

AIRTRAX INC  
Form 10QSB  
August 20, 2007

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

**FORM 10-QSB**

(Mark One)

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

**For the Quarterly Period Ended June 30, 2007**

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

**For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 001-16237**

**AIRTRAX, INC.**

(Name of Small Business Issuer in Its Charter)

**New Jersey**

(State or other jurisdiction of incorporation or organization)

**22-3506376**

(IRS Employer Identification No.)

200 Freeway Drive, Unit One  
Blackwood, New Jersey 08012  
(Address of Principal Executive Offices)

(856) 232-3000

(Registrant's telephone number, including area code)

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

As of August 14, 2007, the Company had 25,700,993 shares of its no par value common stock issued and outstanding.

Transitional Small Business Disclosure Format (check one):

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Yes [ ]

No [X]

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**AIRTRAX, INC.**

Quarterly Report on Form 10-QSB for the  
Quarterly Period Ending June 30, 2007

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**PART I -- FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****AIRTRAX, INC.  
BALANCE SHEET**

	June 30, 2007 (Unaudited)	December 31, 2006 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 1,040,181	\$ 327,737
Accounts receivable	51,379	50,704
Inventory	1,193,654	1,049,457
Vendor advances	163,268	103,628
Prepaid expenses	29,906	-
Deferred tax asset	1,071,545	919,889
<b>Total current assets</b>	<b>3,549,933</b>	<b>2,451,415</b>
<b>Fixed Assets</b>		
Office furniture and equipment	173,368	157,521
Demo Equipment	149,249	149,249
Shop equipment	43,350	43,350
Casts and tooling	273,016	273,016
	638,983	623,136
Less, accumulated depreciation	(376,117)	(339,216)
<b>Net fixed assets</b>	<b>262,866</b>	<b>283,920</b>
<b>Other Assets</b>		
Prepaid interest	434,833	-
Patents – net	140,706	148,151
Unamortized financing costs	423,477	-
Deposits	65	65
<b>Total other assets</b>	<b>999,081</b>	<b>148,216</b>
<b>TOTAL ASSETS</b>	<b>\$ 4,811,880</b>	<b>\$ 2,883,551</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 513,798	\$ 1,097,361
Accrued liabilities	1,022,235	461,973
Derivative liability-Warrants and conversion privileges	4,357,448	355,203
Current portion convertible debt	1,891,248	2,129,797
Shareholder loans payable	40,713	75,713
<b>Total current liabilities</b>	<b>7,825,442</b>	<b>4,120,047</b>
<b>Long Term Convertible Debt</b>	<b>4,093,589</b>	<b>557,797</b>
<b>TOTAL LIABILITIES</b>	<b>11,919,031</b>	<b>4,677,844</b>
<b>Stockholders' Deficit</b>		
Common stock – authorized, 100,000,000 shares without par value; issued and outstanding – 25,432,995 and 24,260,352, respectively	25,741,224	25,061,241
Paid in capital – warrants	1,065,264	1,065,264
Paid in capital – Options	1,417,660	1,407,299

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Preferred stock – authorized, 5,000,000 shares without par value; 275,000 issued and outstanding	12,950	12,950
Accumulated deficit	(35,344,249)	(29,341,046)
<b>Total stockholders' deficit</b>	<b>(7,107,151)</b>	<b>(1,794,293)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 4,811,880</b>	<b>\$ 2,883,551</b>

**AIRTRAX, INC.**  
**STATEMENTS OF OPERATIONS**  
**For the Three Months Ended June 30,**

	2007	2006
SALES	\$ 162,675	\$ 612,301
COST OF GOODS SOLD	150,234	666,137
Gross profit (loss)	12,441	(53,836)
OPERATING AND ADMINISTRATIVE EXPENSES	1,062,206	2,179,132
OPERATING LOSS	(1,049,765)	(2,232,968)
OTHER INCOME AND EXPENSE		
Conversion expense	-	(178,746)
Interest expense	(175,765)	(58,524)
Revaluation income (expense)	1,045,082	(961,752)
Other income	13,543	85
NET LOSS INCOME BEFORE INCOME TAXES	(166,905)	(3,431,905)
INCOME TAX BENEFIT (STATE):		
Current	70,288	264,766
NET LOSS BEFORE DIVIDENDS	\$ (96,617)	(3,167,139)
DEEMED DIVIDEND EXPENSE ON PREFERRED STOCK	-	303,110
NET LOSS	\$ (96,617)	\$ (3,470,249)
NET LOSS PER SHARE:		
NET LOSS	\$ (96,617)	\$ (3,470,249)
ADJUSTMENT FOR PREFERRED STOCK DIVIDENDS	17,188	17,188
LOSS ALLOCABLE TO COMMON SHAREHOLDERS	\$ (113,805)	\$ (3,487,437)
NET LOSS PER SHARE	\$ (.01)	\$ (.16)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	23,068,165	20,951,187

**AIRTRAX, INC.**  
**STATEMENTS OF OPERATIONS**  
**For the Six Months Ended June 30,**

	2007	2006
SALES	\$ 254,060	\$ 1,271,277
COST OF GOODS SOLD	284,503	1,193,815
Gross profit (loss)	(30,443)	77,462
OPERATING AND ADMINISTRATIVE EXPENSES	1,859,570	3,200,705
OPERATING LOSS	(1,890,013)	(3,123,243)
OTHER INCOME AND EXPENSE		
Conversion expense	(4,937,231)	(760,184)
Interest expense	(279,207)	(107,275)
Revaluation income	927,936	1,010,414
Other income	23,656	85
NET LOSS BEFORE INCOME TAXES	(6,154,859)	(2,980,203)
INCOME TAX BENEFIT (STATE):		
Current	151,656	349,250
NET LOSS BEFORE DIVIDENDS	\$ (6,003,203)	\$ (2,630,953)
DEEMED DIVIDEND EXPENSE ON PREFERRED STOCK	-	303,110
NET LOSS	\$ (6,003,203)	\$ (2,934,063)
NET LOSS PER SHARE:		
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (6,003,203)	\$ (2,934,063)
ADJUSTMENT FOR PREFERRED STOCK DIVIDENDS	34,375	34,375
LOSS ALLOCABLE TO COMMON SHAREHOLDER	\$ (6,037,578)	\$ 2,968,438
NET LOSS PER SHARE	\$ (.27)	\$ (.13)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	22,496,779	22,249,454

**AIRTRAX, INC.**  
**STATEMENTS OF CASHFLOWS**  
**For the Six Month Periods Ended June 30,**

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Loss	\$ (6,003,203)	\$ \$(2,934,063)
Adjustments to reconcile net income to net cash consumed by operating activities:		
Charges not requiring the outlay of cash:		
Depreciation and amortization	45,360	29,750
Options issued for services	-	41,700
Equity securities issued for services	184,632	903,839
Expense of settling certain liquidated damages		44,267
Conversion expense		760,184
Deemed dividend expense	4,937,231	303,110
Amortization of prepaid interest and unamortized costs	187,337	-
Increase in accrual of deferred tax benefit	(151,656)	(349,250)
Revaluation of liabilities for warrants and conversion privileges	(927,936)	(1,010,414)
Interest accrued on shareholder loan		6,234
Increase in prepaid expense	(29,906)	(27,092)
Changes in current assets and liabilities:		
Increase in accounts receivable	(675)	(313,253)
Increase in vendor advances	(59,640)	(4,120)
(Decrease) increase in accounts payable	(362,634)	6,194
Increase in accrued liabilities	367,433	297,553
(Increase) decrease in inventory	(1,197)	354,039
<b>Net cash consumed by operating activities</b>	<b>(1,957,794)</b>	<b>(891,322)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of equipment	(15,847)	(12,649)
Acquisition of patents	(1,015)	-
<b>Net cash consumed by investing activities</b>	<b>(16,862)</b>	<b>(12,649)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds of issuance of convertible debt		819,800
Net proceeds from common stock sales	2,822,100	29,500
Proceeds from warrant extensions	-	88,500
Payment on convertible debt	(100,000)	
Proceeds from stockholder loans		49,813
Repayment of stockholder loans	(35,000)	(100,260)
<b>Net cash provided by financing activities</b>	<b>2,687,100</b>	<b>887,353</b>
<b>Net increase in cash</b>	<b>712,444</b>	<b>(16,618)</b>
Balance at beginning of period	327,737	19,288
Balance at end of period	\$ 1,040,181	\$ 2,670





**Airtrax, Inc.**  
**Notes to the Financial Statements**  
**June 30, 2007**  
**(unaudited)**

**1. BASIS OF PRESENTATION**

The unaudited interim financial statements of Airtrax, Inc. ("the Company") as of June 30, 2007 and for the Three and Six month periods ended June 30, 2007 and 2006 have been prepared in accordance with accounting principles 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 of such periods. The results of operations for the three and six month periods ended June 30, 2007 are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2007.

Certain information and disclosures normally included in the notes to financial statements have been condensed or omitted as permitted by the rules and regulations of the Securities and Exchange Commission, although the Company believes the disclosure is adequate to make the information presented not misleading. The accompanying unaudited financial statements should be read in conjunction with the financial statements of the Company for the year ended December 31, 2006.

**2. CONVERTIBLE NOTE FINANCINGS AND STOCK SALES**

On April 18, 2007, an investor in the October 2005 convertible debt issue converted \$45,000 of the 8% Convertible Notes due October 18, 2007. In exchange, the Company issued 100,000 shares of common stock. The conversion price was \$0.45 per share.

On June 1, 2007, an investor in the June 2005 convertible debt issue converted \$246,797 of principal and \$15,736 of accrued interest of the 8% Convertible Notes due June 2007 in exchange, the Company issued 583,407 shares of common stock. The conversion price was \$0.45 per share.

On June 5, 2007, an investor in the October 2005 convertible debt issue converted \$22,500 of the 8% Convertible Notes due October 18, 2007. In exchange, the Company issued 50,000 shares of common stock. The conversion price was \$0.45 per share.

On February 20, 2007, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain accredited and/or qualified institutional investors pursuant to which the Company sold an aggregate of \$3,734,040 principal amount secured convertible debentures (the "Debentures") convertible into shares of common stock, no par value ("Common Stock") at a conversion price equal to \$0.45 (the "Conversion Price"). The Debentures were sold at a discount equal to the amounts of interest that will accrue at a simple rate of 8% per annum during the term of the debentures. The amount realized was \$3,219,000; this was further reduced by expenses of the sale of \$396,900. In addition, the Company issued to the investors (i) warrants to purchase 8,297,866 shares of Common Stock (the "Warrants") at an exercise price equal to \$0.54 per share, which represents 100% of the number of shares issuable upon conversion of the Debentures; (ii) callable warrants to purchase 4,148,933 shares of Common Stock at an exercise price equal to \$0.75 per share, which represents 50% of the number of shares issuable upon conversion of the Debentures; and (iii) callable warrants to purchase 4,148,933 shares of Common Stock at an exercise price equal to \$1.25 per share, which represents 50% of the number of shares issuable upon conversion of the Debentures (collectively, the "Callable Warrants"). In addition to the expenses of the sale, noted above, 715,333 warrants to purchase common stock were issued to the placement agent that arranged the financing.

The Debentures mature on February 20, 2009. The Company may in its discretion redeem the Debentures, subject to certain equity conditions being met by the Company as set forth in the Debentures, at a price equal to 150% of the principal balance, accrued interest, and all liquidated damages, if any, thereon that are requested to be redeemed. The Company's obligations under the Purchase Agreement, the Debentures and the additional definitive agreements with respect to this transaction are secured by all of the assets of the Company.

**Airtrax, Inc.**  
**Notes to the Financial Statements**  
**June 30, 2007**  
**(unaudited)**

The Conversion Price of the Debentures is subject to the following adjustments for any failure by the Company to cause the Securities and Exchange Commission (the "SEC") to declare the initial registration statement covering the shares underlying the Debentures, the Warrants and the Callable Warrants effective:

- if the initial registration statement is not declared effective on or before February 20, 2008, the Conversion Price applicable to an amount of conversion shares equal to the highest number of shares of Common Stock which can be sold by the holder pursuant to Rule 144, promulgated under the Securities Act of 1933, as amended (the "144 Amount"), shall be adjusted to equal the lesser of (i) the then Conversion Price and (ii) 80% of the average of the 3 lowest closing prices of the Common Stock during the 10 trading days immediately preceding February 20, 2008;
- if the initial registration statement is not declared effective on or before April 20, 2008, the Conversion Price applicable to an amount of conversion shares equal to the 144 Amount shall be adjusted to equal the lesser of (i) the then Conversion Price and (ii) 80% of the average of the 3 lowest closing prices of the Common Stock during the 10 Trading Days immediately preceding April 20, 2008;
- if the initial registration statement is not declared effective on or before July 20, 2008, the Conversion Price applicable to an amount of conversion shares equal to the 144 Amount shall be adjusted to equal the lesser of (i) the then Conversion Price and (ii) 80% of the average of the 3 lowest closing prices of the Common Stock during the 10 trading days immediately preceding July 20, 2008;
  - if the initial registration statement is not declared effective on or before October 20, 2008, the Conversion Price applicable to an amount of conversion shares equal to the 144 Amount shall be adjusted to equal the lesser of (i) the then Conversion Price and (ii) 80% of the average of the 3 lowest closing prices of the Common Stock during the 10 trading days immediately preceding October 20, 2008; and
  - if the initial registration statement is not declared effective on or before February 20, 2009, the Conversion Price applicable to an amount of conversion shares equal to the 144 Amount shall be adjusted to equal the lesser of (i) the then Conversion Price and (ii) 80% of the average of the 3 lowest closing prices of the Common Stock during the 10 trading days immediately preceding February 20, 2009.

The Conversion Price of the Debentures and the respective exercise prices of the Warrants and the Callable Warrants are subject to adjustment in certain events, including, without limitation, upon the consolidation, merger or sale of all of substantially all of the assets, a reclassification of our Common Stock, or any stock splits, combinations or dividends with respect to the Common Stock.

In addition, after such time as the SEC declares the registration statement effective, if (i) the volume weighted average price for each of the 10 consecutive trading days (the "Measurement Period") exceeds \$1.50 per share with respect to the \$0.75 Callable Warrants and \$2.50 with respect to the \$1.25 Callable Warrants, (ii) the daily volume for each trading day in such Measurement Period exceeds 250,000 shares of Common Stock per trading day, and (iii) the holder is not in possession of any information that constitutes, or might constitute, material non-public information, then the Company may, within one trading day of the end of such Measurement Period, call for cancellation of all or any portion of the Callable Warrants which have not yet been exercised at a price equal to \$.001 per share.

Under the Registration Rights Agreement the Company entered into with the investors on February 20, 2007, the Company is obligated to file a registration statement on Form SB-2 to effect the registration of 130% the Common

Stock issuable upon conversion of the Debentures and exercise of the Warrants, the Callable Warrants and the selling agent warrants (as described below) on the earlier of (i) 15 calendar days from the filing of the annual report on Form 10-KSB for the fiscal year ended December 31, 2006, or (ii) April 15, 2007 (the "Filing Date"). The Company is obligated to use its best efforts to cause the registration statement to be declared effective no later than 90 days after the Filing Date. If we do not file the registration statement by the Filing Date, or if the registration statement is not declared effective by the SEC within the deadline specified in the preceding sentence, the Company shall pay to the investors, as liquidated damages, an amount equal to 1.25% of the principal amount of the Debentures on a pro rata basis for each 30-day period of such registration default. On May 4, 2007, we filed the registration statement, and as a result have an obligation for liquidated damages.

**Airtrax, Inc.**  
**Notes to the Financial Statements**  
**June 30, 2007**  
**(unaudited)**

Further, the Company paid commissions of \$321,900 and issued 715,333 warrants to First Montauk Securities Corp. (the "Selling Agent"), a NASD member firm, which acted as Selling Agent for the transaction, each as consideration for services performed in connection with the purchase and sale of the Debentures, Warrants and Callable Warrants to the investors pursuant to the Purchase Agreement. The Selling Agent had no obligation to buy any Debentures, Warrants or Callable Warrants from us. In addition, the Company agreed to indemnify the Selling Agent and other persons against specific liabilities under the Securities Act of 1933, as amended.

The Company claimed an exemption from the registration requirements of the Act for the private placement of these securities pursuant to Section 4(2) of the Act and/or Regulation D promulgated thereunder since, among other things, the transaction did not involve a public offering, the Investors were accredited investors and/or qualified institutional buyers, the Investors had access to information about the Company and their investment, the Investors took the securities for investment and not resale, and w the Company took appropriate measures to restrict the transfer of the securities.

On March 1, 2007, an investor in the convertible debt issue October 2005 converted \$22,500 of the 8% Convertible Notes due October 18, 2007. In exchange, the Company issued 50,000 shares of common stock. The conversion price was \$0.45 per share.

### 3. WARRANTS

The Company has issued warrants both as part of "stock units" and as an integral part of convertible note issues. The value of the warrants and conversion options which are classified as liabilities are revalued each reporting period. These values are determined by a Black Scholes valuation model, consistent with the requirements of SFAS No.133. The following is a schedule of changes in warrants outstanding during the first quarter of 2007. Each of these warrants is exercisable over five year periods from dates of issuance at prices ranging from \$0.45-\$1.56 per share.

Balance December 31, 2006	10,383,323
Warrants issued with \$3,734,040 convertible debt, February 20,	16,595,732
Warrants issued to Placement Agent of February 2007 convertible debt issue	715,333
Total warrants issued during 2007	17,311,065
Balance June 30, 2007	27,694,388

**Airtrax, Inc.**  
**Notes to the Financial Statements**  
**June 30, 2007**  
**(unaudited)**

**4. SUPPLEMENTAL CASH FLOWS INFORMATION:**

There were no taxes paid during the six-month periods ended June 30, 2007 and June 30, 2006.

Interest of \$ 7,500 and \$ 0 was paid during the six month periods ended June 30, 2007 and June 30, 2006., respectively.

There were no non-cash investing activities during either the June 30, 2007 and June 30, 2006 periods.

The following non-cash financing activities occurred during these periods.

Shares of common stock were issued for services during both the June 30, 2007 and June 30, 2006 periods. These totaled 424,550 shares and 567,223 shares, respectively and were valued at \$184,632 and \$903,839.

During the June 30, 2007 period the following additional noncash financing activity occurred:

\$22,500 of convertible debt was converted to 50,000 shares of common stock.

\$45,000 account payable was satisfied by the issuance of 94,444 shares of common stock.

\$45,000 of convertible debt was converted to 100,000 shares of common stock.

\$246,797 of debt and \$15,736 of accrued interest was converted to 583,407 shares of common stock

\$22,500 of convertible debt was converted to 50,000 shares of common stock.

**Airtrax, Inc.**  
**Notes to the Financial Statements**  
**June 30, 2007**  
**(unaudited)**

**OPERATING AND ADMINISTRATIVE EXPENSES**

Details of operating and administrative expenses are presented below:

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Options expense	\$ -	\$ 41,700
Salaries and payroll taxes	560,065	348,675
Impairment	-	1,000,000
Production costs	38,734	67,407
Patent expense	77,585	-
Professional fees	207,579	377,513
Commissions	-	57,109
Consulting - administrative	43,313	234,694
Settlement expense	-	44,266
Liquidated damages	362,138	188,815
Consulting – marketing	120,610	195,608
Other Marketing expense	-	45,229
Rent	76,500	84,070
Insurance	34,440	43,183
Director awards	164,918	222,500
Employee awards	-	90,500
Office expense	26,971	48,325
Other expense	146,720	111,111
Totals	\$ 1,859,570	\$ 3,200,705

**6. GOING CONCERN**

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the financial statements, the Company had a working capital deficiency and an accumulated deficit as of June 30, 2007 and has experienced continuing losses. These factors raise substantial doubt about the ability of the Company to continue as a going concern. The financial statements do not include adjustments relating to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue in operation. The Company's present plans, the realization of which cannot be assured, to overcome these difficulties include, but are not limited to, the continuing effort to raise capital in the public and private markets.

**7. CONVERSION, REVALUATION AND EMBEDDED DERIVATIVES**

The Company's issues of convertible debt normally have embedded derivatives (i.e. warrants and conversion benefits.) These derivatives are classified as either liabilities or a component of equity based upon the criteria in EITF 00-19.



Their initial fair value, based upon grant date valuation using Black Scholes model, is charged to conversion expense based upon the immediate exercisability of the derivatives.

Those derivatives classified as liabilities are subject to revaluation each reporting period, following SFAS #133 and its required fair value treatment.

**Airtrax, Inc.**  
**Notes to the Financial Statements**  
**June 30, 2007**  
**(unaudited)**

**8. RECENT ACCOUNTING PRONOUNCEMENTS**

The Company adopted EITF 00-19-2, "Accounting for Registration Payment Arrangements,"(RPA) for transactions after the statement's effective date (December 20, 2006). The Company's recording of a liability for these RPA's will now follow the guidelines in FAS #5, "Accounting for Contingencies." However, the amendment to the original EITF 00-19 will not affect the recording of derivatives as the "RPA's" were not the sole determining factor in prior decisions about derivative classification, as is emphasized in the amended EITF.

**9. SUBSEQUENT EVENTS**

On August 8, 2007 the Company issued 147,059 shares of common stock in exchange for services, valued at \$50,000.

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

**Special Note on Forward-Looking Statements.** Certain statements in “Management’s Discussion and Analysis or Plan of Operation” below, and elsewhere in this annual report, are not related to historical results, and are forward-looking statements. Forward-looking statements present our expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements frequently are accompanied by such words such as “may,” “will,” “should,” “could,” “expects,” “plans,” “intends,” “anticipates,” “believes,” “estimates,” “potential” or “continue,” or the negative of such terms or other words and terms of similar meaning. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, achievements, or timeliness of such results. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of such forward-looking statements. We are under no duty to update any of the forward-looking statements after the date of this annual report. Subsequent written and oral forward looking statements attributable to us or to persons acting in our behalf are expressly qualified in their entirety by the cautionary statements and risk factors set forth below and elsewhere in this annual report, and in other reports filed by us with the SEC.

You should read the following description of our financial condition and results of operations in conjunction with the financial statements and accompanying notes included in this report beginning on page F-1.

### Overview

Since 1995, substantially all of our resources and operations have been directed towards the development of the Omni-Directional wheel, related components, Omni-Directional Lift Trucks and other Omni-Directional Vehicles. Many of the components, including the unique shaped wheels, motors, and frames, have been designed by Airtrax and are specially manufactured for us.

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.

During the year ended December 31, 2006, we continued development of the COBRA and KING COBRA scissor lifts and the Omni-Directional power chair. We anticipate incurring more costs on these products and plan to begin production of the first COBRA and the KING COBRA models in 2007. The growth and development of our business will require a significant amount of additional working capital. We currently have limited financial resources and based on our current operating plan, we will need to raise additional capital in order to continue operations. However, we are in discussions with lenders to raise capital in order to continue operating. We currently do not have adequate cash to meet our short or long term objectives. In the event additional capital is raised, it may have a dilutive effect on our existing stockholders. There can be no assurance that additional financing will be available at terms that are suitable to us.



We have incurred losses and experienced negative operating cash flows since our inception. For the twelve-month periods ended December 31, 2006 and 2005, we had net losses attributable to common shareholders of approximately \$4.2 million and \$15.2 million, respectively. The net loss in both periods includes conversion expenses of \$1 million and \$6.6 million in 2006 and 2005, respectively, offset by revaluation income \$3.5 million and \$1 million in 2006 and 2005, respectively, in connection with the repricing of the conversion ratios of convertible debenture issues and of warrant conversion prices. We also wrote down the advances to Filco of \$2.0 million and \$4.7 million in 2006 and 2005, respectively. We expect to continue to incur significant expenses. Our operating expenses have been and are expected to continue to outpace revenue and result in additional 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. While we are in discussions with several prospective lenders, we do not currently have commitments for these funds and there can be no assurance that additional financing will be available, or if available, will be on acceptable terms.

### **Results of Operations for the Three Months ended June 30, 2007 Compared to the Three Months June 30, 2006**

Liquidity constraints and limited access to additional capital for production in 2005 and 2006 and the unexpected death of our Chief Executive Officer and President, Peter Amico in August 2006 have limited production and sales of omni-directional technology. Consequently, management believes that the year-to-year comparisons described below are not indicative of future year-to-year comparative results.

In September 2006, Airtrax was awarded a \$415,000 contract to design and build a customized MP2 Equipment Handling Unit for the Israeli Air Force. The contract includes an option to build five additional units at \$95,000 each upon the acceptance of the first unit. It is estimated that the follow on orders that could result from this contract will be four units over the next one to two years for a total of 10 units delivered. The Critical Design Review was completed in November 2006, the design was approved and initial deliverables were provided. As a result, we received a first process payment of \$170,000 on December 12 2006. We completed the Acceptance Test Procedure in mid April 2007 and received a second payment of \$162,000. We cannot predict whether we will be able to successfully pass all of the acceptance tests and complete the contract, or that if we do so, that any subsequent orders will result.

We believe that the joint cooperation between us and the United States Navy with the MP2 weapons handler contract, and our contract to design and build a customized MP2 Equipment Handling Unit for the Israeli Air Force, has bolstered the potential use of our technology within the military.

### **Revenue**

Revenue for the three-month period ended June 30, 2007 was approximately \$163,000, representing a decrease of approximately \$449,000 from revenue of \$612,000 recorded for the three-month period ended June 30, 2006. This decrease in revenue, is primarily, attributed to the reduction in sales of our SIDEWINDER ATX-3000 offset by revenue recorded in connection with the development of the MP2 Equipment Handling Unit for the Israeli Air Force

### **Cost of Goods Sold**

Our cost of goods sold for the three-month period ended June 30, 2007 amounted to approximately \$150,000, a decrease of approximately \$516,000 from \$666,000 recorded for the three-month period ended June 30, 2006. This decrease in cost of goods sold is primarily attributed to the reduction in sales of our SIDEWINDER ATX-3000 offset by continued development cost in connection with the MP2 Equipment Handling Unit for the Israeli Air Force

### **Operating and Administrative Expenses.**

Operating and administrative expenses, which include administrative salaries, depreciation and other expenses for the three-month period ended June 30, 2007 totaled \$1,062,000, which represents a decrease of approximately \$1,118,000 from \$2,180,000 incurred in the six-month period ended June 30, 2006. The decrease is primarily due the impairment charge in the three months ended June 30, 2006.

### **Loss Attributable to Common Shareholders.**

Loss attributable to common shareholders for the three-month period ended June 30, 2007 was \$(97,000) compared with loss of \$(3.5) million for the same period in 2006. The decrease in the loss is due primarily to the recording of revaluation income of \$1, million in this period compared with revaluation expense of \$1 million in 2006. Additionally, the 2006 period included a \$1 million expense for impairment.

### **Results of Operations for the Six Months ended June 30, 2007 Compared to the Six Months June 30, 2006**

#### **Revenue**

Revenue for the six-month period ended June 30, 2007 was approximately \$254,000, representing a decrease of approximately \$1,017,000 from revenue of \$1,271,000 recorded for the six-month period ended June 30, 2006. This decrease in revenue is primarily attributable to the reduction in sales of our SIDEWINDER ATX-3000 partially offset by revenue recorded in connection with the development of the MP2 Equipment Handling Unit for the Israeli Air Force

#### **Cost of Goods Sold**

Our cost of goods sold for the six-month period ended June 30, 2007 amounted to approximately \$285,000, a decrease of approximately \$909,000 from \$1,194,000 recorded for the six-month period ended June 30, 2006. This decrease in cost of goods sold is primarily attributed to the reduction in sales of our SIDEWINDER ATX-3000 offset by continued development cost in connection with the MP2 Equipment Handling Unit for the Israeli Air Force

### **Operating and Administrative Expenses.**

Operating and administrative expenses, which include administrative salaries, depreciation and other expenses for the six-month period ended June 30, 2007 totaled \$1,860,000, which represents a decrease of approximately \$1,341,000 from \$3,201,000 incurred in the six-month period ended June 30, 2006. The decrease is primarily due to the \$1,000,000 the impairment charge recorded in the six months ended June 30, 2006.

### **Loss Attributable to Common Shareholders.**

Loss attributable to common shareholders for the six-month period ended June 30, 2007 was \$(6.0) million compared with loss of \$(3.0) million for the same period in 2006. The increase in loss is due primarily to the recording of conversion expense in this period of \$4.9 million compared with \$760,000 in 2006. Additionally, we recorded revaluation income of \$928,000 in 2007 compared with \$1.0 million in 2006 in connection with the repricing of certain conversion ratios of convertible debenture issues and of warrant conversion prices.

## Liquidity and Capital Resources

Since our inception, we have financed our operations through the private placement of our common stock and sales of convertible debt. During the twelve months ended December 31, 2006 and 2005, we raised net of offering costs approximately \$1.3 million and \$5.9 million, respectively, from the private placement of our securities. During 2007, we raised approximately \$3,219,000; which was further reduced by expenses of the sale of \$396,900.

We have consistently demonstrated our ability to meet our cash requirements through private placements of our common stock and convertible notes. We have continued to similarly satisfy those requirements during the twelve months ended December 31, 2006 and the first six months of 2007. However, there can be no assurances that we will be successful in raising the required capital to continue our current operating plan.

During 2000, we were approved by the State of New Jersey for the technology tax transfer program pursuant to which we have sold our net operating losses and research and development credits as calculated under state law. For the fiscal year 2006, we recorded a credit of \$437,803 from the sale of our losses and credits.

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 with production of its Omni-Directional lift truck and the start of Cobra and King Cobra (Scissors-Lift) production.

We will require additional funds to continue our operations beyond the initial production run. We anticipate that operating capital in the amount of approximately \$3 to 5 million will be required during the next 12 months to sufficiently fund operations. 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 rate to larger-scale production. While we are in discussions with several prospective lenders, we do not currently have commitments for additional funds and there can be no assurance that additional financing will be available, or if available will be on acceptable terms. If we are unable to obtain sufficient funds during the next six months we will further reduce the size of our organization and may be forced to reduce and/or curtail our production and operations, all of which could have a material adverse impact on our business prospects.

On February 20, 2007, we entered into a Securities Purchase Agreement with certain accredited and/or qualified institutional investors pursuant to which we sold an aggregate of \$3,734,040 principal amount secured convertible debentures convertible into shares of our common stock at a conversion price equal to \$0.45 for an aggregate purchase price of \$3,219,000. In addition, we issued to the investors (i) warrants to purchase 8,297,866 shares of our common stock at an exercise price equal to \$0.54 per share, which represents 100% of the number of shares issuable upon conversion of the debentures; (ii) callable warrants to purchase 4,148,933 shares of our common stock at an exercise price equal to \$0.75 per share, which represents 50% of the number of shares issuable upon conversion of the debentures; and (iii) callable warrants to purchase 4,148,933 shares of our common stock at an exercise price equal to \$1.25 per share, which represents 50% of the number of shares issuable upon conversion of the debentures.

The Debentures mature on February 20, 2009. We may in our discretion redeem the debentures, subject to certain equity conditions being met by us as set forth in the debentures, at a price equal to 150% of the principal balance, accrued interest, and all liquidated damages, if any, thereon that are requested to be redeemed. Our obligations under the securities purchase agreement, the debentures and the additional definitive agreements with respect to this transaction are secured by all of our assets.

As a result of our liquidity issues, we have experienced delays in the repayment of certain promissory notes upon maturity and payments to vendors and others. If in the future, the holders of our promissory notes may demand repayment of principal and accrued interest instead of electing to extend the due date and if we are unable to repay our debt when due because of our liquidity issues, we may be forced to refinance these notes on terms less favorable to us than the existing notes, seek protection under the federal bankruptcy laws or be forced into an involuntary bankruptcy filing.

As of June 30, 2007, our working capital deficit was \$4.3 million. Fixed assets, net of accumulated depreciation, as of June 30, 2007 and 2006, amounted to \$262,866 and \$283,920, respectively. Current liabilities as of June 30, 2007 were \$7.9 million compared with \$5.5 million as of June 30, 2006. Current liabilities in 2007 and 2006 include liabilities for options and conversion rights of \$4.4 million and \$1.7 million, respectively.

### **Off-Balance Sheet Arrangements.**

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenue, results of operations, liquidity or capital expenditures.

### **Liquidated Damages**

In connection with financings we entered into with various investors in November 2004, October 2005, and February 2007 we provided such investors registration rights. Pursuant to those registration rights, in the event that we did not file a registration statement by a certain date registering for resale shares of common stock issuable upon conversion of their securities or have such registration statement effective by another date, we agreed to pay to such investors liquidated damages. On May 4, 2007, we filed such registration statement, and now are able to estimate these damages with reasonable accuracy. Accordingly, we accrued \$362,000 in the quarter ended June 30, 2007. There is no assurance that this amount will be sufficient, nor based on the timing of declaring the current registration statement effective, in excess of the amount required.

### **Critical Accounting Policies and Estimates**

#### ***Revenue***

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.

Revenue from research and development activities relating to firm fixed-price contracts is generally recognized as billing occurs. Revenue 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.



### ***Intangibles***

We continually evaluate whether events and changes in circumstances warrant revised estimates of useful lives or recognition of an impairment loss of our intangibles, which as of June 30, 2007, consist mainly of patents and licensing agreements. The conditions that would trigger an impairment assessment of our intangible assets include a significant, sustained negative trend in our operating results or cash flows, a decrease in demand for our products, a change in the competitive environment and other industry and economic factors.

### ***Accounting for Income Taxes***

As part of the process of preparing our financial statements, we are required to estimate our income taxes. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income. If there is not persuasive evidence that recovery will occur, we would establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the consolidated statement of operations.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We have recorded a valuation allowance of \$8.3 million as of June 30, 2007, due to uncertainties related to our ability to utilize some of our deferred tax assets, primarily consisting of certain net operating losses carried forward before they expire and certain accrued expenses, which are deferred for income tax purposes until paid. The valuation allowance is based on our estimates of taxable income and the period over which our deferred tax assets will be recoverable. The net deferred tax asset as of December 31, 2006 was \$1,001,256, net of the valuation allowance.

### ***Issuances of Common Stock***

Because of the significant liquidity issues we have faced since our inception, we have been required to issue common stock to third party vendors and others in order to pay for services rendered. Such issuances are recorded as an expense in the period in which the services are performed. During the six month period ended June 30, 2007, we issued an aggregate of 330,106 shares of common stock to third parties in exchange for services performed. These services were valued at \$178,257 for six months ended June 30, 2007. There were no shares issued for services in the three month period ended June 30, 2007.

### ***Recent Accounting Pronouncement***

The Financial Accounting Standards Board (FASB) has recently issued "FASB Staff Position EITF 00-19-2 which modifies the accounting treatment of derivatives that flow from financings involving embedded derivatives. This Staff Position is effective for financial statements for periods beginning January 1, 2007. Adoption of this staff position has not caused any change in the quarter or six month period ended June 30, 2007 in the way we account for derivatives.

We have reviewed other accounting pronouncements issued during 2006 and 2007 and have concluded that they will have no effect on our financial statements.

### ITEM 3. CONTROLS AND PROCEDURES

*(a) Evaluation of disclosure controls and procedures.*

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of June 30, 2007. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

*(b) Changes in internal control over financial reporting.*

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

There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-QSB that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings.

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

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

None

### Item 3. Defaults Upon Senior Securities.

None

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

None.

### Item 5. Other Information.

None.

### Item 6. Exhibits

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14 and Rule 15d 14(a), promulgated under the Securities and Exchange Act of 1934, as amended

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer)

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer)

**SIGNATURES**

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

**AIRTRAX, INC.**

Date: August 20, 2007

By: /s/ ROBERT M. WATSON  
Robert M. Watson  
President, Chief Executive Officer  
(Principal Executive Officer) and  
Acting Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)