

Edgar Filing: AIRTRAX INC - Form 10QSB

AIRTRAX INC
Form 10QSB
November 14, 2005

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

FORM 10-QSB

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended September 30, 2005.

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

Commission file number: 001-16237

AIRTRAX, INC.

(Name of Small Business Issuer in its charter)

New Jersey

22-3506376

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

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

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

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

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

Edgar Filing: AIRTRAX INC - Form 10QSB

AIRTRAX, INC.
SEPTEMBER 30, 2005 QUARTERLY REPORT ON FORM 10-QSB

TABLE OF CONTENTS

	PAGE

PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	
Balance Sheets	4
Statements of Operations and Deficit Accumulated During Development Stage	5
Statements of Cash Flows	8
Notes to Financial Statements	9
Special Note Regarding Forward Looking Statements	11
Item 2. Management's Discussion and Analysis or Plan of Operations	13
Item 3. Controls and Procedures	18
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings	19
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	19
Item 3. Defaults Upon Senior Securities	19
Item 4. Submission of Matters to a Vote of Security Holders	19
Item 5. Other Information	19
Item 6. Exhibits	19
SIGNATURES	22

Edgar Filing: AIRTRAX INC - Form 10QSB

ITEM 1. FINANCIAL STATEMENTS

AIRTRAX, INC.

(A Development Stage Company)

FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

(Unaudited)

CONTENTS

	Page

Balance Sheets	4
Statements of Operations and Deficit Accumulated During Development Stage	5
Statements of Cash Flows	8
Notes to Financial Statements	9

3

AIRTRAX, INC.

(A Development Stage Company)

BALANCE SHEETS

	September 30, 2005
	(Unaudited)

ASSETS	
Current Assets	
Cash	\$ 40,
Accounts receivable	2,
Accrued interest receivable	361,
Inventory	2,204,
Prepaid expenses	
Vendor advance	173,
Deferred tax asset	596,

Total current assets	3,378,
Fixed Assets	
Office furniture and equipment	162,

Edgar Filing: AIRTRAX INC - Form 10QSB

Automotive equipment	21,
Shop equipment	57,
Casts and tooling	239,

	479,
Less, accumulated depreciation	275,

Net fixed assets	204,
Other Assets	
Advances to Filco Gmbh	6,255,
Patents - net	147,
Bond discount	416,
Utility deposits	

Total other assets	6,819,

TOTAL ASSETS	\$ 10,402,
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities	
Accounts payable	\$ 1,258,
Accrued liabilities	1,504,
Shareholder deposits for stock	70,
Bank loan	100,
Shareholder notes payable	34,

Total current liabilities	2,968,
Long Term Convertible Debt	500,

TOTAL LIABILITIES	3,468,

Stockholders' Equity	
Common stock - authorized, 100,000,000 shares without par value; issued and outstanding - 21,874,374 and 15,089,342, respectively	20,773,
Paid in capital - warrants	2,366,
Preferred stock - authorized, 500,000,000 shares without par value; 375,000 issued and outstanding	545,
Deficit accumulated during the development stage	(16,544,
Deficit prior to development stage	(206,

Total stockholders' equity	6,934,

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 10,402,
	=====

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

Edgar Filing: AIRTRAX INC - Form 10QSB

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

	2005	2004
SALES	\$ 167,545	\$
COST OF GOOD SOLD	160,126	
Gross Profit	7,419	
OPERATING AND ADMINISTRATIVE EXPENSES	3,987,695	1,397,
OPERATING LOSS	(3,980,276)	(1,397,
OTHER INCOME AND EXPENSE		
Interest expense	(4,374,592)	(23,
Interest income	291,208	24,
Other income	211	
NET LOSS BEFORE INCOME TAXES	(8,063,449)	(1,396,
INCOME TAX BENEFIT (STATE):		
Current	371,838	119,
Prior years	--	
Total Benefit	371,838	119,
NET LOSS BEFORE DIVIDENDS	(7,691,611)	(1,277,
DEEMED DIVIDENDS ON PREFERRED STOCK	(480,978)	
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	(8,172,589)	(1,277,
PREFERRED STOCK DIVIDENDS DURING DEVELOPMENT STAGE	(51,563)	(91,
DEFICIT ACCUMULATED	\$ (8,224,152)	\$ (1,369,
NET LOSS PER SHARE - Basic and Diluted	\$ (.45)	\$
WEIGHTED AVERAGE SHARES OUTSTANDING	18,038,164	11,452,

Edgar Filing: AIRTRAX INC - Form 10QSB

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

5

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

	2005	2004
SALES	\$ -	\$ -
COST OF GOOD SOLD	-	-
Gross Profit	-	-
OPERATING AND ADMINISTRATIVE EXPENSES	1,981,664	549,000
OPERATING LOSS	(1,981,664)	(549,000)
OTHER INCOME AND EXPENSE		
Interest expense	(86,391)	(9,000)
Interest income	118,908	13,000
Other income	-	-
NET LOSS BEFORE INCOME TAXES	(1,949,147)	(545,000)
INCOME TAX BENEFIT (STATE):		
Current	147,392	51,000
Prior years	-	-
Total Benefit	147,392	51,000
NET LOSS BEFORE DIVIDENDS	(1,801,755)	(493,000)
DEEMED DIVIDENDS ON PREFERRED STOCK	-	-
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	(1,801,755)	(493,000)
PREFERRED STOCK DIVIDENDS DURING		

Edgar Filing: AIRTRAX INC - Form 10QSB

DEVELOPMENT STAGE	-	(5,
	-----	-----
DEFICIT ACCUMULATED	\$ (1,801,755)	\$ (499,
	=====	=====
NET LOSS PER SHARE - Basic and Diluted	\$ (.08)	\$ (
WEIGHTED AVERAGE SHARES OUTSTANDING	21,740,196	12,888,

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

7

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

	2005	2004
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (8,172,589)	\$ (1,277,
Adjustments to reconcile net loss to net cash consumed by operating activities:		
Charges not requiring the outlay of cash:		
Depreciation and amortization	32,499	27,
Amortization of bond discount	83,333	
Equity securities issued for services	1,866,500	623,
Provision for impairment loss	120,280	
Value of warrants issued with convertible debt	944,500	
Conversion benefits associated with debt issue	3,269,231	
Increase in accrual of deferred tax benefit	(371,838)	(119,
Deemed dividends on preferred stock	480,978	
Interest accrued on shareholder loan	3,021	3,
Changes in current assets and liabilities:		
Increase in accrued interest receivable	(275,245)	(24,
Increase in accounts receivable	(2,421)	
Increase in vendor advances	(121,000)	
Increase (decrease) in accounts payable and accrued liabilities	884,830	(225,
Increase in prepaid expenses	-	
Increase in inventory	(1,495,092)	(131,
	-----	-----
Net Cash Consumed By Operating Activities	(2,753,013)	(1,124,
CASH FLOWS FROM INVESTING ACTIVITIES		

Edgar Filing: AIRTRAX INC - Form 10QSB

Acquisitions of equipment	(137,996)	(19,
Additions to patent cost	(35,389)	(37,
Advances to Filco GmbH	(3,247,171)	(1,230,
	-----	-----
Net Cash Consumed By Investing Activities	(3,420,556)	(1,286,
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds of issuance of convertible debt	4,277,500	
Net proceeds of common stock sales	55,000	2,696,
Proceeds of convertible loan	409,913	
Proceeds from exercise of warrants	718,486	
Proceeds of bank loan	100,000	
Proceeds of sales of preferred stock	-	
Proceeds from exercise of options	13,877	5,
Borrowings (repayments) of stockholder loans	(2,002)	(52,
Preferred stock dividends paid in cash	-	(91,
Principal payments on installation note	-	(5,
	-----	-----
Net Cash Provided By Financing Activities	5,572,774	2,552,
	-----	-----
Net (Decrease) Increase In Cash	(600,795)	141,
Balance at beginning of period	641,477	37,
	-----	-----
Balance at end of period	\$ 40,682	\$ 178,
	=====	=====

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

8

AIRTRAX, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS
September 30, 2005
(Unaudited)

BASIS OF PRESENTATION

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

Certain information and disclosures normally included in the notes to financial statements have been condensed or omitted as permitted by the rules and regulations of the Securities and Exchange Commission, although the Company

Edgar Filing: AIRTRAX INC - Form 10QSB

believes the disclosure is adequate to make the information presented not misleading. The accompanying unaudited financial statements should be read in conjunction with the financial statements of the Company for the year ended December 31, 2004.

2. COMMON STOCK AND WARRANTS

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

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 transaction, 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 of \$2.11. As partial compensation, the broker-dealer which arranged this transaction was awarded 384,616 warrants to purchase common stock at \$1.85 per share, and 100,000 warrants to purchase common stock at \$1.00 per share.

9

AIRTRAX, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS
September 30, 2005
(Unaudited)

2. COMMON STOCK AND WARRANTS (CONTINTUED)

The issuance of convertible promissory notes and warrants was accounted for as required by Emerging Issues Task Force (EITF) 98-5 "Accounting For Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF 00-27 "Application of Issue no. 98-5 To Certain Convertible Investments." Accordingly, expense was increased by \$944,500 representing the value of the warrants and by \$3,269,231 representing the value of the conversion privilege.

On May 14, 2005, the Company issued a \$500,000 8% convertible note. The note is scheduled for maturity in two years. During that period, it can be converted to stock at a rate of \$1.30 per share, which would translate to 384,615 shares. Accompanying the convertible note were 384,615 warrants to purchase common stock at \$2.11 per share; these warrants are exercisable over a five year period.

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

Class A	Class B	Warrants
-----	-----	-----

Edgar Filing: AIRTRAX INC - Form 10QSB

Outstanding at December 31, 2004			5,537,
Issued in connection with sale			
of \$5,000,000 in convertible notes	1,923,077	961,538	484,
Issued in conjunction with			
\$500,000 of convertible debt		384,615	
Other warrants issued			37,
Reductions:			
Warrants exercised			(593,
Warrants voided			(200,
	-----	-----	-----
Outstanding, September 30, 2005	1,923,077	1,346,153	5,267,
	=====	=====	=====

10

AIRTRAX, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS
September 30, 2005
(Unaudited)

2. COMMON STOCK AND WARRANTS (continued)

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

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

SUPPLEMENTAL CASH FLOW INFORMATION

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

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

- a. During the second quarter of 2005, the Company issued 24,853 shares in

Edgar Filing: AIRTRAX INC - Form 10QSB

settlement of the interest obligation on its \$5,000,000 convertible issue prior to the conversion of the notes to stock.

- b. Shares of common stock were issued for services in 2005 and 2004; these totaled 310,909 shares and 192,277 shares, respectively.
- c. Shares were issued in 2005 and 2004 in settlement of shares paid for in prior years. These amounted to 1,749,827 shares and 30,000 shares, respectively.
- d. The Company purchased third part debt of Filco for 187,939 shares in 2005.

11

AIRTRAX, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS
September 30, 2005
(Unaudited)

OPERATING AND ADMINISTRATIVE EXPENSES

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

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

CONTINGENCY

The Company has a tentative agreement to purchase 75.1% of the stock of FiLCO GmBH (FiLCO), a German manufacturer of fork trucks with a manufacturing facility in Mulheim, Germany. During the pendency of the tentative agreement, the Company has agreed to make advances to FiLCO. Through September 30, 2005, advances

Edgar Filing: AIRTRAX INC - Form 10QSB

totaling \$6,255,462 had been made. A portion of these advances may be converted to capital on the books of FiLCO. The seller, who will continue to own the remaining 24.9% of the FiLCO stock, has agreed that if the Company converts \$1,220,000 of its advances to capital he will also convert to FiLCO capital a loan of 1,225,000 Euros that FiLCO owes to him. As additional consideration for this FiLCO stock purchase, the Company has agreed to pay the seller 12,750 Euros and to issue to the seller 900,000 warrants to purchase Company stock; these warrants would be exercisable at \$.01 per share. The Company has appointed the seller of the FiLCO stock a director of the Company and upon a closing of the acquisition would grant him as compensation for service as a director options to purchase 100,000 shares of Company stock for \$.01. Additionally, the Company agreed to advance funds, if needed, to FiLCO to provide for its working capital needs. Any advances made under the latter provision would be collateralized by the remaining 24.9% of FiLCO stock and would be repaid only from dividends paid on that stock.

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

12

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

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

Overview

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

We have commenced production and have most of the parts required for production of another 74 units of our Sidewinder ATX-3000 Omni-Directional Lift Truck during the 4th quarter of 2005. As of October 27, 2005 we do not have all of the parts required from every vendor for completion of the 74 trucks heretofore noted. The assembly and sale is dependent upon delivery of all of the required

Edgar Filing: AIRTRAX INC - Form 10QSB

parts.

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

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

We have incurred losses and experienced negative operating cash flow since our formation. For the three months ended September 30, 2005 and 2004, we had a net loss of \$(1,801,755) and \$(493,867), respectively. For our fiscal years ended December 31, 2004 and 2003, we had a net loss of \$(2,272,200) and \$(2,282,946), respectively. We expect to continue to incur significant expenses. Our operating expenses have been and are expected to continue to outpace revenues and result in significant losses in the near term. We may never be able to reduce these losses, which will require us to seek additional debt or equity financing.

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

13

Company History

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

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

In March 2004, we reached an agreement in principal, subject to certain closing conditions, with Fil Filipov to acquire 51% of the capital stock of Filco GmbH, a German corporation. In April 2003, Filco GmbH acquired substantially all of the assets of Clark Material Handling of Europe GmbH which were located at Clark's facility in Rheinstrasse Mulheim a.d. Ruhr, Germany. These assets consisted of all of the tooling, machinery, equipment, inventory, intellectual property, office furniture and fixtures, and personnel necessary to build the entire Clark line of lift trucks, but excluded the building and land, as well as the rights to the Clark name. Further, Filco GmbH has entered into an 18-month

Edgar Filing: AIRTRAX INC - Form 10QSB

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 \$6,255,462 as of September 30, 2005 pursuant to a series of secured and unsecured promissory notes. We have used proceeds from the private placement offerings that we completed during 2004 and 2005 to fund such loans. Our analysis shows that additional estimated working capital needs during the next year will be approximately \$5,000,000, with \$1,750,000 needed during November 2005, in order for it to achieve profitable operations. Should we complete the acquisition of Filco GmbH, we will need to raise additional capital or proper lines of credit 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.

14

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

Edgar Filing: AIRTRAX INC - Form 10QSB

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 \$1.3 million to be allocated in the form of equity in Filco and Filipov would also capitalize 1.3 million Euros that he had loaned 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. However, once we complete the acquisition, we are responsible to provide adequate operating capital to insure a successful business. 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, in the aggregate amount of \$6,255,462, 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 first, second and third quarters of 2005, we realized limited revenues from sales of the Sidewinder Omni-Directional Lift Truck.

We believe that our secured and 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 a total of \$6,255,462 as of September 30, 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. For this reason as well as the lack of funding, Filco's plant was closed for much of 2004 and the beginning

Edgar Filing: AIRTRAX INC - Form 10QSB

of 2005.

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 very limited production of standard forklifts during the second quarter of 2005. In April 2005, Filco shipped 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. After the prototypes, large quantities of tractors will be assembled. It is expected that volume assembly will commence early 2006. The Russian company will supply all parts. It is anticipated that Filco will be in full forklift production early in the 4th quarter of 2005. The final production schedule is contingent upon supply of parts from various vendors.

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

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

Revenues

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

Cost of Goods Sold

The Company's cost of goods sold for the three months ended September 30, 2005 amounted to \$0-. For the three months ended September 30, 2004, the Company's cost of goods sold was \$-0-.

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

Operating and Administrative Expenses

Operating and administrative expenses includes administrative salaries and overhead. For the three months ended September 30, 2005, the Company's operating and administrative expenses totaled \$1,981,664. Operating and administrative expenses totaled \$549,338 for the three months ended September 30, 2004. For the three months ended September 30, 2005 operating and administrative expenses increased \$1,432,326 compared with the same period of 2004. These changes are a result of the time and material costs preparing for production of the SIDEWINDER and other production related issues including labor and materials used to outfit the new Airtrax assembly plant in Blackwood NJ.

Edgar Filing: AIRTRAX INC - Form 10QSB

Research and Development

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

Loss Before Income Taxes

Loss before income taxes for the three month period ended September 30, 2005 totaled \$1,949,147. For the three months ended September 30, 2004, loss before income taxes totaled \$545,283. The increase in loss before income tax for the three months ended September 30, 2005 compared with the same period of 2004 was caused by the time and material allocations preparing for production of the SIDEWINDER and other production related issues including labor and materials used to outfit the new Airtrax assembly plant in Blackwood NJ.

16

Preferred Stock Dividends

During the three months ended September 30, 2005, the Company paid \$-0- in dividends on preferred stock. During the three months ended September 30, 2004, the Company paid dividends on preferred stock in the amount of \$5,931. The preferred stock dividends are payable to a company that is owned by our President.

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

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

Revenues

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

Cost of Goods Sold

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

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

Operating and Administrative Expenses

Edgar Filing: AIRTRAX INC - Form 10QSB

Operating and administrative expenses includes administrative salaries and overhead. For the nine months ended September 30, 2005, the Company's operating and administrative expenses totaled \$3,987,695. Operating and administrative expenses totaled \$1,397,479 for the nine months ended September 30, 2004. For the nine months ended September 30, 2005 operating and administrative expenses increased \$2,590,216 compared with the same period of 2004. These changes are a result of the time and material costs preparing for production of the SIDEWINDER and other production related issues including labor and materials used to outfit the new Airtrax assembly plant in Blackwood NJ.

Research and Development

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

Loss Before Income Taxes

Loss before income taxes for the nine month period ended September 30, 2005 totaled \$8,063,449. For the nine months ended September 30, 2004, loss before income taxes totaled \$1,396,973. The principal reason for the increase in loss before income taxes for the nine months ended September 30, 2005 compared with the same period of 2004 was two amounts charged to interest expense which totaled \$4,213,731. These charges stemmed from the convertible bond issue and are described in Note 3 to the financial statements. Other factors contributing to the increase in the 2005 loss were time and materials devoted to preparing for production of the SIDEWINDER and preparing the new assembly plant in Blackwood, New Jersey.

17

Preferred Stock Dividends

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

Liquidity and Capital Resources

As of September 30, 2005, the Company's cash on hand was \$40,682 and working capital was \$410,398. Since its inception, the Company has financed its operations through the private placement of its common stock. During the nine months ended September 30, 2005, the Company sold an aggregate of 68,750 shares of common stock to accredited and institutional investors. During the three months ended September 30, 2004, the Company sold an aggregate of 0 shares of common stock to accredited and institutional investors and issued an aggregate of 46,509 shares of common stock in consideration for services rendered.

The Company anticipates that its cash requirements for the foreseeable future will be significant. In particular, management expects substantial expenditures for inventory, production, and advertising in anticipation of the rollout of its omni-directional forklift. The Company expects that it will be required to raise funds through the private or public offering of its securities.

The Company's initial production run of ten SIDEWINDER Omni-Directional Lift Trucks was completed in the first quarter of 2005. The Company will need additional funds to support production requirements beyond the initial production run of its forklift which are estimated to be \$10,000,000. Of the total amount, approximately 25% is projected for parts and component inventory and manufacturing costs, with the balance projected as general operating expenditures, which includes overhead and salaries and the additional funds to

Edgar Filing: AIRTRAX INC - Form 10QSB

complete the proposed acquisition of the 75.1% interest in Filco GmbH ("Filco"), primarily for Filco's working capital needs. As of September 30, 2005, the Company had loaned to Filco a total of \$6,255,462. The Company intends to complete the acquisition of Filco once operating capital for Filco is secured to finance their operations. The Company leased facilities starting in the second quarter of 2005 as corporate headquarters. This building will also facilitate the assembly of the SIDEWINDER and other omni-directional products, partial assembly of Filco lift trucks, if the proposed acquisition is completed, warranty work, and product distribution.

As of September 30, 2005, our working capital was \$410,398. Fixed assets, net of accumulated depreciation, and total assets, as of September 30, 2005 and 2004, were \$204,274 and \$10,402,726, respectively. Current liabilities as of September 30, 2005 were \$2,968,259.

Item 3. 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 and 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 and 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.

18

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

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

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

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

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

Item 3. Defaults Upon Senior Securities

None.

Edgar Filing: AIRTRAX INC - Form 10QSB

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits.

3.1 Certificate of Incorporation of Airtrax, Inc. dated April 11, 1997. (Filed as an exhibit to the Company's Form 8-K filed with the Securities and Exchange Commission on November 19, 1999).

3.2 Certificate of Correction of the Company dated April 30, 2000 (Filed as an exhibit to Company's Form 8-K filed with the Securities and Exchange Commission on November 17, 1999).

3.3 Certificate of Amendment of Certificate of Incorporation dated March 19, 2001 (Filed as an exhibit to Company's Form 8-K filed with the Securities and Exchange Commission on November 17, 1999).

3.4 Certificate of Amendment of Certificate of Incorporation dated April 1, 2005 (Filed as an exhibit to Company's Form 10-QSB filed with the Securities and Exchange Commission on May 16, 2005).

3.5 Amended and Restated By-Laws of the Company. (Filed as an exhibit to the Company's Form 8-K filed with the Securities and Exchange Commission on November 19, 1999).

4.1 Form of Common Stock Purchase Warrant issued to investors pursuant to the May 2004 private placement. (Filed previously)

4.2 Form of Common Stock Purchase Warrant dated as of November 22, 2004 and November 23, 2004. (Filed as an exhibit to the Company's Form 8-K filed with the Securities and Exchange Commission on November 30, 2004).

19

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

Edgar Filing: AIRTRAX INC - Form 10QSB

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).
- 10.12 Form of Series A Convertible Note of Airtrax, Inc. dated as of February 11, 2005 (Filed as an exhibit to the Company's Form 8-K filed on February 11, 2005).
- 10.13 Form of Class A Common Stock Purchase Warrant of Airtrax, Inc. dated as of February 11, 2005 (Filed as an exhibit to the Company's Form 8-K filed on February 11, 2005).
- 10.14 Form of Class B Common Stock Purchase Warrant of Airtrax, Inc. dated as of February 11, 2005 (Filed as an exhibit to the Company's Form 8-K filed on February 11, 2005).
- 10.15 Series B Unsecured Convertible Debenture and Warrants Purchase Agreement, dated May 31, 2005, by and between Airtrax, Inc. and the investor named on the signature page thereto (Filed as an exhibit to the Company's Form 8-K filed on June 6, 2005).
- 10.16 Registration Rights Agreement dated May 31, 2005, by and between Airtrax, Inc. and the investor named on the signature page thereto (Filed as an exhibit to the Company's Form 8-K filed on June 6, 2005).
- 10.17 Series B Unsecured Convertible Debenture of Airtrax, Inc. (Filed as an exhibit to the Company's Form 8-K filed on June 6, 2005).
- 10.18 Form of Stock Purchase Warrant of Airtrax, Inc. (Filed as an exhibit to

Edgar Filing: AIRTRAX INC - Form 10QSB

the Company's Form 8-K filed on June 6, 2005).

- 10.19 Letter Agreement dated May 31, 2005 by and among Airtrax, Inc. and the investors named on the signature page thereto (Filed as an exhibit to the Company's Form 8-K filed on June 6, 2005).
- 10.20 Series C Unsecured Convertible Debenture and Warrants Purchase Agreement, dated October 18, 2005 by and between Airtrax, Inc. and the investor named on the signature page thereto (Filed as an exhibit to the Company's Form 8-K filed on October 24, 2005).
- 10.21 Registration Rights Agreement dated October 18, 2005, by and between Airtrax, Inc. and the investor named on the signature page thereto (Filed as an exhibit to the Company's Form 8-K filed on October 24, 2005).
- 10.22 Series C Unsecured Convertible Debenture of Airtrax, Inc. (Filed as an exhibit to the Company's Form 8-K filed on October 24, 2005).
- 10.23 Form of Stock Purchase Warrant of Airtrax, Inc. (Filed as an exhibit to the Company's Form 8-K filed on October 24, 2005).
- 10.24 Amended and Restated Stock Acquisition Agreement effective as of February 19, 2004 by and between Airtrax, Inc. and Fil Filipov (incorporated by reference to our registration statement on Form SB-2 filed on November 3, 2005).
- 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).

21

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 14th day of November 2005.

AIRTRAX, INC.

By: /s/ Peter Amico

Peter Amico, Chief Executive Officer,
Acting Chief Financial Officer (Principal Executive and
Financial Officer) and Chairman of the Board of Directors