

TRULITE INC  
Form 10QSB  
November 13, 2007

**U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-QSB**

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

**For the quarterly period ended September 30, 2007**

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

**Commission file number 000-51696**

**Trulite, Inc.**

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(Exact name of small business issuer as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-1372858**  
(I.R.S. employer  
identification number)

**1401 McKinney Street  
Suite 900  
Houston, TX 77010**

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(Address of principal executive offices)

Issuer's telephone number, including area code: (713) 888-0660

Copies to:  
James Ryan, III, Esq.  
Jackson Walker L.L.P  
901 Main St., Suite 6000  
Dallas, TX 75202  
Tel: (214) 953-5801  
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Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 11,935,591 shares of Common Stock, par value \$.0001 per share, outstanding as of November 13, 2007.

Transitional Small Business Disclosure Format (Check one): YES  NO

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**TRULITE, INC.**

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**Note Regarding Forward-looking Statements**

This Form 10-QSB for the quarter ended September 30, 2007, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), including statements regarding, among other items, our growth strategies, anticipated trends in our business and our future results of operation, market conditions in the research and development industry and the impact of governmental regulation. 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, among other things:

- Our ability to raise capital;
- Our ability to estimate future expenditures;
- Our ability to sell our products;
- Our ability to retain and attract experienced and knowledgeable personnel; and
- Our ability to compete in the renewable energy industry

In addition, the words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” and similar expressions they relate to us, our business or our management, are intended to identify forward-looking statements.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this Form 10-QSB. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this Form 10-QSB may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements.

**PART 1. FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**

**Trulite, Inc. (a Development Stage Company)**  
**Balance Sheets**

	September 30, 2007	December 31, 2006 Audited
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 26,169	\$ 275,957
Prepaid expenses and other current assets	4,799	13,372
Total current assets	30,968	289,329
Property and equipment, net	60,429	50,079
Patent application fees	41,963	19,843
Total assets	\$ 133,360	\$ 359,251
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 383,987	\$ 239,544
Due to affiliates	427,255	62,363
Notes payable to affiliates	3,075,000	1,250,000
Notes payable, net of unamortized discount of \$103,955 as of September 30, 2007.	396,045	-
Unearned revenue	2,495	-
Total current liabilities	4,284,782	1,551,907
Commitments and contingencies		
Stockholders' deficit:		
8% Cumulative Convertible, Series A Preferred Stock; \$0.0001 par value, 1,500,000 shares authorized, 0 shares issued and outstanding as of September 30, 2007 and December 31, 2006.	-	-
Common Stock; \$0.0001 par value, 50,000,000 and 20,000,000 shares authorized, 11,935,591 and 11,785,491 shares issued and outstanding as of September 30, 2007 and December 31, 2006, respectively.	1,193	1,178
Additional paid-in-capital	10,061,272	9,537,425
Deficit accumulated during the development stage	(14,213,887)	(10,731,259)
Total stockholders' deficit	(4,151,422)	(1,192,656)
Total liabilities and stockholders' deficit	\$ 133,360	\$ 359,251

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



**Trulite, Inc. (a Development Stage Company)**  
**Statements of Operations**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>		<b>Period From</b>
	<b>September 30,</b>		<b>September 30,</b>		<b>Inception</b>
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>(July 15, 2004)</b>
					<b>Through</b>
					<b>September 30, 2007</b>
Sales	\$ -	\$ -	\$ -	\$ 8,333	\$ 26,750
Cost of sales	-	-	-	5,912	18,385
<b>GROSS PROFIT</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,421</b>	<b>8,365</b>
<b>Operating expenses:</b>					
Research and development	507,537	332,032	1,444,533	778,719	3,811,673
Depreciation	6,960	5,131	18,990	10,572	41,801
General and administrative	495,963	389,002	1,678,349	1,841,405	4,424,765
<b>TOTAL OPERATING EXPENSES</b>	<b>1,010,460</b>	<b>726,165</b>	<b>3,141,872</b>	<b>2,630,696</b>	<b>8,278,239</b>
<b>LOSS FROM OPERATIONS</b>	<b>(1,010,460)</b>	<b>(726,165)</b>	<b>(3,141,872)</b>	<b>(2,628,275)</b>	<b>(8,269,874)</b>
<b>Other income (expense):</b>					
Interest expense	(132,507)	(4,854)	(238,384)	(4,913)	(268,773)
Interest income	686	799	2,509	4,005	13,632
<b>TOTAL OTHER INCOME (EXPENSE)</b>	<b>(131,821)</b>	<b>(4,055)</b>	<b>(235,875)</b>	<b>(908)</b>	<b>(255,141)</b>
<b>LOSS BEFORE INCOME TAXES</b>	<b>(1,142,281)</b>	<b>(730,220)</b>	<b>(3,377,747)</b>	<b>(2,629,183)</b>	<b>(8,525,015)</b>
Income taxes	-	-	-	-	-
<b>NET LOSS</b>	<b>(1,142,281)</b>	<b>(730,220)</b>	<b>(3,377,747)</b>	<b>(2,629,183)</b>	<b>\$ (8,525,015)</b>
Preferred stock dividends	-	-	-	(39,275)	
Deemed dividend on conversion of preferred stock to common stock	-	-	-	(1,586,150)	
Deemed dividend on warrant extension	-	-	(104,881)	-	
	<b>\$ (1,142,281)</b>	<b>\$ (730,220)</b>	<b>\$ (3,482,628)</b>	<b>\$ (4,254,608)</b>	

**NET LOSS ATTRIBUTABLE  
TO COMMON  
STOCKHOLDERS**

**NET LOSS PER COMMON  
SHARE**

Basic and diluted	\$	(0.10)	\$	(0.06)	\$	(0.28)	\$	(0.32)
Preferred and deemed dividends		-		-		(0.01)		(0.20)
Attributable to common stockholders	\$	(0.10)	\$	(0.06)	\$	(0.29)	\$	(0.52)

**WEIGHTED AVERAGE  
COMMON SHARES  
OUTSTANDING:**

Basic	11,897,004	11,785,491	11,824,935	8,247,825
Diluted	11,897,004	11,785,491	11,824,935	8,247,825

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



**Trulite, Inc. (a Development Stage Company)**  
**Statements of Cash Flows**

	Nine Months Ended September 30,		Period From Inception (July 15, 2004) Through September 30, 2007
	2007	2006	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss	\$ (3,377,747)	\$ (2,629,183)	\$ (8,525,015)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	18,990	10,572	41,801
Amortization of debt discount	31,345	-	31,345
Common stock issued for consulting services	75,000	285,000	360,000
Common stock issued for management fees	-	-	133,840
Stock-based compensation expense	158,593	477,159	669,750
Warrants issued for consulting services	-	162,155	162,155
Write-off of research and development expenses	-	-	606,798
Changes in operating assets and liabilities:			
Due to/from affiliate	654,392	23,773	716,755
Accounts receivable	-	16,667	-
Prepaid expenses and other current assets	8,573	(10,723)	1,666
Grants receivable	-	-	850
Accounts payable and accrued expenses	144,443	62,981	375,878
Unearned revenue	2,495	-	2,495
Net cash used in operating activities	(2,283,916)	(1,601,599)	(5,421,682)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of fixed and intangible assets	(51,460)	(13,527)	(137,737)
Net cash used in investing activities	(51,460)	(13,527)	(137,737)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of common stock	50,088	1,000,000	1,050,088
Issuance of common stock warrants with debt financing	135,300	-	135,300
Issuance of preferred stock	-	-	1,250,000
Issuance of notes payable	1,900,200	500,000	3,150,200
Net cash provided by financing activities	2,085,588	1,500,000	5,585,588
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>			
	(249,788)	(115,126)	26,169
CASH AND CASH EQUIVALENTS, beginning of period	275,957	235,982	-
CASH AND CASH EQUIVALENTS, end of period	\$ 26,169	\$ 120,856	\$ 26,169
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>			
Common stock issued for consulting services	\$ 75,000	\$ 285,000	\$ 360,000

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Common stock issued for management fees	\$	-	\$	-	\$	133,840
Warrants issued for consulting services	\$	-	\$	162,155	\$	162,155
Common stock options issued for compensation	\$	158,593	\$	477,159	\$	669,750
Preferred stock issued for acquisition	\$	-	\$	-	\$	20,000
Common stock issued for acquisition	\$	-	\$	-	\$	592,460
Affiliate payable relieved through issuance of note payable	\$	289,500	\$	-	\$	289,500
Cash paid for interest	\$	-	\$	-	\$	28,897

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

**Trulite, Inc. (a Development Stage Company)**  
**Statements of Stockholders' Deficit**  
**For the Periods From Inception (July 15, 2004) Through September 30, 2007**

	8% Cumulative Convertible Series A Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
<b><u>Cash issuances:</u></b>							
July 28, 2004; issuance of preferred stock at \$1.00 per share	100,000	\$ 10	-	\$ -	99,990	\$ -	100,000
November 5, 2004; issuance of preferred stock at \$1.00 per share	190,000	19	-	-	189,981	-	190,000
November 12, 2004; issuance of preferred stock at \$1.00 per share	10,000	1	-	-	9,999	-	10,000
<b><u>Non-cash issuances:</u></b>							
July 22, 2004; preferred stock issued in the acquisition of Trulite Technology, LC based on fair value of stock issued of \$1.00 per share	20,000	2	-	-	19,998	-	20,000
July 22, 2004; common stock issued in the acquisition of Trulite Technology, LC based on fair value of stock issued of \$0.20 per share (post April 2005 split)	-	-	2,962,300	296	592,164	-	592,460
July 28, 2004; common stock issued for management services based on fair value of stock issued	-	-	343,850	34	68,736	-	68,770

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of \$0.20 per share (post April 2005 split)							
Accretion of dividends	-	6,624	-	-	(6,624)	-	-
<i>Net loss</i>	-	-	-	-	-	(878,022)	(878,022)
Balance, December 31, 2004	320,000	6,656	3,306,150	330	974,244	(878,022)	103,208

Cash issuances:

February 1, 2005; issuance of preferred stock, at \$1.00 per share	200,000	20	-	-	199,980	-	200,000
June 1, 2005; issuance of preferred stock at \$0.80 per share	934,725	93	-	-	749,907	-	750,000

Non-cash issuances:

January 28, 2005; common stock issued for management services based on fair value of stock issued of \$0.20 per share (post April 2005 split)	-	-	325,350	33	65,037	-	65,070
Accretion of dividends	-	84,074	-	-	(84,074)	-	-
<i>Net loss</i>	-	-	-	-	-	(825,952)	(825,952)
Balance, December 31, 2005	1,454,725	90,843	3,631,500	363	1,905,094	(1,703,974)	292,326

Cash issuances:

April 13, 2006; issuance of common stock and warrants	-	-	1,000,000	100	999,900	-	1,000,000
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Non-cash issuances:

April 26, 2006; common stock issued for consulting services	-	-	300,000	30	284,970	-	285,000
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based on fair value of stock issued of \$0.95 per share							
April 26, 2006; warrants to purchase common stock issued for consulting services based on fair value of warrants issued	-	-	-	-	162,155	-	162,155
Accretion of dividends	-	39,275	-	-	(39,275)	-	-
May 2, 2006; accretion of preferred stock for deemed dividend on conversion of accrued dividends to common stock	-	161,388	-	-	(161,388)	-	-
May 2, 2006; accretion of preferred stock for deemed dividend on conversion to common stock	-	1,424,762	-	-	(978,494)	(446,268)	-
May 2, 2006; conversion of preferred stock to common stock	(1,454,725)	(1,716,268)	6,853,991	685	6,853,306	(5,137,723)	-
Stock-based compensation	-	-	-	-	511,157	-	511,157
<i>Net loss</i>	-	-	-	-	-	(3,443,294)	(3,443,294)
Balance, December 31, 2006	-	-	11,785,491	1,178	9,537,425	(10,731,259)	(1,192,656)

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

**Trulite, Inc. (a Development Stage Company)**  
**Statements of Stockholders' Deficit (Continued)**  
**For the Periods From Inception (July 15, 2004) Through September 30, 2007**

	8% Cumulative Convertible Series A Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
<i>Cash issuances:</i>							
April 1, 2007; issuance of common stock	-	-	100	-	88	-	88
September 9, 2007; issuance of common stock			50,000	5	49,995		50,000
<i>Non-cash issuance:</i>							
June 26, 2007; common stock issued for consulting services based on fair value of stock issued of \$1.00 per share	-	-	100,000	10	74,990	-	75,000
February, 22, 2007; deemed dividend on warrant extension	-	-	-	-	104,881	(104,881)	-
June 26, 2007; warrants issued with convertible debt	-	-	-	-	135,300	-	135,300
Stock-based compensation	-	-	-	-	158,593	-	158,593
Net Loss	-	-	-	-	-	(3,377,747)	(3,377,747)
<b>Balance, September 30, 2007</b>	-	\$ -	11,935,591	\$ 1,193	\$ 10,061,272	\$ (14,213,887)	\$ (4,151,422)

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

**Trulite, Inc. (a Development Stage Company)**  
**Notes to Financial Statements**

**As of and for the Period from Inception (July 15, 2004) Through September 30, 2007**

**NOTE 1 – Basis of Presentation**

The unaudited financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim reporting, and in the opinion of management reflect all adjustments, including those of a normal recurring nature, that are necessary for a fair presentation of financial position and results of operations for the interim periods presented. As permitted under those requirements, certain footnotes or other financial information that are normally required by accounting principles generally accepted in the United States of America have been condensed or omitted. As used herein, the terms “Trulite,” “the Company,” “we,” “our” and “us” refer to Trulite, Inc.

For further information, refer to the financial statements and footnotes included in our Annual Report on Form 10-KSB for the year ended December 31, 2006. Interim results are not necessarily indicative of results to be expected for the full fiscal year ending December 31, 2007.

The Company from inception (July 15, 2004) through September 30, 2007, did not have significant revenues. The Company has no significant operating history as of September 30, 2007. The accompanying financial statements have been prepared assuming the Company will continue as a going concern. From inception (July 15, 2004) through September 30, 2007, management has raised additional equity and debt financing to fund operations and to provide additional working capital. However, there is no assurance that future such financing will be in amounts sufficient to meet the Company’s needs.

Reclassifications

Certain reclassifications have been made to conform prior period amounts to the current period presentation. These reclassifications had no effect on net loss or stockholders’ deficit.

New Accounting Pronouncements:

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements.” SFAS No. 157 defines fair value and applies to other accounting pronouncements that require or permit fair value measurements and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting SFAS No. 157 on its financial statements.

In February 2007, the FASB issued SFAS 159, “The Fair Value Option for Financial Assets and Financial Liabilities,” which permits the choice to measure certain financial assets and liabilities at their fair value at specified election dates. The new standard is effective for the Company on January 1, 2008, unless early adoption is elected. The Company does not expect the new standard to have a material impact on its financial position or results of operation.

**Trulite, Inc. (a Development Stage Company)**  
**Notes to Financial Statements**  
**As of and for the Period from Inception (July 15, 2004) Through September 30, 2007**

**NOTE 2 – Property and Equipment**

Property and Equipment consists of the following:

	September 30, 2007	December 31, 2006
Office and other equipment	\$ 79,657	\$ 59,249
Manufacturing equipment	15,450	9,491
Test equipment	7,123	4,150
Total fixed assets	102,230	72,890
Accumulated depreciation	(41,801)	(22,811)
Property and equipment, net	\$ 60,429	\$ 50,079

**NOTE 3 – Accounts Payable and Accrued liabilities**

	September 30, 2007	December 31, 2006
Accounts payable	\$ 183,924	\$ 134,905
Accrued expenses	200,063	104,639
	\$ 383,987	\$ 239,544

**NOTE 4 – Notes Payable**

On February 6, 2007, the Company incurred indebtedness of \$600,000 pursuant to the terms of two promissory notes, which were amended June 29, 2007 (See below). The Company borrowed \$240,000 from Contango Venture Capital Corporation, LLC (“CVCC”), which beneficially owns approximately 16.8% of the Company’s common stock, and \$360,000 from Standard Renewable Energy Group, LLC (“SREG”), which owns NewPoint Energy Solutions, LP (“NewPoint”), the owner of approximately 44.7% of the Company’s common stock. Both promissory notes bore interest at a rate of 11.25% until August 6, 2007, at which time the rate became 12.25 (as amended). Both notes mature on December 31, 2007 (as amended), and may be prepaid by the Company at any time without penalty.

On May 30 and May 31, 2007, the Company incurred indebtedness of \$240,000 and \$360,000, respectively, pursuant to the terms of two promissory notes. The Company borrowed \$360,000 from SREG. The Company borrowed \$240,000 from CVCC. Both promissory notes bore interest at a rate of 11.25% until October 22, 2007, at which time the rate became prime rate plus 3%. As of October 22, 2007, the prime rate plus 3% was 11.25%. Both notes mature on February 19, 2008, and may be prepaid by the Company at any time without penalty.

On June 26, 2007, the Company pursuant to the terms of a Note and Warrant Purchase Agreement dated June 26, 2007 (the “Purchase Agreement”), sold a total of 6.66 units (“Units”), each Unit comprising (i) a convertible promissory note (a “Note”), in the original principal amount of \$75,000, and (ii) a warrant (a “Warrant”), to purchase 100,000 shares of the Company's common stock at a price of \$1.00 per share. The Company sold a total of \$500,000 in principal amount of Notes and Warrants to purchase a total of 666,666 shares of Common Stock for total proceeds of \$500,000. Each Note bears interest at a rate of 15% per annum. Principal and accrued but unpaid interest on each Note are



payable in full on June 26, 2008. Amounts outstanding under each Note may be

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**Trulite, Inc. (a Development Stage Company)**  
**Notes to Financial Statements**  
**As of and for the Period from Inception (July 15, 2004) Through September 30, 2007**

**NOTE 4 – Notes Payable (Continued)**

prepaid without penalty. The unpaid principal balance due under each Note, together with any accrued but unpaid interest, may be converted into unregistered shares of Common Stock at a conversion price of \$0.75 per share. Each Warrant is exercisable until June 26, 2010, at an exercise price of \$1.00 per share and has a cashless exercise feature.

In accordance with the guidelines of APB No. 14, “Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants,” the proceeds were allocated to the Warrants and to the Notes based on the relative fair values of the two instruments at the date of issuance. The fair value of the Warrants was determined using the Black-Scholes pricing model, assuming a risk-free interest rate of 4.63%, a volatility factor of 63%, dividend yields of 0% and a contractual life of three years. Of the \$500,000 of proceeds received from the issuance, \$135,300 was recorded to additional paid-in capital to recognize the issuance of the Warrants and as a discount to the face amount of the Notes of \$500,000. The discount will be amortized to interest expense through the date of maturity, June 26, 2008. The convertible feature contained in the Notes was not a beneficial conversion feature in accordance with EITF 98-5, “Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios,” and thus no portion of the proceeds was allocated to the conversion feature of the Notes.

On July 30, 2007, the Company entered into an Amendment to Promissory Notes (which was effective as of June 29, 2007), by and between the Company and each of SREG, Standard Renewable Energy, LP (“SRE, LP”), a wholly owned subsidiary of SREG, and CVCC. The amendment extended the maturity of promissory notes with an aggregate principal balance of \$960,000, \$125,000, and \$765,000 with SREG, SRE, LP, and CVCC, respectively, until December 31, 2007. In consideration for the extension, the Company agreed to a change in the adjusted interest rate payable under each note from the Prime Rate plus three percent to the Prime Rate plus four percent. As amended, the promissory notes will maintain a fixed interest rate of 11.25% through the date of the interest rate change date that is specific to each note, at which point the rate will increase to the amended rate of the prime rate plus four percent.

On July 30, 2007, the Company entered into a Second Amendment to Subscription Agreement (which was effective as of June 29, 2007), by and between the Company and each of SREG, SRE, LP and CVCC (the “Amended Subscription Agreements”). The original agreements dated April 5, 2007 and the first amendment to the original agreements dated April 24, 2007, entered into by and between SREG, SRE, LP, and CVCC allowed the exchange of the Company’s outstanding promissory notes aggregating \$1,850,000 on April 24, 2007, plus accrued and unpaid interest through the date of conversion for shares of the Company’s common stock. Under the Amended Subscription Agreements, the Company and the holder of the notes agreed that on the first business day following the date on which the Company first has outstanding 14,485,491 shares of common stock, the Company will issue to the holder of the notes a number of shares of common stock determined by multiplying 2 times the quotient of (x) the aggregate principal balance of and accrued but unpaid interest on the notes as of the close of business on the day before such issuance divided by (y) the lesser of (i) \$1.00 or (ii) the average closing sale price for the Company’s common stock as quoted on the Over the Counter Bulletin Board for the ten trading days immediately preceding the date the Company has outstanding 14,485,491 shares of common stock outstanding. The Amended Subscription Agreements expire December 31, 2007.

On August 20, 2007, the Company incurred indebtedness of \$250,000 and \$375,000, pursuant to the terms of two promissory notes. The Company borrowed \$375,000 from SREG and \$250,000 from CVCC. Both promissory notes bear interest at a rate of 12.25% until February 14, 2008, at which time the rate will become the prime rate plus 4%. Both notes mature on May 16, 2008, and may be prepaid by the Company at any time without penalty.



**Trulite, Inc. (a Development Stage Company)**  
**Notes to Financial Statements**  
**As of and for the Period from Inception (July 15, 2004) Through September 30, 2007**

**NOTE 5 – Stock-Based Compensation**

The Company has granted options to purchase common stock to employees, consultants and outside directors under the Trulite, Inc. Stock Option Plan, as amended and restated (the “Plan”). A total of 5,000,000 shares are reserved for issuance and, as of September 30, 2007, 1,551,421 shares remained available for grant under the Plan.

For the three and nine month period ended September 30, 2007, total stock-based compensation expense recognized was \$90,554 and \$158,593, respectively. Stock-based compensation expense related to the three and nine month period ended September 30, 2006 was \$45,372 and \$477,159, respectively. The total unrecognized compensation cost at September 30, 2007, relating to non-vested share-based compensation arrangements granted under the Plan, was \$902,125. That cost is expected to be recognized through the third quarter of 2011, with a weighted average period of 3.3 years.

During the nine month period ended September 30, 2007, the Company granted options to purchase 1,125,916 shares of common stock under the plan. With respect to 375,916 of these options, the exercise price is \$1.00 per common share. With respect to 750,000 of these options the exercise price is \$.75 per common share. The exercise price was determined based on management’s estimate of fair value on the date of grant. The options vest over a weighted average period of 3.8 years and have a contractual life of seven years. The fair value of these options was based upon the weighted average assumptions noted below:

Risk free rate	4.76%
Expected life (in years)	4.7
Expected volatility	64%
Expected dividends	-
Fair value	\$ 0.47

The Company estimates the fair value of stock options under SFAS No. 123R at the date of grant using a Black-Scholes-Merton valuation model. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected term (estimated period of time outstanding) of option grants is based on the “simplified” method of estimating expected term for “plain vanilla” options allowed by SEC Staff Accounting Bulletin No. 107, and varies based on the vesting period and contractual term of the option. Expected volatility has historically been based on an evaluation of similar companies’ trading activity. The Company has not issued any cash dividends on its common stock.

The following summary presents information regarding outstanding options as of September 30, 2007, and the changes during the nine months then ended:

**Option Activity**

	Shares Under Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2007	2,447,060	\$ 0.94		
Granted	1,125,916	0.83		
Exercised	(50,000)	1.00		

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Forfeited/Cancelled	(22,300)	0.99			
Outstanding at September 30, 2007	3,500,676	0.90	5.1 years	\$	-
Vested or expected to vest at September 30, 2007	3,295,734	0.90			-
Exercisable at September 30, 2007	1,451,251	\$ 0.90	3.5 years	\$	-

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**Trulite, Inc. (a Development Stage Company)**  
**Notes to Financial Statements**  
**As of and for the Period from Inception (July 15, 2004) Through September 30, 2007**

**NOTE 6 – Stockholders' Equity**

On February 22, 2007, the Company's Board of Directors agreed to extend the term of warrants, until April 13, 2008, that were issued April 2006 in connection with the issuance of common stock for cash consideration of \$1.00 per share. These warrants entitled the holders to purchase an additional 1,000,000 shares of common stock of the Company at an exercise price of \$1.50 per common share that were originally set to expire on April 13, 2007. A difference of \$104,881 in the fair value of these warrants after modification, when compared to their fair value immediately prior to the modification, was recorded as a deemed dividend in the first quarter of 2007.

On May 4, 2007, the Company amended its certificate of incorporation to increase the authorized capital stock of the Company from 21,500,000 shares to 51,500,000 shares of capital stock, consisting of 50,000,000 shares of common stock and 1,500,000 shares of preferred stock.

A consultant provided services to the Company in connection with the consummation of the transactions contemplated by the Purchase Agreement, including providing advice regarding the terms of the Notes and Warrants and identifying potential investors. The Company agreed to issue 100,000 shares of common stock, as compensation for such services, and recognized \$75,000 as a component of general and administrative expenses, the estimated fair value of the shares issued.

**NOTE 7 – Income taxes**

Since inception, the Company has incurred net operating losses and, accordingly, no provision for current income taxes has been recorded in these financial statements. In addition, no benefit for income taxes has been recorded in respect of the net deferred tax assets as management believes it is more likely than not that the deferred tax assets will not be fully realizable. Accordingly, the Company has provided for a full valuation allowance against its net deferred tax assets at September 30, 2007 and December 31, 2006.

In June 2006, the FASB issued FASB Interpretation No.48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes-an interpretation of SFAS No.109". The interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures.

The Company adopted the provisions of FIN 48 on January 1, 2007. After application of the provisions of FIN 48, it was not necessary for the Company to recognize any liability for unrecognized tax benefits or adjustment to the balance of retained earnings as of January 1, 2007. The Company's policy is to classify interest and penalties related to unrecognized tax benefits in income tax expense. As of January 1, 2007, the Company had no accrued interest and penalties related to unrecognized tax benefits. As of January 1, 2007, after the implementation of FIN 48, the Company had no unrecognized tax benefits. Therefore, there is no amount, if recognized, that would affect the effective tax rate.

The Company files an income tax return in the U.S. federal jurisdiction. For federal tax purposes, the Company's 2004 through 2006 tax years remain open for examination by the tax authorities under the normal three year statute of limitations. The adoption of FIN 48 on January 1, 2007 did not have a material effect on the Company's results of operations or financial condition.

**Trulite, Inc. (a Development Stage Company)**  
**Notes to Financial Statements**  
**As of and for the Period from Inception (July 15, 2004) Through September 30, 2007**

**NOTE 8 – Research and Development Costs**

Expenditures for research activities relating to product development and improvement are charged to expense as incurred. For the three and nine month period ended September 30, 2007, research and development costs were \$507,537 and \$1,444,533, respectively. For the three and nine month period ended September 30, 2006, research and development costs were \$332,032 and \$778,719, respectively.

**NOTE 9 – Commitments and Contingencies**

*Leases*

Rent expense for the three and nine month period ended September 30, 2007, was \$8,867 and \$23,501, respectively. Rent expense for the three and nine month period ended September 30, 2006 was \$12,027 and \$24,781, respectively. Rent expense is included in general and administrative expenses in the accompanying statements of operations.

*Other*

The Company had an employment agreement with its President that expires July 31, 2008, under which the committed obligation is \$110,000 at September 30, 2007.

**NOTE 10 – Related Party Transactions**

*Due to affiliates*

As of September 30, 2007, amounts due to affiliates consisted of accrued interest of \$23,238, \$11,087, and \$77,577 to SREG, SRE, LP, and CVCC, respectively, \$179,820 due to SREG for management and administrative services, and \$135,533 owed to other related parties for working capital needs. Due to affiliates consisted of \$62,363 due to SREG for general and administrative expenses as of December 31, 2006.

During the three and nine month period ended September 30, 2007, SREG billed the Company \$137,045 and \$392,846 for management and administrative services. During the three and nine month period ended September 30, 2006, SREG billed the Company \$12,565 for management and administrative services.



**Trulite, Inc. (a Development Stage Company)**  
**Notes to Financial Statements**  
**As of and for the Period from Inception (July 15, 2004) Through September 30, 2007**

**NOTE 10 – Related Party Transactions (Continued)***Notes payable to affiliates*

Notes payable to affiliates totaled \$3,075,000 as of September 30, 2007 and consisted of the following:

<b>Affiliate</b>	<b>Note Date</b>	<b>Maturity Date</b>	<b>Principal</b>
SREG	August 20, 2007	May 16, 2008	\$ 375,000
SREG	May 31, 2007	February 19, 2008	360,000
SREG	February 6, 2007	December 31, 2007	360,000
SREG	November 28, 2006	December 31, 2007	100,000
SREG	October 26, 2006	December 31, 2007	250,000
SREG	September 21, 2006	December 31, 2007	250,000
<b>Total due SREG</b>			\$ 1,695,000
SRE, LP	August 9, 2006	December 31, 2007	125,000
<b>Total due SRE, LP</b>			\$ 125,000
CVCC	August 20, 2007	May 16, 2008	250,000
CVCC	May 30, 2007	February 19, 2008	240,000
CVCC	February 6, 2007	December 31, 2007	240,000
CVCC	November 22, 2006	December 31, 2007	400,000
CVCC	August 9, 2006	December 31, 2007	125,000
<b>Total due CVCC</b>			\$ 1,255,000
<b>Total notes payable to affiliates</b>			\$ 3,075,000

As described in Note 4, SREG, SRE, LP and CVCC have entered into subscription agreements for \$960,000, \$125,000, and \$765,000, respectively, of notes payable, which will allow for the conversion of those notes to common stock of the Company.

*Interest*

For the three and nine month period ended September 30, 2007, the Company incurred interest expense of \$83,589 and \$187,367, respectively, related to outstanding promissory notes with SREG, SRE, LP, and CVCC. For the three and nine month period ended September 30, 2006, the Company incurred interest expense of \$4,894 related to outstanding promissory notes with SREG, SRE, LP and CVCC.

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**Trulite, Inc. (a Development Stage Company)**  
**Notes to Financial Statements**  
**As of and for the Period from Inception (July 15, 2004) Through September 30, 2007**

**NOTE 11 – Net Loss Per Share**

	Three Months Ended September		Nine Months Ended September 30,	
	2007	2006	2007	2006
<b>Numerator:</b>				
Net loss	\$ (1,142,281)	\$ (730,220)	\$ (3,377,747)	\$ (2,629,183)
<b>Increases to Net Loss:</b>				
Preferred stock dividends	-	-	-	(39,275)
Deemed dividend on conversion of preferred stock to common stock	-	-	-	(1,586,150)
Deemed dividend on warrant extension	-	-	(104,881)	-
Net loss attributable to common stockholders	\$ (1,142,281)	\$ (730,220)	\$ (3,482,628)	\$ (4,254,608)
<b>Denominator</b>				
Basic earnings per share - weighted average common shares outstanding	11,897,004	11,785,491	11,824,935	8,247,825
Weighted-average dilutive effect of stock-based awards and common stock issuable upon conversion of preferred stock, net of assumed repurchase of treasury stock	-	-	-	-
Fully-diluted earnings per share - weighted average common shares outstanding	11,897,004	11,785,491	11,824,935	8,247,825
<b>Net loss per common share</b>				
Basic and diluted	\$ (0.10)	\$ (0.06)	\$ (0.28)	\$ (0.32)
Preferred and deemed dividends	-	-	(0.01)	(0.20)
Attributable to common stockholders	\$ (0.10)	\$ (0.06)	\$ (0.29)	\$ (0.52)

Basic and diluted net loss per share for the three and nine month period ended September 30, 2007 and 2006 are the same since the effect of all common stock equivalents are anti-dilutive to the Company's net loss in accordance with Statement of Financial Accounting Standards No. 128, *Earnings per Share*.

The following weighted average securities are not included in the computation of diluted loss per share as their effect would have been anti-dilutive:

## Anti-dilutive securities

	Three Months Ended September		Nine Months Ended September	
	2007	2006	2007	2006
Common stock options	3,247,415	2,134,388	2,734,425	1,430,351
Common stock warrants	2,066,666	1,400,000	1,636,874	846,886
8% cumulative convertible series A preferred stock	-	-	-	650,097
Convertible debt (if-converted)	4,564,303	-	3,778,632	-

**Trulite, Inc. (a Development Stage Company)**  
**Notes to Financial Statements**

**As of and for the Period from Inception (July 15, 2004) Through September 30, 2007**

**NOTE 12 – Subsequent Events**

On November 7, 2007, the Company pursuant to the terms of a Note and Warrant Purchase Agreement dated November 7, 2007 (the “Purchase Agreement”), sold a total of seventeen units (the “Units”), each Unit comprising (i) a 15% interest bearing unsecured promissory note in the principal amount of \$25,000, with a maturity date of April 30, 2008 (the “Notes”), and (ii) a one year common stock warrant to purchase 25,000 shares of the Company’s Common Stock at an exercise price of \$0.50 per share (the “Warrants”). The price of each unit was \$25,000. The Company sold a total of \$425,000 in principal amount of Notes and Warrants to purchase a total of 425,000 shares of Common Stock for total proceeds of \$425,000.

## **Item 2. Management's Discussion and Analysis and Plan of Operation**

The following Management's Discussion and Analysis and Plan of Operation highlights the principal factors that have affected the Company's financial condition and results of operations as well as the Company's liquidity and capital resources for the periods described and should be read in conjunction with our unaudited financial statements for the three and nine months ended September 30, 2007, with their explanatory notes included as part of this Form 10-QSB, and our Management's Discussion and Analysis and Plan of Operation for the twelve months ended December 31, 2006 included in our Form 10-KSB.

### Overview and Plan of Operation

Trulite is engaged in the development, production, sourcing, marketing and selling of portable, semi-portable and stationary products, components and systems that can generate power for use in off-grid applications requiring power up to one kilowatt. These products, components and systems include hydrogen fuel cells, photovoltaic solar panels, wind micro-turbines, batteries, charge controllers and inverters. Solar panels and on-site wind micro-turbines provide intermittent power that frequently must be stored to meet requirements when the panels are not producing. The Trulite fuel cells can provide power when the solar panels or wind turbines are not operating for extended and consistent power availability.

The Company recently announced the development of its new KH4 product. This hydrogen fuel cell generator can produce 150 watts of continuous power and up to 200 watts of peak power. The integrated advanced technology lithium ion battery can provide immediate power if the fuel cell is being used as a back-up for grid power. The system can manage the integration of power from solar panels and on-site wind micro-turbines together with power from the fuel cell to optimize the power available to meet the needs of the application. The KH4 uses dry sodium borohydride as the hydrogen source. The two 400 watt-hour fuel cartridges that are standard with the KH4 can provide over seven hours of run time with the unit operating at 60% of capacity. In the proper storage conditions, the fuel cartridges can be stored indefinitely before use. The Company has two patents that have issued and several patents pending for the technology involved in the KH4 and other products.

Trulite has recently expanded its product offering to include smaller photovoltaic solar power systems and small on-site wind micro-turbines power systems. These products will be offered in the marketplace prior to the new KH4 product being available in production quantities but will be able to work in conjunction with the KH4.

Trulite believes that its off-grid products have application in several markets where electrical power is needed. The products can be used to recharge batteries such as those used in power tools on construction sites. Power can be provided in emergency situations where grid power is not available in the home or small business to recharge batteries, to power lights and small refrigerators and to power or recharge electronics. Power can also be provided for remote monitoring and electronics for security, industrial, telecommunications, and other applications. The products can also be used for recreational activities where grid power is not readily available such as camping, boating, fishing and hunting. Off-grid power is also useful for remote displays and for traffic control applications. The Trulite products can also be used to recharge uninterruptible power supply ("UPS") battery back-up systems for computers where extended run times may be needed. Portable back-up power for batteries in cars, trucks, boats and RV's also provides market opportunities.

Trulite is beginning to present its products to potential customers in several markets using the working prototypes of the KH4 product. Trulite plans to make about 30 units of the beta version of the KH4 integrated hydrogen fuel cell product by the end of the fourth quarter of 2007. Trulite plans to sell several of these beta units to interested customers for testing in their applications and we also plan to test several units internally. One of the beta units has been sold to a governmental agency and other customers have signed agreements to purchase several additional units.



The Company is a development stage company and, as such, has not had any meaningful revenues and has accumulated a deficit since its inception on July 15, 2004. From July 15, 2004 through December 31, 2004, the Company had \$1,750 in sales. For the years ended December 31, 2005 and 2006, the Company had revenue of \$16,667 and \$8,333, respectively. For the nine months ended September 30, 2007, the Company had no sales. We estimate that we will begin to have commercially viable products resulting from the ongoing research and development and product development by the third quarter 2008. Research and development expenditures will be made to further enhance the performance of the hydrogen fuel sources, to develop the electronics that control the process to generate electricity, to improve the performance of the fuel cells and other components, to increase the electrical output of the products and to test the performance and reliability of the products. Since our inception, we have spent \$3,811,673 in research and development, including \$1,444,533 in the nine month period ended September 30, 2007, and anticipate that we will spend at least \$2.0 million for research and development during the next twelve months. We also anticipate spending approximately \$5.2 million for general and administrative costs and capital expenditures through the third quarter of 2008.

We will have ongoing research and development expenditures for the foreseeable future as products are developed for new applications and markets. The timing, amount and success of the research and development and manufacturing estimates are dependent on a number of factors that are difficult to project, including but not limited to the availability of qualified people, the success of the technologies under development, the cost to implement technologies, the cost of the product, the requirements of the marketplace, regulatory requirements, the availability of funds, and other factors.

We do not currently have sufficient capital to fully execute our business plan and we anticipate the need to raise additional capital to develop, promote, and distribute our product. Historically, our activities have been funded through a combination of common and preferred stock issuances and loans from existing investors and third parties. Additional funding may be raised through public or private, equity or debt financings. Additional funding may not be available under favorable terms, if at all. If adequate funds are not available, we may be required to curtail operations significantly or to obtain funds on terms not as favorable as we would hope.



## Results of Operations

The following table summarizes our results of operations for the three and nine month period ended September 30, 2007 and 2006:

	Three Months Ended September		Nine Months Ended September 30,	
	2007	30, 2006	2007	2006
Sales	\$ -	\$ -	\$ -	\$ 8,333
Cost of sales	-	-	-	5,912
GROSS PROFIT	-	-	-	2,421
Operating expenses:				
Research and development	507,537	332,032	1,444,533	778,719
Depreciation	6,960	5,131	18,990	10,572
General and administrative	495,963	389,002	1,678,349	1,841,405
TOTAL OPERATING EXPENSES	1,010,460	726,165	3,141,872	2,630,696
LOSS FROM OPERATIONS	(1,010,460)	(726,165)	(3,141,872)	(2,628,275)
Other income (expense):				
Interest expense	(132,507)	(4,854)	(238,384)	(4,913)
Interest income	686	799	2,509	4,005
TOTAL OTHER INCOME (EXPENSE)	(131,821)	(4,055)	(235,875)	(908)
LOSS BEFORE INCOME TAXES	(1,142,281)	(730,220)	(3,377,747)	(2,629,183)
Income taxes	-	-	-	-
NET LOSS	\$ (1,142,281)	\$ (730,220)	\$ (3,377,747)	\$ (2,629,183)

## Revenues

For the three and nine month period ended September 30, 2007 there was no revenues. The Company had no revenues for the three months ended September 30, 2006. The Company had \$8,333 in revenues during the nine months ended September 30, 2006.

## Gross profit

For the three and nine month period ended September 30, 2007 there was no gross profit or loss. The Company had no gross profit for the three months ended September 30, 2006. The Company had \$2,421 in gross profit during the nine months ended September 30, 2006.



## **Operating expenses**

For the three month period ended September 30, 2007, as compared to the three month period ended September 30, 2006, operating expenses increased by \$284,295. Research and development increased during this period by \$175,505 and general and administrative expenses increased by \$106,961. The increase in research and development during the three month period ended September 30, 2007 was due to a scale up of research and development of the KH 4 150-watt power system. The increase in general and administrative expense during the three month period ended September 30, 2007 was the result of an increase of \$117,682 in management and administrative services provided by SREG, an increase of \$119,760 in stock compensation and employee salaries, an increase in sales and marketing activities of \$34,590, and a decrease in audit, accounting, and consulting fees of \$165,071.

Operating expenses were \$3,141,872 and \$2,630,696 for the nine month period ended September 30, 2007 and 2006, respectively. Research and development expenses increased to \$1,444,533 for the nine month period ended September 30, 2007, as compared to \$778,719 for the corresponding prior year period. The increase in research and development during the nine month period ended September 30, 2007 was due to a scale up of research and development of the KH-4 150-watt power system. General and administrative costs decreased \$163,056 to \$1,678,349 for the nine month period ended September 30, 2007, as compared to \$1,841,405 for the corresponding prior year period. The decrease was the result of a decrease in stock compensation expense of \$318,566 and a decrease in consulting and other professional fees of \$401,051, both partially offset by an increase of \$311,957 in management and administrative services provided by SREG, an increase in insurance, employee salaries, and other administrative expenses of 114,923, and an increase in sales and marketing activities of 129,681.

Depreciation expense increased \$1,829 and \$8,418 for the three and nine month period ended September 30, 2007, compared to the corresponding prior year period. This increase was due to additions of equipment purchased for research and development.

## **Loss from Operations**

Operating losses were \$1,010,460 and \$3,141,872 for the three and nine month period ended September 30, 2007, respectively, as compared to operating losses of \$726,165 and \$2,628,275 for the three and nine month period ended September 30, 2006, respectively, due to the changes in operating expenses as noted above.

## **Other Income (Expense)**

Other income (expense) for the three and nine month period ended September 30, 2007, totaled a net expense of \$131,821 and \$235,875, respectively, and a net expense of \$4,055 and \$908 for the three and nine month period ended September 30, 2006, respectively, due to interest expense on outstanding borrowings.

## **Net Loss**

Net loss for the three and nine month period ended September 30, 2007, was \$1,142,281 and \$3,377,747, respectively, as compared to \$730,220 and \$2,629,183, respectively, for the three and nine month period ended September 30, 2006. The change in net loss was primarily due to increased operating expenses as noted above.

### **Cash position and sources and uses of cash**

Our cash position at September 30, 2007 was \$26,169 as compared to \$275,957 at December 31, 2006.

Our operating activities for the nine month period ended September 30, 2007 used cash in the amount of \$2,283,916, as compared to \$1,601,599 used in the nine month period ended September 30, 2006. Cash used in operating activities for the nine month period ended September 30, 2007 and 2006 reflected a net loss of \$3,377,747 and \$2,629,183, respectively. Non-cash charges were greater by \$690,721 for the nine month period ended September 30, 2006 primarily due to common stock options and warrants that were issued during this period for compensation and consulting services.

The Company used \$51,460 and \$13,527 in investing activities for the purchase of property and equipment for the nine month period ended September 30, 2007 and 2006, respectively.

The Company had cash inflows from financing activities of \$2,085,588 for the nine month period ended September 30, 2007, compared with \$1,500,000 during the nine month period ended September 30, 2006. For the nine month period ended September 30, 2007, the Company's financing was primarily through a combination of convertible debt, short term promissory notes, and warrants, whereas during the same period in 2006, the Company's financing was through issuance of common stock and warrants and short term promissory notes, which have subsequently been amended to extend the maturity date.

On February 6, 2007, the Company incurred indebtedness of \$600,000 pursuant to the terms of two promissory notes, which were amended June 29, 2007 (See below). The Company borrowed \$360,000 and \$240,000 from SREG and CVCC, respectively. Both promissory notes bore interest at a rate of 11.25% until August 6, 2007, at which time the rate became 12.25 (as amended). Both notes mature on December 31, 2007 (as amended), and may be prepaid by the Company at any time without penalty.

On May 30 and May 31, 2007, the Company incurred indebtedness of \$240,000 and \$360,000, respectively, pursuant to the terms of two promissory notes. The Company borrowed \$360,000 from SREG. The Company borrowed \$240,000 from CVCC. Both promissory notes bore interest at a rate of 11.25% until October 22, 2007, at which time the rate became prime rate plus 3%. As of October 22, 2007, the prime rate plus 3% was 11.25%. Both notes mature on February 19, 2008, and may be prepaid by the Company at any time without penalty.

On June 26, 2007, the Company pursuant to the terms of a Note and Warrant Purchase Agreement dated June 26, 2007 (the "Purchase Agreement"), sold a total of 6.66 units ("Units"), each Unit comprising (i) a convertible promissory note (a "Note"), in the original principal amount of \$75,000, and (ii) a warrant (a "Warrant"), to purchase 100,000 shares of the Company's common stock, \$0.0001 par value ("Common Stock") at a price of \$1.00 per share. The Company sold a total of \$500,000 in principal amount of Notes and Warrants to purchase a total of 666,666 shares of Common Stock for total proceeds of \$500,000. Each Note bears interest at a rate of 15% per annum. Principal and accrued but unpaid interest on each Note are payable in full on June 26, 2008. Amounts outstanding under each Note may be prepaid without penalty. The unpaid principal balance due under each Note, together with any accrued but unpaid interest, may be converted into unregistered shares of Common Stock at a conversion price of \$0.75 per share. Each Warrant is exercisable until June 26, 2010, at an exercise price of \$1.00 per share and has a cashless exercise feature.

On July 30, 2007, the Company entered into an Amendment to Promissory Notes (which was effective as of June 29, 2007), by and between the Company and each of SREG, SRE, LP, and CVCC. The amendment extended the maturity of promissory notes with an aggregate principal balance of \$960,000, \$125,000, and \$765,000 with SREG, SRE, LP, and CVCC, respectively, until December 31, 2007. In consideration for the extension, the Company agreed to a change in the adjusted interest rate payable under each note from the Prime Rate plus three percent to the Prime Rate plus four percent. As amended, the promissory notes will maintain a fixed interest rate of 11.25% through the date of the interest rate change date that is specific to each note, at which point the rate will increase to the amended rate of the prime rate plus four percent.

On July 30, 2007, the Company entered into a Second Amendment to Subscription Agreement (which was effective as of June 29, 2007), by and between the Company and each of SREG, SRE, LP and CVCC (the "Amended Subscription Agreements"). The original agreements dated April 5, 2007, and the first amendment to the original agreements dated April 24, 2007, entered into by and between SREG, SRE, LP, and CVCC allowed the exchange of all of the Company's outstanding promissory notes aggregating \$1,850,000, plus accrued and unpaid interest through the date of conversion for shares of the Company's common stock. The Amended Subscription Agreements allow for the conversion of \$1,850,000 of outstanding promissory notes plus accrued and unpaid interest through the date of conversion. Under the Amended Subscription Agreements, the Company and the holder of the notes agreed that on the first business day following the date on which the Company first has outstanding 14,485,491 shares of common stock, the Company will issue to the holder of the notes a number of shares of common stock determined by multiplying 2 times the quotient of (x) the aggregate principal balance of and accrued but unpaid interest on the notes as of the close of business on the day before such issuance divided by (y) the lesser of (i) \$1.00 or (ii) the average closing sale price for the Company's common stock as quoted on the Over the Counter Bulletin Board for the ten trading days immediately preceding the date the Company has outstanding 14,485,491 shares of common stock outstanding. The Amended Subscription Agreements expire December 31, 2007.

On August 20, 2007, the Company incurred indebtedness of \$250,000 and \$375,000, pursuant to the terms of two promissory notes. The Company borrowed \$375,000 from SREG and \$250,000 from CVCC. Both promissory notes bear interest at a rate of 12.25% until February 14, 2008, at which time the rate will become the prime rate plus 4%. Both notes mature on May 16, 2008, and may be prepaid by the Company at any time without penalty.

On November 7, 2007, the Company pursuant to the terms of a Note and Warrant Purchase Agreement dated November 7, 2007 (the "Purchase Agreement"), sold a total of seventeen units (the "Units"), each Unit comprising (i) a 15% interest bearing unsecured promissory note in the principal amount of \$25,000, with a maturity date of April 30, 2008 (the "Notes"), and (ii) a one year common stock warrant to purchase 25,000 shares of the Company's Common Stock at an exercise price of \$0.50 per share (the "Warrants"). The price of each unit was \$25,000. The Company sold a total of \$425,000 in principal amount of Notes and Warrants to purchase a total of 425,000 shares of Common Stock for total proceeds of \$425,000.

### **Capital Resources Going Forward**

Our intended plan of operations for the next twelve months, is to manufacture, sell and distribute limited quantities of our KH 3X and KH 4 product, as well smaller photovoltaic solar power systems and small on-site wind micro-turbines power systems. In the past, the Company primarily used funds derived from the private placement of its securities to fund its operations.

Cash on hand as of September 30, 2007, and cash generated by operations in conjunction with our working capital, will not be sufficient to continue our business for the next twelve months. We continually review our overall capital and funding needs, taking into account current business needs, as well as the Company's future goals and requirements. Based on our business strategy, we believe we will need to increase our available capital through the sale of additional securities.



Should our costs and expenses prove to be greater than we currently anticipate, or should we change our current business plan in a manner that will increase or accelerate our anticipated costs and expenses, the depletion of our working capital would be accelerated. To the extent it becomes necessary to raise additional cash in the future as our cash on hand and working capital resources are depleted, we intend to raise additional capital through the sale of additional equity securities, public or private sale of debt or equity securities, debt financing or short term loans, or a combination of these options. We currently do not have a binding commitment for, or readily available sources of, additional financing. We cannot give any assurance that we will be able to secure the additional cash or working capital that we may require to continue our operations under such circumstances or that it will be on terms that would not hinder our ability to execute our business strategy.

Our anticipated costs are estimates based upon our current business plan. Our actual costs could vary materially from these estimates. Further, we could change our current business plans, which may also result in a change in our anticipated costs.

### **Off Balance Sheet Arrangements**

There are no guarantees, commitments, lease and debt agreements or other agreements that would trigger adverse changes in our credit rating, earnings, or cash flows, including requirements to perform under stand by agreements.

### **Critical Accounting Policies**

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America.

#### *Impairment of Long Lived Assets*

On an ongoing basis, we evaluate our estimates and impairment of long lived assets. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates, including those for the above described items.

The Company reviews the recoverability of its long-lived assets, such as property and equipment, when events or changes in circumstances occur that indicate the carrying value of the asset or asset group may not be recoverable. The assessment of possible impairment is based on the Company's ability to recover the carrying value of the asset or asset group from the expected future pre-tax cash flows (undiscounted) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value.

#### *Revenue Recognition*

Although at this stage in our development we have had no significant revenues we consider revenue recognition a critical accounting policy as it affects the timing of earnings recognition. We recognize revenues on delivery and to date our operations have not involved any uncertainty of accounting treatment, subjective judgment or estimates over revenue recognition.

### **Item 3. Controls and Procedures**

#### Evaluation of disclosure controls and procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules, regulations and related forms, and that such information is accumulated and communicated to our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Within the 90 days prior to the filing date of this quarterly report, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective.

#### Changes in internal controls.

There have been no significant changes in our internal controls or in other factors that could significantly affect these controls and procedures subsequent to the date we completed our evaluation. Therefore, no corrective actions were taken.



## PART II — OTHER INFORMATION

**Item 1. Legal Proceedings.** None.

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

In June 2007, the Company issued 100,000 shares of Common Stock to Jelco, Inc., pursuant to its consulting agreement. There were no proceeds received from this transaction.

On September 10, 2007, Jonathan H. Godshall, the Company's Chief Executive Officer, exercised 50,000 options to purchase 50,000 shares of Common Stock for \$1 per share. The proceeds of \$50,000 received from the exercise was used for general operating expenses.

**Item 3. Defaults Upon Senior Securities.** None.

**Item 4. Submission of Matters to a Vote of Security Holders.** None.

**Item 5. Other Information.** None.

**Item 6. Exhibits.**

(a) Exhibits required by Item 601 of Regulation S-B.

10.81<sup>(1)</sup> Promissory Note, dated August 20, 2007, made by Trulite, Inc., in favor of Contango Venture Capital Corporation.

10.82<sup>(1)</sup> Promissory Note, dated August 20, 2007, made by Trulite, Inc., in favor of Standard Renewable Energy Group, LLC.

10.83<sup>(3)</sup> Form of Promissory Note

10.84<sup>(3)</sup> Form of Warrant

10.85<sup>(3)</sup> Note and Warrant Purchase Agreement dated November 7, 2007

99.1<sup>(2)</sup> Company Fact Sheet, dated September 2007

31.1 Certification of the Company's Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2007.

31.2 Certification of the Company's Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2007.

32.1 Certification of the Company's Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Company's Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- (1) Previously filed as an exhibit to the Company's Form 8-K dated August 20, 2007, and incorporated herein by reference
- (2) Previously filed as an exhibit to the Company's Form 8-K dated September 27, 2007, and incorporated herein by reference
- (3) Previously filed as an exhibit to the Company's Form 8-K dated November 7, 2007, and incorporated herein by reference

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused the Report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 13, 2007

Trulite, Inc.

By: /s/ Jonathan Godshall  
Jonathan Godshall  
President (Principal Executive Officer)

By: /s/ G. Wade Stubblefield  
G. Wade Stubblefield  
Chief Financial Officer (Principal  
Financial and Accounting Officer)