AIRTRAX INC
Form 10QSB/A
March 13, 2008

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

FORM 10-QSB/A

(Mark One)
[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2007

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

For the Transition Period from _________ to _________

Commission file number: 001-16237

AIRTRAX, INC.
(Name of Small Business Issuer in Its Charter)

New Jersey (State or other jurisdiction of incorporation or organization)	22-3506376 (IRS Employer Identification No.)

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

(856) 232-3000
(Registrant's telephone number, including area code)

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

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

Yes [x] No [ ]

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

Yes [ ] No [X]

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

Transitional Small Business Disclosure Format (check one):

Yes [ ] No [X]

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EXPLANATORY NOTE

In conjunction with our independent registered public accounting firm and professional advisors, we conducted an analysis of our various financial instruments and agreements involving convertible debt and common stock financings accompanied by warrants, with a particular focus on the accounting treatment of derivative financial instruments under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"), the Emerging Issues Task Force issued EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock ("EITF 00-19"), and FASB Staff Position No. EITF 00-19-2, "Accounting for Registration Payment Arrangements" ("EITF 00-19-2"), (collectively, the "Derivative Accounting Pronouncements"). Accordingly, certain accounting policies we previously considered to reflect what was deemed to be appropriate at the time when the financings were previously reported, have been modified by recent interpretations, including the Derivative Accounting Pronouncements.

On November 2, 2007, as a result of this analysis, we noted that our previously filed financial statements in the annual reports for the years ended December 31, 2004, 2005 and 2006 filed on Form 10-KSB, together with the quarterly reports on Form 10-QSB for the quarters ending March 31, 2005, March 31, 2005, September 30, 2005, March 31, 2006, June 30, 2006, September 30, 2006, March 31, 2007, June 30, 2007 and September 30, 2007 (collectively, the "Reports") could no longer be relied upon. We sent a formal letter request to the Office of the Chief Accountant (OCA) of the Security and Exchange Commission (SEC) dated December 17, 2007, petitioning the OCA to waive the requirement to file separate amended and restated Reports for the periods noted above, and instead file a comprehensive amended and restated comparative Form 10-KSB for the years ended December 31, 2006 and 2005, along with certain comprehensive financial information and disclosures for 2004 , and comprehensive amended and restated comparative Form 10-QSBs for the periods ended March 31, 2007, June 30, 2007, and September 30, 2007 along with certain comprehensive financial information and disclosures for 2005 . This waiver was granted by the OCA on December 27, 2007. This restatement is required to properly reflect our financial results for certain non-cash, and non-operational related charges or credits to earnings associated with both embedded and freestanding derivative liabilities, and the accounting for certain derivatives under the control of the issuer due to the revised interpretation and implementation of the Derivative Accounting Pronouncements.

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 for prior convertible debt issuances with warrants and conversion privileges resulted in us concluding that such securities should have been identified as "derivatives", and therefore warrant and conversion privilege liabilities must be recorded as separate derivative liability accounts 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 earnings (after the reversal of previously incorrectly recorded charges and/or credits to earnings).

If the decision to settle the outstanding liability remains with us, the value of the warrants should be recorded in an equity account. The identification of the settlement provisions we controlled under certain debt issuances resulted in us determining that the warrants 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 earnings as a result of being marked to market for each period presented.

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 March 31, 2007, we 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.

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.” 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. This EITF is effective January 1, 2007, and has been adopted and implemented by the Company.

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 where a net settlement provision for cash exists, the values of the warrants are treated as liabilities, and the balance is 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 earnings. When a warrant classified as a liability is exercised or cancelled, 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 cancelled.

For the convenience of the reader, this Form 10-QSB/A sets forth the original Form 10-QSB in its entirety. However, this Form 10-QSB/A only amends our financial statements and the footnotes to our financial statements, along with the corresponding changes to our Management’s Discussion and Analysis. We also corrected typographical errors and have revised our controls and procedures disclosure as a result of these restatements. No other information in the original Form 10-QSB is amended hereby. In addition, pursuant to the rules of the SEC, Item 6 of Part II to the Initial Filing has been amended to contain currently dated certifications from our Principal Executive Officer and Principal Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of our Principal Executive Officer and Principal Financial Officer are attached to this Form 10QSB/A as Exhibits 31.1, 31.2, 32.1 and 32.2, respectively.

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AIRTRAX, INC.
Quarterly Report on Form 10-QSB/A
For the Periods Ending March 31, 2007 and 2006
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PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Airtrax Inc.
Balance Sheets
March 31,2007 and December 31,2006
(Restated)

	March 31, 2007 (Unaudited)	December 31, 2006 (Audited)
ASSETS		
Current assets		
Cash	$ 1,913,310	$ 327,737
Accounts receivable	50,704	50,704
Inventory	1,112,830	1,049,457
Vendor Advances	140,268	103,628
Deferred tax asset	1,001,256	919,889
Total current assets	4,218,368	2,451,415
Fixed assets	604,686	623,136
Less: accumulated depreciation	(339,216)	339,216
Net fixed assets	265,470	283,920
Other assets:		
Deferred financing costs	465,849	133,918
Prepaid interest	487,857	-
Patents – net	143,921	148,151
Total other assets	1,097,627	282,069
TOTAL ASSETS	$ 5,581,465	$ 3,017,404
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities		
Accounts payable	$ 826,524	$ 1,097,361
Accrued liabilities	307,666	437,139
Current convertible debt, net of discount	1,830,256	1,830,200
Shareholder loans payable	40,713	75,713
Derivative liability-warrants and conversion privileges	3,356,251	236,144
Total current liabilities	6,361,410	3,676,557
Long term convertible debt, net of discount	1,087,290	531,542
TOTAL LIABILITIES	7,448,700	4,208,099

Shareholders' deficiency:		
Preferred stock – authorized; 5,000,000 shares, no par value, 275,000 issued and outstanding	12,950	12,950
Common stock – authorized, 100,000,000 shares; no par value, issued and outstanding – 24,715,235 and 21,939,360, respectively	21,778,529	21,520,559
Paid in capital – options	1,417,660	1,407,299
Paid in capital – warrants	2,315,936	2,315,936
Accumulated deficit	(27,392,310)	(26,447,439)
Total shareholders' deficiency	(1,867,235)	(1,190,695)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY	$ 5,581,465	$ 3,017,404

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

Airtrax Inc.
Statements of Operations
For the Three Month Periods Ended
March 31, 2007 and 2006
(Unaudited and Restated)

	2007	2006
Revenues	$ 91,385	$ 658,976
Cost of sales	134,269	527,678
Gross profit	(42,884)	131,298
Operating and administrative expenses	764,963	762,535
Operating loss	(807,847)	(631,237)
Other income (expense), net		
Interest expense	(103,442)	(48,751)
Revaluation income	1,618,972	395,222
Amortization of financing costs	(64,969)	(40,565)
Amortization of debt discounts	(284,303)	(132,026)
Liquidated damages	-	(81,800)
Settlement expenses	-	(52,840)
Excess discounts expensed during this period	(1,401,901)	-
Other income	17,252	-
Total other (expense) income, net	(218,391)	39,240
Net loss before taxes	(1,026,238)	(591,997)
Income tax benefit, (State): Current	81,367	84,484
Net loss attributable to common shareholders	(944,871)	(507,513)
Net loss per share - basic and diluted		
Loss attributable to common shareholders	$ (944,871)	$ (507,513)
Adjustment for preferred stock dividends accumulated	$ (17,188)	$ (17,188)
Net loss attributable to common shareholders	$ (962,059)	$ (524,701)
Net loss per share - basic and diluted	$ (0.04)	$ (0.02)

Weighted average shares outstanding	24,436,655	22,014,543

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

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AIRTRAX, INC.
STATEMENTS OF CASH FLOWS
For the Three Month Periods Ended March 31,

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Loss) Income	$ (944,871)	$ (507,513)
Adjustments to reconcile net income to net cash consumed by operating activities:		
Charges not requiring the outlay of cash:		
Depreciation and amortization	398,135	187,456
Reduction in administrative expenses	-	(68,821)
Options issued for services	-	42,000
Equity securities issued for services	178,257	250,166
Expense of settling certain liquidated damages	-	52,840
Excess discount expense	1,401,901	-
Increase in accrual of deferred tax benefit	(81,367)	(84,484)
Revaluation of liabilities for warrants and conversion privileges	(1,618,972)	(395,222)
Interest accrued on shareholder loan	-	1,739
Changes in current assets and liabilities:		
Increase in accounts receivable	-	(39,710)
Increase in vendor advances	(36,640)	-
Increase (decrease) in accounts payable	(228,336)	41,947
(Decrease) increase in accrued liabilities	(106231)	138,471
Decrease (increase) in inventory	(63,373)	39,709
Net cash consumed by operating activities	(1,101,527)	(341,422)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of equipment	-	(10,319)
Net cash consumed by investing activities	-	(10,319)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of issuance of convertible debt	2,822,100	451,200
Repayment of stockholder loans	(35,000)	(37,447)
Repayment of convertible debt	(100,000)	-
Net cash provided by financing activities	2,687,100	413,753
Net increase in cash	1,585,573	62,012
Balance at beginning of period	327,737	19,288
Balance at end of period	$ 1,913,310	$ 81,300

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

Airtrax, Inc.
Notes to the Financial Statements
March 31, 2007
(Unaudited)

NOTE 1–BASIS OF PRESENTATION AND BUSINESS

The unaudited interim amended and restated financial statements of Airtrax, Inc. ("the Company") as of March 31, 2007, and for the three and three months ended March 31, 2007 and 2006 (restated), have been prepared in accordance with accounting principles generally accepted in the United States of America, which contemplates continuation of the Company as a going concern. At March 31, 2007, the Company had a working capital deficit of $2,143,042, and a retained deficit of $ 27,392,310.

In prior periods, the Company was a development stage company, as defined in Statement of Financial Accounting Standards (FASB) No. 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 2005 and 2006, the Company obtained financing almost exclusively from the issuance of convertible debentures along with other securities (derivatives). The Company will need to raise additional capital through the issuance of future debt or equity securities to continue to fund its operations.

The Company was formed on 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.

In the opinion of management, the information included in this report contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of such periods. The results of operations for the three month period ended March 31, 2007 are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2007.

Certain information and disclosures normally included in the notes to financial statements have been condensed or omitted as permitted by the rules and regulations of the Securities and Exchange Commission, although the Company believes the disclosure is adequate to make the information presented not misleading. The accompanying unaudited quarterly financial statements should be read in conjunction with the amended and restated audited financial statements and footnotes thereto included in the Company's annual report on Form 10-KSB/ A for the year ended December 31, 2006.

NOTE 2– RESTATEMENTS

In conjunction with our independent registered public accounting firm and professional advisors, the Company conducted an analysis of our various financial instruments and agreements involving convertible debt and common stock financings accompanied by warrants, with a particular focus on the accounting treatment of derivative financial instruments under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"), the Emerging Issues Task Force issued EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock ("EITF 00-19"), and FASB Staff Position No. EITF 00-19-2, "Accounting for Registration Payment Arrangements" ("EITF 00-19-2") (collectively, the "Derivative Accounting Pronouncements"). Accordingly, certain accounting policies we previously considered to reflect what was deemed to be appropriate at the time when the financings were previously reported, have been modified by recent interpretations, including the Derivative Accounting Pronouncements.

On November 2, 2007, as a result of this analysis, the Company filed a Form 8-K noting that its previously filed financial statements in the annual reports for the years ended December 31, 2004, 2005 and 2006 filed on Form 10-KSB, together with the quarterly reports on Form 10-QSB for the quarters ending March 31, 2005, June 30, 2005, September 30, 2005, March 31, 2006, June 30, 2006, September 30, 2006, March 31, 2007, June 30, 2007 and September 30, 2007(collectively, the "Reports") could no longer be relied upon. The Company sent a formal letter request to the Office of the Chief Accountant (OCA) of the Security and Exchange Commission (SEC) dated December 17, 2007, petitioning the OCA to waive the requirement to file separate amended and restated Reports for the periods noted above, and instead, file a comprehensive amended and restated comparative Form 10-KSB for the years ended December 31, 2006 and 2005, along with certain comprehensive financial information and disclosures for 2004 , and comprehensive amended and restated comparative Forms 10-QSB for the periods ended March 31, 2007, June 30, 2007, and September 30, 2007 along with certain comprehensive financial information and disclosures for 2005 . This waiver was received from the OCA on December 27, 2007.

Airtrax, Inc.
Notes to the Financial Statements
March 31, 2007
(Unaudited)

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. In the first quarter of 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 being 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. The restatement is required to properly reflect the Company's financial results for certain non-cash, and non-operational related charges or credits to earnings associated with both embedded and freestanding derivative liabilities, and the accounting for certain derivatives under the control of the issuer, and those involving variable conversion pricing, due to the revised interpretation and implementation of the Derivative Accounting Pronouncements.

The Company has made adjustments to its accounting records in the restated amounts to more fully comply with requirements of the Derivative Accounting Pronouncements, and the Securities and Exchange Commission (SEC) dealing with derivatives. Among these changes were the balances of derivative liabilities, debt discount, paid in capital-warrants, paid in capital-options , revaluation income, and common stock. The adjustments to the common stock were caused by the elimination of credits to common stock that had resulted principally from the erroneous recognition of liabilities for conversion privileges upon issuances of convertible debt. These credits were erroneously transferred to pay in capital upon debt conversion. Other partial offsets to these adjustments affected the amounts of amortization expense and paid in capital-warrants.

The effects of these changes on the Company's previously issued unaudited March 31, 2007 and 2006 financial statements and the related disclosures included elsewhere in the notes to financial statements, are as follows:

Balance Sheet as of March 31, 2007:

	Previously Reported	Increase (decrease)		As Restated
Deferred charges	$ 501,166	$ (501,166)	(1)	$ -
Deferred financing costs	-	465,784	(1)	465,784
Total assets	$ 5,616,847	$ (35,382)		$ 5,581,465
Current portion-convertible debt, net of discounts	$ 2,007,297	$ (177,041)	(1)	$ 1,830,256
Accrued liabilities	364,750	(57,084)	(5)	307,666
Options liability	1,417,660	(1,417,660)	(9)	-
Derivative liability-warrants and conversion privileges	4,996,793	(1,640,542)	(2)	3,356,251
Total current liabilities	9,653,737	(3,292,327)		6,361,410
Long term-convertible debt, net of discounts	4,291,837	(3,204,547)	(1)	1,087,290
Total liabilities	13,945,574	(6,496,874)		7,448,700
Paid in capital-warrants	1,065,264	1,250,672	(2)	2,315,936
Common stock, no par	25,319,211	(3,540,682)	(4)	21,778,529
Paid in capital-options	-	1,417,660	(9)	1,417,660
Accumulated deficit	(34,726,152)	7,333,842	(3)	(27,392,310)