

AIRTRAX INC
Form 10KSB/A
April 25, 2007

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

**FORM 10-KSB/A
(Amendment No. 1)**

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

FOR FISCAL YEAR ENDED DECEMBER 31, 2005

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

FOR THE TRANSITION PERIOD FROM __ TO __

001-16237

Commission File Number

AIRTRAX, INC.

(Name of small business issuer in its charter)

New Jersey
State or other jurisdiction of incorporation

22-3506376
IRS Employer Identification No.

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

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

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

Securities registered under Section 12(g) of the Exchange Act: Common

Stock, no par value.

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

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements

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incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [] .

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

State the registrant's revenues for its most recent fiscal year: \$714,280 for the year ended December 31, 2005.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days: \$25,650,484 as of March 31, 2006.

APPLICABLE ONLY TO CORPORATE REGISTRANTS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. As of April 11 , 2006, the registrant had 22,283,624 shares of common stock, no par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

NONE.

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

Explanatory Note

We have determined, after consultation with our independent registered public accounting firm, that a restatement of our financial statements for the year ended December 31, 2005 filed on Form 10-KSB, together with our quarterly reports on Form 10-QSB for the periods ending June 30 and September 30, 2005 and March 31, June 30, and September 30, 2006, respectively, was necessary due to the issuance of our preferred stock as payment of dividends in lieu of cash dividends on April 1, 2005 with respect to previously issued shares of preferred stock. Our Articles of Incorporation, as amended, do not allow the issuance of additional shares of preferred stock as payment of dividends on shares of issued and outstanding preferred stock. Accordingly, the 100,000 shares of preferred stock, which were issued to the holder on April 1, 2005, were issued in error. We determined that we should take this action to prevent future reliance on previously issued financial statements set forth in our Reports.

We also concluded, in light of a review of our accounting for derivatives and based on recent interpretations of the accounting for certain financial instruments under SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") and the Emerging Issues Task Force No. 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" ("EITF No. 00-19") [update for 00-19-2 update issued], that the warrants associated with our November 22, 2004 stock issued to certain accredited and/or qualified institutional purchasers pursuant to Purchase Agreement dated as of November 22, 2004 contained embedded derivatives due to the registration rights and liquidated damages provisions and conversion privileges contained in the Notes and Warrants. The embedded derivative provisions provide that we will pay liquidated damages in connection with the delay in filing an SB-2 registration statement. Accordingly, we determined that we should take this action to prevent future reliance on previously issued financial statements set forth in our Quarterly Reports on Form 10-QSB for the three months ended March 31, 2005 and the three and six months ended June 30, 2005. In reporting periods subsequent to the issuance of June 30, 2005, the embedded derivative has been revalued with the change to fair value recorded as income/(expense). Such financial statements should no longer be relied upon.

The foregoing description of the new financial statements is not a complete summary. The new financial statements, which should be relied upon, will contain amendments to the Reports to effect these restatements. You are urged to read the complete documents on amended Form 10-KSB and Form 10-QSBs after filing on the website of the U.S. Securities and Exchange Commission at www.sec.gov.

We also corrected typographical errors. In addition, pursuant to the rules of the SEC, Item 13 of Part III to the Initial Filing has been amended to contain currently dated certifications from our Principal Executive Officer and Principal Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of our Principal Executive Officer and Principal Financial Officer are attached to this Form 10-QSB/A as Exhibits 31.1, 31.2 and 32.1, respectively.

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PART I

NOTE REGARDING FORWARD LOOKING INFORMATION

Various statements in this Form 10-KSB and in future filings by us with the Securities and Exchange Commission, in our press releases and in oral statements made by or with the approval of authorized personnel constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements are based on current expectations and are indicated by words or phrases such as "anticipate," "could," "currently envision," "estimate," "expect," "intend," "may," "project," "seeks," "we believe," and similar words or phrases and involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by those forward-looking statements.

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

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

ITEM 1. DESCRIPTION OF BUSINESS

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 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 would acquire, if we had finalized the acquisition, from 51% to 75.1%. 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.

We have loaned Filco GmbH an aggregate amount of \$6,275,881.10 as of December 31, 2005, exclusive of interest at 8% per annum, pursuant to a series of secured and unsecured promissory notes. The loans are to be repaid on or prior to December 31, 2006. Of the \$6,275,881.10 in loans to Filco, which approximately \$5,400,000 is secured by Filco's plant machinery, equipment and other plant property, and intellectual property, including designs and drawings, and approximately \$876,419.10 is unsecured in accord with the loan agreements and certified equipment appraisal.

Interest earned to date is not included in the figures stated above. The amounts stated herein represent the appraised valuation of the machinery and equipment and does not include intellectual property, as no value has been appraised for intellectual property.

On January 20, 2006, Filco filed for insolvency in Germany. As a result of the filing by Filco, we terminated the Acquisition Agreement on February 7, 2006. We are currently in discussions with the receiver in Germany to determine the status of our secured and unsecured loans to Filco, as well as to explore the possibility of purchasing all or a portion of the assets of Filco. This is dependent upon our ability to secure financing adequate to purchase the assets of Filco and supply necessary operating capital. We currently have no financing agreements in place and there can be no assurance that we will obtain financing on terms that are favorable to us. As a creditor, we have filed liens against Filco's machinery and equipment and intellectual property. We will seek to recover on our secured and unsecured loans asset forth above through appropriate legal channels in the event an asset purchase does not materialize.

INTRODUCTION

Since 1995, substantially all of our resources and operations have directed towards the development of the omni-directional wheel and related components for forklift and other material handling applications. Many of the components, including the unique shaped wheels, motors, and frames, have been specially designed by us and specially manufactured for us. Eighteen commercial omni-directional lift trucks, including ten carrying the UL Label, have been sold to customers in the United States, New Zealand, South Africa and Canada as of December 31, 2005 and others are ready to ship pending receipt of funds or consummation of letters of credit or other credit facilities. 18 units totaling \$714,280 with options have been billed from January 1, through December 31, 2005.

We have commenced production and have received the parts required for production of a total of 57 trucks, since the beginning of production of our Sidewinder ATX-3000 Omni-Directional Lift Truck. As of December 31, 2005, we did not have all of the parts required from every vendor for completion of the trucks other than those heretofore noted. The assembly and sale of these trucks is dependent upon delivery of all of the required parts.

Omni-Directional means that vehicles designed and built by us can travel in any direction. Our Omni-directional vehicles are controlled with a joystick. The vehicle will travel in the direction the joystick is pushed. If the operator pushes the joystick sideways, the vehicle will travel sideways. If the operator were to twist the joystick the vehicle will travel in circles. Our omni-directional vehicles have one motor and one motor controller for each wheel. The omni-directional movement is caused by coordinating the speed and direction of each motor with joystick inputs which are routed to a 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 USA. These frames are shipped to the Blackwood plant for complete assembly. Besides 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 have been shipped to the USA for final assembly. To date, a total of approximately 60 lift trucks have been shipped from Bulgaria to the Filco plant for partial assembly and approximately 30 of these have been shipped to the Blackwood plant for final assembly during the fourth quarter of 2005. All assembly or partial assembly from the Filco plant ceased on January 20, 2006 after Filco filed for insolvency. Additional frames and other parts totaling some \$450,000 remain at Filco awaiting release by the receiver to us. Most frames manufactured in Bulgaria had to be re-machined to be within the tolerances required for these frames. The re-machining charges will be back-charged to the frame manufacturer. The frame manufacturer will adjust tooling to get the tolerances to the required specifications for future deliveries.

We have incurred losses and experienced negative operating cash flow since our formation. For our fiscal years ended December 31, 2005 and 2004, we had a net loss of \$(14,935,478) and \$(3,491,950), 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.

OMNI-DIRECTIONAL TECHNOLOGY

Prior History

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

Technology Description

Since the technology transfer under the CRADA agreement, we have examined and redesigned many aspects of the system for use in various applications including forklifts and other material handling equipment. In this regard, we

refined control software and hardware, and tested a variety of drive component features on our pilot omni directional lift trucks and scissor-lifts. Extensive demonstrations of prototype vehicles for commercial and military users in combination with market research enabled us to direct our initial development efforts towards the material handling products, offering the best probability for successful market entry.

Our management designed other aspects of our machine to complement the unique functionality of our omni-directional technology. In so doing, we achieved a virtually maintenance free unit which allows the operator free and unrestricted movement during operation. Each vehicle is powered with AC motors eliminating brushes and commutators of conventional DC motors. The AC motors also are lubricated for life thereby eliminating the need for additional greasing and fittings. The transmission uses a synthetic lubricant, and is sealed for life. The joystick controls all vehicle movement; therefore conventional drive trains, steering racks, hydraulic valve levers, and foot pedals for braking and acceleration are all non-existent.

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

EXISTING AND PROPOSED PRODUCTS

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

AirTrax Conventional Forklift. In the event of the successful acquisition of Filco GmbH assets through the German receiver, we expect to use the Filco plant and operations to produce and sell a line of conventional forklifts possibly manufactured under the AirTrax name for distribution in the United States and other geographical markets. In the event that the purchase of Filco's assets does not occur, we plan on having conventional trucks privately labeled under our name or a suitable alternative name for distribution to our dealers.

Omni-Directional Aerial Work Platform. In late February 2004, we, in collaboration with MEC Aerial Platform Sales Corporation of Fresno, California ("MEC"), introduced a concept version of a scissor lift at the American Rental Association trade show in Atlanta. The scissor lift called the "Cobra(TM)" incorporated our omni-directional technology along with an MEC platform and lift mechanisms. The vehicle contains features presently unavailable on conventional aerial work platforms. For example, similar to our lift truck, the aerial work platform's movement is controlled by a joystick. Movement to a particular spot or location at a job site can be accomplished easily due to the omni-directional technology, thereby eliminating the back and forth positioning typically associated with conventional platforms. Our designed control systems allow the operator to move at very regulated and easily controlled acceleration and speed, virtually eliminating operator error. The machine can climb over obstacles that would impede other machines. Our aerial work platform has the ability to climb over obstacles up to a height of one-third the overall wheel diameter. The wheel used on the aerial work platform has a 17" total diameter. Accordingly, this vehicle can climb over obstacles more than 5.66" high. The ability to "climb over" obstacles is an inherent advantage of our omni-directional technology.

This is a feature which we believe no other aerial work platform can perform, or if another aerial work platform can perform, it is to a very limited degree. Generally, any "wheeled" vehicle can "climb" over some obstacles, however, other "wheeled" vehicles cannot climb over obstacles as high as the one-third of the wheel's diameter. We believe that, similar to our lift truck, the improved functionality of the aerial work platform will result in increased productivity at the job-site.

On March 13, 2004, we entered into a draft Product Development, Sales and Representation Agreement with MEC. The draft agreement calls for the joint development of a proto-type and production versions of an omni-directional aerial work platform called the "Cobra(TM)". During the development stage, each party will provide the parts, which apply to that party's area of responsibility. We will provide all of the parts required for the omni-directional traction system and related control systems, and MEC will provide all of the parts required for the scissor lift and lifting apparatus and the control systems for the scissor lift apparatus. After development of the prototype version, the parties will establish the cost of a commercial product, and if the cost of a commercial product is considered commercially viable, the parties will jointly develop a commercial version of the aerial work platform. If commercial production results, we will be responsible for product manufacturing, and MEC or its affiliate will be responsible to promote, market and sell the product to their network of approximately 200 distributors. Aerial work platform sales made by

MEC will be subject to a royalty to us and, likewise sales made by us will be subject to a royalty to MEC. The amount of the respective royalties will be subject to agreement by the parties. Orders placed by MEC will be financed by MEC subject to agreed production schedules. We also plan to manufacture the Cobra(TM) using the lifting mechanism as designed by us or procured from MEC and vendors other than MEC.

During 2004, MEC was repositioned to perform manufacturing in the United States thus removing their obligation under the agreement. During the latter part of 2004, we presented MEC with invoices for payment of tooling and engineering costs related to development of the Cobra(TM). The invoices were not paid by MEC who was, at that time, in the process of realigning their finances. As a result of the aforementioned changes, the agreement was modified. The modification stated that the Cobra(TM) projector and aerial work platform projects would be products of our company instead of an MEC vehicle. This meant that the project would be henceforth designed and built by us. MEC would still have the ability to make suggestions regarding vehicle design or construction, but the final product is and will be our product. In addition, the agreement was revised to provide that we will build another vehicle product line, the Cobra, which will be marketed exclusively by our dealers. The parties expect to enter into a more formal agreement to further define the relationship of the parties. At this time, we cannot predict whether a formal agreement will be entered into between the parties, or whether any sales will result from the aerial work platform to be developed by the parties.

Omni-directional Wheelchair. Over 43 million disabled and aging Americans are protected by the Americans with Disabilities Act of 1990 (ADA). This law became effective in 1991, and now requires businesses with over 15 employees to comply with specifications which enable persons with disabilities access buildings. As a result of increased physical access, we believe that persons with disabilities will experience an increased number of employment and other opportunities. We have conducted a preliminary design of an omni-directional wheel for wheelchair applications. Based upon the preliminary design, we believe that we can retail an omni-directional wheelchair for under \$6,000. Wheelchair pricing ranges from \$3,500 for a standard unit to \$30,000 for units with improved functionality such as stair climbing capability. We will require additional funds to complete a structural and ergonomic design of a proto-type wheelchair, and to construct the proto-type for further evaluation and testing. We cannot predict whether we will be able to successfully develop this product.

Military Products. During 1999, we were awarded a Phase I research contract under the Department of Defense's Small Business Innovation Research program (SBIR) to develop an omni-directional Multiple Purpose Mobility Platform (MP2). Under the Phase I base contract, we studied the application of the omni-directional technology for military use and were supervised by the Naval Air Warfare Center Aircraft Division (NAWC-AD) in Lakehurst, New Jersey. The contemplated use includes the installation of jet engines on military aircraft and the transportation of munitions and other military goods. We completed the Phase I base contract in 1999 and were subsequently awarded a Phase I option from NAWC-AD to further define the uses of the MP2. In July 2000, we were awarded a Phase II research contract under the SBIR program. Under the Phase II contract, we are studying the feasibility of the MP2 for military purposes, and will culminate with the construction of one or more proto-type devices. This contract (with the option) was extended twice for 6 months each past the 42-month contract time period. Contract revenues were \$749,044. Through December 31, 2004, we have received approximately \$749,044 in revenues from the Phase II contract, and completed the production design of the MP2. A completed proto-type MP2 was delivered to the US Navy during the end of the first quarter of 2004 for testing purposes. A second vehicle, an omni-directional jet engine installation machine is being constructed for the US Navy, pending receipt of additional funding from the SBIR program. We have been advised by the US Navy that a non-SBIR sponsor for the MP2 program must be identified before a Phase II option is exercised. A Phase III contract could be awarded without such a sponsor. Although our management believes the underlying omni-directional technology for the proposed MP2 has significant potential for both commercial and military applications, we cannot predict whether any sales beyond the Phase II contract will result from the SBIR program. It is the belief of management that sales to the military for products such as the MP2 or the MHU-110 engine handler will not materialize until the omni-directional technology achieves commercial acceptance. We do believe, however, that products such as the ATX-3000 or the Cobra AWP can and will be sold to the US government, possibly including the military and made an application with DSCP (Defense Services Contracting, Philadelphia) in early 2006, which is similar to GSA excepting that DSCP sells to military only as compared to GSA selling to the entire government.

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

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

CURRENT OPERATIONS

Since 1995, substantially all of our resources and operations have directed towards the development of the omni-directional wheel and related components for forklift and other material handling applications. Many of the components, including the unique shaped wheels, motors, and frames, have been specially designed by us and specially manufactured. Eighteen commercial omni-directional lift trucks, including ten carrying the UL Label, have been sold to customers in the United States, New Zealand, South Africa and Canada as of December 31, 2005 and several others are ready to ship pending receipt of funds or consummation of letters of credit or other credit facilities in the beginning of 2006. 18 units totaling \$714,280 with options have been billed from January 1, through December 31, 2005.

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

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

Although we anticipated that the initial production run of the Sidewinder Lift Truck would be completed during the second quarter of 2004, we did not complete our initial production run until the first quarter of 2005. We encountered several unforeseen delays in getting this product to market. Wheels, manufactured for us by The Timken Corporation with a promised delivery of May 2004, proved to be a more challenging operation than Timken first anticipated. In addition to meeting the high standards we require from the wheel manufacturer, Timken was obligated to manufacture the wheels within specified cost parameters. This required certain "manufacturing design" changes that insured both wheel integrity and cost savings. The first limited "production" wheels were shipped to us in August 2004 with final deliveries in March 2005.

These wheels were considered "production" wheels by us but considered "pilot" wheels by Timken, the primary difference being that while Timken delivered wheels in accordance with our production requirements, Timken did not produce the first 56 wheels from their "production" facility but rather their "research" facility. As a result, the first wheels coming from a Timken "production" facility were not delivered until August 2005.

During the past two years, in anticipation of commercial production, we solicited interest from targeted dealers nationwide, and in certain instances, received contracts from a number of these dealers. Due to the delay in establishing commercial production, the contracts were not fulfilled. In 2004, we began soliciting dealers for distribution and during the first quarter of 2004 have reached an agreement with certain dealers. Principal terms of the agreement reached is that these dealers will purchase our products which include the ATX-3000, the Cobra AWP (scissor lift) and conventional lift trucks and thereafter sell these products to their clients. Certain of the dealers were given "exclusive" territories, such as AirTrax Canada (AirTrax Canada is not owned or operated by us but we have authorized their use of the AirTrax name.) AirTrax Canada is required to purchase a minimum of 250 units of our Sidewinder or Cobra AWP or Filco trucks to maintain the "exclusivity" portion of the agreement between firms. They cannot lose their exclusivity because we cannot meet their sales requirements. This same type arrangement was reached with Lakeland in New Zealand for 125 vehicles each year, AirTrax Africa for 125 units each year, Omnilink in Greece and the Balkans for 125 units each year and others. Most dealers in the US have not been given exclusive territorial rights, though some have. They are required to purchase one or more vehicles, however, to become a dealer. Credit is not authorized to any dealers or foreign representatives at this time, but this no credit policy will change as required and as we advance our credit facilities. Currently all sales are paid in advance, under terms of an irrevocable letter of credit or cash on demand. Not all dealers have agreed to represent the conventional lift trucks line as some are established with other lift truck manufacturers and representing a competing product could be a violation of their existing agreement(s). Targeted dealers will consist of selected premier forklift dealers, currently selling other forklift products. It is our goal to have only a dealer network that consists of dealers who have substantial market share in the US, with a history of being able to sell and repair forklifts and/or related material handling solutions. Several of the targeted dealers are significant sized entities, having annual sales in excess of \$100 million. We expect to provide a

sales incentive to dealers through an aggressive pricing structure. Typically, a dealer will earn a commission ranging from \$500 to \$1,000 on the sale of a competitive forklift. Our pricing structure will enable the dealer to receive commissions from \$3,500 to \$4,000 per sale of the SIDEWINDER ATX-3000.

Eighteen commercial omni-directional lift trucks, including ten carrying the UL Label, have been sold to customers in the United States, New Zealand, South Africa and Canada as of December 31, 2005 and several others are ready to ship pending receipt of funds or consummation of letters of credit or other credit facilities in the beginning of 2006. 18 units totaling \$714,280 with options have been billed from January 1, through December 31, 2005.

We have a current backlog as shown above and have potential orders with DSCP and other US Government agencies, though no orders are yet placed by the DSCP or Government agencies to date.

Transaction with Filco GmbH

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

In October 2004, Mr. Filipov and we agreed to modify our agreement in principal so as to increase the number of shares of the capital stock of Filco GmbH which we would acquire, if we had finalized the acquisition, from 51% to 75.1%. The purpose of this change was to give us control of Filco GmbH in accordance with USGAAP and German law considerations regarding consolidation and capitalization. Further, this change was offered and accepted in consideration of our agreeing to advance Filco additional funds, in the form of a loan, to fund the start up of the Filco operation prior to the consummation of the transaction. All other conditions and terms of the agreement between the parties shall remain the same.

The consideration for the proposed acquisition consisted of the issuance of options to Mr. Filipov to purchase 900,000 shares of our common stock at an exercise price of \$0.01. No more than 12.5% of such options can be exercised during any one year. Accordingly, Mr. Filipov cannot exercise the options to receive more than an aggregate of 112,500 shares of our common stock per year. Any increase on this exercise limit is subject to the approval of our board of directors. In addition, we agreed to loan Filco GmbH approximately \$1,300,000, which, if the acquisition was completed, will be converted into equity of Filco GmbH along with approximately 1,300,000 Euros, plus interest, currently owed to Fil Filipov by Filco GmbH. Finally, the agreement in principal provided for Mr. Filipov to be appointed a director of our company and to receive an additional 100,000 options of our common stock for serving as a director. In December 2004, Mr. Filipov was appointed as a director of our company. Although the proposed acquisition with Filco was not completed and we are still in the process of negotiating with the German receiver to purchase the Filco assets, we appointed Mr. Filipov a director of our company because management believes that his credentials are extremely viable and valuable to our credibility in the investment and materials handling communities, particularly in Europe. Mr. Filipov has been employed in the materials handling industry virtually all of his life. We believe that his associations and relations in this industry can and will aid us as we pursue our business objectives.

Prior to our termination of the agreement in February 2006 (as further described below), it provided that we would register with the Securities and Exchange Commission all of the shares issuable to Mr. Filipov, including those underlying the described stock options.

We have loaned Filco GmbH an aggregate principal amount of \$6,275,881.10 as of December 31, 2005, exclusive of interest at 8% per annum, pursuant to a series of secured and unsecured promissory notes. The loans are to be repaid on or prior to December 31, 2006. Of the \$6,275,881.10 in loans to Filco, which approximately \$5,400,000 is secured by Filco's plant machinery, equipment and other plant property, and intellectual property, including designs and drawings, and approximately \$876,419.10 is unsecured in accord with the loan agreements and certified equipment appraisal. Interest earned to date is not included in the figures stated above. The amounts stated herein represent the appraised valuation of the machinery and equipment and does not include intellectual property, as no value has been appraised for intellectual property.

On January 20, 2006, Filco filed for insolvency in Germany. As a result of the filing by Filco, we terminated the Acquisition Agreement on February 7, 2006. As a result of the receivership, there are several options available to us as the largest creditor of Filco. A possibility exists for us to potentially write off the loans in total or in part, providing that we are successful in purchasing the entire assets of Filco from the German receiver. In the event that we cannot successfully finance the purchase of assets, then we will file a legal action in Germany for the recovery of our loans by enforcing our liens against Filco's machinery and equipment, as well as the intellectual property that is the subject of our secured interest. There can be no assurance that we would be able to recover all or a portion of our secured and unsecured loans to Filco. We maintain security interests in Filco's plant machinery, equipment and other plant property, and intellectual property, including designs and drawings for over 100 models of Clark lift trucks. An appraisal made by an independent appraiser in July 2005 which establishes equipment and machinery value as of April 2003 valued this machinery and equipment at 4,500,000 Euros (US \$5,400,000). Such appraisal did not include the valuation of Filco's intellectual property, which we believe has significant value. We have used proceeds from the private placement offerings that we completed during 2004 and 2005 to fund such loans. To purchase all of the assets of Filco from the receiver, it has been negotiated that 1.4 million Euros would be needed for all machinery and equipment, intellectual property and inventory and another 3 million Euros for the purchase of the building and property. In addition, we have determined that an additional \$3.5 million will be required for operating capital for Filco. Our analysis shows that additional estimated working capital needs during the 2nd year will be another \$5,000,000 to achieve profitable and expanded operations. It should be noted that the operations we are describing are different than previously discussed by management. Significant differences exist in operations that could take place in the event of our proposed purchase of Filco assets from the German receiver. First, we would own all of the assets, have no debt (excepting that incurred to finance the asset purchase and would have no union employees. Should we complete the purchase of Filco assets, we will need to raise additional capital through equity or proper lines of credit in order to fund the working capital needs. We intend to provide additional funds, after year one, either in the form of guaranteed credit lines or through additional sales of our securities. We have contacted several financial institutions attempting to secure credit lines necessary for successful operations.

The funds which we loaned to Filco during the time when its plant was closed for much of 2004 and through 2005 was used to assist the company in reopening its plant prior to Filco filing for insolvency. Loans provided by us were used by Filco to purchase inventory, pay some debt, to pay employee payroll at a 20% short work rate (employees have been working 20% of the time and unemployment has compensated the balance of their payroll), to pay current heating, lighting and power, telephones, leases and to order parts to get into production.

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

We have not yet completed the purchase of Filco's assets from the German receiver because we have not raised sufficient funding. We want to ensure that this operation, should we purchase the assets of Filco, has the necessary capital to achieve profitable and full operations. Filco had a cash burn rate of approximately \$300,000 per month. Over the past 9 months, Filco has burned approximately \$3 million with limited operations awaiting parts and funding from us to properly function.

History of Filco GmbH and History of Our Relationship with Filco

Clark Material Handling Co. was the largest forklift manufacturer in the world in the 1980's. Clark Material Handling Co. of Europe owned approximately 50% of the assets and completed an estimated 50% of the sales of Clark forklifts. Clark was bought by Terex in 1994 and sold for \$140 million in 1996. During that period it was managed by Fil Filipov, who was responsible for finding and completing acquisitions for Terex. Clark declared bankruptcy in 2003. Filco GmbH was formed by Fil Filipov in May of 2003 and Filco GmbH thereafter purchased the assets of Clark Europe. The "assets" of Clark Europe included intellectual property, inventory, machinery and equipment, existing cliental and a trained workforce. The transaction by Mr. Filipov to acquire the Clark assets was a purchase through the bankruptcy administrator which left all assets under his control and ownership. Mr. Filipov paid approximately 500,000 Euros and had to advance other fees to guarantee lease and other payments. This resulted in a total purchase by Mr. Filipov in the amount of approximately 1,300,000 Euros.

Since that time, Filco has operated with very limited operating capital, and had unresolved union issues. As a result, Filco has not operated profitably, or at all. It was not until 2005 that Filco has commenced manufacturing after receiving operating capital from us in the form of unsecured loans, then secured loans. In addition, in 2005 Filco resolved its worker's union issues (as further described in Management's Discussion and Analysis of Financial Condition and Results of Operations"). During 2005, Filco has manufactured and or reconditioned no more than 14 lift trucks. Filco has manufactured (assembled) several prototype tractors for a Russian company which has signed agreements with Filco to continue the assembly at its plant. Due to Filco's filing for receivership on January 20, 2006, this contract has been terminated and the prototype tractors were removed from the facility.

The intellectual property of Filco is generally not considered "state of the art." The intellectual property generally consists of drawings for 103 model lift trucks, masts and various other material handling parts and supplies. The LPG or diesel lift trucks are generally very up to date and need little in the way of updates or re-engineering to make them sellable in the current market. However, our management believes that the electric trucks offered by Filco are outdated and need to be re-engineered to be sellable in the modern marketplace. For the most part, the changes would be from DC to AC electric motors and controllers. These vehicles, whether gas, diesel or electric, are not convertible to our products nor would this be considered. They offer us a complete product line in the event a dealer or consumer needs a product other than our omni-directional product.

Our President, Peter Amico, has maintained a working relationship with Mr. Filipov since 2002. The working relationship between Messrs. Filipov and Amico has been centered on Mr. Filipov informing Mr. Amico where to buy

parts and access better supply chain vendors in Eastern European Countries. This has lead to us being able to purchase frames in Bulgaria at prices about 70% less than the frames would cost in the US. Messrs. Filipov and Amico have shared information regarding the unions in Germany and how to best run the Filco's business once it is acquired. There has been no personal relationship other than the friendship that the parties have enjoyed in their working relationship.

Business Purposes of the Proposed Asset Purchase of Filco GmbH

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

The proposed purchase of Filco assets 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's assets could provide us with cliental throughout Europe and the Middle East. This could provide us with the ability to sell a complete line of lift trucks beyond the limited sized Sidewinder Omni-Directional Lift Truck. It would provide manufacturing or assembly for our products, including, but not limited to, the aerial work platforms or any other products we develop or can contract to assemble with other companies.

In addition, if the asset purchase from the German receiver 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 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 asset purchase 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. We recently sold two Sidewinders to our dealer in Spain. The parts mentioned above were shipped to the US for assembly at an approximate cost of \$700 per truck. The finished Sidewinders were shipped to Spain at a cost of \$1,750 per truck. Therefore, shipping in both directions cost almost \$2,500 per truck. This dealer expects to order 75 more trucks. If such order is made, we will spend over \$200,000 in shipping cost alone under present conditions.

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

MANUFACTURING AND SUPPLIERS

The initial production of our lift trucks was completed by us at the Warminster PA facility with all further production moved to the newly leased 30,000 square foot facility at Blackwood, NJ. The frames and overhead guards for the first production run were manufactured in Bulgaria in accord with our specifications. We presently receive frames and overhead guards from a US manufacturer as well as from Bulgaria. The parties operate under the terms of written purchase orders. Parts and assemblies for commercial models are ordered and/or procured from other vendors. The initial production run was completed with wheels manufactured for us by The Timken Corporation and components from other suppliers. Frank Cooper, former plant manager for GM, is our plant manager. Mr. Cooper has established the production assembly process and procedure for our vehicle assembly. His processes have helped to develop procedures, and to incorporate inventory control and quality assurance programs. We plan to create the framework for rapidly scalable production capacity at the Blackwood facility and initially this plant will be sized for nominal monthly production but capable of ramping up for anticipated demand before year's end. We also plan to manufacture the omni-directional lift truck at the Filco facility for European and Middle Eastern sales should we complete the asset purchase of Filco from the German receiver.

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

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

DISTRIBUTION AND PRODUCT MARKETING

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

During the past two years, in anticipation of commercial production, we solicited interest from targeted dealers nationwide, and in certain instances, received contracts from a number of these dealers. Due to the delay in establishing commercial production, the contracts were not fulfilled. In 2004, we began soliciting dealers for distribution and during the first quarter of 2004 have reached an agreement with a number of dealers nationwide, as well as in several foreign countries. Principal terms of the agreement reached is that these dealers will purchase our products which include the ATX-3000, the Cobra AWP (scissor lift) and conventional lift trucks and thereafter sell these products to their clients. Certain of the dealers were given "exclusive" territories, such as AirTrax Canada (AirTrax Canada is not owned or operated by us but we have authorized their use of the AirTrax Name.) AirTrax Canada is required to purchase a minimum of 250 units of the AirTrax Sidewinder or Cobra AWP or Filco trucks, or private labeled AirTrax conventional trucks, to maintain the "exclusivity" portion of the agreement between firms. They cannot lose their exclusivity because we cannot meet their sales requirements. This same type arrangement was reached with Lakeland in New Zealand for 125 vehicles each year, AirTrax Africa for 125 units each year, Omnilink in Greece and the Balkans for 125 units each year and others. The dealers in the US generally have not been given exclusive territorial rights, but that has occurred in some areas. They are required to purchase one or more vehicles, however, to become a dealer. Credit terms are now available to approved dealers while foreign dealers are only sold under the terms of letters of credit. All sales are paid in advance, under terms of an irrevocable letter of credit or approved credit terms. Not all dealers have agreed to represent the conventional lift trucks line as some are established with other lift truck manufacturers and representing a competing product could be a violation of their existing agreement(s). Targeted dealers will consist of selected premier forklift dealers, currently selling other forklift products. The dealer network will consist of dealers who have substantial market share in the US, with a history of being able to sell and repair forklifts and/or related material handling solutions. Several of the targeted dealers are significant sized entities, having annual sales in excess of \$100 million. We expect to provide a sales incentive to dealers through an aggressive pricing structure. Typically, a dealer will earn a commission ranging from \$500 to \$1,000 on the sale of a competitive forklift. Our pricing structure will enable the dealer to receive commissions from \$3,500 to \$4,000 per sale of the SIDEWINDER ATX-3000.

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

We have recently formed a leasing company, AirTrax Financial Services, Inc. ("AFS"), wherein we own a 48.5% interest but enjoy a 51% voting interest. As of the date hereof, financing arrangements have been made whereby Commerce Bank or other banks will provide funding for dealers or individual non-recourse loans. None of our funds have yet been allocated to AFS. It has been agreed to use no more than \$50,000 worth of common stock to fund AFS, as funding is required.

In addition to establishing our own dealer network, we will attempt to capitalize on the existing distribution network of MEC if we are able to reach a formal agreement with MEC and successfully develop the omni-directional work

platform discussed above. We would seek to include our omni-directional forklift into the distribution network of MEC, which consist of approximately 200 dealers. We cannot predict whether a formal agreement will be entered into between the parties, or whether any sales will result form the aerial work platform to be developed by the parties.

We also intend to use trade shows and print and television media to advertise and promote our omni-directional products. Print media will include advertisements in national and international publications such as major material handling equipment magazines, and direct mailings to targeted distributors and end-users. Heavy equipment is rarely, if at all, advertised on television. However, we believe that television will provide an effective media for our product, due to its unique attributes. We believe that due to the current economic conditions, we will be able to capitalize on favorable advertising pricing. We also expect to be an exhibitor at industry trade shows from time to time, including the bi-annual ProMat show located in Chicago, Illinois.

Product Warranty Policies

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

FACILITIES

We maintain our administrative offices and assembly facilities at 200 Freeway Drive, Unit One, Blackwood, NJ 08012. This facility is a total of 30,000 square feet with 3,000 square feet allocated to offices and cost a monthly rental fee of \$12,750. H&R Industries of Warminster PA provides contract manufacturing and assembly services to us, including, but not limited to, manufacturing of our prototype machines, and testing prototypes. Up until June of 2005, H&R Industries was also used for the storage of production-readied parts. In addition, H&R has provided rental space to assemble our first "production" vehicles. Through December 31, 2002, the arrangement between the parties has been rent-free. Effective January 1, 2003, we agreed to pay H&R Industries a rental fee of \$3,000 per month and have the option to pay in cash or in the form of common stock. The arrangement was on a month-to-month basis. We left the facility at H&R Industries and moved to our own facility in Blackwood NJ in June 2005.

MARKETS

Forklifts

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

Aerial Work Platforms

Aerial Work Platforms are used in the construction and warehousing industries, and are ideally suited for omni directional technology. According to data provided by the United States Department of Commerce, this market consists of approximately \$1.2 billion in annual sales. Aerial Work Platforms and man lifts range in size from single user lifts to large off road machines. Of the total market, we expect to compete with a range of indoor man lifts.

COMPETITION

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

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

PATENTS AND PROPRIETARY RIGHTS

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

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

PRODUCT LIABILITY

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

Presently, we maintain product liability insurance in the amount of \$1 million. This amount will be increased to \$10 million in the future, as we deem necessary to do so. We obtained said insurance commensurate with the initial shipment of our omni-directional forklifts.

EMPLOYEES

As of April 11, 2006, we have nine full time employees which includes our President, and 10 contract employees, and engage consultants from time to time. We have no collective bargaining agreements with our employees and believe our relations with our employees are good.

ITEM 2. DESCRIPTION OF PROPERTY

We maintain our administrative offices and assembly facilities at 200 Freeway Drive, Unit One, Blackwood, NJ 08012. This facility is a total of 30,000 square feet with 3,000 square feet allocated to offices and cost a monthly rental fee of \$12,750. H&R Industries of Warminster PA provides contract manufacturing and assembly services to us, including, but not limited to, manufacturing of our prototype machines, and testing prototypes. Up until June of 2005, H&R Industries was also used for the storage of production-readied parts. In addition, H&R has provided rental space to assemble our first "production" vehicles. Through December 31, 2002, the arrangement between the parties has been rent-free. Effective January 1, 2003, we agreed to pay H&R Industries a rental fee of \$3,000 per month and have the option to pay in cash or in the form of common stock. The arrangement was on a month-to-month basis. We left the facility at H&R Industries and moved to our own facility in Blackwood NJ in June 2005.

ITEM 3. LEGAL PROCEEDINGS.

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

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

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

PART II

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

MARKET FOR OUR COMMON SHARES

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

	\$High	\$Low
2006 First Quarter	2.39	1.08
2005 First Quarter	3.07	1.83
Second Quarter	2.95	1.85
Third Quarter	4.70	2.07
Fourth Quarter	3.40	2.20
2004 First Quarter	1.60	0.65
Second Quarter	1.45	0.75
Third Quarter	1.15	0.61
Fourth Quarter	3.35	0.81

As of April 11, 2006, there were 22,283,624 shares of common stock outstanding.

As of April 11, 2006, there were approximately 935 stockholders of record of our common stock, respectively. This does not reflect those shares held beneficially or those shares held in "street" name.

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

EQUITY COMPENSATION PLAN INFORMATION

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (excluding securities reflected in column (a)) (a)	Weighted-average exercise price of outstanding options, warrants and rights under equity compensation plans (b)	Number of securities remaining available for future issuance (c)
Equity compensation plans approved by security holders	-0-	-0-	-0-
Equity compensation plans not approved by security holders	-0-	-0-	-0-
Total	-0-	-0-	-0-

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

RECENT SALES OF UNREGISTERED EQUITY SECURITIES

On March 1, 2006, we issued an aggregate principal amount \$150,000 of our 4% Unsecured Convertible Debentures and 5 year warrants to purchase an aggregate of 48,077 shares of our common stock to two of the investors in our November 2004 private placement. The debentures mature on March 1, 2008, pay simple interest at a rate of 4% per annum and are convertible into shares of our common stock at a price equal to 1.56 per share. The warrants are exercisable into shares of our common stock at a price equal to \$1.65 per share. Our issuance of the aforementioned securities were in settlement of accrued liquidated damages which we owed to these investors for our inability to have the SEC declare our registration statement on Form SB-2 effective within the specified timeframe as set forth in the Registration Rights Agreement dated November 22, 2004. In addition, the investors agreed to forego any future accrual and payment of such liquidated damages.

On February 13, 2006, we completed a private placement of our 8% Series D Unsecured Convertible Debentures and Stock Purchase Warrants to certain accredited investors pursuant to that certain Subscription Agreement dated as of February 13, 2006 under which we sold an aggregate of \$391,200 principal amount Debentures convertible into shares

of our common stock, no par value, and warrants to purchase 250,769 shares of our Common Stock to certain accredited investors who are parties to the Subscription Agreement for an aggregate purchase price of \$391,200.

The Debentures mature on February 13, 2007. Provided there then exists no event of default by us under the Debentures, the principal of and any accrued but unpaid interest due under the Debentures on the maturity date shall automatically be converted into shares of Common Stock on the maturity date at the then applicable conversion price. The Debentures pay simple interest quarterly accruing at the annual rate of 8%, either in the form cash or shares of our Common Stock, at our election, which shall be valued and computed based upon the conversion price of the Debentures. The Debentures are convertible into shares of our Common Stock at a conversion price equal to \$1.56. We may in our discretion require, after 90 days from the closing date, that the Investors convert all or a portion of the Debentures at a price equal to \$1.56 per share.

In addition, we issued 250,769 Warrants to the Investors, representing an amount of Warrants equal to 100% of the quotient of (i) the principal amount of the Debentures issued at the closing date divided by (ii) the conversion price of the Debentures. The Warrants are exercisable at a price equal to \$2.50, from the date of issuance until 5 years after the closing date.

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

On October 28, 2005, we held our second and final closing with certain accredited investors pursuant to a right of participation which was granted to such investors under that certain securities purchase agreement dated as of November 23 and 24, 2004 and the subscription agreement dated as of February 11, 2005. In connection with the second closing, we sold an aggregate of \$548,000 principle amount of Debentures convertible into shares of our common stock, no par value, at a conversion price of \$2.00 per share, and issued 275,000 warrants exercisable at \$3.25 per share for an aggregate purchase price of \$ 548,000.

First Montauk Securities Corp. (the "Selling Agent") acted as selling agent in connection with the first and second closings of the Offering in which an aggregate amount of \$1,548,000 of Debentures and Warrants were sold. Pursuant to the second closing, we paid commissions of \$54,800, a non-accountable expense allowance of \$16,440, and issued 27,400 Warrants to the placement agent, a registered broker dealer firm, exercisable at \$3.25 per share, each as consideration for services performed in connection with the issuance of the Debenture and Warrants to the Investor pursuant to the Purchase Agreement.

On August 25, 2005, we issued an aggregate of 187,939 shares of common stock to a certain creditor of Filco GmbH pursuant to a certain Assignment and Purchase Agreement which we entered into with the creditor.

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.

In April and July of 2005, we issued an aggregate of 30,000 shares of common stock to a certain investor relations consulting firm as compensation for services performed on our behalf.

On May 31, 2005, we entered into a 8% Series B Unsecured Convertible Debenture and Warrants Purchase Agreement with one accredited investor pursuant to which we sold a \$500,000 principal amount unsecured convertible debenture (the "Debenture") convertible into shares of our common stock, no par value, at a conversion price equal to \$1.30 per share, and stock purchase warrants to purchase 384,615 shares of our common stock at an exercise price equal to \$3.25 per share, to a certain investor who is a party to the Purchase Agreement for an aggregate purchase price of \$500,000. First Montauk Securities Corp. acted as selling agent in connection with the offering. We issued a total of 38,462 warrants on May 31, 2005 to the selling agent as partial consideration for services performed in connection with the offering. The warrants are exercisable at a price equal to \$2.11 for a period of 5 years from the closing date.

On April 7, 2005, we issued an aggregate of 28,453 shares of our common stock to the holders of our convertible promissory notes at a conversion price of \$1.30 per share which we issued pursuant to our February 11, 2005 Subscription Agreement, as payment, in lieu of cash, of accrued interest due to the holders under such notes. The closing price for our common stock on the date the conversion, March 29, 2005, was \$2.35 per share.

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

On February 11, 2005, we entered into a Subscription Agreement pursuant to which we sold an aggregate of \$5,000,000 of principal amount promissory notes convertible into shares of our common stock, no par value, at a conversion price equal to \$1.30 per share, and an aggregate of 2,884,615 Class A and Class B share purchase warrants to purchase shares of our common stock to certain purchasers who are a party to the Subscription Agreement. First Montauk Securities Corp. acted as selling agent in connection with the offering. We issued a total of 384,616 warrants on February 11, 2005 to the selling agent as partial consideration for services performed in connection with the offering. The Class A warrants are exercisable at a price equal to \$1.85 from the date of issuance until 5 years after the closing date. The Class B warrants are exercisable at a price equal to \$2.11, representing 101% of the 3 day average closing bid prices of our common stock on the trading day immediately preceding the closing date, from the date of issuance until 5 years after the closing date. The Class A and Class B warrants both have a cashless feature.

On November 22, 2004, we entered into a Purchase Agreement (the "Purchase Agreement") pursuant to which we sold and issued 1,125,000 shares of common stock, no par value, and common stock purchase warrants to purchase 562,500 shares of our common stock to several accredited investors who are a party to the Purchase Agreement for an aggregate purchase price of \$900,000. Thereafter, on November 23, 2004, we entered into Joinders to the Purchase

Agreement pursuant to which we sold and issued an additional 515,000 shares of common stock and warrants to purchase an additional 257,500 shares of our common stock to several accredited investors who are a party to the Joinders to the Purchase Agreement for an aggregate purchase price of \$412,000. The closing price for our common stock on November 22 and November 23, 2004 was \$1.56 and \$1.40 per share, respectively. The stock had a per share purchase price equal to \$.80. First Montauk Securities Corp. acted as placement agent in connection with the offering. We issued 125,000 warrants on November 22, 2004 and 51,500 warrants on November 23, 2004 to the placement agent and to certain partners of the placement agent as partial consideration for services performed in connection with the issuance of common stock and warrants to the purchasers pursuant to the Purchase Agreement to purchase 62,500 and 25,750 shares of our Common Stock, respectively. The warrants are exercisable from November 22, 2004 until November 22, 2009 and from November 23, 2004 until November 23, 2009, each at an exercise price of \$1.25 per share.

In October 2004, we issued an aggregate of 114,324 shares of common stock to 6 of our directors as compensation for services performed on our behalf in each of their capacities as directors of our company. The closing price for our common stock on October 15, 2004 was \$1.04 per share, resulting in an aggregate value of \$118,897 for this compensation.

In October 2004, we issued an aggregate of 86,050 shares of common stock to a certain investor relations consulting firm as compensation for services performed on our behalf. The closing price for our common stock on October 15, 2004 was \$1.04 per share, resulting in an aggregate value of \$89,492 for this compensation.

In October 2004, we issued an aggregate of 24,000 shares of common stock to a certain public relations consulting firm as compensation for services performed on our behalf. The closing price for our common stock on October 15, 2004 was \$1.04 per share, resulting in an aggregate value of \$24,960 for this compensation.

Between September 8, 2004 and December 20, 2004, we received subscriptions for an aggregate of 1,812,403 shares of our common stock and an aggregate of 906,200 shares of common stock issuable upon exercise of common stock purchase warrants to 33 accredited investors pursuant to a private placement offering. The stock was sold at \$.80 per share. The closing price of our common stock between September 8, 2004 and December 20, 2004 ranged from a low of \$.80 to a high of \$1.58 per share. The warrants are exercisable at a price equal to \$1.25 for a period of 5 years from the date of issuance.

In June and October 2004, we issued an aggregate of 47,850 shares of common stock to a certain vendor as compensation for dealer account solicitation services performed on our behalf. The closing price of our common stock on June 15, 2004 and October 15, 2004 was \$1.05 and \$1.04 per share, respectively, resulting in an aggregate value of \$50,003.25 for this compensation.

In May 2004, we and several accredited investors entered into a Subscription Agreement whereby the investors agreed to purchase an aggregate of 3,600,125 shares of common stock at a price of \$0.80 per share for an aggregate purchase price of \$2,855,100. In addition, the investors received warrants, exercisable at \$1.25 per share, to purchase 50% of the shares issued. The closing price of our common stock on May 13, 2004, the closing date for this private placement, was \$.99 per share.

On April 15, 2004, we issued an aggregate of 10,767 shares of common stock to Basile & Testa, PA, as compensation for legal services performed on our behalf. One of our former directors, Mr. Frank Basile, was a partner at this firm. This represented payment of \$7,866.54 at \$.73 per share for services performed from February 28, 2002 through April 14, 2004. The share price on April 15, 2004 was \$.99 per share.

On March 31, 2004, we issued an aggregate of 14,529 shares of common stock to a certain engineering firm as compensation for electrical engineering services performed on our behalf. The closing price of our common stock on March 28, 2004 was \$1.04 per share, resulting in an aggregate value of \$15,010.16 for this compensation.

In October 2003, we issued an aggregate of 345,000 shares of common stock to a certain consulting firm as compensation for services performed on our behalf. The closing price of our common stock on October 15, 2003 was \$.99, resulting in an aggregate value of \$341,550 for this compensation.

In August 2003 and February 2004, we issued an aggregate of 12,500 shares of common stock to an employee as compensation for services performed on our behalf. The closing price of our common stock was \$1.05 and \$.67, resulting in an aggregate value of \$10,750 for this compensation.

From July to September 2003, we issued an aggregate of 91,020 shares of common stock to a certain investor relations consulting firm as compensation for services performed on our behalf. The average closing price of our common stock between July and September of 2003 was \$.99, resulting in an aggregate value of \$90,109.80 for this compensation.

In June and September 2004, we issued an aggregate of 6,174 shares of common stock to certain consultants for computer programming services performed on our behalf. The closing price of our common stock on September 15,

2004 was \$.82, resulting in an aggregate value of \$5,062.68 for this compensation.

On June 10, 2003, we issued an aggregate of 30,000 shares of common stock to a certain investor relations consulting firm as compensation for services performed on our behalf. The closing price of our common stock on June 10, 2003 was \$1.45, resulting in an aggregate value of \$43,500 for this compensation.

On May 8, 2003, we issued an aggregate of 350,000 shares of common stock to third parties pursuant to certain sales agreements. The closing price of our common stock on May 8, 2003 was \$1.50, resulting in an aggregate value of \$525,000 for this compensation.

In April and November of 2003, we issued an aggregate of 57,139 shares of common stock to a certain financial consultant as compensation for services performed on our behalf. The closing price of our common stock was \$1.05 and \$.85, resulting in an aggregate value of \$54,282.05 for this compensation.

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In April and June of 2003, we issued an aggregate of 60,000 shares of common stock to 6 of our directors as compensation for services performed on our behalf in each of their capacities as directors of our company. The closing price of our common stock was \$1.01 and \$1.45, resulting in an aggregate value of \$73,800 for this compensation.

On January 20, 2003, we issued options to purchase an aggregate of 180,000 shares of common stock to our President, Peter Amico, as compensation for services performed on our behalf under Mr. Amico's Original Employment Agreement. Of the options, 1/5 of the options were exercisable for a total consideration of a \$1.00, 1/2 of the options were exercisable at 30% of the lowest price paid for the stock in the 30 day period preceding exercise for each year of the contract, and the remaining options were exercisable at 15% of the lowest price paid for the stock in the 30 day period preceding exercise. The closing price of our common stock on July 1, 2002 was \$2.20 share.

From October 2002 through April 2005, we issued an aggregate of 137,500 shares of common stock to three of our employees as compensation for services performed on our behalf, and as employee incentive bonuses.

In August 2002, we issued an aggregate of 25,000 shares of common stock to one of our directors, and options to purchase 5,000 shares of common stock to our Secretary, each as compensation for services performed on our behalf in their respective capacities. The closing price of our common stock on August 15, 2002 was \$1.86 share.

On July 23, 2002, we issued an aggregate of 160,000 shares of common stock to a certain investor relations consulting firm as compensation for services performed on our behalf. The closing price of our common stock on July 23, 2002 was \$1.50, resulting in an aggregate value of \$240,000 for this compensation.

In April 2002, we issued an aggregate of 1,930 shares of common stock to a certain engineering firm as compensation for electrical engineering services performed on our behalf. The closing price of our common stock on April 15, 2002 was \$1.01, resulting in an aggregate value of \$1,949.30 for this compensation.

From January 2002 through April 2005, we issued an aggregate of 60,200 shares of our common stock to Harry Schmidt Associates, PA as rental payments under certain leases which we entered into with said firm. These stock payments represented lease payments of \$3,000.00 per month from January 2002 through April 2005, or 40 months, totaling \$120,000.00.

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

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

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

- o discuss our future expectations;
- o contain projections of our future results of operations or of our financial condition; and
- o state other "forward-looking" information.

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

RESTATEMENT

We determined, after consultation with our independent registered public accounting firm, that a restatement of our financial statements for the year ended December 31, 2005 filed on Form 10-KSB, together with our quarterly reports on Form 10-QSB for the periods ending June 30 and September 30, 2005, and March 31, June 30, and September 30, 2006, respectively, was necessary due to the issuance of our preferred stock as payment of dividends in lieu of cash dividends on April 1, 2005 with respect to previously issued shares of preferred stock. Our Articles of Incorporation, as amended, do not allow the issuance of additional shares of preferred stock as payment of dividends on shares of issued and outstanding preferred stock. Accordingly, the 100,000 shares of preferred stock, which were issued to the holder on April 1, 2005, were issued in error. We determined that we should take this action to prevent future reliance on previously issued financial statements set forth in our Reports.

We also concluded, in light of a review of our accounting for derivatives and based on recent interpretations of the accounting for certain financial instruments under SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") and the Emerging Issues Task Force No. 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" ("EITF No. 00-19") [update for 00-19-2 update issued], that the warrants associated with our November 22, 2004 stock issued to certain accredited and/or qualified institutional purchasers pursuant to Purchase Agreement dated as of November 22, 2004 contained embedded derivatives due to the registration rights and liquidated damages provisions and conversion privileges contained in the Notes and Warrants. The embedded derivative provisions provide that we will pay liquidated damages in connection with the delay in filing an SB-2 registration statement. Accordingly, we determined that we should take this action to prevent future reliance on previously issued financial statements set forth in our Quarterly Reports on Form 10-QSB for the three and six months ended June 30, 2005 and the three months ended March 31, 2005. In reporting periods subsequent to the issuance of June 30, 2005, the embedded derivative has been revalued with the change to fair value recorded as income/(expense). Such financial statements should no longer be relied upon.

In particular, we will restate our financial statements contained in the Reports to reflect the reduction in preferred stock outstanding, the preferred stock dividend expense and deemed dividend expenses recorded in the quarters ended June 30, 2005 and September 30, 2005, and a liability in connection with issuance of the warrants that contained an embedded derivative and conversion privileges, for the quarters ended March 31, 2005, June 30, 2005.

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 for us. Eighteen commercial omni-directional lift trucks, including ten carrying the UL Label, have been sold to customers in the United States, New Zealand, South Africa and Canada as of December 31, 2005 and others are ready to ship pending receipt of funds or consummation of letters of credit or other credit facilities. 18 units totaling \$714,280 with options have been billed from January 1, through December 31, 2005.

We have commenced production and have received the parts required for production of a total of 57 trucks of our Sidewinder ATX-3000 Omni-Directional Lift Truck. As of December 31, 2005, we did not have all of the parts required from every vendor for completion of the trucks other than those heretofore noted. The assembly and sale is dependent upon delivery of all of the required parts.

Omni-Directional means that vehicles designed and built by us can travel in any direction. Our Omni-directional vehicles are controlled with a joystick. The vehicle will travel in the direction the joystick is pushed. If the operator pushes the joystick sideways, the vehicle will travel sideways. If the operator were to twist the joystick the vehicle will travel in circles. Our omni-directional vehicles have one motor and one motor controller for each wheel. The omni-directional movement is caused by coordinating the speed and direction of each motor with joystick inputs which are routed to a 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 USA. These frames are shipped to the Blackwood plant for complete assembly. Besides 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 60 lift trucks have been shipped from Bulgaria to the Filco plant for partial assembly and approximately 30 of these have been shipped to the Blackwood plant for final assembly during the fourth quarter of 2005. All assembly or partial assembly from the Filco plant ceased on January 20, 2006 after Filco filed for insolvency. Additional frames and other parts totaling some \$450,000 remain at Filco awaiting release by the receiver to us. Most frames manufactured in Bulgaria had to be re-machined to be within the tolerances required for these frames. The re-machining charges will be back-charged to the frame manufacturer. The frame manufacturer will adjust tooling to get the tolerances to the required specifications for future deliveries.

We have incurred losses and experienced negative operating cash flow since our formation. For our fiscal years ended December 31, 2005 and 2004, we had a net loss of \$(14,935,478) and \$(3,491,950), respectively. We expect to continue to incur significant expenses. Our operating expenses have been and are expected 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.

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 lease agreement with the current property owner with an option to purchase the 200,000 square foot building and land for 4.7 million euros, and Filco GmbH has been operating this plant since July 1, 2003. Filco's option to purchase the 200,000 square foot building and land for 4.7 million euros expires on December 31, 2005.

In October 2004, Mr. Filipov and we agreed to modify our agreement in principal so as to increase the number of shares of the capital stock of Filco GmbH which we will acquire, if we finalize the acquisition, from 51% to 75.1%. The purpose of this change is to give us control of Filco GmbH in accordance with 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 loaned Filco GmbH an aggregate principal amount of \$6,275,881.10 as of December 31, 2005, exclusive of interest at 8% per annum, pursuant to a series of secured and unsecured promissory notes. The loans are to be repaid on or prior to December 31, 2006. Of the \$6,275,881.10 in loans to Filco, which approximately \$5,400,000 is secured by Filco's plant machinery, equipment and other plant property, and intellectual property, including designs and drawings, and approximately \$876,419.10 is unsecured in accord with the loan agreements and certified equipment appraisal. Interest earned to date is not included in the figures stated above. The amounts stated herein represent the appraised valuation of the machinery and equipment and does not include intellectual property, as no value has been appraised for intellectual property.

On January 20, 2006, Filco filed for insolvency in Germany. As a result of the filing by Filco, we terminated the Acquisition Agreement on February 7, 2006. We are currently in discussions with the receiver in Germany to determine the status of our secured and unsecured loans to Filco, as well as to explore the possibility of purchasing all or a portion of the assets of Filco. This is dependent upon our ability to secure financing adequate to purchase the assets of Filco and supply necessary operating capital. We currently have no financing agreements in place and there can be no assurance that we will obtain financing on terms that are favorable to us. As a creditor, we have filed liens against Filco's machinery and equipment and intellectual property. We will seek to recover on our secured and unsecured loans asset forth above through appropriate legal channels in the event an asset purchase does not materialize.

We have not yet completed the purchase of Filco's assets from the German receiver because we have not raised sufficient funding. We want to ensure that this operation, should we purchase the assets of Filco, has the necessary capital to achieve profitable and full operations. Filco had a cash burn rate of approximately \$300,000 per month. Over the past 9 months, Filco has burned approximately \$3 million with limited operations awaiting parts and funding from us to properly function.

The funds which we loaned to Filco during the time when its plant was closed for much of 2004 and through 2005 was used to assist the company in reopening its plant prior to Filco filing for insolvency. Loans provided by us were used by Filco to purchase inventory, pay some debt, to pay employee payroll at a 20% short work rate (employees have been working 20% of the time and unemployment has compensated the balance of their payroll), to pay current heating, lighting and power, telephones, leases and to order parts to get into production.

Loans to Filco GmbH

We loaned Filco GmbH an aggregate principal amount of \$6,255,462 as of March 31, 2006, exclusive of interest at 8% per annum, pursuant to a series of secured and unsecured promissory notes. The loans are to be repaid on or prior to December 31, 2006. Of the \$6,255,462 in loans to Filco, approximately \$5,400,000 is secured liens against Filco's plant machinery, equipment and other plant property, and intellectual property, including designs and drawings, and approximately \$856,000 is unsecured in accord with the loan agreements and certified equipment appraisal. Interest earned to date is not included in the figures stated above. The amounts stated herein represent the appraised valuation of the machinery and equipment and does not include intellectual property, as no value has been appraised for intellectual property.

The loans are to be repaid on or prior to December 31, 2006. On January 20, 2006, Filco filed for insolvency in Germany. As a result of the filing by Filco, we terminated the Acquisition Agreement on February 7, 2006. As a result of the receivership, there are several options available to us as the largest creditor of Filco. A possibility exists for us to potentially write off the loans in total or in part, providing that we are successful in purchasing the entire assets of Filco from the German receiver. In the event that we cannot successfully finance the purchase of assets, then we will file a legal action in Germany for the recovery of our loans by enforcing our liens against Filco's machinery and equipment, as well as the intellectual property, that is the subject of our secured interest. There can be no assurance that we would be able to recover all or a portion of our secured and unsecured loans to Filco. We maintain security interests in Filco's plant machinery, equipment and other plant property, and intellectual property, including designs and drawings for over 100 models of Clark lift trucks. An appraisal made by an independent appraiser in July 2005 which establishes equipment and machinery value as of April 2003 valued this machinery and equipment at 4,500,000 Euros (US \$5,400,000). Such appraisal did not include the valuation of Filco's intellectual property, which we believe has significant value. We have used proceeds from the private placement offerings that we completed during 2004 and 2005 to fund such loans. To

purchase all of the assets of Filco from the receiver, it is has been negotiated that 1.4 million Euros would be needed for all machinery and equipment, intellectual property and inventory and another 3 million Euros for the purchase of the building and property. In addition, we have determined that an additional \$3.5 million will be required for operating capital for Filco. Our analysis shows that additional estimated working capital needs during the 2nd year will be another \$5,000,000 to achieve profitable and expanded operations. It should be noted that the operations we are describing are different than previously discussed by management. Significant differences exist in operations that could take place in the event of our proposed purchase of Filco assets from the German receiver. First, we could own all of the assets, have no debt (excepting that incurred to finance the asset purchase and would have no union employees). Should we complete the purchase of Filco assets, we will need to raise additional capital through equity or proper lines of credit in order to fund the working capital needs. We intend to provide additional funds, after year one, either in the form of guaranteed credit lines or through additional sales our securities. We have contacted several financial institutions attempting to secure credit lines necessary for successful operations.

CRITICAL ACCOUNTING POLICIES

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

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

REVENUE RECOGNITION

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

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

YEAR ENDED DECEMBER 31, 2005 COMPARED TO YEAR ENDED DECEMBER 31, 2004

RESULTS OF OPERATIONS

We have been a development stage company for much of 2005 and all of 2004 periods and have not engaged in full-scale operations for the periods indicated. The limited revenues for the periods in 2005 have been derived from the sales of omni-directional lift trucks. The available dollar limits of contracts with the United States Navy were substantially completed during 2002, and we recognized limited revenues from the United States Navy contract during 2003. During 2006, we hope to commence full production. Consequently, management believes that the year-to-year comparisons described below are not indicative of future year-to-year comparative results.

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

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

REVENUES

Revenues for fiscal 2005 were \$781,202, representing an increase of \$781,202 from revenues of \$0 for the 2004 period. This increase in revenue can be attributed to our realized revenues from the first sales of the Sidewinder Omni-Directional Lift Truck in 2005.

COST OF GOODS SOLD

Cost of sales for 2005 was \$729,080 which reflects a \$729,080 increase from \$0 in fiscal 2004. This increase in cost of goods sold can be attributed to our realized revenues from the first sales of the Sidewinder Omni-Directional Lift Truck in 2005.

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses which includes administrative salaries, depreciation and overhead for the 2005 period totaled \$9,758,435 which represents an increase of \$7,228,660 from \$2,529,775 incurred in 2004. The increase is due primarily to (i) the impairment adjustment due to Filco in the amount of approximately \$4,700,839; (ii) approximately \$195,876 in Filco audit fees; (iii) increased options for services in the amount of approximately \$861,550; (iv) liquidated damages in the amount of approximately \$281,281, and

(v) approximately \$153,911 in payroll. Interest expense payable to third party suppliers totaled \$97,115 for the 2005 period, representing a \$66,221 increase from \$30,894 for the 2004 period. In 2005, we posted \$15,247 in other income from interest payments due from Filco GmbH, which contrasts with \$86,667 for the prior year-end. Net loss before taxes in 2005 was \$15,802,891 which reflects an increase of \$12,112,118 from \$3,690,773 in net loss before taxes for the 2004 period.

In 2005, we realized \$114,525 on the sale of our net operating losses and tax credits under a New Jersey program described further in Liquidity and Capital Resources below. This amount contrasts with \$175,413 recorded during 2004.

Loss attributable to shareholders for 2005 was \$15,210,456, which represents an increase of \$11,718,506 from \$3,491,950 during the 2004 period. During 2005, we paid dividends on our preferred stock to a controlling shareholder of our company in the amount of \$51,563. For the year ended December 31, 2004, we paid dividends on our preferred stock to a controlling shareholder of our company in the amount of \$131,771. Deficit accumulated during development stage during 2005 was \$15,262,019 (or a loss per share of \$0.71 for common stockholders), which represents an increase of \$11,638,298 from \$3,623,721 (or a loss per share of \$0.29 for common stockholders) for the 2004 period.

RESEARCH AND DEVELOPMENT

We incurred \$544,933 and \$519,804 in research and development expenses during the year ended December 31, 2005 and 2004, respectively. Research and development activities during fiscal 2005 primarily involved continued testing and evaluation of omni-directional components and preparing these components for production in 2005. Our wheel design was changed from the "concept" to "production" phase. This was and is an ongoing process between our and Timken's engineers to insure manufacturability. The motors and controllers were designed and/or changed in design in order to meet ANSI (American National Standards Institute) and UL (Underwriters Laboratories) testing requirements. Danaher and us revised the algorithms used in the motor controllers as well the microprocessor that runs the machines. Research and development activities also included further changes to existing designs and new designs that were patented or for those patents with pending applications. Portions of the costs we incurred due to testing and

research and development were charged to the US Navy contract as provided therein.

LIQUIDITY AND CAPITAL RESOURCES

Since our inception, we have financed our operations through the private placement of our common stock and from loans from our President. During 2005 and 2004 we raised net of offering costs \$5,991,638 and \$5,103,103, respectively, from the private placement of our securities.

During 2000, we were approved by the State of New Jersey for our technology tax transfer program pursuant to which we could sell our net operating losses and research and development credits as calculated under state law. During 2005 and 2004, we recorded credits of \$867,413 and \$198,823, respectively from the sale of our losses and credits (see Note 9 to financial statements).

We have experienced negative cash flows from operations of \$3,701,875 during 2005 and \$1,614,687 during 2004. These negative results stem primarily from losses attributable to common shareholders of \$15,416,456 in 2005 and \$3,491,950 in 2004. These results are not unusual for a company in the development state; it is noteworthy that significant portions of the losses in 2004 result from non cash charges, primarily from equity securities issued for services. In 2005, significant portions of the losses result from non-cash charges, from the impairment adjustment due to Filco, conversion expense and equity securities issued for services.

We have consistently demonstrated our ability to meet our cash requirements through private placements of its common stock. We have continued to similarly satisfy those requirements during the year ended December 31, 2005.

We anticipate that our cash requirements for the foreseeable future will be significant. In particular, management expects substantial expenditures for inventory, product production, and advertising in anticipation of the rollout of its omni-directional forklift.

We will require additional funds to continue our operations beyond the initial production run. We anticipate that operating capital in the amount of \$3 million will be required during calendar year 2006 to sufficiently fund operations. Of the total amount, approximately 80% is projected for parts and component inventory costs, with the balance projected as general operating expenditures, which includes overhead and salaries. We expect to recognize lower per unit manufacturing and part costs in the future due to volume discounts, as well as lower per unit shipping costs as we transition from the initial production run to full-scale production.

We partially funded these additional cash requirements through the issuance of equity and/or debt securities which may be similar to the offering described above. We cannot predict whether we will be successful in obtaining sufficient capital to fund continuing operations. If we are unable to obtain sufficient funds in the near future, such event will delay the rollout of its product and likely will have a material adverse impact on us and our business prospects.

As of December 31, 2005, our working capital deficit was \$(2,926,787). Fixed assets, net of accumulated depreciation, and total assets, as of December 31, 2005, were \$190,893 and \$5,993,216, respectively. Current liabilities as of December 31, 2005 were \$6,186,390.

Liquidated Damages

On May 31, 2005 we entered into a Letter Agreement (the "Letter Agreement") with the accredited investors who participated in our November 2004 private placement (the "November 2004 Investors") pursuant to which we agreed to pay to the November 2004 Investors an aggregate amount of \$120,429.33, representing an amount equal to 2% of the aggregate amount invested by the November 2004 Investors for each 30-day period or pro rata for any portion thereof, as liquidated damages for our failure to file the registration statement within 45 days of November 22, 2004 and for our failure to have such registration statement declared effective by the SEC within 90 days of November 22, 2004. The amount paid to the November 2004 Investors pursuant to the Letter Agreement represents a default of 36 days with respect to filing the registration statement and a default of 100 days with respect to having the registration statement declared effective by the SEC. Under the Letter Agreement, the liquidated damages paid to the November 2004 Investors satisfies our obligations until June 30, 2005.

From July 1, 2005 through January 6, 2006, an aggregate amount of approximately \$271,146 has accrued in liquidated damages payable to the November 2004 Investors. Further liquidated damages will continue to accrue since we withdrew the registration statement which registered the shares underlying the securities issued in the November 2004 private placement. As of the date hereof, the November 2004 Investors have not demanded payment of the aforementioned unpaid and accrued liquidated damages from us.

SUBSEQUENT EVENTS

On March 1, 2006, we issued an aggregate principal amount \$150,000 of our 4% Unsecured Convertible Debentures and 5 year warrants to purchase an aggregate of 48,077 shares of our common stock to two of the investors in our November 2004 private placement. The debentures mature on March 1, 2008, pay simple interest at a rate of 4% per annum and are convertible into shares of our common stock at a price equal to 1.56 per share. The warrants are exercisable into shares of our common stock at a price equal to \$1.65 per share. Our issuance of the aforementioned securities were in settlement of accrued liquidated damages which we owed to these investors for our inability to have the SEC declare our registration statement on Form SB-2 effective within the specified timeframe as set forth in the

Registration Rights Agreement dated November 22, 2004. In addition, the investors agreed to forego any future accrual and payment of such liquidated damages. We are currently negotiating with the remaining two investors of the November 2004 private placement to settle the liquidated damages which we currently, and in the future will, owe.

Liquidated Damages

On March 17, 2006, we began to accrue liquidated damages to the investors of the first and second closings of our October 2005 private placement because we did not register shares of our common stock underlying the Series C Unsecured Convertible Debentures and common stock purchase warrants within 150 days from the initial closing date of October 18, 2005. We have begun discussions with the lead investor of the October 2005 private placement, and intend to engage in negotiations with the remaining investors, to settle the liquidated damages which we currently, and in the future will, owe.

RISK FACTORS

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

RISKS RELATED TO OUR FINANCIAL CONDITION AND BUSINESS

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

We may never become profitable and continue as a going concern because we have incurred losses and experienced negative operating cash flow since our formation. For our fiscal years ended December 31, 2005 and 2004, we had a net loss of \$(14,935,478) and \$(3,491,950), respectively. We expect to continue to incur significant expenses. Our operating expenses have been and are expected to continue to outpace revenues and result in significant losses in the near term. We may never be able to reduce these losses, which will require us to seek additional debt or equity financing. If such financing is available you may experience significant additional dilution.

WE HAVE A LIMITED OPERATING HISTORY

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

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

Our business operations will be harmed if we are unable to obtain additional funding. We do not know if additional financing will be available when needed, or if it is available, if it will be available on acceptable terms. Insufficient funds may prevent us from implementing our business strategy or may require us to delay, scale back or eliminate certain opportunities for the provision of our technology and products. As of December 31, 2005, we have loaned \$6,275,881.10 to Filco. On, January 20, 2006, Filco filed for insolvency in Germany. As a result of the filing by Filco, we terminated the Acquisition Agreement on February 7, 2006. We are currently in discussions with the receiver in Germany to determine the status of our secured and unsecured loans to Filco, as well as to explore the possibility of purchasing all or a portion of the assets of Filco. This is dependent upon our ability to secure financing adequate to purchase the assets of Filco and supply necessary operating capital. We currently have no financing agreements in place and there can be no assurance that we will obtain financing on terms that are favorable to us. As a creditor, we have filed liens against Filco's machinery and equipment and intellectual property. We will seek to recover on our secured and unsecured loans asset forth above through appropriate legal channels in the event an asset purchase does not materialize.

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

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

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

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

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

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

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

WE CURRENTLY LACK ESTABLISHED DISTRIBUTION CHANNELS FOR OUR FORKLIFT PRODUCT LINE.

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

IF WE ARE UNABLE TO RETAIN THE SERVICES OF MR. PETER AMICO, OR IF WE ARE UNABLE TO SUCCESSFULLY RECRUIT QUALIFIED PERSONNEL, WE MAY NOT BE ABLE TO CONTINUE OPERATIONS.

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

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

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

IF WE DO NOT SUCCESSFULLY DISTINGUISH AND COMMERCIALIZE OUR DEVELOPED PROPRIETARY PRODUCTS AND SERVICES, WE WILL NOT ATTRACT A SUFFICIENT NUMBER OF CUSTOMERS. ACCORDINGLY, WE MAY BE UNABLE TO COMPETE SUCCESSFULLY WITH OUR COMPETITORS OR TO GENERATE REVENUE SIGNIFICANT TO SUSTAIN OUR OPERATIONS.

Although management believes our product will have significant competitive advantages to conventional forklifts, we are competing in an industry populated by some of the foremost equipment and vehicle manufacturers in the world. All of these companies have greater financial, engineering and other resources than us. No assurances can be given that any advances or developments made by such companies will not supersede the competitive advantages of our omni-directional forklift. In addition, many of our competitors have long-standing arrangements with equipment distributors and carry one or more of competitive products in addition to forklifts. These distributors are prospective dealers for our company. It therefore is conceivable that some distributors may be loath to enter into any relationships with us for fear of jeopardizing existing relationships with one or more competitors.

DUE TO THE RECENT INSOLVENCY OF FILCO GMBH, THERE CAN BE NO ASSURANCE THAT WE WILL PURCHASE THE ASSETS OF FILCO OR RECOVER OUR LOANS IN THE AGGREGATE AMOUNT OF \$6,275,881.10 MADE TO FILCO AND THERE CAN BE NO ASSURANCE THAT WE WILL BE ABLE TO DO SO.

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. Further, 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.

On January 20, 2006, Filco filed for insolvency in Germany. As a result of the filing by Filco, we terminated the Acquisition Agreement on February 7, 2006. We are currently in discussions with the receiver in Germany to determine the status of our secured and unsecured loans to Filco, as well as to explore the possibility of purchasing all or a portion of the assets of Filco. There can be no assurance that we will be able to purchase the assets of Filco on terms which are favorable to us, or at all. Due to the insolvency filing by Filco, we are attempting to recover our loans in the aggregate amount of \$6,275,881.10, exclusive of principal and interest at 8% per annum in accord with the loan agreements made to Filco and there can be no assurance that we will be able to do so. If we are unable to recover our loans, we may have to curtail our operations or seek additional financing.

RISKS RELATING TO OUR COMMON STOCK

WE HAVE ISSUED COMMON STOCK, WARRANTS, AND CONVERTIBLE NOTES TO INVESTORS AND IN EXCHANGE FOR FEES AND SERVICES AT A DISCOUNT TO THE MARKET PRICE OF OUR COMMON STOCK AT THE TIME OF SUCH ISSUANCE. THIS RESULTS IN A LARGE NUMBER OF SHARES WHICH HAVE BEEN ISSUED AND A LARGE NUMBER OF SHARES UNDERLYING OUR WARRANTS AND OTHER CONVERTIBLE SECURITIES THAT ARE OR MAY BE AVAILABLE FOR FUTURE SALE AND THE SALE OF THESE SHARES MAY DEPRESS THE MARKET PRICE OF OUR COMMON STOCK.

We had 22,283,624 shares of common stock outstanding as of April 11, 2006, including an aggregate of 3,874,605 shares issued upon a conversion of our convertible notes in March 2005 pursuant to our February 2005 private placement, and we had convertible notes which require the issuance of 1,158,615 additional shares of common stock pursuant to our May and October 2005 private placements, and warrants which require the issuance of 4,864,230 additional shares of common stock pursuant to our November 2004, and February, May, and October 2005 private placements, each of which have been issued or which are to be issued upon conversion or exercise to investors of our company at a discount to the market price of our common stock at the time of such issuance. In addition, we have an aggregate of 250,769 and 250,769 shares underlying our convertible debentures and warrants, respectively, which we issued pursuant to our February 2006 private placement and an aggregate of 96,154 and 48,077 shares underlying our convertible debentures and warrants, respectively, which we issued on March 1, 2006 in settlement of non-registration liquidated damages to two of our investors in our November 2004 private placement. Further, we often issue common stock and warrants in exchange for fees and services at a discount to the market price of our common stock at the time of such issuance. This results in a large number of shares which have been issued, a large number of shares underlying our warrants and other convertible securities that are or may be available for future sale, and may create an overhang of securities for sale. The sale of these shares which were or will be issued upon exercise or conversion of our securities at a discount to the market price of our common stock at the time of issuance may depress the market price of our common stock and is dilutive to shareholder value.

THE MARKET PRICE OF OUR COMMON STOCK MAY DECLINE BECAUSE THERE ARE SHARES OF COMMON STOCK WARRANTS WHICH WE ARE OBLIGATED TO REGISTER THAT MAY BE AVAILABLE FOR FUTURE SALE, AND WE ARE OBLIGATED TO REGISTER SHARES OF OUR COMMON STOCK UNDERLYING CONVERTIBLE NOTES PURSUANT TO OUR PRIVATE PLACEMENTS, AND THE SALE OF THESE SHARES MAY DEPRESS THE MARKET PRICE.

We had 22,283,624 shares of common stock outstanding as of April 11, 2006. The market price of our common stock may decline because there are a large number of shares of our common stock underlying warrants that may be available for future sale, and we are obligated to register 1,158,615 shares underlying convertible notes pursuant to our May and October 2005 private placements. In addition, we are obligated to register, pursuant to our November 2004 and February, May and October 2005 private placements, an aggregate of 4,864,230 additional shares of common stock underlying warrants. Further, we have an aggregate of 250,769 and 250,769 shares underlying our convertible debentures and warrants, respectively, which we issued pursuant to our February 2006 private placement and an aggregate of 96,154 and 48,077 shares underlying our convertible debentures and warrants, respectively, which we issued on March 1, 2006 in settlement of non-registration liquidated damages to two of our investors in our November 2004 private placement, all of which we are obligated to register for resale. The sale of these shares by the investors may depress the market price. All of the shares we are obligated to register, may or will be sold without restriction. The sale of these shares may adversely affect the market price of our common stock.

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

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

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

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

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

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

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

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

- o sets forth the basis on which the broker or dealer made the suitability determination; and
- o that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

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

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

ITEM 7. FINANCIAL STATEMENTS

AIRTRAX, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of AirTrax, Inc.

I have audited the accompanying balance sheet of AirTrax, Inc. as of December 31, 2005, and the related statements of operations, changes in stockholders' equity, and cash flows for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Company management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AirTrax, Inc. as of December 31, 2005, and the results of its operations and its cash flows for the years ended December 31, 2005 and 2004, in conformity with U.S. generally accepted accounting principles.

By: /s/ Robert G. Jeffrey

Robert G. Jeffrey
Certified Public Accountant
Wayne, New Jersey
April 23, 2007

AIRTRAX, INC.
BALANCE SHEETS

December 31, 2005

(Audited)

ASSETS

Current Assets	
Cash	\$ 19,288
Accounts receivable	94,357
Inventory	2,005,139
Vendor advance	163,517
Deferred tax asset	977,302
Total current assets	3,259,603
Fixed Assets	
Office furniture and equipment	157,521
Automotive equipment	21,221
Shop equipment	43,349
Casts and tooling	270,688
	492,779
Less, accumulated depreciation	301,886
Net fixed assets	190,893
Other Assets	
Advances to Filco Gmbh	2,000,000
Patents - net	154,263
Deferred Charges	388,392
Utility deposits	65
Total other assets	2,542,720
TOTAL ASSETS	\$ 5,993,216
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current Liabilities	
Accounts payable	\$ 885,463
Accrued liabilities	266,556
Obligation for outstanding options	1,330,948
Warrants and conversion option liability	3,516,462
Shareholder notes payable	186,961
Total current liabilities	6,186,390
Long Term Convertible Debt	2,048,000
TOTAL LIABILITIES	8,234,390
Stockholders' Deficit	
Common stock - authorized, 100,000,000 shares without par value; issued and outstanding - 21,939,360 and 15,089,342, respectively	21,712,179
Paid in capital - warrants	1,042,400
Preferred stock - authorized, 5,000,000 shares without par value; 275,000 issued and outstanding	12,950

Retained deficit	(25,008,703)
Total stockholders' deficit	(2,241,174)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 5,993,216

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

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AIRTRAX, INC.
STATEMENTS OF OPERATIONS
For the Year 2005

	2005	2004
SALES	\$ 718,842	-
COST OF GOODS SOLD	729,080	-
Gross Profit	(10,238)	-
OPERATING AND ADMINISTRATIVE EXPENSES	9,758,435	2,529,775
OPERATING LOSS	(9,768,673)	(2,529,775)
OTHER INCOME AND EXPENSE		
Conversion Expense	(6,571,454)	
Interest expense and amortization expense	(488,342)	(386,364)
Revaluation income (expense)	993,837	(864,280)
Interest income	15,247	86,667
Other income	16,494	2,979
NET LOSS BEFORE INCOME TAXES	(15,802,891)	(3,690,773)
INCOME TAX BENEFIT (STATE):		
Current	867,413	198,823
Prior years	-	-
Total Benefit	867,413	(198,823)
NET LOSS BEFORE DIVIDENDS	(14,935,478)	(3,491,950)
DEEMED DIVIDENDS ON PREFERRED STOCK	(274,978)	
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	(15,210,456)	(3,491,950)
PREFERRED STOCK DIVIDEND	(51,563)	(131,771)
DEFICIT ACCUMULATED	\$ (15,262,019)	\$ (3,623,721)
NET LOSS PER SHARE:		
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (14,935,478)	\$ (3,491,950)
ADJUSTMENT FOR PREFERRED SHARE DIVIDENDS ACCUMULATED BUT UNPAID	68,750	68,750
LOSS ALLOCABLE TO COMMON SHAREHOLDERS	\$ (15,004,228)	\$ (3,560,700)
NET LOSS PER SHARE - Basic and Diluted	\$ (.71)	\$ (.29)

WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	20,951,187	12,075,448
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The accompanying notes are an integral part of these financial statements.

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AIRTRAX, INC.
STATEMENT OF CHANGES IN EQUITY
TWO YEARS

	STOCK		PREFERRED		WARRANTS	DEFICIT	TOTAL
	SHARES	AMOUNT	SHARES	AMOUNT			
Balance, December 31, 2003	8,696,552	\$ 6,209,996	275,000	\$ 12,950	\$ -	(6,122,963)	\$ 99,983
Issuance of shares sold in prior year	130,000	130,000					130,000
Shares sold in private placement offerings	5,500,125	2,685,402			1,042,400		3,727,802
Warrants exercised	75,000	93,750					93,750
Shares issued for services	687,665	661,306					661,306
Dividends on preferred stock						(131,771)	(131,771)
Net loss						(3,491,950)	(3,491,950)
Balance, December 31, 2004	15,089,342	9,780,454	275,000	12,950	1,042,400	(9,746,684)	1,089,120
Shares issued in private placements	68,750	55,000					55,000
Warrants exercised	593,000	718,486					718,486
Options exercised	45,000	19,619					19,619
Shares issued for services	291,695	735,387					735,387
Employee stock awards	20,000	48,000					48,000
Shares issued in lieu of rent	19,200	48,000					48,000
Issuance of shares sold in prior year	1,749,827	1,401,172					1,401,172
Shares issued in settlement of interest	28,453	66,295					66,295
Transfer from liability on exercise of warrants	181,000	181,000					
Conversion of convertible debt	3,846,154	4,277,500					4,277,500
Conversion benefit capitalized	3,596,154						3,596,154
- 1							
Shares issued for Filco investment	187,939	458,571					458,571
Dividends on preferred stock						(51,563)	(51,563)
Preferred stock dividend	326,541						326,541

Net loss						(15,210,456)	(15,210,456)
Balance, December 31, 2005	21,939,360	\$ 21,712,179	275,000	\$ 12,950	\$ 1,042,400	\$ (25,008,703)	\$ (2,241,174)

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

AIRTRAX, INC.
STATEMENT OF CASHFLOWS

CASH FLOWS FROM OPERATING ACTIVITIES	2005	2004
Net loss	\$ (15,210,456)	\$ (3,491,950)
Charges not requiring the outlay of cash:		
Depreciation and amortization	59,500	100,507
Cost of conversion	7,068,174	355,470
Value of equity securities issued for services	1,918,750	1,033,343
Interest accrued on shareholder advances	4,015	4,566
Excess value of shares issued to settle liabilities	149,589	-
Deemed dividend on preferred stock	274,978	-
Increase in accrual of deferred tax benefit	(752,888)	(23,409)
Revaluation of warrant liabilities	(992,757)	864,280
Impairment of Filco investment	4,700,839	-
Changes in assets (liabilities):		
Increase in accounts receivable	(205,858)	(138,684)
Increase in inventory	(1,295,858)	(324,527)
Increase in accounts payable	490,504	5,717
Increase in accrued expenses	89,592	-
Net cash consumed by operating activities	(3,701,875)	(1,614,687)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of equipment	(150,806)	(49,306)
Additions to patent cost	(42,861)	(80,939)
Advances to FiLCO	(3,605,881)	(2,670,000)
Net cash consumed in investment activities	(3,799,548)	(2,800,245)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of converted debt	4,277,500	-
Proceeds of common stock sales	55,000	5,103,103
Proceeds of convertible loans	1,659,138	-
Proceeds of stockholder advances	151,493	-
Repayments of stockholder advances	(2,002)	(52,005)
Proceeds of exercises of warrants	718,486	93,750
Proceeds of exercises of options	19,619	5,944
Preferred stock dividends paid in cash		(131,771)
Net cash Provided By Financing Activities	6,879,234	5,019,021
Net change in cash	(622,189)	604,089
Cash balance beginning of period	641,477	37,388
Cash balance end of period	\$ 19,288	\$ 641,477

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

AIRTRAX, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

The Company was formed April 17, 1997. It has designed a forklift vehicle using omni-directional technology obtained under a contract with the United States Navy Surface Warfare Center in Panama City, Florida. The right to exploit this technology grew out of a Cooperative Research and Development Agreement with the Navy. Significant resources have been devoted during prior years to the construction of a prototype of this omni-directional forklift vehicle. The Company recognized its first revenues from sales of this product during the year 2005.

Development Stage Accounting

In prior periods the Company was a development stage company, as defined in Statement of Financial Accounting Standards (FASB) No. 7. The Company is no longer considered a development stage company.

The Company has incurred losses from inception to December 31, 2005, of \$25,214,703. Until the end of 2004, these losses were financed by private placements of equity securities. During 2005, the Company obtained financing almost exclusively from the issuance of convertible debentures. The Company may need to raise additional capital through the issuance of debt or equity securities to fund operations.

Cash

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

Inventory

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

Fixed Assets

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

Income Taxes

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

AIRTRAX, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible Assets

Patents

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

Prototype Equipment

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

Use of Estimates

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

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, which include cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate their fair values at December 31, 2005.

Research and Development Cost

The Company expenses all research and development cost unless the criteria required by FASB No. 2 are met. To date there have been no research and development costs capitalized. During the years 2005 and 2004 a total of \$544,933 and \$519,804, respectively, was spent on development activity.

Advertising Costs

The Company expenses advertising costs when the advertisement occurs. There were no advertising costs incurred during 2005 and 2004.

AIRTRAX, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock Options

Stock options are occasionally awarded to employees, directors and outside parties as compensation for services. Such awards have been immediately exercisable. The Company accounts for stock-based compensation under the intrinsic method permitted by Accounting Principles Board Opinion No. 25. The following represents information about net loss and loss per share as if the Company had applied the provisions of Statement of Financial Accounting Standards ("SFAS") 123. Accounting for Stock Based Compensation, to all options granted.

	Year Ended December 31,	
	2005	2004
Net loss as reported	\$ (15,416)	\$ (3,492)
Less: Stock-based employee compensation determined under the Intrinsic Method	1,082	223
Add: Stock bases compensation determined under the Fair Value Method	(1,105)	(260)
Pro forma net loss	\$ (15,439)	\$ (3,529)
Loss per share:		
Basic and diluted as reported	\$ (.72)	\$ (.29)
Basic and diluted-pro forma	\$ (.72)	\$ (.29)

Pursuant to the requirements of SFAS 123, the weighted average fair value of options granted during 2004 and 2003 were \$1.37 and \$.49, respectively, on the dates of grant. The fair values were determined using a Black Scholes option-pricing model, using the following major assumptions:

	2005	2004
Volatility	90.10%	91.45%
Risk-free interest rate	3.71%	3.63%
Expected Life - years	4.52	4.33

AIRTRAX, INC.
NOTES TO FINANCIAL STATEMENTS

December 31, 2005

In December 2004, the FAB issued SFAS 123 (revise 2004), Share-Based Payment ("SFAS 123R"), which revised SFAS 123, Accounting for Stock-Based Compensation. SFAS 123R also supersedes APB 25, Accounting for Stock Issued to Employees, and amends SFAS 95, Statements of Cash Flows. In general, the accounting required by SFAS 123R is similar to that of SFAS 123. However, SFAS 123 gave companies a choice to either recognize the fair value of stock options in their income statements or to disclose the pro forma income statement effect of the fair value stock options in the notes to the financial statements. SFAS 123R eliminates that choice and requires the fair value of all share-based payment to employees, including the fair value of grants of employee stock options, be recognized in the income statement, generally over the option vesting period. SFAS 123R must be adopted no later than the fiscal year commencing after July 1, 2005.

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

1. A modified prospective transition ("MPT") method in which compensation cost is recognized beginning with the effective date (a) for all share-based payments granted after the effective date and (b) for all awards granted to employees prior to the effective date that remain unvested on the effective date.
2. A modified retrospective transition ("MRT") method which includes the requirements of the MPT method described above, but also permits restatement of financial statements based on the amounts previously disclosed under SFAS 123's pro forma disclosure requirements either for
 - (a) all prior periods presented or
 - (b) prior interim periods of the year of adoption.

The Corporation plans to adopt SFAS #123R as of January 1, 2006.

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

Segment Reporting

Management treats the operations of the Company as one segment.

AIRTRAX, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Revenue Recognition

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

persuasive evidence of an arrangement exists; the contract price is fixed or determinable; and collectability is reasonably assured.

Common Stock

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

2. RESTATEMENTS

Certain adjustments affecting the 2005 financial statements have been discovered during an internal review. Correcting these errors resulted in changes in the loss attributable to common shareholders with a resultant change in stockholders equity, and certain changes in the statement of cash flows, as of December 31, 2005. The 2005 financial statements have, therefore, been restated to correct these errors. The restated amounts are compared with the amounts previously reported, in the following table.

STATEMENT OF OPERATIONS

	As Originally Presented	Adjustments	As Restated
Net loss before dividends	\$ (14,935,478)	-	\$ (14,935,478)
Deemed dividend on preferred stock	(480,978)	206,000(A)	(274,978)
Net Loss Accumulated	\$ (15,468,019)	206,000	\$ (15,262,019)

STATEMENT OF CASH FLOWS

	As Originally Presented	Adjustments	As Restated
Operating Activities			
Loss	\$ (15,416,456)	206,000 (A)	\$ (15,210,456)
Deemed dividend expense	480,978	(206,000)(A)	274,978
Net Cash Consumed By Operating Activities	\$ (3,701,875)	-	\$ (3,701,875)

(A) Decrease in Deemed Dividend Expense.

STATEMENT OF CASH FLOWS

	As Originally Presented	Adjustments	As Restated
Cash Flow from Operating Activities			
Net Loss	\$ (2,272,200)	\$ (1,219,750)	\$ (3,491,950)
Revaluation expense	-	\$ 864,280	\$ 864,280
Conversion expense	-	\$ 355,470	\$ 355,470
Net Cash Consumed By Operating Activities	\$ (1,614,687)	-	\$ (1,614,687)

(A) Revaluation entry required because of reclassification of certain warrants.

Certain adjustments affecting the 2004 financial statements have been discovered during an internal review. Correcting these errors resulted in changes in the loss attributable to common shareholders with a resultant increase in the deficit accumulated, and certain changes in the statement of cash flows, as of December 31, 2004 and for the year then ended. The 2004 financial statements have, therefore, been restated to correct these errors. The restated amounts are compared with the amounts previously reported, in the following table.

AIRTRAX, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

2. RESTATEMENTS (Continued)

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

Retained Deficit At Beginning of Year:	2004
As previously reported	\$ (5,916,011)
Deficit prior to development stage	(206,952)
Net loss, as restated	(3,491,950)
Dividends on preferred stock	(131,771)
Retained Deficit at End of Year	\$ (9,746,684)

3. RELATED PARTY TRANSACTIONS

The Majority shareholder corporation and the Company president make loans to the Company from time to time. The related notes accrue interest at 12% and are due on demand. The combined unpaid balance of principal and interest on these notes was \$186,961 at December 31, 2005.

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

In 2004, the president of the Company was granted 550,000 options, valued at \$187,500. In 2005 he was granted 750,000 options, valued at \$975,000.

Three employees were previously entitled under their employment contracts to 25,000 options each for each year of their contracts. One of these employees retired during 2004, exercising his remaining options. Another employee exercised his prior options and his 2004 options, for a total cost of \$5,943. The last employee has outstanding options granted during 2002, 2003, and 2004. These options have been assigned during 2005 to a third party.

AIRTRAX, INC.
NOTES TO FINANCIAL STATEMENTS

December 31, 2005

4. STOCK OPTIONS

The Company awards options under employment contracts with three employees. These options entitle the employees to purchase company stock at discounted prices. These options were immediately exercisable; there are no expiration dates to these options, and none was forfeited during either year. A summary of option activity is presented below.

	2005		2004	
	Shares	Weighted Average Exercised Price	Shares	Weighted Average Exercised Price
Options outstanding at beginning of year	620,000	\$.73	115,000	\$.38
Options granted during year	800,000	.83	600,000	.74
Options exercised during year	(45,000)	.44	(95,000)	.39
Options outstanding at end of year	1,375,000	\$.80	620,000	\$.73
Weighted average Fair Value of options granted		\$ 1.37		\$.47
Weighted average remaining life of outstanding options - years		4.52		4.33

5. PRIVATE PLACEMENT OFFERINGS (Continued)

During 2005, the Company sold 68,750 shares in private placements, yielding proceeds of \$55,000. It also issued three convertible debt issues. Each of these issues included detachable warrants.

One of these debt issues (\$5,000,000) yielded proceeds of \$4,277,500 and has already been converted into 3,846,154 shares of common stock; this issue was sold with warrants to purchase 2,884,616 shares of common stock. The remaining issues have not yet been converted to stock; they bear interest at 8% and have two year conversion terms. They are further described below:

Issuance	Proceeds	Debt Conversion Price	5-Year Warrants	
			Number	Exercise Price
\$ 500,000	\$ 409,913	\$1.30	384,615	\$2.11
1,548,000	1,249,225	\$2.00	774,000	3.25
\$ 2,048,000	\$ 1,659,138			

The options not yet converted, and the outstanding warrants, have been classified as liabilities, as required by Emerging Issues Task Force (EITF) 00-19, having met the definitions of embedded derivatives.

Included in the funds raised during 2004 through stock sales was \$1,312,000 raised through the sale of 1,640,000 shares under a Purchase Agreement dated November 22, 2004, That agreement required, among other things, that a registration statement be filed with the SEC and that the registration statement be declared effective by the SEC within a prescribed time. The Company did not fulfill these obligations. As a result, it is subject to penalties equal to 2% of the amount invested for each 30 day period following the default date. On May 31, 2005, the Company entered into a letter agreement with a representative of this shareholder group under which \$120,429 was paid to settle the penalties which had accrued. These penalties were charged to expense during 2005. Under the May 31, 2005 agreement, no further penalties would accrue until after June 30, 2005. The obligation concerning effectiveness of the registration statement has not been satisfied and penalties have accrued since June 30, 2005 at the rate of approximately \$26,240 per month. The penalties paid thus far, and penalties that accrued subsequently, were charged to expense during the periods in which they accrued. As of December 31, 2005 an additional \$160,851 of liquidated damages had been accrued.

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AIRTRAX, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

5. PRIVATE PLACEMENT OFFERINGS (Continued)

There have been three private placement offerings during 2005. Under the provisions of the first of these offerings, penalties will not accrue as the registration requirements of that offering have been satisfied. Under the second such offering, there is no provision for penalties. Under the third such offering, penalties will accrue beginning 150 days after October 18, 2005. Such penalties will accrue at the rate of 2% per month of the amount raised in that offering, which was \$1,000,000. These penalties will start to accrue on March 18, 2006 and will accrue for no more than nine months.

6. PREFERRED STOCK

The Company is authorized to issue 5,000,000 shares of preferred stock, without par value. At December 31, 2005, 275,000 of these shares had been issued. Each of these shares entitles the holder to a 5% cumulative dividend based on a \$5 per share stated value. If sufficient cash is not available, or at the option of the shareholder, these dividends may be paid in common stock. This issue of preferred stock also provides the shareholder with 10 votes for each share of preferred stock. The holder of this preferred stock is a corporation wholly owned by the Company president and chairman.

Dividends of \$68,750 accrued on the preferred stock during each of the years 2002 through 2005. Cash dividends of \$131,771 were paid during 2004. A stock dividend of 136,041 common shares will be paid in 2007, satisfying \$51,563 of the unpaid dividends. The balance of unpaid dividends at of December 31, 2005 was \$91,667.

At December 31, 2005, the majority shareholder had the right, if elected, to acquire 147,296 shares of common stock for accrued and unpaid dividends, amounting to \$78, 125, under the features of the preferred stock issue. Under this election, preferred dividends in cash of \$13,542 were unpaid in 2005.

See" Note 2" for a description of restatements affected by the preferred shares.

AIRTRAX, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

7. SHARES ISSUED FOR SERVICES

Stock options were granted to two Company employees during 2005 and 2004. In addition, there were shares awarded as compensation for other services. These issuances are detailed below by type of service performed.

Services Rendered	Number of Shares	Price at Date	2005	
			Grant Date	Value at Grant Date
Advertising	5,000	2/24	2.50	12,500
Legal services	11,000	5/2	2.78	30,580
Financial consulting	100,000	5/6	2.60	260,000
Legal services	50,000	5/6	2.60	130,000
Investor relations	15,000	4/1	2.40	36,000
Public relations	20,000	5/1	2.55	51,000
Facility search	5,000	5/1	2.55	12,750
Marketing services	9,009	7/29	2.25	20,270
Investor relations	15,000	9/6	2.25	33,750
Financial services	2,500	12/1	2.60	6,500
Investor relations	21,186	12/9	2.35	49,787
Public relations	18,000	12/9	2.35	42,300
Investor relations	15,000	12/9	2.35	35,250
Total shares issued to consultants	286,695			720,687
Other Issuances:				
Employee awards	20,000	2.40		48,000
Shares issued in lieu of rent	19,200	various		48,000
Shares issued as partial	5,000	various		14,700

compensation of financing

Amortization of cost of grants made in prior periods	5,113
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Total Value of stock issued for services	330,895	836,500
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Value of options granted for services	-	1,082,250
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Value of equity items issued for services	330,895	1,918,750
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AIRTRAX, INC.
NOTES TO FINANCIAL STATEMENTS

December 31, 2005

7. SHARES ISSUED FOR SERVICES (continued) 2004

Services Rendered	Number of Shares	Date	Grant Price	Share Value
Consulting services	10,000	1 /2	1.29	12,900
Marketing services 122,680(2)	15,000	6/14	1.12	16,800
Investor relations	26,020	6/14	1.12	29,142
Consulting services	24,075	6/14	1.12	26,964
Investor relations	5,000	6/14	1.12	5,600
Consulting services (5,113)(1)	40,000	9/8	0.89	34,000
Investor relations	50,000	8/9	0.8/6	43,000
Marketing services	165,500	3/15	1.05	173,250
Investor relations 145,110(2)	15,000	2/2	0.68	10,200
Industrial relations and marketing services	69,550	1/0	1.01	70,245
Consulting services	23,775	10/1	0.82	19,258
Marketing Services	24,000	10/30	0.90	21,600
Industrial relations and marketing services	16,500	10/14	1.05	17,325
Total of shares issued to consultants	483,920			742,961
Other:				
Stock issued to settle liabilities	37,421			-
Excess value of stock issued	104,324			10,182(3)

to settle liabilities				
Stock issued in lieu of rent	12,000	various	.75	9,000
Director awards	50,000	10/20	1.01	50,500
Total stock issued for services	687,665			812,643
Options granted for services	-			220,700
Value of equity items issued for services	687,665			\$ 1,033,343

(1) Grants were issued in return for commitments for future service; this is the expense allocated to future periods.

(2) Amortization of the cost of grants issued in prior period.

(3) Some issuances were made to satisfy liabilities owed to the optionee; if the value of the issuance exceeded the liability, the excess was charged to expense.

AIRTRAX, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

8. WARRANTS

The following is a schedule of changes in warrants outstanding during the years 2005 and 2004. Each of these warrants are exercisable over five year periods from dates of issuance at prices ranging from \$1.00-\$3.25 per share. They were recorded at fair values determined by a Black Scholes valuation model.

Balance December 31, 2003		845,000
Issuances in 2004:		
In conjunction with stock placements through investment banker:		
March	1,800,063	
September	171,875	
November	820,000	2,791,938
Awarded as partial fees to brokers:		
March	460,000	
September	34,375	
November	264,000	758,375
Warrants issued in private stock sales		832,450
Warrants exercised during 2004		(75,000)
Warrants issued for services (partially voided during 2005)		385,000
Balance December 31, 2004		
Warrants issued in conjunction with issuances of convertible debt:		
February issue	2,884,615	
May issue	384,615	
October issue	774,000	4,043,230
Awarded as partial fees to brokers:		
February issue	484,615	
May issue	38,462	
October issue	154,800	677,877
Warrants exercised during 2005		(593,000)
Warrants voided during 2005		(200,000)
Warrants issued for services		37,688
Balance December 31 2005		9,503,558

AIRTRAX, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

9. EXPENSES

Major items included in operating and administration expenses are detailed below:

	2005	2004
Insurance	\$ 179,739	\$ 69,883
Marketing	272,879	205,321
Payroll	556,454	402,543
Consulting	610,550	721,361
Officer options	975,000	187,500
Other compensation	120,280	-
Other options awarded	107,250	39,600
Professional fees	385,285	74,059
Office expenses	147,521	36,005
Filco Impairment	4,700,839	-
FILCO audit fees	195,676	-
Penalties	281,281	-
Rent	87,627	58,800
Travel and entertainment	76,714	30,656
Depreciation and amortization	-	100,507
Product development	496,902	369,666
Director awards	-	50,500
Shipping	172,840	-
Payroll taxes	69,996	40,959
Other expenses	331,652	140,411
	\$ 9,758,435	\$ 2,529,775

AIRTRAX, INC.
NOTES TO FINANCIAL STATEMENTS

December 31, 2005

10. INCOME TAXES

The Company has experienced losses each year since its inception. As a result, it has incurred no Federal income tax. The Internal Revenue Code allows net operating losses (NOL's) to be carried forward and applied against future profits for a period of twenty years. At December 31, 2005 the Company had NOL carryforwards of \$18,409,274 available for Federal taxes and \$10,309,634 for New Jersey taxes. The potential tax benefit of the state NOL's has been recognized on the books of the Company; the potential benefit of the Federal NOL's has been offset by a valuation allowance. If not used, these Federal carryforwards will expire as follows:

2011	\$ 206,952
2012	129,092
2018	486,799
2019	682,589
2020	501,169
2021	775,403
2022	590,764
2023	2,233,386
2024	2,493,486
2025	10,309,634

During the year 2005, the Company realized \$114,525 from the sale, as permitted by New Jersey law, of its rights to use the New Jersey NOL's and research and development credits that had accrued during 2004. These potential New Jersey offsets for periods prior to 2004 are, thus, no longer available to the Company.

Under Statement of Financial Accounting Standards No. 109, recognition of deferred tax assets is permitted unless it is more likely than not that the assets will not be realized. The Company has recorded deferred tax assets as follows:

	Current	Non-current	Total
Deferred Tax Assets	\$ 4,117,668	\$ 2,653,960	\$ 6,771,628
Valuation Allowance	3,189,801	2,653,960	5,843,761
Balance Recognized	\$ 927,867	\$ -	\$ 927,867

The entire balance of the valuation allowance relates to Federal taxes. Since state tax benefits for years prior to 2004 have been realized, no reserve is deemed necessary for the benefit of state tax losses of 2005.

AIRTRAX, INC.
NOTES TO FINANCIAL STATEMENTS
 December 31, 2005

11. RENTALS UNDER OPERATING LEASES

At present, the Company is not obligated under any operating lease.

Rent expense amount to \$74,500 in 2005 and \$49,500 in 2004.

12. SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION

Cash paid for interest and income taxes is presented below:

	2005	2004
Interest	\$ 9,741	\$ 26,239
Income taxes	0	500

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

a. Shares of common stock were issued for services during 2005 and 2004; these totaled 31,895 and 687,665 shares, respectively. b. During 2004, 130,000 shares were issued in settlement of stock sales which took place during 2003. c. During 2005, the Company issued 1,749,827 shares in settlement of stock sales which took place during 2004. d. During 2005, the Company issued 28,453 shares in settlement of interest due to investors. e. During 2005, the Company issued 187,939 shares to purchase third party debt of FiLCO, a German corporation in which the Company had an investment - see Note 12.

AIRTRAX, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

13. PROPOSED ACQUISITION

On February 19, 2004, the Company reached a tentative agreement to purchase capital stock of FiLCO GmgH., a German manufacturer of fork trucks (formerly Clark Material Handling Company of Europe) with a manufacturing facility in Mulheim, Germany (FiLCO). It was expected that the Company would acquire 75.1% of FiLCO. While negotiations were continuing, the Company agreed to make advances to FiLCO. Through December 31, 2005 advances totaling \$6,255,462 had thus been made.

On January 20, 2006, Filco filed for insolvency in Germany and a receiver was appointed. As a result, on February 7, 2006 the Company terminated the tentative agreement to acquired Filco stock and began negotiations with the receiver to acquire some or all of the Filco assets. The \$6,255,462 of advances to Filco that were outstanding at December 31, 2005, are secured by the machinery and equipment owned by Filco which in 2003 was appraised at \$5,400,000, and by its intellectual property, which has not been appraised. Due to the uncertainty of the Company position under German bankruptcy law, the Filco advances have been written down to \$2,000,000.

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

14. RECENT ACCOUNTING PRONOUNCEMENTS

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

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

None.

ITEM 8A. CONTROLS AND PROCEDURES

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

ITEM 8B. OTHER INFORMATION

None.

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

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

Our executive officers and directors are as follows:

Name	Age	Position
Peter Amico	61	President and Chairman of the Board of Directors
D. Barney Harris	43	Executive Vice President and Director
Nicholas E. Fenelli*	51	Chief Operations Officer
James Hudson	61	Director
William Hungerville	68	Director
Fil Filipov	58	Director
Andrew G. Guzzetti*	58	Director

*Appointment effective April 1, 2006.

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

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

Nicholas E. Fenelli** - Nicholas E. Fenelli has been with our company since 2001 serving first as Project Engineer, and as Vice President of Concept Development. From 1996 to 1998, Mr. Fenelli served as Project Engineer NACCO Materials Handling Group, Inc, where his work included the ergonomic improvement project for the Hyster/Yale order picker trucks, and work on the development of the three wheeled sit down rider truck. From 1990 to 1995, Mr.

Fenelli was Plant Manager for Cammerzell Machinery Company, a manufacturer of powder compaction and robotic conveying equipment for the Ceramic, Refractory, and Pharmaceutical industries. Between 1988 and 2002, Mr. Fenelli served as Treasurer and as a member of the Board of Directors of the Engineers Club of Trenton. He received a BS in Mechanical Engineering from Lehigh University in 1978.

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

James Hudson - Mr. Hudson has been a Director of the Company since May 1998. From 1980 to present, he has been President of Grammer, Dempsey & Hudson, Inc., a steel distributor located in Newark, New Jersey.

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

Andrew G. Guzzetti - From September 2004 to the present, Andrew G. Guzzetti has served as Managing Director of the Private Client Group of McGinn Smith and Co., Inc., an investment banking and retail brokerage firm, where he is responsible for building the wealth management private client group through recruitment and training. From February 2004 through September 2004, Mr. Guzzetti served as Managing Director of the Private Client Division of The Keystone Equities Group in which he was responsible for building the retail brokerage arm of this company. From February 2002 through February 2004, Mr. Guzzetti was a private investor consultant in which he assisted start-up public and private companies in raising funds. From November 1995 through February 2002, Mr. Guzzetti served as Senior Vice President and Branch Manager of Salomon Smith Barney where he was responsible for increasing the financial consultant population through recruitment and training. Mr. Guzzetti received his BA in Economics from Utica College in 1969.

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

(iii) 6,547,340 - low vibration omni-directional wheel on April 15, 2003.

CODE OF ETHICS

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

Executive Officers of the Company

Officers are appointed to serve at the discretion of the Board of Directors. None of our executive officers or directors has a family relationship with any other of our executive officers or directors.

COMMITTEES OF THE BOARD OF DIRECTORS

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

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

Based solely upon our review of copies of Forms 3, 4 and 5, and any subsequent amendments thereto, furnished to the Company by our directors, officers and beneficial owners of more than ten percent of our common stock, we are not aware of any Forms 3, 4 and/or 5 which certain of our directors, officers or beneficial owners of more than ten percent of our common stock that, during our fiscal year ended December 31, 2005, failed to file on a timely basis reports required by Section 16(a) of the Securities Exchange Act of 1934

ITEM 10. EXECUTIVE COMPENSATION.

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

Summary Compensation Table:

SUMMARY COMPENSATION TABLE

ANNUAL COMPENSATION

Name & Principal	Other					All Other
	Annual Restricted Options	LTIP	All Other	Stock	SARs	

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Position	Year	Salary (\$)	Bonus (\$)	Compensation(\$)	Awards (\$)	(#)	(\$)	Compensation
Peter Amico	2005	303,751(1)	0	-	-	-	-	-
President and Chairman of the Board of Directors	2004	185,000(1)	0	187,500(3)	-	-	-	-
	2003	100,000(1)	0	1,000(2)	-	-	-	-

(1) During 2004, Mr. Amico was entitled to receive a salary of \$185,000, of which \$116,825.62 was paid and the balance was deferred for future payment. During 2003, Mr. Amico was entitled to receive a salary of \$100,000, of which \$88,461.68 was paid and the balance was deferred for future payment. In 2002, Mr. Amico was entitled to receive a salary of \$87,500, of which \$84,135 was paid as salary to Mr. Amico and the balance was deferred for future payment. In 2002 and 2003, Mr. Amico received the use of a company automobile which we valued at \$1,000. During 2005, Mr. Amico received payment of accrued salary which was unpaid from 2003 of \$29,038.32 and \$50,674.48 from 2004.

(2) Pursuant to his employment agreement for the year 2004 through 2005, Mr. Amico had outstanding options to acquire a total of 500,000 shares at a total price of \$0.85 per share. The fair market value of the underlying common stock was \$1.14 per share (which was the closing price of our common stock on the date of grant, July 1, 2004). Pursuant to his employment agreement for the year 2003 through 2004, Mr. Amico had outstanding options to acquire a total of 50,000 shares at a total price of \$0.01. The fair market value of the underlying common stock was \$.85 per share (which was the closing price of our common stock on the date of grant, June 30, 2004). The amount for 2002 represents the number of options (50,000) multiplied by the fair market (\$2.20) less his exercise costs of \$12,601. The fair market value of the underlying common stock was \$2.20 per share which was the closing price of our common stock on July 1, 2002, the date of grant. The amount for 2003 represents the number of options (50,000) multiplied by the fair market (\$.85) less his exercise costs of \$0.01. In addition, for 2002 and 2003, the amounts include \$1,000 for the value of an automobile usage.

(3) The value for the year 2004 is based upon the intrinsic value of the options granted in 2004 which were calculated in accordance with APB #25.

OPTION GRANTS IN LAST FISCAL YEAR

The following table contains information concerning options granted to executive officers named in the Summary Compensation Table during the fiscal year ended December 31, 2005:

Individual Grants

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

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

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

The following table contains information concerning the number and value, at December 31, 2005, of unexercised options held by executive officers named in the Summary Compensation Table:

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

Individual Grants

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

DIRECTORS' COMPENSATION

The Company's directors are compensated at the rate of \$250 per meeting and are reimbursed for expenses incurred by them in connection with the Company's business. During 2003, each director received a stock grant of 10,000 shares of the Company's common stock. During 2004, each director received a stock grant of 10,000 shares of the Company's common stock. The Company's board of directors approved a stock grant in the amount of 20,000 shares of common stock for its board of directors for 2005, conditional upon the Company having revenues.

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

STOCK OPTION PLANS

The Company provided a stock grant for its board of directors for 2004, as described above under the heading entitled "Directors Compensation". For 2005 the Company provided a stock grant for its board of directors of 20,000 shares per year scheduled to start after the Company began sales and deliveries of lift trucks. Consequently, directors will be issued 15,000 shares each, with the exception of Mr. Filipov, for the fiscal year ended December 31, 2005.

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

EMPLOYMENT AGREEMENTS

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

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

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

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

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

Two of our employees maintain annual stock options for 25,000 shares for each year of employment during the term of their respective employment agreements. The employment agreements may be terminated by either party with 14 days prior notice, and do not contain a fixed term. Accordingly, the amount of stock options issuable to such employees is 77,500 shares as of September 30, 2005.

The stock options for the 25,000 shares of our common stock are exercisable as follows; 2,500 shares are exercisable for a total consideration of \$1.00, 10,000 shares are exercisable at 35% of the lowest price paid for the stock in the 30 day period preceding exercise, and 12,500 shares are exercisable at 17.5% of the lowest price paid for the stock in the 30 day period preceding exercise. Accordingly, the amount of stock options issuable to such employees is 112,500 as of December 31, 2004 and 97,500 as of June 30, 2005. The 112,500 options had not been exercised as of December 31, 2004

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

The following table identifies as of April 14, 2006 information regarding the current directors and executive officers of the Company and those persons or entities who beneficially own more than 5% of its common stock and Preferred Stock of the Company, the number of and percent of the Company's common stock beneficially owned by:

o all directors and nominees, naming them,

o our executive officers,

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

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

A person is deemed to be the beneficial owner of securities that can be acquired by him within 60 days from April 14, 2006 upon the exercise of options, warrants or convertible securities. Each beneficial owner's percentage ownership is determined by assuming that options, warrants or convertible securities that are held by him, but not those held by any other person, and which are exercisable within 60 days of April 14, 2006 have been exercised and converted.

Peter Amico(1) 200 Freeway Drive, Unit 1 Blackwood, NJ 08012	Common Stock Preferred Stock	3,038,846 (6) 2,750,000 (3)(5)	13.64% (2) 100%
Nicholas Fenelli 200 Freeway Drive, Unit 1 Blackwood, NJ 08012	Common Stock Preferred Stock	135,500 0	* 0%
D. Barney Harris(1) 200 Freeway Drive, Unit 1 Blackwood, NJ 08012	Common Stock Preferred Stock	151,301 (7) 0	* (2) 0%
Frank Basile(1) 200 Freeway Drive, Unit 1 Blackwood, NJ 08012	Common Stock Preferred Stock	137,046 (8) 0	* 0%
James Hudson(1) 200 Freeway Drive, Unit 1 Blackwood, NJ 08012	Common Stock Preferred Stock	75,800 (9) 0	* 0%
William Hungerville(1) 200 Freeway Drive, Unit 1 Blackwood, NJ 08012	Common Stock Preferred Stock	157,650 (10) 0	*(2) 0%

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Andrew Guzzetti	Common Stock	0	0%
200 Freeway Drive, Unit 1 Blackwood, NJ 08012	Preferred Stock	0	0%
All Officers and Directors	Common Stock	3,560,643 (11)	15.98% (2)
As a Group (7 persons) Preferred Stock		2,750,000	100%
Arcon Corp.	Common Stock	1,916,702 (4)	8.60% (2)
200 Freeway Drive, Unit 1 Blackwood, NJ 08012	Preferred Stock	2,750,000 (3)(5)	100%

*Less than 1%

(1) The address of each beneficial owner is the address of the Company.

(2) Based on 22,283,624 shares of common stock outstanding as of April 11, 2006, except that shares of common stock underlying options or warrants exercisable within 60 days of the date hereof are deemed to be outstanding for purposes of calculating the beneficial ownership of securities of the holder of such options or warrants.

(3) Based upon 275,000 outstanding shares of preferred stock after giving effect to the 10 for 1 voting rights (4) Represents 1,781,202 shares held by Arcon Corp., a corporation wholly owned by Mr. Amico ("Arcon"), and however, excludes common stock that may be issued to Arcon as a dividend on the preferred stock.

(5) Represents shares held by Arcon.

(6) Represents 1,781,202 shares of common stock held by Arcon as stated in footnote (4) above, and 1,257,644 shares of common stock held individually by Mr. Amico.

(7) Represents shares of common stock held individually.

(8) Represents 115,000 shares held individually, 12,046 shares held by an affiliate, and 10,000 shares held by his spouse. The amount excludes shares of common stock to the Company's that may be granted to directors during 2005.

(9) Represents 44,500 shares of common stock held by an affiliate. The amount excludes shares of common stock to the Company's that may be granted to directors during 2005.

(10) Represents 107,650 shares of common stock held individually, 40,000 shares held by an affiliate and 10,000 shares held by a family trust. The amount excludes shares of common stock to the Company's that may be granted to directors during 2005.

(11) Includes (4), (6), (7), (8), (9), and (10).

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Arcon Corp., a corporation wholly owned by our chairman and president Peter Amico, owns 275,000 shares of our preferred stock. Each share of Preferred Stock is entitled to 10 votes per share on all matters on which shareholders are entitled to vote. The holders of our common stock and preferred stock vote as one single class. Mr. Amico and Arcon Corp. together have 1,870,623 shares of common stock, representing 1,870,623 votes, plus 275,000 shares of preferred stock with 10 votes per share, or a total of 2,750,000 voting shares. The aforementioned equals a total of 4,620,623 voting shares of capital stock by Mr. Amico and Arcon. The preferred stock has a stated value per share of \$5.00 and an annual dividend per share equal to 5% of the stated value. The annual cash dividend as of December 31, 2004 was \$68,750. Dividends are cumulative and the holder has a right during any quarter to waive any cash dividend and receive the dividend in the form of common stock at a price per share equal to 30% of the trading price of the common stock on the last day of the dividend period. The preferred stock is not convertible into common stock, however, has a preference over common stockholders upon liquidation equal to the stated value per share.

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

For fiscal year 2001, Arcon received 246,731 shares of our common stock in lieu of the cash dividend which was deemed to have a fair market value of \$188,412. For explanatory purposes, in 2001 the \$188,412 fair market value of the stock represents the \$68,750 yearly dividend due for 275,000 shares owned in 2001, valued at \$5.00 per share, which is used to purchase common stock at a 30% discount. This equates to \$188,412 divided by 30% (\$56,524) minus the difference of the actual stock price which varied during the purchase period. For fiscal year 2002, Arcon received a cash dividend of \$17,187.50. and was due 136,041 shares of our common stock in lieu of the cash payment for the balance of the dividend. The 136,041 shares of common stock payable to Arcon were valued based upon date obligation was settled (deemed to be April 1, 2005). The value of those shares was \$326,540, 136,041 multiplied by \$2.40 per share and represents the value of the additional shares of common stock. This value (\$326,540) was compared to dividends being settled in order to determine the deemed dividend (\$274,978). For fiscal year 2003, Arcon expects to receive 19,097 shares of common stock in lieu of the cash payment of the dividend. In 2004, Arcon received payments of \$17,187.50 for dividends due in 2002, \$63,020.86 for dividends due in 2003 and \$51,562.52 for dividends due in 2004, of which \$17,187.50 remains payable in accrued dividends to Arcon.

From time to time, we issue options to purchase shares of our common stock to our President, Peter Amico, as compensation for services performed on behalf of our company under Mr. Amico's employment agreements. For a further description of such options, and the terms and valuations related thereto, see the section of this annual report entitled "Executive Compensation".

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

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

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

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

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

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

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

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

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

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

ITEM 13. EXHIBITS.

(a) Exhibits.

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

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

- 4.5 Form of Class B Common Stock Purchase Warrant dated as of February 11, 2005 (Filed as an exhibit to the Company's Form 8-K filed on February 11, 2005).
- 4.6 Form of Broker's Common Stock Purchase Warrant dated as of February 11, 2005 (Filed as an exhibit to the Company's Form 8-K filed on February 11, 2005).
- 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 January 13, 2000).
- 10.4 Consulting Agreement by and between MAS Financial Corp. and AirTrax, Inc. dated October 26, 1999. (Filed as exhibit to the Company's Form 8-K filed with the Securities and Exchange Commission on November 19, 1999).
- 10.5 Employment Agreement effective July 1, 2002 by and between the Company and Peter Amico (filed as an exhibit to the Company's Form 10-KSB for the period ended December 31, 2002)
- 10.6 Agreement dated July 15, 2002 by and between the Company and Swingbridge Capital LLC and Brian Klanica. (Filed as an exhibit to the Company's Form 8-K filed on August 7, 2002).
- 10.7 Product Development, Sales and Manufacturing Representation Agreement dated March 13, 2004 by and between AirTrax, Inc., and MEC Aerial Platform Sales Corporation. (Filed as an exhibit to the Company's Form 8-K filed on March 15, 2004).
- 10.8 General Sales Contract and Amendment dated March 10, 2004 by and between AirTrax, Inc. with Incomex Saigon. (Filed as an exhibit to the Company's Form 8-K filed on March 22, 2004).
- 10.9 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).
- 10.10 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).
- 10.11 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).
- 10.12 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).

- 10.13 Subscription Agreement dated February 11, 2005 by and among AirTrax, Inc. and the investors named in the signature pages thereto (Filed as an exhibit to the Company's Form 8-K filed on February 11, 2005).
- 10.14 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).
- 10.15 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).
- 10.16 Series B Unsecured Convertible Debenture of AirTrax, Inc. (Filed as an exhibit to the Company's Form 8-K filed on June 6, 2005).
- 10.17 Form of Stock Purchase Warrant of AirTrax, Inc. (Filed as an exhibit to the Company's Form 8-K filed on June 6, 2005).
- 10.18 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).
- 10.19 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).
- 10.20 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).
- 10.21 Series C Unsecured Convertible Debenture of AirTrax, Inc. (Filed as an exhibit to the Company's Form 8-K filed on October 24, 2005).
- 10.22 Form of Stock Purchase Warrant of AirTrax, Inc. (Filed as an exhibit to the Company's Form 8-K filed on October 24, 2005).
- 10.23 Amended and Restated Stock Acquisition Agreement effective as of as of February 19, 2004 by and between AirTrax, Inc. and Fil Filipov (Filed as an exhibit to the Company's Form SB-2 filed on January 11, 2006).
- 10.24 Promissory Note of Filco GmbH dated as of January 15, 2005 issued to AirTrax, Inc. (Filed as an exhibit to the Company's Form SB-2 filed on January 11, 2006).
- 10.25 Promissory Note of Filco GmbH dated as of June 5, 2005 issued to AirTrax, Inc. (Filed as an exhibit to the Company's Form SB-2 filed on January 11, 2006).
- 10.26 Assignment and Purchase Agreement dated as of August 25, 2005 by and between Werner Faenger and AirTrax, Inc. (Filed as an exhibit to the Company's Form SB-2 filed on January 11, 2006).
- 10.27 Promissory Note of Filco GmbH with Guarantees dated as of November 25, 2005 issued to AirTrax, Inc. (Filed as an exhibit to the Company's Form SB-2 filed on January 11, 2006).
- 10.28 Form of Subscription Agreement of AirTrax, Inc. dated as of February 13, 2006. (Filed as an exhibit to the Company's Form 8-K filed on February 27, 2006).

10.29 Series D Unsecured Convertible Debenture of AirTrax, Inc. (Filed as an exhibit to the Company's Form 8-K filed on February 27, 2006).

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10.30 Form of Stock Purchase Warrant of AirTrax, Inc. (Filed as an exhibit to the Company's Form 8-K filed on February 27, 2006).

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

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

AUDIT FEES

The aggregate fees billed for professional services rendered by our principal accountants for the audit of our financial statements and for the reviews of the financial statements included in our annual report on Form 10-KSB and 10-QSBs respectively, and for other services normally provided in connection with statutory filings were \$23,000 and \$21,012, respectively, for the years ended December 31, 2005 and December 31, 2004.

AUDIT-RELATED FEES

We incurred fees of \$15,000 and \$12,000, respectively, for the years ended December 31, 2005 and December 31, 2004 for professional services rendered by our independent auditors that are reasonably related to the performance of the audit or review of our financial statements and not included in "Audit Fees." We did incur accounting (audit) fees of \$75,000 for accounting fees to audit Filco GmbH.

TAX FEES

The aggregate fees billed by our auditors for tax compliance matters were \$750 and \$780 respectively, for the fiscal years ended December 31, 2005 and December 31, 2004.

ALL OTHER FEES

We did not incur any fees for other professional services rendered by our independent auditors during the years ended December 31, 2005 and December 31, 2004.

SIGNATURES

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

AIRTRAX, INC., A NEW JERSEY CORPORATION

Date: April 25, 2007

By: /s/ Robert M. Watson

Robert M. Watson, President,
Chief Executive Officer,
Director, and Acting
Chief Financial Officer

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

SIGNATURE	TITLE	DATE
By: /s/ Robert M. Watson <hr/>	President, Chief Executive Officer, Acting Chief Financial Officer and Director	April 25, 2007
By: /s/ D. Barney Harris <hr/>	Director	April 25, 2007
By: /s/ James Hudson <hr/>	Director	April 25, 2007
By: /s/ William Hungerville <hr/>	Director	April 25, 2007

