AIRTRAX INC
Form 10KSB
April 15, 2008

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

FORM 10-KSB

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

For the fiscal year ended December 31, 2007 Commission file number: 001-16237

AIRTRAX, INC.
(Exact name of small business issuer as specified in its charter)

New Jersey (State or other jurisdiction of incorporation or organization)	22-3506376 (I.R.S. Employer Identification No.)
200 Freeway Drive, Unit One, Blackwood, NJ (Address of principal executive offices)	08012 (Zip Code)

Issuer’s telephone number, including area code: (856) 232-3000

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

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

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. ¨

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B and no disclosure will be contained, to the best of the issuer’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ¨

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

The issuer’s revenues for the fiscal year ended December 31, 2007 were $745,367.

The aggregate market value of the Common Stock held by non-affiliates of the issuer as of April 11, 2008 was $1,913,293.62.

The number of shares outstanding of the issuer's Common Stock as of April 11, 2008 was 32,800,093 shares.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

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

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AIRTRAX, INC.

2007 FORM 10-KSB ANNUAL REPORT

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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

Corporate Information and 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 could acquire, if we had finalized the acquisition, from 51% to 75.1%. Through December 31, 2005, we had loaned Filco GmbH an aggregate principal amount of $6,275,881 with no loans made by us in 2006, exclusive of interest at 8% per annum, pursuant to a series of secured promissory notes. Security for these loans consisted of Filco's plant machinery, equipment and other plant property, and intellectual property, including designs and drawings. We used proceeds from the private placement offerings that we completed during 2004 and 2005 to fund the Filco loans.

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. An auction sale of Filco’s assets occurred on May 10, 2006. Due to the uncertainty of our position under German bankruptcy law, $4,275,881 of the Filco advances was written off in 2005,

and the remaining $2,000,000 was written off in 2006. Accordingly, any inventory, equipment or outstanding advances to Filco have been written off during 2006 and there is no indication that the proceeds of any inventory or equipment at the Filco plant will be returned to us.

In connection with the Acquisition Agreement, Mr. Filipov was to receive options to purchase 900,000 shares of our common stock at an exercise price of $0.01. We did not issue such options because the Acquisition Agreement was terminated and we believe that the conditions for such issuance were never fulfilled. Mr. Filipov has indicated to us that he believes that the conditions were fulfilled and that we owe him the options. We and Mr. Filipov are continuing to discuss a mutually acceptable settlement.

Introduction

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.

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

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

The assembly of our products is conducted at our executive offices. Currently 100% of our vehicle frames are being manufactured in the USA. These frames are shipped to the Blackwood plant for final assembly. Previously, partially assembled vehicles were shipped to the Blackwood facility from the Filco plant in Germany. Fourteen were shipped to the USA for final assembly. A total of approximately sixty frames were shipped from Bulgaria to the Filco plant for partial assembly. None of the frames shipped from Bulgaria were within specification. The twenty-seven frames shipped to the United States required re-machining in order to make them useable. The balance were rejected and abandoned with other parts inventory that was stored in the Filco plant.

Recent Developments

Effective March 21, 2008, the Board of Directors formally suspended the employment of all of our employees due to a lack of financial resources to continue operations. On April 4, 2008, Robert Watson resigned as Chief Executive Officer, President and a director of Airtrax, Inc. Mr. Watson will continue to serve as an advisor to the Company on a part-time consulting basis to continue to pursue financing on our behalf. On April 10, 2008, William F. Hungerville, one of our current directors, was appointed interim Chief Executive Officer, and is our Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer.

The growth and development of our business will require a significant amount of additional working capital. We currently have no financial resources and we will need to raise additional capital in order to continue operations. We have no contracts or commitments for additional capital at this time. We currently do not have adequate cash to meet our short or long term objectives. In the event additional capital is raised, it may have a dilutive effect on our existing stockholders. There can be no assurances that the Company will be successful in securing financing needed to allow the Company to continue its future operations or retain any of the previous employees.

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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 lift trucks 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, scissor-lifts, and multi-purpose mobility platforms. Extensive demonstrations of prototype vehicles for commercial and military users in combination with market research have enabled us to direct our development efforts towards the products offering the best probability of success in the market.

Our engineers have 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 drive system which allows the vehicle free and unrestricted movement during operation. Each vehicle is powered with electric motors that eliminate brushes and commutators of conventional DC motors. The motors also are lubricated for life thereby eliminating the need for additional greasing and fittings. The ATX-3000 transmission uses a synthetic lubricant, and is sealed for life. The joysticks control all vehicle movement. Conventional drive trains, steering racks, hydraulic valve levers, and foot petals for braking and acceleration are all non-existent.

On vehicles employing our Omni-Directional Technology, each wheel powered 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 powered wheels through a microprocessor that receives input from an operator-controlled joystick(s). The joystick(s) control all vehicle movement (starting, steering, and stopping). The frame of our ATX-3000 Omni-Directional Lift Truck consists of a steel main frame and attached articulating axle, 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 specially shaped rollers that are offset 45 degrees. 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.

EXISTING AND PROPOSED PRODUCTS

SIDEWINDER Omni-Directional Lift Trucks. We anticipate that we will add additional models of lift trucks to the SIDEWINDER line, including a Reach truck and an Order Picker truck..

Omni-Directional Aerial Work Platform. In late February 2004, we, in collaboration with MEC Aerial Platform Sales Corporation of Fresno, California ("MEC"), introduced a concept version of a scissor lift at the American Rental Association trade show in Atlanta. The scissor lift called the "PHOENIX(TM)", incorporated our Omni-Directional technology along with an MEC platform and lift mechanisms.

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On March 13, 2004, we entered into a draft Product Development, Sales and Representation Agreement with MEC. The draft agreement called for the joint development of a proto-type and production versions of an Omni-Directional aerial work platform called the "3068ODS". During the development stage, each party was to provide the parts, which apply to that party's area of responsibility. We would provide all of the parts required for the Omni-Directional traction system and related control systems, and MEC would 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 were to establish the cost of a commercial product, and if the cost of a commercial product was considered commercially viable, the parties would jointly develop a commercial version of the aerial work platform. If commercial production resulted, we would have been responsible for product manufacturing, and MEC or its affiliate would have been responsible to promote, market and sell the product to their network of approximately 200 distributors. Aerial work platform sales made by MEC would be subject to a royalty to us and, likewise sales made by us would be subject to a royalty to MEC. The amount of the respective royalties would be subject to agreement by the parties. Orders placed by MEC would be financed by MEC subject to agreed production schedules. We also planned to manufacture the COBRA(TM) AWP 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 PHOENIX(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 3068ODS aerial work platform project would be products of our company instead of an MEC designed or built 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 would be our product. In addition, the agreement was revised to provide that we would build another vehicle product line, the COBRA, which will be marketed exclusively by our dealers. The parties mutually agreed to the dissolution of the agreement and Airtrax has decided to design, build and market the AWP’s under the COBRA brand exclusively. Discussions with MEC regarding ways that they can make Omni-Directional AWP’s available to their customers are on going.

Omni-Directional Personal Mobility Devices. We have begun the development of new technologies which will enable us in the future, to develop Omni-Directional Personal Mobility Devices such as Power Chairs, Scooters, and patient beds or lifts. We have had discussions with several equipment manufacturers who may be interested in developing and marketing such products using these technologies. No agreements have been made. We will require additional funds to complete structural and ergonomic designs and proto-type vehicles, for further evaluation and testing. We cannot predict whether we will be able to successfully develop these products.

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 studied the feasibility of the MP2 for military purposes, and constructed two proto-type devices. This contract (with the option) was extended twice for 6 months each past the 42-month contract time period. 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 design, an Omni-Directional Jet Engine Handler conversion kit was constructed, and demonstrated as proof of concept of the modularity of the design. 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 US military for products such as the MP2 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 may be sold to the US government, possibly including the military, through a GSA Multiple Awards Contract. We have begun the application process and hope it will be awarded in 2008. We cannot predict whether we will be successful in our application.

On September 7, 2006, we were awarded a $415,000 contract to design and build a customized MP2 Equipment Handling Unit for the Israeli Air Force. The contract includes an option to build 5 additional units at $95,000 each upon the acceptance of the first unit. It is estimated that follow on orders could result from this contract. The Critical Design Review was completed in November 2006, the design was approved and initial deliverables were provided. As a result, we received a first process payment of $170,000 on December 12, 2006. We completed the Acceptance Test Procedure in 2007 and received a second payment of $162,000 on June 20, 2007. We cannot predict whether we will be able to successfully complete the contract, or that if we do so, that any subsequent orders will result.

CURRENT OPERATIONS

Since 1995, substantially all of our resources and operations have been directed towards the development of the Omni-Directional wheel, related components, Omni-Directional Lift Trucks and other Omni-Directional Vehicles. Many of the components, including the unique shaped wheels, motors, and frames, have been designed by Airtrax and are specially manufactured for us. 29

ANSI testing refers to a series of tests including tilt testing the vehicle with masts it will use to make certain that it will not tip over in normal use. 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 on its side to prove that the battery door lock will retain the battery in the event the vehicle is overturned. ANSI testing was performed and documented by us and we have certified 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 to certify that is free of hazards with respect to fire and electrical shock. Completion of UL testing is generally considered the mark of companies who will take extra steps and precautions to protect their customers.

MANUFACTURING AND SUPPLIERS

There was limited production in 2006 and 2007 due to limited working capital. All of the units shipped in 2006 and our current inventory were assembled in the last quarter of 2005 and the first quarter 2006. Our General Manager for plant production, a former plant manager for GM, has established the production assembly process and procedure for our vehicle assembly. His efforts have helped to develop procedures, and to incorporate inventory control and quality assurance programs so that we stand ready to rapidly scale production capacity at the Blackwood facility. Initially this plant was equipped for nominal monthly production but is capable of ramping up for anticipated demand before year's end.

Components for our products 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 KING COBRA 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. 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 who would want to compete directly with us in the omni-directional vehicle market. In addition, while we maintain single sources for some of the over the counter components, we are engaged in qualifying and securing agreements with second sources for all possible components.

DISTRIBUTION AND PRODUCT MARKETING

We intend to establish a national and international network of distributors and dealers to sell our SIDEWINDER and COBRA lines to users, 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 2004 and 2005, 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 nationwide and distributors in several foreign countries. Principal terms of the agreement reached is that these dealers will purchase our products which include the SIDEWINDER or the COBRA AWP (scissor lift), or both and sell these products to their clients. Certain of the distributors 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 was required to purchase a minimum number of SIDEWINDER units to maintain the "exclusivity" portion of the agreement between firms. Airtrax Canada lost their exclusivity in 2006, as they did not meet the minimum requirements of the agreement. 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 distributors are only sold under the terms of letters of credit. All foreign sales are paid in advance, under terms of an irrevocable letter of credit or approved credit terms. Targeted dealers for the SIDEWINDER brand will consist of selected premier equipment dealers, currently selling other lift truck 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 lift trucks 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 lift truck. Our pricing structure will enable the dealer to receive much higher commissions from the sale of the SIDEWINDER products.

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 fewer 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 the one year rule, such as the frame and significantly, the motors and controllers. These parts have an eighteen-month warranty, because the coverage begins when the product is shipped to us and not when the product is purchased.

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MARKETS

Lift Trucks

Our initial market focus was directed to the lift truck market. We believe that commercial versions of Omni-Directional Lift Trucks will improve 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 3,000-pound rated vehicle to $75,000 or greater for specialty narrow aisle or side loader vehicles. We expect to continue to make inroads into this market with the introduction of additional SIDEWINDER brand material handling vehicles in the future.

Aerial Work Platforms

Aerial Work Platforms are used in the construction and warehousing industries, and are ideally suited for our 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 "Narrow Aisle or NA" lift trucks, and from competing technologies. Competition with standard lift trucks, which retail 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 lift truck for reliability, and that a purchase decision will be based upon weighing the operational advantages of our products against its higher purchase price. NA and sideloader lift trucks retail at $45,000 or greater. While our SIDEWINDER Omni-Directional Lift Truck cannot be classified as "narrow aisle", it can perform "narrow aisle" functions at a significantly less cost. We also are aware of multi-directional lift trucks 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 lift trucks 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 the first omni-directional wheels expired in 1990. Although we have received patent protection for certain aspects of our advanced technology, no assurances can be given that such patent protection will effectively thwart competition.

PATENTS AND PROPRIETARY RIGHTS

In December 1997, we were awarded a patent for an omni-directional helicopter ground-handling device. 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 lift

truck, and in April 15, 2003 we received US patent #6,394,203 relating to methods for designing low-vibration wheels. We also have several patent applications pending relating to other aspects of our technology. We expect to make future patent applications relating to various other aspects of our omni-directional technology. We also have filed a patent application for our hybrid power module concepts. At this time, no foreign patents have been issued for any of our technology.

On September 8, 2003, we entered an exclusive license agreement with Excalibur Design Services, Inc. and Nicholas Fenelli (Inventor), to secure and use certain proprietary intellectual properties known collectively as “Omni-Directional Vehicle Control Algorithms”. Mr. Fenelli is our former Chief of Operations. Due to severe cash flow restrictions in 2006, we were unable to fulfill our obligations under the terms of the agreement and Excalibur rescinded the exclusivity portion of the agreement. As of December 31, 2007, no other party was granted rights to use the property. On February 19, 2007, we negotiated an amendment with Excalibur to reinstate our exclusive rights to the “Omni-Directional Vehicle Control Algorithms.”

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 lift trucks or other products.

Presently, we maintain product liability insurance in the amount of $1 million. We anticipate increasing this amount $10 million in the future, as we deem necessary to do so. We obtained our insurance commensurate with the initial shipment of our Omni-Directional Lift Trucks.

EMPLOYEES

As of April 11, 2008, we had one person acting as our Chief Executive Officer and one consultant responsible for helping us obtain financing. In March 2008, we suspended the employment of all 13 of our employees due to lack of financial resources to continue operations. There can be no assurances that we will be successful in securing financing needed to allow us to continue our future operations or retain any of the previous employees.

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.

Item 3.			Legal Proceedings

We are not currently a party to any legal proceedings. There has been no bankruptcy, receivership or similar proceedings.

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.

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
2008 First Quarter	0.57	0.02
2007 First Quarter	0.97	0.48
Second Quarter	0.60	0.45
Third Quarter	0.56	0.23
Fourth Quarter	0.31	0.10
2006 First Quarter	2.39	1.08
Second Quarter	2.17	1.15
Third Quarter	2.03	0.92
Fourth Quarter	1.01	0.42

Common Stock

Our Amended Articles of Incorporation authorize the issuance of 100,000,000 shares of common stock, no par value per share. Holders of shares of common stock are entitled to one vote for each share on all matters to be voted on by the stockholders. Holders of common stock have cumulative voting rights. Holders of shares of common stock are entitled to share ratably in dividends, if any, as may be declared, from time to time by the Board of Directors in its discretion, from funds legally available therefore. In the event of a liquidation, dissolution, or winding up of our company, the holders of shares of common stock are entitled to share pro rata all assets remaining after payment in full of all liabilities. Holders of common stock have no preemptive or other subscription rights, and there are no conversion rights or redemption or sinking fund provisions with respect to such shares.

As of April 11, 2008, there were 32,800,093 shares of common stock outstanding.

As of April 11, 2008, there were approximately 794 stockholders of record of our common stock, respectively. This does not reflect those shares held beneficially or those shares held in "street" name.

Dividend Policy

We have never declared or paid any cash dividends on our common stock. We do not anticipate paying any cash dividends to stockholders in the foreseeable future. In addition, any future determination to pay cash dividends will be at the discretion of the board of directors and will be dependent upon our financial condition, results of operations, capital requirements, and such other factors as the Board of Directors deem relevant. There are no restrictions in our articles of incorporation or bylaws that restrict us from declaring dividends on our common stock.

Preferred Stock

As of April 12, 2007, there were 275,000 shares of Preferred stock outstanding. We held a special meeting of our shareholders on March 28, 2005 pursuant to which a majority of our shareholders approved an amendment to our certificate of incorporation to increase our authorized preferred stock from 500,000 to 5,000,000 shares. Accordingly, we are authorized to issue up to 5,000,000 shares of preferred stock. In addition, pursuant to said meeting, a majority of our shareholders approved an amendment to our certificate of incorporation to provide that the shares of preferred stock may be issued in series, and shall have such voting powers, full or limited, or no voting powers, and such designations, preferences and relative participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions providing for the issuance of such stock adopted from time to time by the board of directors. Accordingly, our board of directors is expressly vested with the authority to determine and fix in the resolution or resolutions providing for the issuances of preferred stock the voting powers, designations, preferences and rights, and the qualifications, limitations or restrictions thereof, of each such series to the full extent now or hereafter permitted by the laws of the State of New Jersey.

The holders of the preferred stock are entitled to receive, when, as, and if declared by our board of directors, out of funds legally available therefore, cash dividends on each share of preferred stock at the rate of 5% per annum, or if cash is not legally available, in additional shares of common stock. The preferred stock, in respect of dividends and distributions upon our liquidation, winding-up, and dissolution, shall rank senior to all classes of our common stock and each other class of capital stock or series of preferred stock created that does not expressly provide that it ranks senior to, or on a parity with, the preferred stock. The holders of preferred stock are entitled to cast 10 votes for each share held of the preferred Stock on all matters presented to our shareholders for shareholder vote.

Equity Compensation Plan Information

The following table shows information with respect to each equity compensation plan under which our common stock is authorized for issuance as of December 31, 2007.

EQUITY COMPENSATION PLAN INFORMATION

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (c)
Equity compensation plans approved by security holders	-0-	-0-	-0-
Equity compensation plans not approved by security holders	4,000,000-	-0-	4,000,000
Total	-0-	-0-	-0-

During 2007, the board of directors approved the 2007 Stock Incentive Plan, pursuant to which we can issue shares of common stock or options to purchase shares of common stock to our officers, directors, employees and consultants. We have reserved 4,000,000 shares for issuance pursuant to this plan.

Unregistered Sales of Equity Securities

During the fourth quarter of 2007, we issued 871,795 shares of common stock to the holders of common stock purchased during February 2005, which contained full ratchet protection, resulting from our February 2007 private placement. There was no value assigned to these shares.

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 OPERATIONS

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

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

Overview

Effective March 21, 2008, the Board of Directors formally suspended the employment of all of our employees due to a lack of financial resources to continue operations. On April 4, 2008, Robert Watson resigned as Chief Executive Officer, President and a director of Airtrax, Inc. Mr. Watson will continue to serve as an advisor to the Company on a part-time consulting basis to continue to pursue financing on our behalf. On April 10, 2008, William F. Hungerville, one of our current directors, was appointed interim Chief Executive Officer, and is our Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer.

The growth and development of our business will require a significant amount of additional working capital. We currently have no financial resources and we will need to raise additional capital in order to continue operations. We have no contracts or commitments for additional capital at this time. We currently do not have adequate cash to meet our short or long term objectives. In the event additional capital is raised, it may have a dilutive effect on our existing stockholders. There can be no assurances that the Company will be successful in securing financing needed to allow the Company to continue its future operations or retain any of the previous employees.

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

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

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We have incurred losses and experienced negative operating cash flow since our inception. For the twelve month periods ended December 31, 2007 and 2006, we had net losses attributable to common shareholders of approximately $3.2 million and $6.2 million, respectively. The net loss in both periods includes amortization of debt discount and financing costs of $2.0 million and $900,000 in 2007 and 2006, respectively, offset by revaluation income $4.3 million and $0 in 2007 and 2006, respectively, in connection with the repricing of the conversion benefits of convertible debenture issues and of warrant conversion prices. We also wrote down the advances to Filco of $2 million in 2006. We expect to continue to incur significant expenses. Our operating expenses have been and are expected to continue to outpace revenue and result in additional losses in the near term. We may never be able to reduce these losses, which will require us to seek additional debt or equity financing. While we are in discussions with several prospective lenders, we do not currently have commitments for these funds and there can be no assurance that additional financing will be available, or if available, will be on acceptable terms.

Results of Operations for the Year Ended December 31, 2007 Compared to the Year Ended December 31, 2006

In September 2006, Airtrax was awarded a $415,000 contract to design and build a customized MP2 Equipment Handling Unit for the Israeli Air Force. The contract includes an option to build five additional units at $95,000 each upon the acceptance of the first unit. It is estimated that the follow on orders that could result from this contract would be from 29 to 100 units over the next one to three years. The Critical Design Review was completed in November 2006, the design was approved and initial deliverables were provided. As a result, we received a first process payment of $170,000 on December 12 2007. We completed the Acceptance Test Procedure in 2007 and received a second payment of $162,000 on June 20, 2007. We cannot predict whether we will be able to successfully complete the contract, or that if we do so, that any subsequent orders will result.

We believe that the joint cooperation between us and the United States Navy with the MP2 contract, including building the ETU-110 omni-directional engine handler and our contract to design and build a customized MP2 Equipment Handling Unit for the Israeli Air Force, has bolstered the potential use of our technology within the military. 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 in connection with the Israeli contract.

Revenue

Revenue for the twelve-month period ended December 31, 2007 was approximately $745,000, representing a decrease of approximately $600,000 from revenue of $1.3 million for the comparable period in 2006. This decrease in revenue, is primarily, attributed to reduced sales of our SIDEWINDER ATX-3000.

Cost of Goods Sold

Our cost of goods sold for the twelve months ended December 31, 2007 amounted to approximately $750,000, a decrease of approximately $800,000 from $1.5 million for the twelve months ended December 31, 2006. This decrease in cost of goods sold is primarily attributed to lower sales of our SIDEWINDER ATX-3000.

Operating and Administrative Expenses

Operating and administrative expenses which include administrative salaries, depreciation and other expenses for the twelve month period ended December 31, 2007 totaled $3.3 million which represents a decrease of approximately $600,000 from $3.9 million incurred in the twelve month period ended December 31, 2006. The decrease is primarily due to lower operating, marketing and administrative expenses in 2007, compared to 2006, partially offset by additional expenses relating to and the development of the Cobra and King Cobra scissor lift and Omni-Directional Power Chair development costs.

Operating expenses in 2006 included a $2.0 million impairment charge for the Filco advances, which were completely written off in 2005 and 2006.

Other Income and Expense

Other income and expenses, which included interest expense $387,000, revaluation income of $4.3 million, amortization of deferred financing and debt costs of $2.0 million, liquidated damages of $443,000 and excess cost over proceeds of $1.4 million during the twelve month period ended December 31, 2007 totaled approximately $56,000. During 2006 we recorded other income and expenses of approximately ($225,000), which included charges for deferred financing fees and debt discount of approximately ($900,000), settlement expenses of ($300,000), offset by revaluation income of $1.4 million.

Loss Attributable to Common Shareholders

Loss attributable to common shareholders for the twelve months ended December 31, 2007 was approximately $(3.2) million compared with a loss of $(6.3) million for the same period in 2006. . The decrease is primarily due to lower operating, marketing and administrative expenses in 2007, compared to 2006, partially offset by additional expenses relating to and the development of the Cobra and King Cobra scissor lift and Omni-Directional Power Chair development costs.

We also wrote down the remaining Filco advance of $2.0 million during 2006, along with approximately $300,000 of deemed dividend expense in each year.

Research and Development

We incurred $73,805 and $519,134 in research and development expenses during the year ended December 31, 2007 and 2006, respectively. Research and development activities during fiscal 2007 primarily involved continued limited testing and evaluation of omni-directional components and preparing these components for production in 2008. Our wheel design was changed from the "concept" to "production" phase. This was and is an ongoing process between us and a vendor’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 we 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

The February, 2007 issue had a provision for liquidated damages if the Company did not satisfy its obligations to cause the SEC to declare the registration statement effective within the prescribed time period. Once the conditions for

recording registration payment arrangements, established in EITF 00-19-2, "Accounting for Registration Payment Arrangements," were statisfied, the Company recorded liquidated damages of $514,430 for the specified maximum nine-month period.

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. In the years 2007 and 2006, we recorded credits of $506,605 and $493,258, respectively, from the sale of our losses and credits.

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

We anticipate that our cash requirements for the foreseeable future will be significant. In particular, management expects substantial expenditures for inventory, product production, and advertising with production of its Omni-Directional lift truck and the start of Cobra and King Cobra (Scissors-Lift) production.

We will require additional funds to continue our operations beyond the initial production run. We anticipate that a significant amount of operating capital will be required during the next 12 months to sufficiently fund operations, however, we can not accurately estimate the amount required due to the current suspension of operations. We expect to recognize lower per unit manufacturing and part costs in the future due to volume discounts, as well as lower per unit shipping costs as we transition from the initial rate to larger-scale production. While we are in discussions with several prospective lenders, we do not currently have commitments for additional funds and there can be no assurance that additional financing will be available, or if available, will be on acceptable terms. If we are unable to obtain sufficient funds during the next six months we will further reduce the size of our organization and may be forced to reduce and/or curtail our production and operations, all of which could have a material adverse impact on our business prospects.

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

As of December 31, 2007, our working capital deficit was $2.8 million. Fixed assets, net of accumulated depreciation was $269,000, and total assets, as of December 31, 2007 were $2,513,000. Current liabilities as of December 31, 2007 were $4.4 million compared with total liabilities of $6.2 million.

February 2007 Financing

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

The debentures mature on February 20, 2009. We may in our discretion redeem the debentures, subject to certain equity conditions being met by us as set forth in the debentures, at a price equal to 150% of the principal balance, accrued interest, and all liquidated damages, if any, thereon that are requested to be redeemed. Our obligations under the securities purchase agreement, the debentures and the additional definitive agreements with respect to this transaction are secured by all of our assets. In addition, our wholly owned subsidiaries, Airtrax Financial Services LLC and Airtrax Manufacturing Corp., which are non-operating entities, are guaranteeing the satisfaction of our obligations under the Securities Purchase Agreement, the debentures and the additional definitive agreements with respect to this transaction.

Off-Balance Sheet Arrangements

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

Liquidated Damages

In connection with financings we entered into with various investors in November 2004 and October 2005, we provided such investors registration rights. Pursuant to those registration rights, in the event that we did not file a registration statement by a certain date registering for resale shares of common stock issuable upon conversion of their securities or have such registration statement effective by another date, we agreed to pay to such investors liquidated damages. To date, we have not filed such registration statement, and as a result, we have accrued the required obligation for liquidated damages.

During 2006, we issued to the investors in the November 2004 financing, an aggregate principal amount of $198,248 in our 4% Unsecured Convertible Debentures and 5 year warrants to purchase an aggregate of 72,201 shares of our common stock in exchange for the settlement of $244,632 in accrued liquidated damages through June 30, 2006. The debentures mature on March 1, 2008, and September 30, 2008, respectively, 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 $ 1.75 per share. In addition, the investors agreed to forego any future accrual and payment of such liquidated damages.

In July 2006 we issued 2% Unsecured Convertible Debentures to the investors in the October 2005 financing, aggregating $359,549 and Stock Purchase Warrants to acquire 110,808 shares of our common stock at $ 1.56 per share, in full settlement of liquidated damages resulting from our not filing a registration statement by a certain date registering for resale shares of common stock issuable upon conversion of their securities. The conversion price of the shares underlying the note was $ 1.75. In addition, the investors agreed to forego any future accrual and payment of such liquidated damages.

During 2007, we accrued $513,400in liquidated damages in connection with the February 2007 debt issuance because we did not file a registration statement by a certain date registering for resale shares of common stock issuable upon conversion of their securities or have such registration statement effective by another date.

Critical Accounting Policies and Estimates

Intangibles

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

We continually evaluate whether events and changes in circumstances warrant revised estimates of useful lives or recognition of an impairment loss of our intangibles, which as of December 31, 2007, consisted mainly of patents and licensing agreements. The conditions that would trigger an impairment assessment of our intangible assets include a significant, sustained negative trend in our operating results or cash flows, a decrease in demand for our products, a change in the competitive environment and other industry and economic factors.

Deferred Financing Costs

Deferred financing costs represent legal, commitment; processing, consulting, and other fees associated with the issuance of our debt. Deferred financing costs are being amortized over the term of the related debt.

Impairment of Long-Lived Assets

Pursuant to Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment or Disposal of Long-lived Assets”, we continually monitor events and changes in circumstances that could indicate carrying amounts of long-lived assets may not be recoverable. An impairment loss is recognized when expected cash flows are less than the asset's carrying value. Accordingly, when indicators of impairment are present, we evaluate the carrying value of such assets in relation to the operating performance and future undiscounted cash flows of the underlying assets. Our policy is to record an impairment loss when it is determined that the carrying amount of the asset may not be recoverable. Impairment charges of $2,000,000 were recorded for the year ended December 31, 2006, while there were no impairment charges for the year ended December 31, 2007.

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.

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 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 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.

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

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

Accounting for Income Taxes

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

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We have recorded a valuation allowance of $10,650,648 as of December 31, 2007, due to uncertainties related to our ability to utilize some of our deferred tax assets, primarily consisting of certain net operating losses carried forward before they expire and certain accrued expenses, which are deferred for income tax purposes until paid. The valuation allowance is based on our estimates of taxable income and the period over which our deferred tax assets will be recoverable. There is no deferred tax assets as of December 31, 2007 due to uncertainties about the realization of the asset.

Accounting for Derivatives

Our issuances of convertible debt were accompanied by other financial instruments. These financial instruments include warrants to purchase stock, and the right to convert debt to stock at specified rates ("conversion benefits"). Pursuant to SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS 133), and EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, A Company's Own Stock (EITF 00-19), we have identified certain embedded and freestanding derivative instruments. Generally, where the ability to physical or "net-share" settle an embedded conversion option or free standing financial instrument is not deemed to be within our control, the embedded conversion option is required to be bifurcated or separated, and both the freestanding instruments and bifurcated conversion feature are accounted for as derivative liabilities. At each reporting date, we estimate the fair values of all derivatives, and changes in the fair value are reported in the statement of operations.

Under EITF 00-19, warrants are considered free-standing instruments in that they are legally detachable and separately exercisable. The conversion benefits, which are embedded in these debt issues, derive value from the relationship between the stock price and debt conversion price, and are considered embedded derivatives under the provisions of SFAS 133. The fair values of both the warrants and conversion benefits are calculated using a Black -Scholes Model, taking into consideration factors such as the underlying price of the common stock, the exercise price for warrants or the conversion price for the conversion benefit, the stock volatility, and the risk-free interest rates available for comparable time periods.

Free-standing instruments (warrants), and embedded derivatives (conversion benefits) which are initially bifurcated or separated from the host financial instrument, are recorded as separate liabilities, in cases where the security holder has a right to choose to receive a "net settlement" of cash. The identification of such net settlement provisions in one such prior convertible debt issuance with warrants resulted in us concluding that such warrants should have been identified as "derivatives". Therefore, the warrant liability related to this issuance must be recorded as a derivative liability on our restated balance sheet, and marked to market for each subsequent reporting period with any non-cash charges or credits attributed to the revised fair value of the liability being recognized through the statement of operations.

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If the decision to settle an outstanding liability remains with us, the value of the warrants is recorded in an equity account. The identification of settlement provisions being controlled by us under certain debt issuances resulted in us determining that the securities should be reflected in the restated financial statements as components of equity, as compared to having been previously recorded as liabilities with non-cash charges and/or credits to operations as a result of being marked to market for each period presented. As of December 31, 2007 and 2006, we recognized and recorded the value of certain warrants as equity of $2,315,935, in the accompanying financials.

EITF 00-19-2 specifies that the contingent obligations to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement, or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with SFAS No. 5, “Accounting for Contingencies” (SFAS 5). EITF 00-19-2 also requires additional disclosure regarding the nature of any registration payment arrangements, alternative settlement methods, the maximum potential amount of consideration and the current carrying amount of the liability, if any. We adopted the provisions of EITF 00-19-2 for the reporting period beginning January 1, 2007.

We also previously sold stock units which included warrants along with common stock. In these cases, a portion of the proceeds equal to the value of the warrants is allocated to the warrants with the balance allocated to the stock. In such cases, the values of the warrants are treated as liabilities or equity, depending on whether the issuance documents contain “net cash settlement” provisions. For those warrants that are treated as liabilities, the liabilities are revalued at the end of each reporting period with any change in value being recognized currently as a non-cash charge and/or credit to operations. When a warrant classified as a liability is exercised or canceled, the fair value of the warrant, as determined at the time of exercise or cancellation, is transferred to equity and is no longer revalued. A similar adjustment is made for a conversion benefit classified as a liability when the debt is converted to stock, or canceled.

For embedded and free standing derivatives valued as of December 31, 2007 and 2006, we have recognized in the statement of operations, revaluation income of $4,266,042 and $1,412,143, respectively. In addition, we recognized a derivative liability in the accompanying balance sheet for conversion benefits and warrants of $709,183 in 2007 and $236,144 in 2006.

To the extent that the initial fair values of the bifurcated and/or freestanding derivative liabilities exceed the net proceeds received, an immediate charge to the statement of operations is recognized for the excess. The remainder of the discount from the face value of the convertible debt resulting from allocating part or all of the proceeds to the derivative liabilities is amortized over the life of the instrument through periodic charges to the statements of operations, using the straight line method, which was the most systematic and rational approach that approximated the interest method of amortization due to the short two year amortization term of the debt.

Stock Based Compensation

Common Stock for Services

Because of the significant liquidity issues we have faced since our inception, we have issued common stock to third party vendors and others 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 earlier of the dates of issuance or the date on which a commitment is made to provide compensation in the form of equity securities, whichever date is earlier. Such issuances are recorded as expenses in the periods in which the stock is issued, unless the right to the stock has not fully vested, in which case the expense is recorded in the periods of vesting. During the years ended December 31, 2007 and 2006, we issued an aggregate of 586,609 and 871,257 shares, respectively, of common stock representing a value of services of $332,680 and $1,197,826 , respectively, to third parties in exchange for services performed.

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Warrants

We have issued warrants both as part of “stock units”, and as an integral part of convertible note issues. The value of the warrants and conversion options which are classified as liabilities are revalued each reporting period. These values are determined by a Black-Scholes Model. Most of these issuances contain Registration Payment Arrangements (RPAs), which impose liquidated damages under certain circumstances. EITF 00-19-2 specifies the accounting treatment for derivatives that contain RPA’s and provides guidance on accounting for potential obligations of the RPA’s. The accounting treatment of derivatives will not change as a result of EITF 00-19-2 as the “RPAs” were not the sole determining factor in prior decisions about derivative classification. Each of these warrants is exercisable over five year periods from dates of issuance at prices ranging from $0.45-$1.75 per share. See Note 4 - Capitalization for additional information.

Recent Accounting Pronouncement

The Financial Accounting Standards Board (FASB) has recently issued FASB Staff Position EITF 00-19-2 which modifies the accounting treatment of derivatives that flow from financings involving embedded derivatives. This Staff Position is effective for financial statements for periods beginning January 1, 2007. Management believes that this will cause some change in the way we account for derivatives. Management is evaluating this position and has not made a determination as to the effective it will have on our financial statements.

The Company has reviewed other accounting pronouncements issued during 2007 and 2006, and has concluded that they will have no effect on our financials statements.

RISK FACTORS

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

RISKS RELATED TO OUR FINANCIAL CONDITION AND BUSINESS

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

We may never become profitable because we have incurred losses and experienced negative operating cash flow since our formation. For our fiscal years ended December 31, 2007 and 2006, we had a net loss attributable to common stockholders of approximately $3.2 and $ 6.2 million, 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 currently have no cash on hand. We may never be able to reduce these losses, which will require us to seek additional debt or equity financing. We do not currently have commitments for additional funds and there can be no assurance that additional financing will be available, or if available, will be on acceptable terms. If we are unable to obtain sufficient funds during the next couple of months we will have to seek bankruptcy protection, which would have a material adverse impact on our business prospects.

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.

THE PRICING POLICY FOR OUR LIFT TRUCKS 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 lift truck 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 lift trucks 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 lift trucks 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 LIFT TRUCK. 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 lift truck. 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 a license agreements for the algorithms used to control vehicular movement, and a patent for this technology has been applied for. 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 lift truck. 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 LIFT TRUCK PRODUCT LINE.

We do not have an established channel of distribution for our lift truck 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 ROBERT WATSON, OUR CHIEF EXECUTIVE OFFICER, 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 Robert Watson, our President and Chief Executive Officer. We have entered into an employment agreement with Mr. Watson, however, we do not maintain key man life insurance with respect to Mr. Watson. 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.

On April 4, 2008, Robert Watson resigned as Chief Executive Officer, President and a director of Airtrax Inc. effective immediately. Mr. Watson will continue to serve as an advisor to the Company on a part-time consulting basis to continue to pursue financing for the Company.

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

The manufacture, sale and use of Omni-Directional lift trucks 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 lift truck 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 lift trucks, 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 lift truck. In addition, many of our competitors have long-standing arrangements with equipment distributors and carry one or more of competitive products in addition to lift trucks. These distributors are prospective dealers for our company. It therefore is conceivable that some distributors may be loath to enter into any relationships with us for fear of jeopardizing existing relationships with one or more competitors.

RISKS RELATING TO OUR COMMON STOCK

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 32,800,093 shares of common stock outstanding as of April 11, 2008, and we had convertible notes which require the issuance of approximately 9,726,000 additional shares of common stock pursuant to our October 2005 private placements and July 2006 note issuances, in which the conversion price has been adjusted resulting from the February 20, 2007 issuance of $3,734,040 Secured Convertible Promissory Notes, convertible into 8,297,867 additional shares of common stock at $0.45 per common share. Additionally, warrants which require the issuance of 10,494,131 additional shares of common stock pursuant to our November 2004, and February, May, and October 2005 private placements and 2007 note issuances. Further, we issued 16,595,732 warrants in connection with the February 20, 2007 issuance of $3,734,040 Secured Convertible Promissory Notes. 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.

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.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Airtrax, Inc.

We have audited the accompanying balance sheet of Airtrax, Inc. (the "Company") as of December 31, 2007 and 2006 and the related statements of operations, changes in stock holders' deficiency and cash flows for the two years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits 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, we 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of Airtrax, Inc. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years ended December 31, 2007 and 2006 in accordance with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the accompanying financial statements, at December 31, 2007, the Company had a working capital deficiency of approximately $2.8 million as well as an accumulated deficit $29.7 million. In addition, the Company has had a continuing record of losses. These factors among other things discussed in the notes to the financial statements, raise substantial doubt about the ability of the Company to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities that might be necessary should the Company be unable to continue in operation.

/s/ Robert G. Jeffrey, Certified Public Accountants
April 11, 2008
Wayne, New Jersey

Part 1-Financial Information

Item 1. Financial Statements

AIRTRAX, INC.
BALANCE SHEET
December 31, 2007

ASSETS		2007
Current Assets		
Cash	$	304,735
Accounts receivable, net of reserve		32,814
Inventory		1,041,598
Prepaid expenses		40,906
Vendor advances		165,712
Total current assets		1,585,765
Fixed Assets		670,369
Less: accumulated depreciation		(401,849)
Net fixed assets		268,520
Other Assets		
Deferred financing costs & other		226,305
Prepaid interest		296,582
Patents – net		136,253
Total other assets		659,140
TOTAL ASSETS	$	2,513,425
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities		
Accounts payable	$	323,003
Accrued liabilities		1,157,151
Shareholder loans payable		40,713
Current portion-Convertible debt		2,175,723
Warrants and conversion option liability		709,183
Total current liabilities		4,405,773
Long Term Convertible Debt		1,826,667
TOTAL LIABILITIES		6,232,440
Stockholders' Deficiency		
Preferred stock – authorized; 5,000,000 shares, no par value, 275,000 issued and outstanding		12,950

Common stock – authorized, 100,000,000 shares; no par value, issued and outstanding – 26,755,867 and 24,260,352, respectively		23,395,647
Paid in capital – warrants		2,315,935
Paid in capital – options		244,799
Accumulated deficit		(29,688,346)
Total stockholders' deficiency		(3,719,015)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$	2,513,425

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

AIRTRAX, INC.
STATEMENT OF OPERATIONS
For the Twelve Months Ended December 31,
(In dollars, except share data)

	2007	2006
Revenues	$ 745,367	$ 1,346,913
Cost of sales	749,043	1,470,542
Gross Margin	(3,676)	(123,629)
Operating and administrative expenses		
General and Administrative costs	2,809,689	3,943,632
Impairment of Filco advances	-	2,000,000
Total Operating Expenses	2,809,689	5,943,632
Operating loss	(2,813,365)	(6,067,261)
Other income expense		
Interest expense	(386,510)	(230,149)
Revaluation income	4,266,042	1,412,143
Amortization of financing costs	(457,696)	(251,438)
Amortization of debt discounts	(1,595,007)	(648,440)
Liquidated damages	(513,431)	(214,247)
Excess cost of liabilities over proceeds	(1,401,941)	-
Setttlement expenses	-	(290,804)
Other income	74,285	(2,255)
Net loss before taxes	(2,827,623)	(6,292,451)
Income tax (expense) benefit, State:	(413,284)	437,803
Net loss before dividends	(3,240,907)	(5,854,648)
Deemed dividends on preferred stock	-	303,100
Net loss attributable to common shareholders	(3,240,907)	(6,157,748)
Preferred stock dividends paid	-	(112,500)
Deficit allocable to common shareholders	$ (3,240,907)	$ (6,270,248)
Net loss accumulated;		
Net loss attributable to common shareholders	$ (3,240,907)	$ (5,854,648)
Adjustment for preferred share dividends accumulated	68,750	91,667
Net Loss allocable to common shareholders	$ (3,309,657)	(5,946,315)

Net loss per share basic & diluted	$ (0.13)	$ (0.27)
Weighted average shares outstanding	24,962,106	23,055,578

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

AIRTRAX, INC.

STATEMENT OF CHANGES IN EQUITY

For the Two Years Ended December 31, 2007 and 2006

	Common Shares	Common Stock Amount	Preferred Shares	Preferred Amount	Paid in Capital Warrants	Paid in Capital Options	Accumulated Deficit	Total
Balance at December 31, 2005	21,939,360	$ 18,426,605	275,000	12,950	$ 2,051,118	$ 1,330,948	$ (20,177,194)	$ 1,644,427
Warrants issued in connection with Convertible debt			-	-	264,817	-	-	264,817
Shares issued for settlement of interest	49,081	66,516	-	-	-	-	-	66,516
Employee stock awards	75,000	115,470	-	-	-	-	-	115,470
Shares issued for services	651,257	859,856	-	-	-	-	-	859,856
Shares issued to directors	145,000	222,500	-	-	-	-	-	222,500
Shares issued in settlement of Note default	184,000	93,490	-	-	-	-	-	93,490
Options issued	-	-	-	-	-	76,351	-	76,351
Conversion of convertible debt	761,952	1,138,012	-	-	-	-	-	1,138,012
Shares issued for cash	35,723	65,500	-	-	-	-	-	65,500
Proceeds from warrant extensions		117,000			-			117,000
	418,879	415,610	-	-	-	-	(112,500)	303,110

Dividends on preferred stock								
Net Loss	-	-	-	-	-		(6,157,745)	(6,157,745)
Balance at December 31, 2006	24,260,352	$ 21,520,559	275,000	$ 12,950	$ 2,315,935	$ 1,407,299	$ (26,447,439)	$ (1,190,696)
Shares issued for services	317,261	166,016	-	-	-	-	-	166,016
Correction of shares outstanding	(19,667)	(24,389)	-	-	-	-	-	(24,389)
Shares issued to directors	269,348	166,664	-	-	-	-	-	166,664
Cancellation of options	-	1,162,500	-	-	-	(1,162,500)	-	-
Conversion of convertible debt	933,407	404,297	-	-	-	-	-	404,297
Shares issued in connection with Feb 2005 MFN	995,166	-	-	-	-	-	-	-
Net Loss	-	-	-	-	-	-	(3,240,907)	(3,240,907)
Balance at December 31, 2007	26,755,867	$ 23,395,647	275,000	$ 12,950	$ 2,315,935	$ 244,799	$ (29,688,346)	$ (3,719,015)

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

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AIRTRAX, INC.
STATEMENT OF CASH FLOWS
FOR THE TWELVE MONTHS ENDED DECEMBER 31,

	2007	2006
Cash flows from operating activities:		
Net loss	$ (3,240,907)	$ (6,157,745)
Adjustments to reconcile net loss to net cash		
used in operating activities:		
Depreciation and amortization	74,528	69,019
Amortization of debt discounts	2,052,693	899,878
Common stock issued as payment for services	333,055	1,274,177
Provision for bad debts	22,403	-
Impairment of advances to Filco GmBH	-	2,000,000
Stock issued in settlement of obligations	-	93,490
Excess discount expense	1,401,941	-
Cost of settling liquidated damages	-	183,572
Provision for excess inventory	64,000	-
Deemed dividend on preferred stock	-	303,100
Amortization of prepaid interest	218,523	-
Revaluation income	(4,266,042)	(1,412,143)
Accrued interest on shareholder advances	-	7,136
Stock to settle interest	-	66,464
Adjustment of deferred tax asset	413,284	-
Decrease in accrual of deferred tax benefit	506,605	7,413
Change in assets (liabilties)		
(Increase) decrease in accounts receivable	(4,513)	43,653
(Increase) decrease in vendor advances	(62,084)	59,889
Increase in prepaid expenses	(40,906)	-
(Increase) decrease in inventory	(56,141)	955,682
Increase in accrued expenses	500,220	524,984
(Decrease) increase in accounts payable	(579,529)	211,898
Net cash used in operating activities	(2,662,870)	(869,533)
Cash flows from investing activities:		
Acquisition of equipment	(47,232)	(151,577)
Additions to patent cost	-	(6,800)
Net cash used in investing activities	(47,232)	(158,377)
Cash flows from financing activities:		
Proceeds from converted debt	-	1,219,800
Proceeds from convertible debt	2,822,100	-
Proceeds from the sale of common stock	-	65,500
Payment on note payable	(100,000)	-
Proceeds from notes payable to related parties	-	35,000

Payment of notes payable to related parties	(35,000)	(100,941)
Proceeds from exercise of warrants	-	117,000
Net cash provided by financing activities	2,687,100	1,336,359
Net (decrease) increase in cash	(23,002)	308,449
Cash, beginning of year	327,737	19,248
Cash, end of year	$ 304,735	$ 327,697

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

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AIRTRAX, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying audited financial statements have been prepared on the accrual basis of accounting in conformity to generally accepted accounting principles in the United States.

Business

The Company was formed April 17, 1997. It has designed a lift truck 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 No. 7 (SFAS 7). The Company became an operational company in 2005.

The Company has incurred losses since its inception. Until the end of 2004, these losses were financed by private placements of equity securities. During 2006 and 2007, the Company obtained financing almost exclusively from the issuance of convertible debentures. The Company will need to raise additional capital through the issuance of debt or equity securities to continue to fund operations.

Cash and Cash Equivalents

The Company considers cash deposits and short term debt securities that can be redeemed on demand and investments that have original maturities of less than three months to be cash equivalents.

Fair Value of Financial Instruments

The Company's financial instruments are cash and cash equivalents, accounts receivable, accounts payable, and notes payable, and the related security issuances. The recorded values of these financial instruments approximate their fair values based on their short-term nature. The recorded values of notes payable approximate their fair values, as interest approximates market rates.

Concentrations of Credit Risk

Financial instruments subject the Company to concentrations of credit risk. The Company places its cash and temporary cash investments with credit quality institutions. At times, such investments may be in excess of applicable government mandated insurance limits. With respect to accounts receivable, the Company limits credit risk by performing ongoing credit evaluations. Management does not believe significant risk exists in connection with the Company's concentrations of credit at December 31, 2007.

Accounts Receivable

The Company provides an allowance for doubtful accounts (when necessary) equal to the estimated uncollectible amounts. The Company's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change. As of December 31, 2007, there was a reserve of $13,750 and there was no allowance for doubtful accounts as of December 31, 2006..

Inventories

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

Fixed Assets

Fixed assets, consisting of office furniture and equipment, demo and shop equipment along with castings and tools, are recorded at cost. The cost of developing and constructing the prototype omni-directional helicopter handling vehicle and the omni-directional lift truck vehicle is expensed as incurred. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation is provided over the estimated useful lives of the related assets ranging from 5 to 7 years using the straight-line method for financial statement purposes.

Intangibles

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

In accordance with Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets,” the Company reviews intangibles for impairment annually, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of the Company's business enterprise below its carrying value. The impairment test requires the Company to estimate the fair value of the Company's overall business enterprise down to the reporting unit level. The Company performs its annual impairment test in its fiscal fourth quarter. No impairment charges related to goodwill or other intangibles were recorded in the years ended December 31, 2007 and 2006.

The Company continually evaluates whether events and changes in circumstances warrant revised estimates of useful lives or recognition of an impairment loss of our intangibles, which as of December 31, 2007, consist mainly of patents and licensing agreements. The conditions that would trigger an impairment assessment of our intangible assets include a significant, sustained negative trend in our operating results or cash flows, a decrease in demand for our products, a change in the competitive environment and other industry and economic factors.

Deferred Financing Costs

Deferred financing costs represent legal, commitment; processing, consulting, and other fees associated with the issuance of the Company’s debt. Deferred financing costs are being amortized over the term of the related debt.

Impairment of Long-Lived Assets

Pursuant to Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment or Disposal of Long-lived Assets”, the Company continually monitors events and changes in circumstances that could indicate carrying amounts of long-lived assets may not be recoverable. An impairment loss is recognized when expected cash flows are less than the asset's carrying value. Accordingly, when indicators of impairment are present, the Company evaluates the carrying value of such assets in relation to the operating performance and future undiscounted cash flows of the underlying assets. The Company’s policy is to record an impairment loss when it is determined that the carrying

amount of the asset may not be recoverable. Impairment charges of $2,000,000 were recorded for the year ended December 31, 2006, while there were no impairment charges for the year ended December 31, 2007.

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.

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. The Company obtains written purchase authorizations from customers for a specified amount of product at a specified price and considers delivery to have occurred at the time of shipment. Revenue is recognized at shipment, 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.

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

Advertising Costs

Advertising costs are expensed as incurred. There were no advertising costs incurred during 2007 and 2006.

Accounting for Income Taxes

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

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We have recorded a valuation allowance of $10,650,648 as of December 31, 2007, due to uncertainties related to our ability to utilize some of our deferred tax assets, primarily consisting of certain net operating losses carried forward before they expire and certain accrued expenses, which are deferred for income tax purposes until paid. The valuation allowance is based on our estimates of taxable income and the period over which our deferred tax assets will be recoverable. There was no net deferred tax asset as of December 31, 2007 due to the uncertainty of its realizability.

Accounting for Derivatives

The Company's issuances of convertible debt are accompanied by other financial instruments. These financial instruments include warrants to purchase stock, and the right to convert debt to stock at specified rates ("conversion benefits."). Pursuant to SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS 133), and EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, A Company's Own Stock (EITF 00-19), the Company has identified certain embedded and freestanding derivative instruments. Generally, where the ability to physical or "net-share" settle an embedded conversion option or free standing financial instrument is not deemed to be within the control of the Company, the embedded conversion option is required to be bifurcated or separated, and both the freestanding instruments and bifurcated conversion feature are accounted for as derivative liabilities. At each reporting date, the Company estimates the fair values of all derivatives, and changes in the fair value are reported in the statement of operations.

Under EITF 00-19, warrants are considered free-standing instruments in that they are legally detachable and separately exercisable. The conversion benefits, which are embedded in these debt issues, derive value from the relationship between the stock price and debt conversion price, and are considered embedded derivatives under the provisions of SFAS 133. The fair values of both the warrants and conversion benefits are calculated using a Black Scholes Model, taking into consideration factors such as the underlying price of the common stock, the exercise price for warrants or the conversion price for the conversion benefit, the stock volatility, and the risk-free interest rates available for comparable time periods.

Free-standing instruments (warrants), and embedded derivatives (conversion benefits) which are initially bifurcated or separated from the host financial instrument, are recorded as separate liabilities, in cases where the security holder has a right to choose to receive a “net settlement” of cash. The identification of such net settlement provisions in one such prior convertible debt issuance with warrants resulted in the Company concluding that such warrants should have been identified as “derivatives”. Therefore, the warrant liability related to this issuance must be recorded as a derivative liability on the Company’s restated balance sheet, and marked to market for each subsequent reporting period with any non-cash charges or credits attributed to the revised fair value of the liability being recognized through the statement of operations.

If the decision to settle an outstanding liability remains with the Company, the value of the warrants is recorded in an equity account. The identification of settlement provisions being controlled by the Company under certain debt issuances resulted in the Company determining that the securities should be reflected in the restated financial statements as components of equity, as compared to having been previously recorded as liabilities with non-cash charges and/or credits to operations as a result of being marked to market for each period presented. As of December 31, 2007 and 2006, the Company recognized and recorded the value of certain warrants as equity of $ 2,315,935.

EITF 00-19-2 specifies that the contingent obligations to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement, or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with SFAS No. 5, “Accounting for Contingencies” (SFAS 5). EITF 00-19-2 also requires additional disclosure regarding the nature of any registration payment arrangements, alternative settlement methods, the maximum potential amount of consideration and the current carrying amount of the liability, if any. The Company adopted the provisions of EITF 00-19-2 for the reporting period beginning January 1, 2007.

The Company also previously sold stock units which included warrants along with common stock. In these cases, a portion of the proceeds equal to the value of the warrants is allocated to the warrants with the balance allocated to the stock. In such cases, the values of the warrants are treated as liabilities or equity, depending on whether the issuance documents contain “net cash settlement” provisions. For those warrants that are treated as liabilities, the liabilities are revalued at the end of each reporting period with any change in value being recognized currently as a non-cash charge and/or credit to operations. When a warrant classified as a liability is exercised or canceled, the fair value of the warrant, as determined at the time of exercise or cancellation, is transferred to equity and is no longer revalued. A similar adjustment is made for a conversion benefit classified as a liability when the debt is converted to stock, or canceled.

For embedded and free standing derivatives valued as of December 31, 2007 and 2006, the Company has recognized in the statement of operations, revaluation income <expense> of $4,266,042 and $1,412,143, respectively. In addition, the Company recognized a derivative liability in the accompanying balance sheet for conversion benefits and warrants of $709,283 in 2007 and $236,144 in 2006.

To the extent that the initial fair values of the bifurcated and/or freestanding derivative liabilities exceed the net proceeds received, an immediate charge to the statement of operations is recognized for the excess. The remainder of the discount from the face value of the convertible debt resulting from allocating part or all of the proceeds to the derivative liabilities is amortized over the life of the instrument through periodic charges to the statements of operations, using the straight line method, which was the most systematic and rational approach that approximated the interest method of amortization due to the short two year amortization term of the debt.

The estimated fair values of derivatives have been calculated based on the Black-Scholes Model, using the following assumptions as of December 31:

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	2007	2006
Fair Value of stock	$ .17	$ .0.47
Exercise Price	$ .45-$1.65	$ $1.56-1.65
Dividend Yield	None	None
Risk Free Interest Rate	4.68%	4.63%-5.10%
Expected Volatility	89.25%-91.23%	89.25%-91.23%
Expected Life-Years	1.81-2.68	2.5-3.5

Stock Based Compensation

Common Stock for Services

Because of the significant liquidity issues the Company has faced since our inception, the Company has issued common stock to third party vendors and others 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 earlier of the dates of issuance, or the dates on which a commitment is made to provide compensation in the form of equity securities, whichever date is earlier. Such issuances are recorded as expenses in the periods in which the stock is issued, unless the right to the stock has not fully vested, in which case the expense is recorded in the periods of vesting. During the years ended December 31, 2007 and 2006, the Company issued an aggregate of 586,609 and 871,257 shares, respectively, of common stock representing a value of services of $332,680 and $1,197,826 , respectively, to third parties in exchange for services performed.

Stock Options

Stock options are awarded to employees as compensation for services. Such awards have been immediately exercisable. The Company adopted SFAS 123R, “Share Based Payment” (SFAS 123R), and SFAS 148, “Accounting for Stock Based Compensation - Transition and Disclosure” (SFAS 148) on January 1, 2006. Prior to 2006, these awards were accounted for under the intrinsic method as permitted by Accounting Principles Board Opinion No. 25. Since the time of adopting SFAS 123R, the option awards have been valued at their grant-date fair value as determined through the use of the Black Scholes Model.

Pursuant to the requirements of SFAS 123R, the weighted average fair value of options granted during 2006, as determined on the dates of grant, was $ .25. The fair values were determined in 2006 using a Black Scholes Model, with a volatility rate of 89.88%, risk free interest rate of 4.25%, and an expected life of 3.33 years. There were no options granted during 2007

Warrants

The Company has issued warrants both as part of “stock units”, and as an integral part of convertible note issues. The value of the warrants and conversion options which are classified as liabilities are revalued each reporting period. These values are determined by a Black Scholes Model. Most of these issuances contain Registration Payment Arrangements (RPAs), which impose liquidated damages under certain circumstances. EITF 00-19-2 specifies the accounting treatment for derivatives that contain RPA’s and provides guidance on accounting for potential obligations of the PRA’s. The accounting treatment of derivatives will not change as a result of EITF 00-19-2 as the “RPAs” were not the sole determining factor in prior decisions about derivative classification. The following is a schedule of changes in warrants outstanding through December 31, 2007. Each of these warrants is exercisable over five year periods from dates of issuance at prices ranging from $0.45-$1.75 per share.

Balance December 31, 2006	10,383,323
Warrants issued February 2007	16,595,732
Convertible debentures	715,333
Warrants issued to Placement Agent	200,000
Warrants issued August 26, 2007	
Total warrants issued in 2007	17,511,065
Balance December 31, 2007	27,894,388

Basic and Diluted Loss Per Share

In accordance with Statement of Financial Accounting Standards No. 128, “Earnings Per Share” (SFAS 128), and SEC Staff Accounting Bulletin No. 98 (SAB 98), both basic and diluted earnings/loss per share (“EPS”) are presented on the face of the income statement. Basic EPS is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding. Diluted EPS is computed similarly to basic EPS, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were not anti-dilutive. The Company has excluded all common stock equivalents arising from outstanding options, warrants, convertible preferred stock and convertible debt from the calculation of diluted net loss per share because these securities are anti-dilutive. During the years ended December 31, 2007 and 2006, the Company had approximately 24,962,106 and 23,055,578 weighted average number of shares, respectively, outstanding and used in both the Basic and Diluted EPS calculation.

Segment Reporting

Management treats the operations of the Company as one single segment.

Reclassifications

Certain amounts in the 2006 financial statements have been reclassified to conform to the 2007 financial statement presentation.

NOTE 2– DEBT AND RELATED SECURITIES

Convertible notes payable consist of the following at December 31, 2007 and 2006:

Convertible notes payable at December 31, 2007:

	Note	Debt Discount	Net	Conversion Price	Warrants	Exercise Price	
May 31, 2005, 8% interest, due May 31, 2007	$ -	$ -	$ -	$ 1.30	423,077	$ 2.11	(1)
October 18, 2005, 8% interest, October 18, 2007	1,325,500	-	1,325,500	$ 2.00	851,400	$ 3.25	(1) (2)
March 1, 2006, 4% interest, due March 1, 2008	150,000	(2,044)	147,956	$ 1.56	48,077	$ 1.65	
June 30, 2006, 4% interest, due June 30, 2008	48,248	(1,619)	46,629	$ 1.56	24,124	$ 1.65	

	Note	Debt Discount	Net	Conversion Price	Warrants	Exercise Price	
July 21, 2006, 2% interest, due July 21, 2008	359,549	(3,879)	355,670	$ 1.56	282,051	$ 1.65	(1)
July 26, 2006, 12% interest, due October 26, 2007	300,000	-	300,000	$ 1.56	110,808	$ 1.56	(1)
February 20, 2007, 8% interest, due February 20, 2009	3,734,040	(1,907,405)	1,826,635	$ 0.45	8,297,867	$ 0.54	
					4,148,933	$ 0.75	
					4,148,933	$ 1.25	
					715,533	$ 0.54	
Total Convertible Notes Payable	$ 5,917,337	$ (1,914,947)	$ 4,002,390		19,050,803		
Less: Current Portion	$ 2,183,297	$ (7,574)	2,175,723				
Long term convertible notes payable	$ 3,734,040	$ (1,907,373)	$ 1,826,667				

Convertible notes payable at December 31, 2006:

	Note	Debt Discount	Net	Conversion Price	Warrants	Exercise Price	
May 31, 2005, 8% interest, due May 31, 2007	$ 246,797	$ (27,371)	$ 219,426	$ 1.30	423,077	$ 2.11	(1)
October 18, 2005, 8% interest, October 18, 2007	1,483,000	(272,226)	1,210,774	$ 2.00	851,400	$ 3.25	(1)
March 1, 2006, 4% interest, due March 1, 2008	150,000	(10,216)	139,784	$ 1.56	48,077	$ 1.65	
	48,248	(5,511)	42,737	$ 1.56	24,124	$ 1.65	

June 30, 2006, 4% interest, due June 30, 2008							
July 21, 2006, 2% interest, due July 21, 2008	359,549	(10,528)	349,021	$ 1.56	282,051	$ 1.65	(1)
July 26, 2006, 12% interest, due October 26, 2007	400,000	-	400,000	$ 1.56	110,808	$ 1.56	(1)
Total Convertible Notes Payable	$ 2,687,594	$ (325,852)	$ 2,361,742		1,739,537		
Less: Current Portion	$ 2,129,797	$ (299,597)	$ 1,830,200				
Long term convertible notes payable	$ 557,797	$ (26,255)	$ 531,542				

(1) The conversion price and exercise price were subsequently reduced to $0.45 in connection with the February 20, 2007 convertible debt issuance.
(2) The October 2005 issuance due October 2005 was automaticallt extended to April 18, 2008 due the terms of the Notes.

On October 18, 2005, The Company entered into a 8% Series C Unsecured Convertible Debenture and Warrants Purchase Agreement with certain accredited investors pursuant to which the Company sold an aggregate of $1,000,000 principal amount unsecured convertible debentures convertible into shares of our common stock (October 2005 Note), 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, the Company issued 50,000 Warrants to the placement agent, a registered broker dealer firm, exercisable at $3.25 per share, as consideration for services performed in connection with the issuance of the Debentures and Warrants to the Investors pursuant to the Purchase Agreement. The prices were adjusted to $1.56 due to the issuance of the February 2006 debt issuance, and were subsequently reduced to $0.45 per share due to the pricing of the February 20, 2007 private placement.

On October 28, 2005, the Company held a 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, The Company 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. The prices were adjusted to $1.56 due to the issuance of the February 2006 debt issuance, and were subsequently reduced to $0.45 per share due to the pricing of the February 20, 2007 private placement.

The October 2005 convertible debt issuance contains a provision that automatically extends the term of the note six months until April 18, 2008 if the Company’s common stock is trading at a closing bid price of less than $2.00 on the

maturity date. The maturity date was October 18, 2007 and Company's common stock price on October 18, 2007 was $0.24. As such, the October 2005 Note was extended until April 18, 2008.

Furthermore, upon the occurrence of an Event of Default, the Holder may consider this Debenture immediately due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived, anything herein or in any note or other instruments contained to the contrary notwithstanding, and the Holder may immediately enforce any and all of the Holder's rights and remedies provided herein or any other rights or remedies afforded by law; provided, that any payment of this Debenture in connection with an Event of Default may, at the option of the Holder, be made in shares of Common Stock of the Company which number of shares shall be calculated based upon at the closing sale price of the Common Stock on the date the Debenture becomes due and payable. Such payment of shares shall be made within ten (10) Trading Days of such demand, and if not paid within such period, the Company shall pay the Holder liquidated damages in cash of 2% per month of such amount until paid, pro-rated for any partial months.

In no event shall any holder be entitled to convert this Debenture for shares of Common Stock in excess of that number of shares of Common Stock that, upon giving effect to such conversion, would cause the aggregate number of shares of Common Stock beneficially owned by the holder and its "affiliates" (as defined in Rule 405 under the Securities Act) to exceed 9.99% of the outstanding shares of the Common Stock of the Company following such conversion.

On November 11, 2006, $65,000 of the October 2005 Note was converted into 41,666 shares of common stock.

In March 2006, the Company issued $819,800 of 8% convertible debt, which was converted into equity in the second quarter of 2006 along with accrued interest, at a conversion rate of $1.56 per share, resulting in the issuance of 534,352 additional shares of stock. This issue was accompanied by 525,513 warrants, exercisable at $1.75 for a period of five years.

On March 1, 2006, the Company issued $150,000 of 4% Convertible Notes (March 2006 Note) due March 1, 2008, accompanied by 48,077 warrants to purchase common stock at $1.75 over five years in settlement of certain liquidated damages described below. The note is convertible at $1.56 over two years.

On June 30, 2006, the Company issued an additional $48,248 in 4% Convertible Notes (June 2006 Note) due September 30, 2008, accompanied by 24,124 warrants exercisable at $1.75 per share over five years in settlement of the liquidated damages described below. The note is convertible at $1.56 over two years.

As of June 30, 2006, all damages payable to the investors of the Company's November 2004 private placement were settled, and pursuant to a modification agreement which the Company entered into with such investors on March 1, 2006 and June 30, 2006, as described in Supplemental Cash Flow Information included in Note 6, no liquidated damages will accrue for the non-effectiveness of the registration statement after the date of the modification agreements. There was no provision in these issues for repricing.

On September 10, 2007, the Company issued 123,371 shares of its common stock in connection with the terms of the February 2005 equity issuance, and the "most favored nations" conversion pricing related to the February 2005 convertible note issuance. In connection with the February 2005 issuance, the Company may be obligated to issue up to an additional 1.2 million shares of common stock to shareholder's of record who received the shares under the original February 2005 issuance, due to the reduction in the conversion price of certain convertible debt issued in February 2007. In November 2007, 817,093 shares of common stock were issued based on the supported claims for certain shareholders

In the July 21, 2006 Debt Issuance, the Company issued 2% unsecured convertible debentures (July 2006 Unsecured Note) aggregating $359,549 accompanied by warrants to acquire 110,808 shares of our common stock at $1.75 per share. These were issued in settlement of the liquidated damages associated with the October 2005 issue. The conversion price of the shares underlying the note was $1.56.

On July 26, 2006, the Company issued $400,000 of 12% convertible debt (July 2006 Note) due October 20, 2006. After commissions, the Company received net proceeds of $342,500. The debt is convertible to stock at $1.56 per share. The issue was accompanied by 282,052 warrants exercisable at $1.56 for five years. Both the conversion price and the warrants purchase price have been adjusted to $.45 due to the pricing of the February 20, 2007 private placement. A total of $412,000 of principal and accrued and unpaid interest was due on October 26, 2006. The Company did not repay this obligation when it was due and was in default. The Company negotiated with the holder to extend the note through the payment of cash, and the issuance of shares of common stock. On March 22, 2007, the Company made a $100,000 principal payment and paid interest of $30,233. The amount due was reduced to $300,000 and interest was reduced to 10%. Additionally, the Company issued 184,000 shares of common stock as settlement of the default and paid a fee of $15,000 to Source Capital Group, Inc., a registered representative of the Note holder, and the Company also agreed to make monthly interest payments.

The July 26, 2006 Renegotiated Note was due and payable in full, including all accrued and unpaid interest, on November 29, 2007. The Note was not paid in October and was again in default. In December, the Company renegotiated the Note and agreed to issued 100,000 shares of common stock to the Note holder for forbearance, and subsequently issued 150,000 shares of common stock as payment of interest through April 2008. There can be no assurances that the Company will be successful in maintaining further interest payments.

The Company's private placements of convertible notes and common stock purchase warrants issued in 2005 contained liquidated damages provisions, one of which has been settled as discussed above. For the two other financings (February 2005 Note and May 2005 Note), no liquidated damages have accrued despite the fact that the shares underlying the notes and warrants issued in such private placements have not been registered, since the payment of such damages is linked to the effectiveness of the registration statement which was initially filed in February 2005, and said registration statement has been withdrawn.

Each of the debt issuances included associated warrants. The fair value of the warrants was calculated using a Black-Scholes Model. Based upon an evaluation of the criteria in EITF 00-19, the fair value of the warrants associated with the February 2005 issue was classified as a derivative liability, and is subject to revaluation at the end of each reporting period. Most of the warrants issued with convertible debt have a "most favored nations" (MFN) provision, whereby the exercise prices are subject to adjustment based on more favorable pricing of subsequent debt issuances.

FEBRUARY 2007 PRIVATE PLACEMENT

On February 20, 2007, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain accredited and/or qualified institutional investors pursuant to which The Company sold an aggregate of $3,734,040 principal amount secured convertible debentures (the "Debentures") convertible into shares of our common stock, no par value (the "Common Stock"), at a conversion price equal to $0.45 (the "Conversion Price"), for an aggregate purchase price of $3,219,000. The difference between the face amount of the borrowing ($ 3,734,040) and proceeds ($3,219,000) was recorded as prepaid interest, and is being amortized over the life of the loan. In addition, the Company issued to the investors (i) warrants to purchase 8,297,866 shares of the Company's Common Stock (the February 2007 Warrants) at an exercise price equal to $0.54 per share, which represents 100% of the number of shares assumable upon conversion of the Debentures; (ii) callable warrants to purchase 4,148,933 shares of our Common Stock at an exercise price equal to $0.75 per share, which represents 50% of the number of shares assumable upon conversion of the Debentures; and (iii) callable warrants to purchase 4,148,933 shares of our Common Stock at an exercise price equal to $1.25 per share, which represents 50% of the number of shares assumable upon conversion of the Debentures (collectively, the "Callable Warrants").

Previous Convertible Issues and the warrants accompanying the November 2004 private placement of common stock contain "Most Favored Nations" (MFN) clauses that guaranteed the investors that subsequent issues of stock or notes would not be made on more favorable terms. If the Company subsequently issues any shares of common stock or securities convertible or exercisable into common stock at a per share purchase price which is less than the conversion or exercise prices of outstanding notes and warrants, such conversion or exercise prices would be adjusted downward in accordance with their respective terms. As a result of the issuance of the convertible notes on February 20, 2007, the following warrant and conversion prices were adjusted:

1. The exercise price of the warrants associated with the May 2005 convertible debenture offering and the conversion price of that offering, which were previously adjusted to $1.56 per share, are now set at $0.45.

2. The conversion price of the October 2005 issuance of the convertible debentures, which was previously adjusted from $2.00 per share to $1.56 per share, is now set at $0.45.

3. The exercise price of the warrants issued pursuant to the October 2005 debenture Offering, which was previously adjusted from $3.25 per share to $1.56 per share, is

now set at $0.45

4. The exercise price of the warrants associated with the November 2004 stock offering was adjusted form $1.25 per share to $0.45 per share

5. The exercise price associated with the July 2006 convertible debentures was adjusted form $1.56 per share to $0.45 per share

6. The warrant exercise price associated with the warrants issued with the July 2006 convertible debentures was adjusted from $1.65 per share to $0.45 per share.

The effects of these changes have been included in the calculation of revaluation income and derivative liabilities during 2007.

OTHER 2007 TRANSACTIONS

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

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

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

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

On July 1, 2007, issued 15,000 shares of common stock for Directors of the Company.

On July 7, 2007 issued 147,059 shares of common stock in lieu of $50,000 in service agreement with investor relations firm.

On August 21, 2007 and September 4, 2007, issued 100,000 and 50,000 shares of common stock, respectively, of the Company upon conversion of an aggregate of $67,500 of convertible notes per share. In addition, the remaining October 2005 convertible notes due October 18, 2007, aggregating $1,325,500 plus accrued interest, was automatically extended to a new maturity date of April 18, 2008 as a result of the terms of the original agreement which states that the maturity date of the convertible notes is automatically extended if the trading value of the Common Stock of the Company is trading at a closing bid of less than $2.00 per share.

On August 26, 2007, 200,000 warrants were issued with a five year life at an exercise price of $1.00.

On September 10, 2007, the Company issued 123,371 shares of its common stock in connection with the terms of the February 2005 equity issuance and the “most favored nations” conversion pricing related to the February 2005 convertible note issuance. In connection with the February 2005 Note issuance, the Company may be obligated to issue up to an additional 1.2 million shares of common stock to shareholder’s of record who received the shares under the original issuance, due to the reduction in the conversion price of certain convertible debt issued in February 2007. In November 2007, 817,093 shares of common stock were issued based on the supported claims for certain

shareholders.

The October 2005 convertible debt issuance contains a provision that automatically extends the term of the note six months until April 18, 2008 if the Company's common stock is trading at a closing bid price of less than $2.00 on the maturity date. The maturity date was October 18, 2007 and Company's common stock price on October 18, 2007 was $0.24. As such, the October 2005 Note was extended on October 18, 2007 until April 18, 2008.

DEBT, CONVERSION TO STOCK AND RELATED WARRANTS

The balances of Convertible Notes and Warrants at December 31, 2007 and 2006 consist of the following:

Convertible Notes and Warrants at December 31, 2007:

	CONVERTIBLE NOTES			WARRANTS		
	Note	Shares	Conversion Price	Warrants	Exercise Price	
May 31, 2005, 8% interest, due May 31, 2007	$ -		$ -	423,077	$ 0.45	(1)
October 18, 2005, 8% interest, October 18, 2007	1,325,500	2,945,556	$ 0.45	851,400	$ 0.45	(1) (2)
March 1, 2006, 4% interest, due March 1, 2008	150,000	96,154	$ 1.56	48,077	$ 1.75	
June 30, 2006, 4% interest, due June 30, 2008	48,248	30,769	$ 1.56	24,124	$ 1.75	
July 21, 2006, 2% interest, due July 21, 2008	359,549	230,480	$ 1.56	282,051	$ 1.75	
July 26, 2006, 12% interest, due October 26, 2007	300,000	666,667	$ 0.45	110,808	$ 0.45	(1)
February 20, 2007, 8% interest, due February 20, 2009	3,734,040	8,297,867	$ 0.45	8,297,867	$ 0.54	
				4,148,933	$ 0.75	
				4,148,933	$ 1.25	
				715,533	$ 0.54	
Total Convertible Notes Payable	$ 5,917,337	$ 12,267,492		19,050,803		

Convertible Notes and Warrants at December 31, 2006: CONVERTIBLE NOTES WARRANTS

		Note		Shares		Conversion Price	Warrants		Exercise Price	
May 31, 2005, 8% interest, due May 31, 2007	$	246,797		189,844	$	1.30	423,077	$	2.11	(1)
October 18, 2005, 8% interest, October 18, 2007		1,483,000		741,500	$	2.00	851,400	$	3.25	(1) (2)
March 1, 2006, 4% interest, due March 1, 2008		150,000		96,154	$	1.56	48,077	$	1.75	
June 30, 2006, 4% interest, due June 30, 2008		48,248		30,769	$	1.56	24,124	$	1.75	
July 21, 2006, 2% interest, due July 21, 2008		359,549		230,480	$	1.56	282,051	$	1.75	
July 26, 2006, 12% interest, due October 26, 2007		400,000		256,410	$	1.56	110,808	$	1.56	(1)
Total Convertible Notes Payable	$	2,687,594	$	1,545,157			1,739,537			

(1) The conversion price and exercise price were reduced to $0.45 in connection with the February 20, 2007 convertible debt issuance.

(2) The October 2005 issuance due October 2005 was automatically extended to April 18, 2008 due the terms of the Notes.

STOCK SALES AND PRIVATE PLACEMENT OFFERINGS- PENALTIES AND LIQUIDATED DAMAGES

Included in the Company's financings during 2004 through stock sales was $1,312,000 received from a Purchase Agreement dated November 22, 2004. The Purchase Agreement required, among other things, that shares be registered under a registration statement filed with the SEC, and that the registration statement be declared effective by the SEC and the registered shares deemed tradable within a prescribed time. The Company did not satisfy its obligation to cause the SEC to declare the registration statement effective within the timeframe specified in the November 2004 Registration Rights Agreement. As a result, the Company was subject to, and accrued liquidated damages in an amount 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 accrued liquidated damages to date. Under that Letter Agreement, no further liquidated damages would accrue until after June 30, 2005. The obligation relating to the effectiveness of the registration statement and registration of tradable shares was not satisfied, and liquidated damages were accrued since June 30, 2005 at the rate of approximately $26,240 per month. The liquidated damages paid or accrued, were charged to expense during the periods in which they accrued. For the year ended December 31, 2005, an additional $160,851 was

accrued, and $88,126 was accrued during 2006. All liquidated damages for this issue were settled by the issuance of the June 2006 Note.

There were 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 private offering, there is no provision for penalties. Under the third such offering, penalties began to accrue on March 18, 2006, and would have accrued for a period of nine months. A settlement was reached with the investors of this issue on July 21, 2006, under which the penalties were canceled in exchange for $359,549 of convertible debt, as previously discussed in the Debt section of this Note.

The February 2007 convertible debt issuance includes certain variable conversion pricing which results in the actual maximum number of potential shares needed to satisfy the conversion of such debt to be unknown and not quantifiable at the date of issuance. EITF 00-19-2 specifies that debt issuances with variable conversion pricing for which there is no established "floor" in the conversion pricing, and where the maximum number of shares needed to satisfy the conversion of such debt is not known, should be accounted for as derivative liabilities and revalued at the end of each reporting period. When a derivative classified as a liability is exercised, cancelled, or the maximum number of shares needed to satisfy the conversion of such debt is known, the fair value of the derivative, as determined at that time, is revalued and transferred to equity, and is no longer revalued. To the extent that the initial fair values of the derivative liabilities exceed the net proceeds received, an immediate charge to the statement of operations is recognized, for the excess. As of December 31, 2007, the Company recognized in the statement of operations excess costs over debt proceeds of $1,401,901 related to the excess of derivative liabilities over the net proceeds received for the February 2007 debt issuance. The remainder of the discount from the face value of the convertible debt resulting from allocating part or all of the proceeds to the derivative liabilities is amortized over the life of the instrument through periodic charges to the statements of operations, using the straight line method, which was the most systematic and rational approach that approximated the interest method of amortization due to the short two year amortization term of the debt. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. Derivative liabilities are classified in the balance sheet as current or non-current based on the classification previously elected for the host instrument.

NOTE 3-CAPITALIZATION

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 estate of the Company's former President and Chairman.

Dividends of $68,750 accrued on the preferred stock during each of the years 2002 through 2006. Cash dividends of $131,771 were paid during 2004. The balance of unpaid dividends at of December 31, 2006 was $47,916.

On March 21, 2007, the Company determined, after consultation with its independent registered public accounting firm, that a restatement of its financial statements for the year ended December 31, 2005 filed on Form 10-KSB was necessary due to the issuance of the Company's preferred stock as payment of dividends in lieu of cash dividends on April 1, 2005, with respect to previously issued shares of preferred stock. The Company's original Articles of Incorporation, as amended, including on April 30, 2000, 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.

The Company's Articles of Incorporation, as amended, including on April 30, 2000, similarly do not support the calculation used by the Company in determining the number of shares of common stock used to pay preferred stock dividends. The difference being the date used in determining the stock price at the end of each preferred dividend period, as opposed to the lowest common stock price during the preferred dividend period, subject to a 70% discount, for calculating the number of common shares issued as payment of the period's preferred stock dividend. Accordingly, the numbers of shares were greater than the number of shares required, and were issued in error resulting in increased preferred dividend expenses and preferred stock equity.

The Company has determined that the number of shares deemed the equivalent of the preferred stock dividend will be recalculated based on the Company's Articles of Incorporation, as amended, including on April 30, 2000. Accordingly, the Company will issue 136,041 shares of common stock to the sole holder of the preferred stock as payment of $51,561 of preferred stock dividends less other adjustments resulting from the recalculation of the number of common shares required to pay preferred stock dividends, subsequently approved. During the period January 1, 2003 through June 30, 2006, 200,238 shares of common stock were issued in excess of the amount required.

STOCK OPTIONS

The Company has periodically awarded stock options under employment contracts with certain key employees. These options were immediately exercisable; they have an implicit life of five years and none was forfeited during either year. A summary of option activity is presented below for the weighted average exercise prices for the options exercised:

	2007		2006	
	Shares	Price	Shares	Price
Options outstanding at beginning of year	1,715,500	$ .73	1,375,000	$ .80

Options granted during year	0	-	350,000	$ .46
Options expired during the year	(1,300,000)	$ .83	-	-
Options exercised during year	-	-	(7,500)	-
Options outstanding at end of year	415,5004		1,715,500	
Weighted average price		$ .32		$ .73
Weighted average Fair Value of options granted		$ 0		$ .25

Stock option expense for 2007 and 2006 was $0 and $ 76,351, respectively.

SHARES ISSUED FOR SERVICES

There were shares awarded as compensation for other services aggregating $332,680 and $1,242,177, in 2007 and 2006, respectively. These share issuances for 2007 and 2006 are detailed below by type of service performed.

The following shares were issued for services in 2007:

Services Rendered	Number of Shares	Grant Date	Price at Date	Value at Grant Date
Legal services	94,444	2/8	$ .52	$ 49,111
Investor relations	75,758	2/11	.52	39,394
Investor relations	147,059	7/2	..52	77,511
Director fees	140,000	2/27	.63	88,200
Director fees	54,348	2/27	.63	32,864
Director fees	60,000	2/27	.63	37,800
Director fees	15,000	4/15	.52	7,800
Total shares issued for services	586,609			$ 332,680

The following shares were issued for services in 2006:

Services Rendered	Number of Shares	Grant Date	Price at Date	Value at Grant Date
Employee awards	32,500	1/26	$ 1.64	$ 53,250
Investor relations	22,500	1/26	2.13	47,925
Professional Services	2,500	1/26	2.20	5,500
Professional Services	6,712	2/1	1.57	10,534
Legal Services	25,000	2/5	1.95	48,750
Professional Services	5,000	2/9	1.73	8,650
Product Development services	30,000	2/28	1.49	44,700
Marketing services	25,000	3/27	1.08	27,000
Software Consulting services	1,440	3/22	1.31	1,886
Legal Services	1,304	3/22	1.51	1,969
Investor relations	85,000	4/12	1.49	126,650
Professional Services	5,847	4/12	1.49	8,712
Employee awards	25,000	4/12	1.49	37,253
Professional Services	5,599	5/1	1.64	9,182
Director awards	145,000	5/1	1.53	222,500
Investor relations	26,000	5/10	1.27	33,020
Professional Services	6,142	5/10	1.27	7,804
Professional Services	26,000	5/11	1.30	33,800
Investor relations	15,000	6/1	1.64	24,600
Professional Services	22,900	6/5	1.80	41,220
Marketing services	10,000	6/22	1.85	18,500
Professional Services	6,750	6/22	1.85	12,488
Professional Services	25,000	6/30	1.90	47,500
Professional Services	15,000	7/1	1.27	19,050
Professional Services	13,560	9/9	1.31	17,764
Employee awards	12,500	9/28	1.71	21,400
Investor relations s	75,000	9/28	1.61	120,736
Professional Services	100,000	10/9	.75	74,800
Marketing services	35,000	10/20	.71	24,990
Legal Services	10,000	10/20	.71	7,140
Professional Services	49,000	10/20	.84	34,986
Employee awards	5,000	10/20	.84	3,570
Total shares issued for services	871,257			1,197,826
Value of options granted for services	-			76,351
Value of equity items issued for services	871,257			$ 1,242,177

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WARRANTS

The Company has issued warrants both as part of "stock units" and as an integral part of convertible note issues. The determination to classify the warrants as either derivative liabilities or equity was based upon consideration of the specific criteria for classification established in EITF 00-19. The fair value of the warrants is determined using a Black-Scholes Model. Those warrants classified as liabilities are subject to revaluation for each reporting period following the guidance in SFAS 133.

The following is a schedule of changes in warrants outstanding during the years 2007 and 2006. Each of these warrants is exercisable over five year periods from dates of issuance at prices ranging from $0.45-$1.75 per share. They were recorded at their fair values as determined by a Black-Scholes Model.

Balance January 1, 2006	9,392,750
Warrants issued in conjunction with issuances of 2006 convertible debt:	
Warrants issued with $819,800 convertible debt through May, subsequently converted to equity	525,513
Warrants issued with $150,000 convertible debt, March	48,077
Warrants issued with $48,248 convertible debt, June	24,124
Warrants issued with $400,000 convertible debt, July	282,051
Warrants issued with $359,549 convertible debt, July	110,808
Total warrants issued during 2006	990,573
Balance December 31, 2006	10,383,323
Warrants issued with $3.7 million convertible debt, February	17,311,065
Warrants issued August 26, 2007	200,000
Balance December 31, 2007	27,894,388

The exercise price of certain warrants was changed due to the presence of an "MFN" clause that provides for adjustments based upon more favorable pricing of subsequent issuances. When these events occur, repricing letters are sent to the investors.

NOTE 4 - 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, 2007, the Company had NOL carry forwards of $28,586,386 available for Federal taxes. The potential tax benefit of the state NOL's for all periods through December 31, 2006 has been recognized on the books of the Company. The potential benefit of state NOL's subsequent to December 31, 2006 and the potential benefit of the Federal NOL's have been offset by a valuation allowance. If not used, these Federal carry forwards 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	9,728,554
2026	6,804,713
2027	3,943,479

During the year 2007, the Company realized $506,605 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 2006 as compared to $445,216 from similar sales that accrued during 2005. These potential New Jersey offsets for periods prior to 2007 are, thus, no longer available to the Company.

Under Statement of Financial Accounting Standards No. 109 (SFAS 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:

Deferred Tax Assets	$10,650,468
Valuation allowance	$(10,650,468
Balance Recognized	$-

The balance of the valuation allowance relates to Federal taxes and state taxes of 2007. Since state tax benefits for years prior to 2007 have been realized, no reserve is deemed necessary for them. The valuation reserve increased by $ 2,392,829 during the year 2007.

NOTE 5 -SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION

Cash paid for interest and income taxes is presented below:

	2007	2006
Interest	$56,983	$1,971
Income taxes	520	500

During 2007, 1,300,000 stock options expired at a value of $1,162,500 which was transferred to paid in capital.

There were no non-cash investing activities during either 2007 or 2006.

The following non-cash financing activities occurred:

a) Shares of common stock were issued for services during 2007 and 2006; these totaled 586,609 and 687,665 shares, respectively.

b) During 2007 and 2006, the following amounts were converted from debt to equity:

c) During 2007, $246,797 of the May 2005 convertible debt issue was converted into 548,438 08 shares of our common stock at $.45 per share.

d) During 2007, $157,500 of the October 2005 convertible debt issue was converted into 350,000 shares of our common stock at $.45 per share.

e) During 2006, the holder of the preferred stock issue elected to receive common stock in lieu of $112,500 of cash dividends. A total of 218,742 shares of common stock will be issued to satisfy this dividend.

f) During 2006, $66,464 of interest that had accrued on the May, 2005 convertible debt issue and the $819,800 2006 convertible issue were settled by the issuance of 54,373 shares of common stock.

g) During 2006, the Company issued $198,248 of 4% debentures as part of a Modification Agreement with investors, whereby the investors yielded their rights to liquidated damages on the November, 2004 stock issue.

h) During 2006, the Company issued 2% Unsecured Convertible Debentures aggregating $359,549 and Stock Purchase Warrants to acquire 110,808 shares of our common stock at $1.65 per share. The issuance satisfies an obligation for liquidated damages which would have totaled $278,647 by December 31, 2006.

NOTE 6 -PROPOSED ACQUISITION OF FILCO

On February 19, 2004, the Company reached a tentative agreement (Tentative Agreement) to purchase capital stock of FiLCO GmbH., a German manufacturer of fork trucks (formerly Clark Material Handling Company of Europe) with a manufacturing facility in Mulheim, Germany (FiLCO). It 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 $6,275,881 had 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 $6,275,881 of advances to Filco that were outstanding at December 31, 2005, were secured by liens filed against the machinery and equipment owned by Filco which in 2003 was appraised at $5,400,000, and by liens filed against its intellectual property, which had not been appraised. Due to the uncertainty of the Company’s position under German bankruptcy law, $4,275,881 of the Filco advances were written off in 2005, and the remaining $2,000,000 was written off in 2006. In addition, $413,000 of Company inventory stored at the Filco plant was abandoned and written off during 2006. During 2006, an auction of Filco assets was conducted by the receiver who did not acknowledge the Airtrax liens against property and equipment.

NOTE 7-RELATED PARTY TRANSACTIONS

The Chairman of the Board of Directors made periodic loans to the Company during 2006. The loans did not accrue interest and were due on demand. The combined loans amounted to $35,000. At the end of the year 2006, these loans have been fully paid.

The 2006 majority shareholder of the corporation, who was also the Company President, made loans to the Company from time to time. These notes together with accrued interest at 12% are due on demand. The combined unpaid balance of principal and interest on these notes at December 31, 2006 was $75,713.

During 2007, the Board of Directors received 269,348 shares for services as directors; these were valued at $168,000, reflecting the fair market value of the stock at time of awards. On August 25, 2006, the Company's CEO, President and Chairman ("President") died. The President's employment contact expired on June 30, 2006, and was not renewed. The employment agreement did not provide for the exercise of the options upon death. Under the terms of the employment contract, the President was granted options to purchase 550,000 shares in 2004, valued at $187,500. In 2005, he was granted 750,000 options to purchase stock under that two year employment contract; these options were valued at $975,000. Subsequent to his death, the Board of Directors extended for one year from the date of the termination of the employment contract, the time during which the options can be exercised. Those options were not exercised, and are now considered to be expired. Accordingly, the value of $1,162,500 has been transferred to paid in capital. No adjustment has been made to previously recorded compensation expense, as the fair value at grant significantly exceeded its current fair value. SFAS #123R indicates that modification adjustments should only be made when they increase the value of the initially granted option. In 2006, the Company granted 300,000 options to its Chief Executive Officer valued at $ 45,000.

NOTE 8 -COMMITMENTS AND CONTINGENCIES

At present, the Company is not obligated under any operating lease. Rent expense amount to $ 153,000 in 2007 and $160,571 in 2006.

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.

In connection with the Tentative Agreement mentioned in Note 7, Mr. Filipov was to receive options to purchase 900,000 shares of the Company's common stock at an exercise price of $0.01. The Company did not issue such options because the Acquisition Agreement was terminated and the conditions for such issuance were never fulfilled. Mr. Filipov has indicated that he believes that the conditions were fulfilled and that the Company owes him the options. The Company and Mr. Filipov are continuing to discuss a mutually acceptable settlement.

NOTE 9- RECENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) has recently issued "FASB Staff Position EITF 00-19-2 which modifies the accounting treatment of derivatives that flow from financings involving embedded derivatives. This Staff Position is effective for financial statements for periods beginning January 1, 2007. Management believes that this will cause some change in the way the Company accounts for derivatives. Management is evaluating this position and has not made a determination as to the effect it will have on its financial statements.

The Company has reviewed other accounting pronouncements issued during 2006 and 2007, and has concluded that they will have no effect on the Company's financials statements.

NOTE 10-GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the financial statements, the Company had a material working capital deficiency and accumulated deficit as of December 31, 2007, and has experienced continuing losses. These factors raise substantial doubt about the ability of the Company to continue as a going concern. The financial statements do not include adjustments relating to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue in operation. The Company's present plans, the realization of which cannot be assured, to overcome these difficulties include but are not limited to the continuing effort to raise capital in the public and private markets.

NOTE 11-SUBSEQUENT EVENTS

On January 11, 2008, Peter Amico, Jr. resigned as a Director of the Company as noted in the Form 8-K filing with the SEC.

On January 25, 2008, the Company issued 50,000 shares of common stock to a holder of the October 2005 debt issuance for $22,500 of principal. The conversion price was $0.45 per share.

On January 28, 2008, the Company issued 100,000 shares of common stock to a Director as payment of prior board fees.

On January 31, 2008, the Company issued to the holder of the July 26, 2006 convertible note, 100,000 shares of common stock as consideration for four months interest that was in arrears.

On February 8, 2008, the Company issued 160,000 shares of common stock to eight Directors as payment of board fees for 2008.

On February 8, 2008, the Company issued 1,021,705 shares of common stock to holders of the October 2005 debt issuance for $395,000 of principal and $64,767 of accrued interest. The conversion price was $0.45 per share.

On February 21, 2008, the Company issued 635,097 shares of common stock to holders of the October 2005 debt issuance for $196,000 of principal and $18,055 of accrued interest. The conversion price was $0.45 per share.

On February 27, 2008, the Company issued 48,478 shares of common stock to holders of the October 2005 debt issuance for $11,150 of principal. The conversion price was $0.23 per share.

On March 3, 2008, the Company issued 50,000 shares of common stock to holders of the October 2005 debt issuance for $11,500 of principal. The conversion price was $0.23 per share.

On March 14, 2008, the Company issued 50,000 shares of common stock to holders of the October 2005 debt issuance for $11,500 of principal. The conversion price was $0.23 per share.

On March 21, 2008, the Company issued 285,130 shares of common stock to holders of the October 2005 debt issuance for $61,500 of principal and $4,080 of accrued interest. The conversion price was $0.23 per share.

On March 21, 2008, the Company issued 217,391 shares of common stock to holders of the February 2007 debt issuance for $50,000 of principal. The conversion price was $0.23 per share.

On February 27, 2008, the Company issued 2,262,948 shares of common stock to holders of the February 2007 debt issuance for $479,000 of principal and $41,478 of accrued penalty. The conversion price was $0.23 per share.

On February 29, 2008, the Company issued 200,000 shares of common stock to holders of the February 2007 debt issuance for $46,000 of principal. The conversion price was $0.23 per share.

On March 3, 2008, the Company issued 326,086 shares of common stock to holders of the February 2007 debt issuance for $75,000 of principal. The conversion price was $0.23 per share.

On March 21, 2008, the Company issued 176,001 shares of common stock to holders of the February 2007 debt issuance for $40,596 of principal. The conversion price was $0.23 per share.

On March 21, 2008, the Board of Directors of Airtrax suspended the employment of all of its officers. It is expected that Mr. Robert Watson, the CEO of Airtrax, will continue as Acting Chief Executive Officer on a part-time consulting basis to continue to pursue financing. The Board of Directors of Airtrax elected to suspend all operations of Airtrax's business, due to Airtrax's inability to secure the financing required to continue operations. In connection with Airtrax's suspension of operations, Airtrax has suspended the employment of all employees. As instructed by the Board, Airtrax's Acting Chief Executive Officer, on a part-time consulting basis, intends to continue to pursue financing.

On April 4, 2008, Robert Watson resigned as Chief Executive Officer, President and a director of Airtrax Inc. (the "Company"), effective immediately. Mr. Watson will continue to serve as an advisor to the Company on a part-time consulting basis to continue to pursue financing for the Company. There was no disagreement or dispute between Mr. Watson and the Company which led to his resignation. Pursuant to the Company's Bylaws, in the event that the Chief

Executive Officer shall vacate his or her office, and there is no replacement, the Company's Chairman of the Board of Directors shall fill the vacancy and assume the responsibilities and title of the Chief Executive Officer. However, the Company does not currently have a Chairman of the Board of Directors.

On April 10, 2008, William F. Hungerville was appointed interim Chief Executive Officer, Mr. Hungerville is a director of Airtrax Inc.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 8A(T). Controls and Procedures.

Evaluation of Disclosure Controls and Procedures.

We maintain "disclosure controls and procedures," as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

As of December 31, 2007, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in our periodic reports is recorded, processed, summarized and reported, within the time periods specified for each report and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management’s Report of Internal Control over Financial Reporting.

We are responsible for establishing and maintaining adequate internal control over financial reporting in accordance with Exchange Act Rule 13a-15. With the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2007 based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2007, based on those criteria. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

This annual report does not include an attestation report of the Company’s registered accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission.

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 and Executive Officers

Name	Age	Position
William Hungerville	72	Director, Acting CEO and CFO
D. Barney Harris	47	Director
James Hudson	65	Director
Fil Filipov	61	Director
Andrew Guzzetti	60	Director
Izak On	60	Director
Robert Borski, Jr.	59	Director

Directors serve until the next annual meeting and until their successors are elected and qualified. The Directors of our company are elected by the vote of a majority in interest of the holders of the voting stock of our company and hold office until the expiration of the term for which he or she was elected and until a successor has been elected and qualified.

A majority of the authorized number of directors constitutes a quorum of the Board for the transaction of business. The directors must be present at the meeting to constitute a quorum. However, any action required or permitted to be taken by the Board may be taken without a meeting if all members of the Board individually or collectively consent in writing to the action.

Officers are appointed to serve for one year until the meeting of the board of directors following the annual meeting of stockholders and until their successors have been elected and qualified.

The principal occupations for the past five years (and, in some instances, for prior years) of each of our executive officers and directors, followed by our key employees, are as follows:

William Hungerville - Mr. Hungerville has been our Acting Chief Executive Officer since April 10, 2008 and 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.

D. Barney Harris - Mr. Harris has been a Director 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.

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

Fil Filipov - Mr. Filipov has been a Director since December 2004. Mr. Filipov has served as the Chairman of Supervisory Board of Tatra, a Czech Company, which is producing off highway trucks. . Mr. Filipov was President & CEO of Terex Cranes, a $1 billion dollar business segment of Terex Corporation. He was responsible for strategic acquisitions and served as President and CEO from March 1995 through December 2003. From 1994 through 1996, Mr. Filipov was the Managing Director of Clark Material Handling Company in Germany (Filco GmbH).

Andrew Guzzetti - Mr. Guzzetti has been a director since April 1, 2006 and was Chairman of the board between August 31, 2006 and April 9, 2008. 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.

Robert Borski, Jr. - From 1982 to 2003, Mr. Borski represented the Third Congressional District of Pennsylvania for ten terms in the United States House of Representatives, where he was a senior member of the House Transportation and Infrastructure Committee and a vocal advocate for an improved national transportation system. He was awarded the American Public Transportation Association's National Distinguished Service Award in 2002 and the Silver Order of the de Fleury Medal from the Army Engineering Association. In 2003, Mr. Borski formed Borski Associates, a government relations firm specializing in transportation and economic development issues. He is a driving force behind efforts to revitalize the North Delaware riverfront, an area of abandoned industrial sites, into a center of residential and commercial activity. Currently, Mr. Borski serves on the Board of Directors of the Northeast-Midwest Institute, an organization promoting economic vitality for Northeastern and Midwestern states, and on the Board of Directors of Pennoni Associates, a civil engineering firm. Mr. Borski received a Bachelor of Arts degree from the University of Baltimore in 1971.

Izak On - Mr. On has been a Director since May 2007. Since 2001, Mr. On has been the founder and board director of E.P.A. Fuel Services Ltd., an Israeli fuel service company. Between 2001 and 2003, Mr. On was the CEO and a partner of Erez Tal Bar - Fuelling Services Ltd., an Israeli company that builds and manages fuel stations. Since March 2007, Mr. On serves as a director of Diversified Senior Services, of Winston-Salem, North Carolina. Mr. On received his degree in business administration - marketing from the Tel-Aviv College of Management. Mr. On was nominated by Alpha Capital to be their board representative, pursuant to the Securities Purchase Agreement dated February 20, 2007.

Robert Watson - Mr. Watson was our Chief Executive Officer and a Director since November 1, 2006 until he resigned on April 4, 2008. Mr. Watson will continue to serve as an advisor to us on a part-time consulting basis to continue to pursue financing on our behalf. From 2001 until October 2006, Mr. Watson was President and CEO of Hartz & Company, a manufacturer of tailored clothing, with two production facilities in the United States with sales and marketing offices in New York City. From 1996 to 2001, Mr. Watson served as the Vice President, CFO and COO of America's Best Contacts and Eyeglasses, a retail chain with 118 locations, a full service laboratory and distribution center. His experience in the public arena was with Continental Can Company, from 1967 through 1986, where he served as Controller for the food packaging company with 29 manufacturing facilities and sales in excess of $1 billion. Mr. Watson received a BS in accounting from Fairleigh Dickinson University and an EMBA from the University of New Haven.

COMMITTEES OF THE BOARD

We currently have no audit committee, compensation committee, nominations and governance committee of our board of directors.

INDEBTEDNESS OF EXECUTIVE OFFICERS AND DIRECTORS

No executive officer, director or any member of these individuals' immediate families or any corporation or organization with whom any of these individuals is an affiliate is or has been indebted to us since the beginning of our last fiscal year.

FAMILY RELATIONSHIPS

There are no family relationships among our executive officers and directors.

LEGAL PROCEEDINGS

As of the date of this filing, there are no material proceedings to which any of our directors, executive officers, affiliates or stockholders is a party adverse to us.

CODE OF ETHICS

We have not adopted a Code of Ethics within the meaning of Item 406(b) of Regulation S-B of the Securities Exchange Act of 1934.

Section 16(a) Beneficial Ownership Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers and persons who beneficially own more than ten percent of a registered class of our equity securities to file with the SEC initial reports of ownership and reports of change in ownership of common stock and other equity securities of our company. Officers, directors and greater than ten percent stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to us under Rule 16a-3(e) during the fiscal year ended December 31, 2007, and Forms 5 and amendments thereto furnished to us with respect to the fiscal year ended December 31, 2007, we believe that during the year ended December 31, 2007, our executive officers, directors and all persons who own more than ten percent of a registered class of our equity securities complied with all Section 16(a) filing requirements.

Item 10. Executive Compensation

The following table sets forth the cash compensation (including cash bonuses) paid or accrued by us to our Chief Executive Officer and our four most highly compensated officers other than the Chief Executive Officer as of December 31, 2007, 2006 and 2005.

Name & Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Robert M. Watson. CEO, President	2007	$161,539	$75,000						$236,539
&	2006	$11,538	$50,000		$45,000	0	0	0	$61,538
Director	2005	$0	0		0	0	0	0	0
Peter Amico, CEO, President	2007	$0	$0						$0
&	2006	$168,269	$0	0	0	0	0	0	$168,269
Director	2005	$303,751	$0	0	$975,000	0	0	0	$303,751

Nicholas Fenelli, Vice	2007	$103,462	$0						$103,463
President	2006	$96,798	$0	0	$24,000	0	0	0	$96,798
& COO	2005	$78,202	$0	0	$53,500	0	0	0	$78,202

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Outstanding Equity Awards at Fiscal Year-End Table.

There were no grants of options to purchase our common stock to the named executive officers at December 31, 2007.

Director Compensation

The following table sets forth with respect to the named directors, compensation information inclusive of equity awards and payments made at December 31, 2007.

Name (a)	Fees Earned or Paid in Cash ($) (b)	Stock Awards ($) (c)	Option Awards ($) (d)	Non-Equity Incentive Plan Compensation ($) (e)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (f)	All Other Compensation ($) (g)	Total ($) (h)
Andrew Guzzetti	$2,500-	12,600	$ 0	0	0	0	$ 12,600
Robert M. Watson	$2,500	12,600	0-	0		0	12,600-
James Hudson (1)	$2,250-	12,600	$ 0	0	0	0	$ 12,600
William Hungerville (1)	$2,500	12,600	$ 0	0	0	0	$ 12,600
D. Barney Harris(1)	$2,250-	12,600	$ 0	0	0	0	$ 12,600
Fil Filipov	$2,250-	12,600	0-	0	0	0	12,600-
Issac Onn	$250	12,600	0				12,600
Robert Borski	$2,250-	12,600	$ 0	0	0	0	$ 12,600
Peter Amico, Jr,	$2,250-	12,600	0-	0	0	0	12,600-

EMPLOYMENT AGREEMENTS

None.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth certain information regarding beneficial ownership of our common stock as of April 11, 2008.

- by each person who is known by us to beneficially own more than 5% of our common stock;
- by each of our officers and directors; and
- by all of our officers and directors as a group.

NAME AND ADDRESS OF OWNER	TITLE OF CLASS	NUMBER OF SHARES OWNED (1)	PERCENTAGE OF CLASS (2)
William Hungerville 200 Freeway Drive, Unit 1 Blackwood, NJ 08012	Common Stock	221,000	*
D. Barney Harris 200 Freeway Drive, Unit 1 Blackwood, NJ 08012	Common Stock	221,562	*
James Hudson 200 Freeway Drive, Unit 1 Blackwood, NJ 08012	Common Stock	140,800 (3)	*
Fil Filipov 200 Freeway Drive, Unit 1 Blackwood, NJ 08012	Common Stock	60,000	*
Andrew Guzzetti 200 Freeway Drive, Unit 1 Blackwood, NJ 08012	Common Stock	190,000	*
Izak On 200 Freeway Drive, Unit 1 Blackwood, NJ 08012	Common Stock	0	0%
Robert Borski, Jr. 200 Freeway Drive, Unit 1 Blackwood, NJ 08012	Common Stock	78,504	*
All Officers and Directors As a Group (7 persons)	Common Stock	911,866	2.78%

* Less than 1%.

(1) Beneficial Ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable or convertible, or exercisable or convertible within 60 days of April 11, 2008 are

deemed outstanding for computing the percentage of the person holding such option or warrant but are not deemed outstanding for computing the percentage of any other person.

(2) Based upon 32,800,093 shares issued and outstanding on April 11, 2008.

(3) Includes 44,500 shares owned by a corporation owned by Mr. Hudson.

Item 12. Certain Relationships and Related Transactions, and Director Independence

Arcon Corp., a corporation wholly owned by the estate of our former 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.

Arcon is entitled to a 5% dividend on the 275,000 shares of preferred stock which it owns. This dividend is based on preferred stock value of $5 per share. The holder of the preferred stock has the right to elect to receive its dividends in common stock in lieu of cash. The dividends accrued through 2001 have been satisfied. Dividends accrued subsequent to 2001 have been paid partly in cash and partly by the issuance of common stock, as follows:

Dividends accrued		$ 275,000
Cash payment during 2004	$ 131,771	
Dividend to be paid in common stock	51,562	183,333
Balance unpaid at 12/31/05		91,667
Dividends accrued during 2006		68,750
Dividends paid in 2006 in common stock		112,500
Balance unpaid at 12/31/06		$ 47,917

The $51,562 amount was originally satisfied by the issuance of 100,000 shares of preferred stock. Early in 2007 it was determined that the issuance of preferred stock to satisfy preferred dividends is not permitted by the certificate of incorporation. The 100,000 preferred shares were, therefore, retrieved and will be replaced in 2007 by 136,041 shares of common stock. The $112,500 dividend payment will be made in 2007 by the issuance of 218,742 shares of common stock.

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The financial statements at December 31, 2004 reflect 275,000 shares of preferred stock outstanding and disclosed that an additional 100,000 shares of preferred stock were deemed the equivalent of 221,892 shares of common stock that would have been required to settle an equivalent amount of preferred dividends. We have determined that the number of shares deemed the equivalent of the preferred stock dividend and has been recalculated based on our Articles of Incorporation, as amended, including on April 30, 2000. Accordingly, we will issue 136,041 shares of common stock to the sole holder of the preferred stock as payment of $51,562 of preferred stock dividends less other adjustments resulting from the recalculation of the number of common shares required to pay preferred stock dividends, subsequently approved. During the period January 1, 2003 through June 30, 2006, 200,238 shares of common stock were issued in excess of the amount required.

Item 13. Exhibits.

Exhibit No.	Description
3.1	Certificate of Incorporation of Airtrax, Inc. dated April 11, 1997, filed as an exhibit to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 19, 1999 and incorporated herein by reference.
3.2	Certificate of Correction of the Certificate of Incorporation dated April 30, 2000, filed as an exhibit to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 17, 1999 and incorporated herein by reference.
3.3	Certificate of Amendment of Certificate of Incorporation dated March 19, 2001, filed as an exhibit to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 17, 1999 and incorporated herein by reference.
3.4	Amended and Restated By-Laws , filed as an exhibit to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 19, 1999 and incorporated herein by reference.
4.1	Form of Common Stock Purchase Warrant issued to investors pursuant to the May 2004 private placement. (To be filed at a later date)
4.2	Form of Common Stock Purchase Warrant dated as of November 22, 2004 and November 23, 2004, filed as an exhibit to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 30, 2004 and incorporated herein by reference.
4.3	Form of Series A Convertible Note dated as of February 11, 2005, filed as an exhibit to the Current Report on Form 8-K filed on February 11, 2005 and incorporated herein by reference.
4.4	Form of Class A Common Stock Purchase Warrant dated as of February 11, 2005, filed as an exhibit to the Current Report on Form 8-K filed on February 11, 2005 and incorporated herein by reference.

4.5	Form of Class B Common Stock Purchase Warrant dated as of February 11, 2005, filed as an exhibit to the Current Report on Form 8-K filed on February 11, 2005 and incorporated herein by reference.
4.6	Form of Broker's Common Stock Purchase Warrant dated as of February 11, 2005, filed as an exhibit to the Current Report on Form 8-K filed on February 11, 2005 and incorporated herein by reference.

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10.1	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 Current Report on Form 8-K filed on March 15, 2004 and incorporated herein by reference.
10.2	Joinder to the Purchase Agreement, dated November 23, 2004, by and among Airtrax, Inc., Excalibur Limited Partnership, Stonestreet Limited Partnership and Linda Hechter, filed as an exhibit to the Current Report on Form 8-K filed on November 30, 2004 and incorporated herein by reference.
10.3	Registration Rights Agreement, dated November 22, 2004, by and among Airtrax, Inc., Excalibur Limited Partnership, Stonestreet Limited Partnership, Whalehaven Capital Fund and First Montauk Securities Corp, filed as an exhibit to the Current Report on Form 8-K filed on November 30, 2004 and incorporated herein by reference.
10.4	Joinder to the Registration Rights Agreement, dated November 23, 2004, by and among Airtrax, Inc., Excalibur Limited Partnership, Stonestreet Limited Partnership, Linda Hechter and First Montauk Securities Corp., filed as an exhibit to the Current Report on Form 8-K filed on November 30, 2004 and incorporated herein by reference.
10.5	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 Current Report on Form 8-K filed on February 11, 2005 and incorporated herein by reference.
10.6	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 Current Report on Form 8-K filed on June 6, 2005 and incorporated herein by reference.
10.7	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 Current Report on Form 8-K filed on June 6, 2005 and incorporated herein by reference.
10.8	Series B Unsecured Convertible Debenture of Airtrax, Inc., filed as an exhibit to the Current Report on Form 8-K filed on June 6, 2005 and incorporated herein by reference.
10.9	Form of Stock Purchase Warrant of Airtrax, Inc., filed as an exhibit to the Current Report on Form 8-K filed on June 6, 2005 and incorporated herein by reference.
10.10	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

	Current Report on Form 8-K filed on June 6, 2005 and incorporated herein by reference.
10.11	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 Current Report on Form 8-K filed on October 24, 2005 and incorporated herein by reference.
10.12	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 Current Report on Form 8-K filed on October 24, 2005 and incorporated herein by reference.
10.13	Series C Unsecured Convertible Debenture of Airtrax, Inc., filed as an exhibit to the Current Report on Form 8-K filed on October 24, 2005 and incorporated herein by reference.
10.14	Form of Stock Purchase Warrant of Airtrax, Inc., filed as an exhibit to the Current Report on Form 8-K filed on October 24, 2005 and incorporated herein by reference.

10.15	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 Registration Statement on Form SB-2 filed on January 11, 2006 and incorporated herein by reference.
10.16	Promissory Note of Filco GmbH dated as of January 15, 2005 issued to Airtrax, Inc., filed as an exhibit to the Registration Statement on Form SB-2 filed on January 11, 2006 and incorporated herein by reference.
10.17	Promissory Note of Filco GmbH dated as of June 5, 2005 issued to Airtrax, Inc., filed as an exhibit to the Registration Statement on Form SB-2 filed on January 11, 2006 and incorporated herein by reference.
10.18	Assignment and Purchase Agreement dated as of August 25, 2005 by and between Werner Faenger and Airtrax, Inc., filed as an exhibit to the Registration Statement on Form SB-2 filed on January 11, 2006 and incorporated herein by reference.
10.19	Promissory Note of Filco GmbH with Guarantees dated as of November 25, 2005 issued to Airtrax, Inc., filed as an exhibit to the Registration Statement on Form SB-2 filed on January 11, 2006 and incorporated herein by reference.
10.20	Form of Subscription Agreement of Airtrax, Inc. dated as of February 13, 2006, filed as an exhibit to the Current Report on Form 8-K filed on February 27, 2006 and incorporated herein by reference.
10.21	Series D Unsecured Convertible Debenture of Airtrax, Inc., filed as an exhibit to the Current Report on Form 8-K filed on February 27, 2006 and incorporated herein by reference.
10.22	Form of Stock Purchase Warrant of Airtrax, Inc., filed as an exhibit to the Current Report on Form 8-K filed on February 27, 2006 and incorporated herein by reference.
10.23	Securities Purchase Agreement dated as of February 21, 2007 by and among Airtrax, Inc. and the investors named on the signature pages thereto, filed as an exhibit to the Current Report on Form 8-K filed on February 21, 2007 and incorporated herein by reference.
10.24	Registration Rights Agreement dated as of February 21, 2007 by and among Airtrax, Inc. and the investors named on the signature pages thereto, filed as an exhibit to the Current Report on Form 8-K filed on February 21, 2007 and incorporated herein by reference.
10.25	Form of Secured Convertible Debenture of Airtrax, Inc. dated as of February 21, 2007, filed as an exhibit to the Current Report on Form 8-K filed on February 21, 2007 and incorporated herein by reference.

10.26	Form of Common Stock Purchase Warrant of Airtrax, Inc. dated as of February 21, 2007, filed as an exhibit to the Current Report on Form 8-K filed on February 21, 2007 and incorporated herein by reference.
10.27	Security Agreement dated as of February 21, 2007 by and among Airtrax, Inc., Airtrax Financial Services LLC, Airtrax Manufacturing Corp. and the investors named on the signature pages thereto, filed as an exhibit to the Current Report on Form 8-K filed on February 21, 2007 and incorporated herein by reference.

10.28	Subsidiary Guarantee dated as of February 21, 2007 by and among Airtrax Financial Services LLC and Airtrax Manufacturing Corp., filed as an exhibit to the Current Report on Form 8-K filed on February 21, 2007 and incorporated herein by reference.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended.
31.2	Certification of the acting Chief Financial Officer pursuant to Rule 13a-14 and Rule 15d 14(a), promulgated under the Securities and Exchange Act of 1934, as amended.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer).
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer).

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 $ 53,817 and $76,803, respectively, for the years ended December 31, 2007 and December 31, 2006.

AUDIT-RELATED FEES

We incurred fees of $30,895 and $47,947, respectively, for the years ended December 31, 2007 and 2006 for professional services rendered by our independent auditors that are reasonably related to the performance of the audit or review of our financial statements and not included in "Audit Fees."

TAX FEES

The aggregate fees billed by our auditors for tax compliance matters were $1,580 and $1,045, respectively, for the fiscal years ended December 31, 2007 and December 31, 2006.

ALL OTHER FEES

We did not incur any fees for other professional services rendered by our independent auditors during the years ended December 31, 2007 and December 31, 2006.

The Board of Directors has considered whether the provision of non-audit services is compatible with maintaining the principal accountant's independence.

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SIGNATURES

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

AIRTRAX, INC.

Date: April 15, 2008

By: /s/ WILLIAM F. HUNGERVILLE

William F. Hungerville
Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Position	Date
/s/ WILLIAM F. HUNGERVILLE William F. Hungerville	Chief Executive Officer (Principal Executive Officer), Chief Financial Officer (Principal Financial and Accounting Officer) and Director	April 15, 2008
Andrew Guzzetti	Director	April 15, 2008
/s/ D. BARNEY HARRIS D. Barney Harris	Director	April 15, 2008
/s/ JAMES HUDSON James Hudson	Director	April 15, 2008
/s/ FIL FILIPOV Fil Filipov	Director	April 15, 2008
Izak On	Director	April 15, 2008
Robert Borski, Jr.	Director	April 15, 2008