$ 1.29	\$12,900
Marketing services	15,000	6/14	1.12	16,800 122,680 (2)
Investor relations	26,020	6/14	1.12	29,142
Consulting services	24,075	6/14	1.12	26,964
Investor relations	5,000	6/14	1.12	5,600
Consulting services	40,000	9/8	0.89	34,000 (5,113) (1)
Investor relations	50,000	8/9	0.86	43,000
Marketing services	165,000	3/15	1.05	173,250 145,110 (2)
Investor relations	15,000	2/2	0.68	10,200
Industrial Relations and marketing services	16,500	10/14	1.05	17,325
Industrial Relations and				

Edgar Filing: AIRTRAX INC - Form 10KSB/A

marketing services	69,550	1/0	1.01	70,245
Consulting services	23,775	10/1	0.82	19,258
Marketing services	24,000	10/30	0.9	21,600
	-----			-----
Total of shares issued to consultants	483,920			742,961

OTHER:

Stock issued to settle accounts payable	37,421			-
Employee options exercised	104,324			10,182 (3)
Stock issued in lieu of rent	12,000	various	.75	9,000
Director awards	50,000	10/20	1.01	50,500
Total equity instruments issued for services	-----			-----
	687,665			\$ 812,643
	=====			=====

- (1) Grants were issued in return for commitments for future service; this is the expense allocated to future periods.
- (2) Amortization of the cost of grants issued in prior periods.
- (3) Some issuances were compensated by eliminating liabilities owed to the optionee; if the required option price exceeded the liability, the excess was charged to expense.

Information detailing all equity transactions since inception of the development stage is presented in the following schedule.

F-16

		Common Shares		Preferred Stock		Deficit Pre-Development
		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			(206,952)
	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	

Edgar Filing: AIRTRAX INC - Form 10KSB/A

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
		-----	-----
		8,474,404	7,207,261
	-----	-----	
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
		-----	-----
	2,911,178	2,869,367	
	-----	-----	

F-17

AIRTRAX, INC.
 CUMULATIVE STATEMENT OF CHANGE IN STOCKHOLDERS' EQUITY
 May 19, 1997 to December 31, 2004

		Common Shares		Preferred Stock		Deficit Pre-Development	Deve
		Number	Amount	Number	Amount		
		-----	-----	-----	-----	-----	-----
Net losses during development stage	1997						
	1998						
	1999						
	2000						
	2001						
	2002						
	2003						(2)
2004						(2)	
						---	(7)

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				

Edgar Filing: AIRTRAX INC - Form 10KSB/A

		-----	-----						
		648,026	446,278						
		-----	-----						
Dividends paid									
in cash	1998								
	1999								
	2004								
Adjustment	2003	(21,912)							
Warrants exercised	2004	75,000	93,750						
Redemptions of									
promissory note	1997	30,000	20,000						
Balances, December									
31, 2004		15,089,342	\$10,822,854	275,000	\$12,950	\$(206,952)			
		=====	=====	=====	=====	=====			

F-18

AIRTRAX, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

8. LOSS PER SHARE

Stock options were granted to two Company employees during 2004. In addition, dividends accrued on the preferred stock during 2004 and 2003 (see Note 4) which at the option of the preferred shareholder could be paid in common stock. There also were warrants outstanding to purchase common stock (see Note 3). These shares and warrants were not included in the calculation of earnings per share because such inclusion would have an antidilutive effect.

9. Operating and Administrative Expenses

Included in Operating and Administrative Expenses are the following:

	Year Ended December 31, 2004	Year Ended December 31, 2003
	-----	-----
Payroll	\$ 217,454	\$ 190,266
Officer's Compensation	185,000	114,978
Cost of stock options	202,000	
Consulting Expense:		
Administration	721,361	665,908
Marketing	-	214,478

Edgar Filing: AIRTRAX INC - Form 10KSB/A

Marketing Expense	205,320	47,301
Production Development Cost	369,567	127,168
Director Awards	50,500	47,500
Other Expenses	578,573	700,771
	-----	-----
Total Operating & Administrative Expense	\$2,529,775	\$ 2,108,370
	=====	=====

10. INCOME TAXES

The Company has experienced losses each year since its inception. As a result, it has incurred no Federal income tax. The Internal Revenue Code allows net operating losses (NOL's) to be carried forward and applied against future profits for a period of twenty years. At December 31, 2004, the Company had NOL carryforwards of \$8,099,640 available for Federal taxes and \$2,493,486 for New Jersey taxes. The potential tax benefit of the state NOL's has been recognized on the books of the Company; the potential benefit of the Federal NOL's has been offset by a valuation allowance. If not used, these Federal carryforwards will expire as follows:

2011	\$ 206,952
2012	129,092
2018	486,799
2019	682,589
2020	501,169
2021	775,403
2022	590,764
2023	2,233,386
2024	2,493,486

F-19

AIRTRAX, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

During the year 2004, the Company realized \$175,414 from the sale, as permitted by New Jersey law, of its rights to use the New Jersey NOL'S and research and development credits that had accrued during 2003. Similar sales of New Jersey tax benefits were made in prior years. These potential New Jersey offsets for periods prior to 2004 are, thus, no longer available to the Company.

Under Statement of Financial Accounting Standards No. 109, recognition of deferred tax assets is permitted unless it is more likely than not that the assets will not be realized. The Company has recorded deferred tax assets as presented below, all stemming from NOL'S.

	Current	Non-current	Total
	-----	-----	-----
Deferred Tax Assets	\$995,899	\$ 1,806,175	\$ 2,802,074
Valuation Allowance	771,485	1,806,175	2,577,660
	-----	-----	-----
Balance Recognized	\$224,414	\$ -	\$ 224,414
	=====	=====	=====

Edgar Filing: AIRTRAX INC - Form 10KSB/A

The entire balance of the valuation allowance relates to Federal taxes. Since state tax benefits for years prior to 2004 have been realized, no reserve is deemed necessary for the benefit of state tax losses of 2004.

11. RENTALS UNDER OPERATING LEASES

At present, the Company is not obligated under any operating lease. The Company rents warehouse space on a month to month basis.

Rent expense amounted to \$49,500 in 2004 and \$36,000 in 2003.

12. SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION

Cash paid for interest and income taxes is presented below:

	2004 ----	2003 ----
Interest	\$26,329	\$35,828
Income taxes	0	500

Equipment purchases of \$5,971 were paid with a promissory note. There were no other noncash investing activities during either 2004 or 2003. The following additional noncash financing activities occurred:

a. Shares of common stock were issued for services during 2004 and 2003; these totaled 687,665 and 1,509,003 shares, respectively.

b. During 2004, 130,000 shares were issued in settlement of stock sales which took place during 2003.

F-20

AIRTRAX, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

13. CONTINGENCIES

On February 19, 2004, the Company reached a tentative agreement to purchase capital stock of FiLCO GmbH., a German manufacturer of fork trucks (formerly Clark Material Handling Company of Europe) with a manufacturing facility in Mulheim, Germany (FiLCO). It is expected that the Company will acquire 75.1% of FiLCO. Until the tentative agreement is finalized and closed, the Company agreed to make advances to FiLCO. Through December 31, 2004, advances totaling \$2,670,000 had been made. 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 also will convert to FiLCO capital a loan of

Edgar Filing: AIRTRAX INC - Form 10KSB/A

1,225,000 Euros that FiLCO owes to him. As additional consideration for this FiLCO stock purchase, FiLCO would pay the seller 12,750 Euros and the Company would 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 seller of the FiLCO stock a director of the Company and, if the purchase is concluded, would grant him options to purchase 100,000 shares of Company stock for \$.01 as consideration for his service as a director. 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 the stock.

The Company also agreed as part of the tentative agreement to make available to the management of FiLCO 100,000 shares of Company common stock and options to purchase another 100,000 shares.

As of March 28, 2005, the Company had not concluded the contract and had not issued any of the warrants or options contemplated by the tentative agreement.

During May 2002, the Company signed an agreement with a broker-dealer to provide investment banking and financial advisory services, which included the raising of funds. Under the agreement, the broker-dealer was entitled to receive stock warrants which if exercised would produce 450,000 shares of common stock of the Company during a four year term at an exercise price of approximately \$1.75 per share. A dispute arose between the parties regarding the agreement and its performance. The Company has asserted that the broker-dealer induced the Company to enter into the agreement through material misstatements and has not otherwise performed its services under the agreement. The Company believes the broker-dealer is not entitled to the stated compensation, and has not issued the stock warrants.

The Company has experienced losses and negative cash flows during each of its years of existence. These raise doubts as to the ability of the Company to continue as a going concern. Management of the Company has consistently been successful in raising capital, principally through sales of equity securities. Substantial sales of equity securities occurred during 2004 and other such capital sales are expected in the future. These are expected to sustain the Company as it progresses to full operations. For that reason, the financial statements do not include any adjustments that might be necessary if the Company was unable to continue as a going concern.

F-21

AIRTRAX, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

14. SUBSEQUENT EVENTS

On April 6, 2005, the certificate of incorporation of the Company was amended to increase the number of authorized shares, as follows:

Common 100,000,000 shares of no par stock Preferred 5,000,000 shares of no par stock

The characteristics of these shares are unchanged from the shares previously authorized.

Edgar Filing: AIRTRAX INC - Form 10KSB/A

On February 11, 2005, the Company sold \$5,000,000 of convertible debentures with two issues of detachable warrants. Conversion of these bonds occurred on March 29, 2005 and 3,846,154 shares of common stock were issued in place of the bonds.

15. RECENT ACCOUNTING PRONOUNCEMENTS

Except for the expected effect of SEAS 123R which is described in Note 1 under Stock Options, the Company does not expect adoption of rectly issued accounting pronouncements to have a significant effect on the Company's results of operations, financial position or cash flows.

F-22

AIRTRAX, INC. PROFORMA CONDENSED FINANCIAL STATEMENTS (Unaudited)

On February 19, 2004, the Company reached a tentative agreement to acquire capital stock of FiLCO GmbH, a German manufacturer of fork trucks with a manufacturing facility in Mulheim, Germany (FiLCO). As later amended, the tentative agreement calls for the acquisition of 75.1% of the capital stock of FiLCO. In return, the Company would issue to the seller 900,000 warrants to purchase Company stock at \$.01 per share; the Company would arrange for the seller to be paid 12,750 Euros and would appoint the seller to the Company Board of Directors.

During the pendency of this tentative agreement, the Company agreed to make advances to FiLCO. Through December 31, 2004, advances totaling \$2,670,000 had been made; this total was increased to \$5,266,234 at June 30, 2005. The seller, who will continue to own the remaining 24.9% of the FiLCO capital stock, had advanced to FiLCO 1,225,000 Euros. The seller has agreed that, if the Company converts \$1,220,000 of its advances to the capital of FiLCO, he also will convert to FiLCO capital his loan in the amount of 1,225,000 Euros.

The accompanying condensed financial statements illustrate the effect of the acquisition (proforma) on the financial position of the Company and the results of its operations. The condensed balance sheet as of June 30, 2005 is based on the combined historical balance sheets of the Company and FiLCO as of that date and assumes the acquisition took place on that date. The condensed statements of operations for the year ended December 31, 2004 and for the six month period ended June 30, 2005 are based on the historical statements of operations of the Company and FiLCO for those periods and assume the acquisition took place on January 1, 2004.

The proforma condensed financial statements may not be indicative of the actual results of the acquisition. In particular, the proforma condensed financial statements are based on the current estimate of management of the allocation of the purchase price; the actual allocation may differ.

The accompanying proforma financial statements should be read in conjunction with the historical financial statements of the Company and FiLCO.

F-23

AIRTRAX, INC. PRO-FORMA CONDENSED STATEMENTS OF OPERATIONS FOR YEAR ENDED DECEMBER 31, 2004 (UNAUDITED)

Edgar Filing: AIRTRAX INC - Form 10KSB/A

	Airtrax	Filco	Combined	Adjustments	Pro-Forma Amounts
	-----	-----	-----	-----	-----
SALES	\$ -	\$ 1,366,143	\$ 1,366,143	\$ -	\$ 1,366,143
COST OF GOODS SOLD	-	2,427,721	2,427,721	-	2,427,721
	-----	-----	-----	-----	-----
GROSS PROFIT (LOSS)	-	(1,061,578)	(1,061,578)	-	(1,061,578)
SELLING, OPERATING AND ADMINISTRATIVE EXPENSES	2,529,775	4,652,310	7,182,085	295,000 (1)	7,477,085
	-----	-----	-----	-----	-----
OPERATING LOSS	(2,529,775)	(5,713,888)	(8,243,663)	(295,000)	(8,538,663)
OTHER INCOME AND EXPENSE:					
Interest expense	(30,894)	(381,753)	(412,647)	86,667 (2) 100,283 (3)	(225,697)
Interest income	86,667	-	86,667	(86,667) (2)	-
Other income	2,979	75,042	78,021	-	78,021
Other expenses	-	(98,597)	(98,597)	-	(98,597)
	-----	-----	-----	-----	-----
LOSS BEFORE MINORITY INTEREST AND TAXES	(2,471,023)	(6,119,196)	(8,590,219)	(194,717)	(8,784,936)
MINORITY INTEREST	-	-	-	680,522 (4)	680,522
INCOME TAX BENEFIT	198,823	144,025	342,848	-	342,848
	-----	-----	-----	-----	-----
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	(2,272,200)	(5,975,171)	(8,247,371)	485,805	(7,761,566)
PREFERRED STOCK DIVIDENDS DURING DEVELOPMENT STAGE	(131,771)		(131,771)		(131,771)
	-----		-----		-----
DEFICIT ACCUMULATED	\$ (2,403,971)	\$ (5,975,171)	\$ (8,379,142)	\$ 485,805	\$ (7,893,337)
	=====	=====	=====	=====	=====
NET LOSS PER SHARE- Basic and Diluted					\$ (.64)
WEIGHTED AVERAGE SHARES OUTSTANDING					12,075,448

- (1) To record issuances of 100,000 options to prior sole owner of Filco, as per tentative acquisition agreement.
- (2) Elimination of intercompany interest income against related interest expense.
- (3) Elimination of interest expense associated with loan capitalized per tentative acquisition agreement.

Edgar Filing: AIRTRAX INC - Form 10KSB/A

- (4) Minority interest in loss, provided for up to the amount of the minority interest at 12/31/03.

F-24

AIRTRAX, INC.
 PRO-FORMA CONDENSED STATEMENTS OF OPERATIONS
 SIX MONTHS ENDED JUNE 30, 2005
 (UNAUDITED)

	Airtrax	Filco	Combined
SALES	\$ 167,545	\$ 190,785	\$ 358,330
COST OF GOODS SOLD	160,126	264,704	424,830
	-----	-----	-----
GROSS PROFIT (LOSS)	7,419	(73,919)	(66,500)
SELLING, OPERATING AND ADMINISTRATIVE EXPENSES	2,007,882	2,852,180	4,860,062
	-----	-----	-----
OPERATING LOSS	(2,000,463)	(2,926,099)	(4,926,562)
OTHER INCOME AND EXPENSE			
Interest expense	(4,288,161)	(261,025)	(4,549,186)
Interest income	172,300		172,300
Other income	211	4,142	4,353
Other expenses		(15,532)	(15,532)
	-----	-----	-----
NET LOSS BEFORE INCOME TAXES	(6,116,113)	(3,198,514)	(9,314,627)
INCOME TAX BENEFIT	224,446	111,253	335,699
	-----	-----	-----
NET LOSS BEFORE DIVIDENDS	(5,891,667)	(3,087,261)	(8,978,928)
DEEMED DIVIDENDS ON PREFERRED STOCK	479,167	-	479,167
	-----	-----	-----
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	(6,370,834)	(3,087,261)	(9,458,095)
	-----	-----	-----
PREFERRED STOCK			

Edgar Filing: AIRTRAX INC - Form 10KSB/A

DIVIDENDS DURING DEVELOPMENT STAGE	(51,563)	-	(51,563)
DEFICIT ACCUMULATED	\$ (6,422,397)	\$ (3,087,261)	\$ (9,509,658)
NET LOSS PER SHARE- Basic and Diluted			
WEIGHTED AVERAGE SHARES OUTSTANDING			

(1) To eliminate intercompany interest on the Airtrax loan to FilCO (2) To eliminate related party interest expense on capitalized loan.

F-25

AIRTRAX, INC.
PRO-FORMA CONDENSED BALANCE SHEETS
JUNE 30, 2005
(UNAUDITED)

	Airtrax	Filco	Combined
	-----	-----	-----
ASSETS:			
Current Assets	\$ 3,641,114	\$ 1,857,311	\$ 5,498,425
Fixed Assets (net)	146,518	3,365,718	3,512,236
Intangibles	145,217	59,581	204,798
Advances to FilCO	5,266,136	-	5,266,136
Bond Discount	479,167	-	479,167
Goodwill			
1,300,000 (1) 3,955,000			
TOTAL ASSETS	\$ 9,678,152	\$ 5,262,610	\$ 14,960,762
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY:			
Current Liabilities:			
Accounts payable	559,506	805,216	1,364,722
Accrued liabilities	424,555	2,314,802	2,739,357
Customer advances	-	845,918	845,918
Short-term debt	-	645,850	645,850
Related party loans	-	5,510,802	5,510,802
Advances from shareholders	33,460	1,674,427	1,707,887
	-----	-----	-----

Edgar Filing: AIRTRAX INC - Form 10KSB/A

Total current liabilities	1,017,521	11,797,015	12,814,536
Long Term Debt	500,000	-	500,000
Deferred Taxes	-	1,173,101	1,173,101
	-----	-----	-----
Total Liabilities	1,517,521	12,970,116	14,487,637
	-----	-----	-----
Stockholders Equity:			
Common stock	19,799,804	3,198,545	22,998,349
Additional Paid In Capital-			
Warrants	2,652,812	-	2,652,812
Preferred stock	545,491	-	545,491
Comprehensive income	-	114,975	114,975
Accumulated deficit	(14,837,476)	(11,001,026)	(25,838,502)
	-----	-----	-----
Total Stockholders Equity	8,160,631	(7,687,506)	473,125
	-----	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 9,678,152	\$ 5,282,610	\$ 14,960,762
	=====	=====	=====

- (1) To capitalize Airtrax advances to FiLCO, as per proposed acquisition agreement, and reflect amount as part of goodwill.
- (2) To capitalize advance from FiLCO shareholder, as per proposed acquisition agreement.
- (3) To eliminate inter company advances against the related liabilities. (4) To eliminate inter company interest receivable against the related liability.
- (5) To reflect options granted in consideration of services on Airtrax Board of Directors, as per proposed acquisition agreement.
- (6) To reflect issuance of options as required by tentative acquisition agreement, per proposed acquisition agreement.

F-26

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 8A. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer/chief financial officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our chief executive officer/chief financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. There was no change in our internal controls or in other factors that could affect these controls during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Edgar Filing: AIRTRAX INC - Form 10KSB/A

ITEM 8B. OTHER INFORMATION

None.

31

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

Directors are elected at each meeting of stockholders and hold office until the next annual meeting of stockholders and the election and qualifications of their successors. Executive officers are elected by and serve at the discretion of the board of directors.

Our executive officers and directors are as follows:

Name	Age	Position
----	---	-----
Peter Amico	61	President and Chairman of the Board of Directors
D. Barney Harris	43	Executive Vice President and Director
James Hudson	61	Director
William Hungerville	68	Director
Fil Filipov	58	Director

Peter Amico - Mr. Amico is the founder of the Company and has been President and Chairman of the Company and its predecessor since their inception in April 1995. Prior to 1995, Mr. Amico was president and majority shareholder of Titan Aviation and Helicopter Services, Inc. ("Titan"). He has an extensive background in sales and in structural steel design. His career in sales has spanned over thirty years and he has held sales positions at Firestone Tire & Rubber and Union Steel Products, Inc. As a consequence of separate helicopter and airplane accidents involving Titan, Mr. Amico filed for bankruptcy protection in 1996.

D. Barney Harris* - Mr. Harris has been a Director of the Company since December 1998 and a Vice President since July 1999. From 1997 to July 1999, Mr. Harris was employed by UTD, Inc. Manassas, Virginia. Prior to 1997, Mr. Harris was employed by EG&G WASC, Inc., Gaithersburg, Maryland, as a Senior Engineer and Manager of the Ocean Systems Department where he was responsible for the activities of 45 scientists, engineers and technicians. During this period while performing contract services for the US Navy, he was principally responsible for the design of the omni-directional wheel presently used by the Company. Mr. Harris received his B.S.M.E. from the United States Merchants Marine Academy in 1982.

Fil Filipov - Mr. Filipov is the Chairman of Supervisory Board of Tatra, a Czech Company, which is producing off highway trucks. He is the former President & CEO of Terex Cranes, a Division of Terex Corp. From 1994 through 1996, Mr. Filipov served as Executive Vice President of the Terex Corp., where he was responsible for strategic acquisitions and was the Managing Director of Clark Material Handling Company in Germany (Filco GmbH). If the acquisition of Filco GmbH is completed Mr. Filipov will retain 24.9% of Filco GmbH.

James Hudson - Mr. Hudson has been a Director of the Company since May 1998.

Edgar Filing: AIRTRAX INC - Form 10KSB/A

From 1980 to present, he has been President of Grammer, Dempsey & Hudson, Inc., a steel distributor located in Newark, New Jersey.

William Hungerville - Mr. Hungerville has been a director since February 2002. Since 1998, Mr. Hungerville has been retired from full time employment. From 1974 to 1998, he was the sole owner of a pension administrative service firm. Mr. Hungerville is a graduate of Boston College, and attended an MBA program at Harvard University for 2 years.

*Our engineers including the team initially lead by D. Barney Harris, Nicholas Fenelli and Robert Mullowney designed and tested the "Airtrax" wheel which corrected the "bumpy" ride in the technology as received from the US Navy at speeds of 11 m.p.h. or more and alleviated it to the point wherein it was considered acceptable in the materials handling industry. This design and methods to achieve the design were patented by us as follows: (i) 6,340,065 - low vibration omni-directional wheel on January 22, 2002, (ii) 6,394,203 - method for designing low-vibration omni-directional wheels on May 28, 2002, and (iii) 6,547,340 - low vibration omni-directional wheel on April 15, 2003.

32

CODE OF ETHICS

We have not adopted a Code of Ethics that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer.

COMMITTEES OF THE BOARD OF DIRECTORS

As of December 31, 2004, we have an audit committee of our board of directors, which was formed on November 30, 2004. The audit committee's charter was adopted on April 13, 2005.

COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT, AS AMENDED.

Based solely upon our review of copies of Forms 3, 4 and 5, and any subsequent amendments thereto, furnished to the Company by our directors, officers and beneficial owners of more than ten percent of our common stock, we are not aware of any Forms 3, 4 and/or 5 which certain of our directors, officers or beneficial owners of more than ten percent of our common stock that, during our fiscal year ended December 31, 2004, failed to file on a timely basis reports required by Section 16(a) of the Securities Exchange Act of 1934

ITEM 10. EXECUTIVE COMPENSATION.

The following table sets forth for the fiscal year indicated the compensation paid by our company to our Chief Executive Officer and other executive officers with annual compensation exceeding \$100,000:

Summary Compensation Table:
SUMMARY COMPENSATION TABLE

ANNUAL COMPENSATION

Name & Principal	Other Salary	Bonus	Annual Compen-	Restricted Stock	Options SARs	LTIP Payouts	All Other
------------------	-----------------	-------	-------------------	---------------------	-----------------	-----------------	-----------

Edgar Filing: AIRTRAX INC - Form 10KSB/A

Position	Year	(\$)	(\$)	sation(\$)	Awards(\$)	(#)	(\$)	Compensati
Peter Amico	2004	116,826(1)	0	237,500(3)	-	-	-	-
President and								
Chairman	2003	88,462(1)	0	64,000(2)	-	-	-	-
of the Board								
of Directors	2002	84,135(1)	0	51,399(2)	-	-	-	-

(1) During 2004, Mr. Amico was entitled to receive a salary of \$185,000, however \$116, 825.62 was paid and the balance was deferred for future payment. During 2003, Mr. Amico was entitled to receive a salary of \$100,000, however \$88,461.68 was paid and the balance was deferred for future payment. In 2002, \$84,135 was paid as salary to Mr. Amico and \$3,365 balance deferred for future payment. In 2002 and 2003, Mr. Amico received the use of a company automobile which the Company valued at \$1,000.

33

(2) Pursuant to his employment agreement for the year 2004 through 2005, Mr. Amico had outstanding options to acquire a total of 500,000 shares at a total price of \$0.85 per share. Pursuant to his employment agreement for the year 2003 through 2004, Mr. Amico had outstanding options to acquire a total of 50,000 shares at a total price of \$0.01. Pursuant to previous employment agreements, Mr. Amico had outstanding options to acquire a total of 180,000 shares of common stock of the Company. Of these options, 20,000 shares were exercised at a total price of \$2.00, 50,000 shares were exercised at \$0.315 per share, 60,000 shares were exercised at a price of \$0.1575 per share, and 50,000 shares were exercised at a total price of \$0.01. On February 12, 2003, Mr. Amico exercised all of his options in exchange for the payment of \$25,202. The fair market value of the underlying common stock was \$1.26 per share, on the close of business on the exercise date of February 12, 2003. The amount for 2003 represents the number of options (50,000) multiplied by the fair market (\$1.26) less his exercise costs of \$0.01. The amount for 2002 represents the number of options (50,000) multiplied by the fair market (\$1.26) less his exercise costs of \$12,601. The amount for 2001 represents the number of options (50,000) multiplied by the fair market (\$1.26) less his exercise costs of \$12,601. In addition, for 2002 and 2003, the amounts include \$1,000 for the value of an automobile usage.

(3) The value for the year 2004 is based upon statements of financial accounting standards no. 123 and 148, which became a mandatory method for valuing options in 2004.

EMPLOYMENT AGREEMENTS

The Company and Peter Amico have entered into written employment agreements for Mr. Amico's role as President of the Company. The parties entered into an agreement covering the period from April 1997 to June 30, 2002 ("Original Employment Agreement"). Effective July 1, 2002, the parties entered into a second employment agreement for a one year term ("Second Employment Agreement"). Agreements for the year 2003 through 2004 and 2004 through 2006 were agreed to on November 30, 2004.

Under the Original Employment Agreement, Mr. Amico received an annual salary of \$75,000 per year, and received stock options to acquire up to 50,000 shares per annum. Of the options, 10,000 shares were exercisable for a total consideration of a \$1.00 beginning in April 2000, 25,000 shares were exercisable at 30% of the lowest price paid for the stock in the 30 day period preceding such exercise for each year of the contract, and 15,000 shares were exercisable at 15% of the lowest price paid for the stock in the 30 day period preceding such exercise

Edgar Filing: AIRTRAX INC - Form 10KSB/A

beginning in April 2000.

Under the Second Employment Agreement, Mr. Amico was entitled to receive an annual salary of \$100,000, and receive an option to acquire 50,000 shares of common stock of the Company for a total exercise price of \$0.01. The Company may terminate the agreement without cause upon 14 days' written notice to the Employee. The Company and Mr. Amico entered into new employment agreements as further described below.

Under a one year Employment Agreement, ratified by the Board of Directors on November 30, 2004 for the period of July, 1 2003 through June 30, 2004, Mr. Amico was entitled to receive an annual salary of \$135,000, and receive an option to acquire 50,000 shares of our common stock for a total exercise price of \$0.01. We may terminate the agreement without cause upon 14 days' written notice to the Mr. Amico.

34

Under a two year employment agreement (covering July 1, 2004 through June 30, 2006) ratified by the Board of Directors on November 30, 2004 for the period of July 1, 2004 through June 30, 2005, Mr. Amico is entitled to receive an annual salary of \$200,000, and receives options to purchase up to 500,000 shares of our common stock at a rate equal to the "bid" price of the stock per share on the beginning date of the employment agreement. accordingly, the bid price of our common stock on July 1, 2004, the beginning date of the employment agreement, was \$0.80 per share and all options, if exercised, will be at an exercise price \$0.80 per share. All options have a cashless exercise. We may terminate the agreement without cause upon 14 days' written notice to Mr. Amico. under the second year of this employment agreement, for the period of July 1, 2005 through June 30,2006, Mr. Amico is entitled to receive an annual salary of \$250,000, and options to purchase up to 750,000 shares of our common stock at the rate equal to the "bid" price of the stock per share on the beginning date of the employment agreement. Accordingly, the bid price of our common stock on July 1, 2004, the beginning date of the employment agreement, was \$0.80 per share and all options, if exercised, will be at an exercise price \$0.80 per share. All options have a cashless exercise. We may terminate the agreement without cause upon 14 days' written notice to Mr. Amico.

Two of our employees maintain annual stock options for 25,000 shares for each year of employment during the term of their respective employment agreements. The employment agreements may be terminated by either party with 14 days prior notice, and do not contain a fixed term. Accordingly, the amount of stock options issuable to such employees is 137,500 shares as of June 30, 2005.

The stock options for the 25,000 shares of our common stock are exercisable as follows; 2,500 shares are exercisable for a total consideration of \$1.00, 10,000 shares are exercisable at 35% of the lowest price paid for the stock in the 30 day period preceding exercise, and 12,500 shares are exercisable at 17.5% of the lowest price paid for the stock in the 30 day period preceding exercise. Accordingly, the amount of stock options issuable to such employees is 112,500 as of December 31, 2004 and 137,500 as of June 30, 2005. The 112,500 options had not been exercised as of December 31, 2004

DIRECTORS' COMPENSATION

The Company's directors are compensated at the rate of \$250 per meeting and are reimbursed for expenses incurred by them in connection with the Company's business. During 2002 and 2001, each director, other than Mr. Amico, received an annual stock option to purchase 5,000 shares of common stock exercisable at \$0.50 per share. During 2003, each director received a stock grant of 10,000 shares of the Company's common stock. During 2004, each director received a

Edgar Filing: AIRTRAX INC - Form 10KSB/A

stock grant of 10,000 shares of the Company's common stock. The Company's board of directors approved a stock grant in the amount of 20,000 shares of common stock for its board of directors for 2005, conditional upon the Company having revenues.

Other than as described above, the Company does not have any other form of compensation payable to its officers or directors, including any stock option plans, stock appreciation rights, or long term incentive plan awards for the periods indicated in the table. The Company will approve compensation to Board members serving on the Audit Committee of the Company during the next scheduled Board meeting.

OPTION GRANTS IN LAST FISCAL YEAR

The following table contains information concerning options granted to executive officers named in the Summary Compensation Table during the fiscal year ended December 31, 2004:

Individual Grants

35

Name	Number of Securities Underlying Options Granted (#)	% of Total Options Granted to Employees in Fiscal Year	Exercise Price (\$/sh)	Expiration Date
Peter Amico	50,000	8%(1)	\$ -(1)	None(1)
President and Chairman	500,000	83%(1)	\$.85(1)	None(1)

(1) Pursuant to his employment agreement for the year 2004 through 2005, Mr. Amico has outstanding options to acquire a total of 500,000 shares at a total price of \$0.85 per share. Pursuant to his employment agreement for the year 2003 through 2004, Mr. Amico has outstanding options to acquire a total of 50,000 shares at a total price of \$0.01.

OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

The following table contains information concerning the number and value, at December 31, 2004, of unexercised options held by executive officers named in the Summary Compensation Table:

Name	FY-End (#)	Underlying Unexercised Options at (Exercisable/Unexercisable)	Value of Unexercised Options at (Exercisable/Unexercisable)	In-the-Money at FY-End
Peter Amico	50,000	50,000	.85	\$42
President and Chairman	500,000	500,000	.39	\$195

Edgar Filing: AIRTRAX INC - Form 10KSB/A

STOCK OPTION PLANS

The Company provided a stock grant for its board of directors for 2004, as described above under the heading entitled "Directors Compensation".

Other than as described above, the Company does not have any other form of compensation payable to its officers or directors, including any stock option plans, stock appreciation rights, or long term incentive plan awards for the periods indicated in the table.

36

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table identifies as of March 31, 2005 information regarding the current directors and executive officers of the Company and those persons or entities who beneficially own more than 5% of its common stock and Preferred Stock of the Company, the number of and percent of the Company's common stock beneficially owned by:

- o all directors and nominees, naming them,
- o our executive officers,
- o our directors and executive officers as a group, without naming them, and o persons or groups known by us to own beneficially 5% or more of our common stock:

The Company believes that all persons named in the table have sole voting and investment power with respect to all shares of common stock beneficially owned by them.

A person is deemed to be the beneficial owner of securities that can be acquired by him within 60 days from March 31, 2005 upon the exercise of options, warrants or convertible securities. Each beneficial owner's percentage ownership is determined by assuming that options, warrants or convertible securities that are held by him, but not those held by any other person, and which are exercisable within 60 days of March 31, 2005 have been exercised and converted.

Peter Amico(1) 870B Central Avenue Hammonton, NJ 08037	Common Stock	1,870,623 (6)	8.80% (2)
	Preferred Stock	3,750,000 (3) (5)	100%
D. Barney Harris(1) 870B Central Avenue Hammonton, NJ 08037	Common Stock	236,025 (7)	1.11% (2)
	Preferred Stock	0	0%
Frank Basile(1) 870B Central Avenue Hammonton, NJ 08037	Common Stock	142,873 (8)	*
	Preferred Stock	0	0%
James Hudson(1) 870B Central Avenue Hammonton, NJ 08037	Common Stock	75,800 (9)	*
	Preferred Stock	0	0%
William Hungerville(1) 870B Central Avenue Hammonton, NJ 08037	Common Stock	165,950 (10)	*(2)
	Preferred Stock	0	0%
All Officers and Directors As a Group (5 persons)	Common Stock	2,491,271 (11)	11.72% (2)
	Preferred Stock	3,750,000	100%
Arcon Corp.	Common Stock	1,580,623 (4)	7.44% (2)

Edgar Filing: AIRTRAX INC - Form 10KSB/A

870B Central Avenue Preferred Stock 3,750,000 (3) (5) 100%
Hammonton, NJ 08037

*Less than 1%

- (1) The address of each beneficial owner is the address of the Company.
- (2) Based on 21,256,215 shares of common stock outstanding as of March 31, 2005, except that shares of common stock underlying options or warrants exercisable within 60 days of the date hereof are deemed to be outstanding for purposes of calculating the beneficial ownership of securities of the holder of such options or warrants.
- (3) Based upon 375,000 outstanding shares of preferred stock after giving effect to the 10 for 1 voting rights. Arcon was authorized to receive an additional 100,000 shares of preferred stock in lieu of 221,892 shares of common stock of the Company in lieu of the cash payment for the balance of the dividend.
- (4) Represents 1,580,623 shares held by Arcon Corp., a corporation wholly owned by Mr. Amico ("Arcon"), and however, excludes common stock that may be issued to Arcon as a dividend on the preferred stock.
- (5) Represents shares held by Arcon.
- (6) Represents 1,580,623 shares of common stock held by Arcon as stated in footnote (4) above, and 305,000 shares of common stock held individually by Mr. Amico.

37

- (7) Represents 200,625 shares of common stock held individually, 25,000 shares of common stock issuable under his employment agreement, and 5,000 shares of common stock issuable upon exercise of director's options for 2002.
- (8) Represents 100,000 shares held individually, 15,000 shares of common stock issuable upon exercise under director's options for 2002 and 2001, 12,046 shares held by an affiliate, and 10,000 shares held by his spouse. The amount excludes shares of common stock to the Company's that may be granted to directors during 2005.
- (9) Represents 41,300 shares of common stock held by an affiliate. The amount excludes shares of common stock to the Company's that may be granted to directors during 2005.
- (10) Represents 34,300 shares of common stock held individually, 700 shares held by his spouse and 10,000 shares held by a family trust. The amount excludes shares of common stock to the Company's that may be granted to directors during 2005.
- (11) Includes (4), (6), (7), (8), (9), and (10).

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Arcon Corp., a corporation wholly owned by our chairman and president Peter Amico, owns 375,000 shares of our preferred stock. Each share of Preferred Stock is entitled to 10 votes per share on all matters on which shareholders are entitled to vote. The holders of our common stock and preferred stock vote as one single class. Mr. Amico and Arcon Corp. together have 1,870,623 shares of common stock, representing 1,870,623 votes, plus 375,000 shares of preferred stock with 10 votes per share, or a total of 3,750,000 voting shares. The aforementioned equals a total of 5,620,623 voting shares of capital stock by Mr.

Edgar Filing: AIRTRAX INC - Form 10KSB/A

Amico and Arcon. The preferred stock has a stated value per share of \$5.00 and an annual dividend per share equal to 5% of the stated value. The annual cash dividend as of December 31, 2004 was \$68,750. Dividends are cumulative and the holder has a right during any quarter to waive any cash dividend and receive the dividend in the form of common stock at a price per share equal to 30% of the lowest private offering or trading price of the common stock. The preferred stock is not convertible into common stock, however, has a preference over common stockholders upon liquidation equal to the stated value per share.

The consideration paid by Mr. Amico and Arcon for the initial issuance of 275,000 shares of our preferred stock is as follows: Air Tracks, Inc. was incorporated in May 1995. Peter Amico, our President and the largest shareholder of Air Tracks, Inc., capitalized Air Tracks, Inc. with \$20,000. In exchange, Mr. Amico was issued 3.5 million shares of common stock of Air Tracks, Inc. We were formed in April 1997 by Louis Perosi and Albert Walla. In April 1997, it was agreed to merge our company with Air Tracks, Inc. Pursuant to the merger, Mr. Amico exchanged 3.5 million shares of Air Tracks, Inc. stock for 1 million shares of our common stock, plus 275,000 shares of preferred stock. It was determined by the parties that the voting shares that would be held by Mr. Amico/Arcon would be essentially the same. Since the preferred shares are not convertible and thus held no exit method it was determined to provide a dividend. The \$5.00 per share was the price used to satisfy the issue.

38

For fiscal year 2001, Arcon received 246,731 shares of our common stock in lieu of the cash dividend which was deemed to have a fair market value of \$188,412. For explanatory purposes, in 2001 the \$188,412 fair market value of the stock represents the \$68,750 yearly dividend due for 275,000 shares owned in 2001, valued at \$5.00 per share, which is used to purchase common stock at a 30% discount. This equates to \$188,412 divided by 30% (\$56,524) minus the difference of the actual stock price which varied during the purchase period. For fiscal year 2002, Arcon received a cash dividend of \$17,187.50, and received 100,000 preferred shares in lieu of 221,892 shares of our common stock in lieu of the cash payment for the balance of the dividend. For fiscal year 2003, Arcon expects to receive 19,097 shares of common stock in lieu of the cash payment of the dividend. In 2004, Arcon received payments of \$17,187.50 for dividends due in 2002, \$63,020.86 for dividends due in 2003 and \$51,562.52 for dividends due in 2004, of which \$17,187.50 remains payable in accrued dividends to Arcon.

Arcon Corp. and our President have made loans from time to time to us in varying amounts. The loan is due on demand and bears interest at 12%. As of December 31, 2004, the loan balance was \$33,455.

Mrs. Patricia Amico, the wife of our President, performed services to us during 2004, 2003, 2002, and 2001 for which she received \$13,030, \$11,579, \$9,930, and \$9,126, respectively.

Mr. Frank Basile, a former director of our company, was a partner of a law firm that performed legal services to us during fiscal 2004, 2003 and 2002. The billing amount for such services for each year was less than \$10,000.

During 2002 and 2001, each director of our company, other than Mr. Amico, received a stock option to acquire 5,000 shares of common stock at a price per share of \$0.50, and in 2003, each director, other than Mr. Amico, received a grant from us of 10,000 shares of common stock, and in 2004, each director received a grant from us in the amount of 10,000 shares of common stock.

From May 5, 2003 through September 2, 2003, we loaned Filco GmbH \$365,435 to acquire our initial interest in Filco. Such funds were provided in the form of a loan because we were not able to come up with sufficient funding to acquire our initial interest. Filco repaid principal and interest under this loan to us.

Edgar Filing: AIRTRAX INC - Form 10KSB/A

In March of 2004, a tentative agreement was negotiated with the principals of Filco in connection with the proposed acquisition. Our management determined to provide Filco limited funding in the form of loans, until financing could be obtained which would help guarantee that the operating capital needed for Filco operations could, in fact, be obtained. The tentative agreement reached with Filco provided that we would take a 51% controlling ownership interest in Filco. The tentative agreement required that we provide sufficient funding, which the parties estimated would be approximately \$1.3 million to be allocated in the form of equity in Filco. The tentative agreement required that we secure a guaranteed credit line for Filco of not less than \$5 million to be used as operating capital. A later addendum to the tentative agreement stated that we would acquire 75.1% controlling ownership interest in Filco.

The amounts loaned to Filco to date, even if unrecoverable, would not prevent us from commencing the manufacture of the Sidewinder Omni-Directional Lift Truck. The manufacture and sale of omni-directional material handling equipment is our primary goal. During the second quarter of 2005, we realized limited revenues from the first sales of the Sidewinder Omni-Directional Lift Truck.

We believe that our unsecured loans to Filco are recoverable if the proposed acquisition is not completed. Should Filco default with loan repayment, if such payment were due and requested, it would be much easier to put Filco into bankruptcy in Germany than it would be in the United States. Should Filco be put into bankruptcy, we, as the largest creditor, would be in position to do a legal takeover through bankruptcy administrators.

We loaned Filco approximately \$2.7 million through the end of 2004 and loaned an additional \$1.5 million during the first quarter of 2005. We intend to provide another \$5 million to Filco, either in the form of guaranteed credit lines or through additional sales our securities.

Fil Filipov is to be issued options to purchase 100,000 shares of our common stock at an exercise price of \$.0001 as compensation for services performed as our director. If the proposed acquisition of Filco GmbH is completed, the tentative agreement provides that Mr. Filipov will receive options to purchase an additional 900,000 shares of our common stock at an exercise price of \$.0001. Accordingly, Mr. Filipov cannot exercise the options to receive more than an aggregate of 112,500 shares of our common stock per year. Any increase on this exercise limit is subject to the approval of our board of directors.

39

ITEM 13. EXHIBITS.

(a) Exhibits.

The following exhibits are included as part of this Form 10-KSB. References to "the Company" in this Exhibit List mean Airtrax, Inc., a New Jersey corporation.

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).

Edgar Filing: AIRTRAX INC - Form 10KSB/A

3.4 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.

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).

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 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).

Edgar Filing: AIRTRAX INC - Form 10KSB/A

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 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).

31.1 Certification by Chief Executive Officer and Chief Financial Officer pursuant to Sarbanes-Oxley Section 302 (filed herewith).

32.1 Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (filed herewith).

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

AUDIT FEES

The aggregate fees billed for professional services rendered by our principal accountants for the audit of our financial statements and for the reviews of the financial statements included in our annual report on Form 10-KSB and 10-QSBs respectively, and for other services normally provided in connection with statutory filings were \$21,012 and \$19,307, respectively, for the years ended December 31, 2004 and December 31, 2003.

AUDIT-RELATED FEES

We incurred fees of \$0 and \$0, respectively, for the years ended December 31, 2004 and December 31, 2003 for professional services rendered by our independent auditors that are reasonably related to the performance of the audit or review of our financial statements and not included in "Audit Fees."

TAX FEES

The aggregate fees billed by our auditors for tax compliance matters were \$780 and \$745 respectively, for the fiscal years ended December 31, 2004 and December 31, 2003.

ALL OTHER FEES

We did not incur any fees for other professional services rendered by our independent auditors during the years ended December 31, 2004 and December 31, 2003.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Edgar Filing: AIRTRAX INC - Form 10KSB/A

AIRTRAX, INC., A NEW JERSEY CORPORATION

By: /s/ Peter Amico

Peter Amico, President,
Chief Executive Officer, Chairman of
the Board of Directors, and Acting
Chief Financial Officer

November 3, 2005

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
----- By: /s/ Peter Amico ----- Peter Amico	President, Chief Executive Officer, Acting Chief Financial Officer and Director	November 3, 2005
----- By: /s/ D. Barney Harris ----- D. Barney Harris	Director	November 3, 2005
----- By: /s/James Hudson ----- James Hudson	Director	November 3, 2005
----- By: /s/William Hungerville ----- William Hungerville	Director	November 3, 2005
----- By: /s/Fil Filipov ----- Fil Filipov	Director	November 3, 2005