

TRULITE INC  
Form 10KSB/A  
May 18, 2007

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

**Form 10-KSB/A  
(Amendment No. 2)**

(Mark One)

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

For the fiscal year ended December 31, 2006

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

*Commission File Number 0-51696*

**Trulite, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
State or Other Jurisdiction of  
Incorporation

**20-1372858**  
IRS Employer  
Identification No.

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

None.

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

Common Stock, \$0.0001 par value per share  
(Title of Class)

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

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 Noo.

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

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

The issuer's revenues for its most recent fiscal year. \$8,333

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The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of March 26, 2007, was \$3,142,614.

As of May 17, 2007, there were 11,785,591 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE:** None.

**EXPLANATORY NOTE**

This Amendment No. 2 on Form 10-KSB, or Second Amended Report, amends the Annual Report on Form 10-KSB of Trulite, Inc. for the fiscal year ended December 31, 2006, filed with the Securities and Exchange Commission, or SEC, on April 2, 2007, or the Original Report, as amended by Amendment No. 1 to the Original Report filed with the SEC on April 30, 2007, or First Amended Report, to reflect the disclosure of events, as described in footnotes 8 and 12 to our audited financial statements for the year ended December 31, 2006, which occurred subsequent to the date of filing of the Original Report and which were not included in the First Amended Report. We hereby amend Item 7 of Part II of our Original Report by deleting the text of such item in its entirety and replacing it with the information provided below. This Second Amended Report does not affect any other items in our Original Report or First Amended Report. As a result of this amendment, we are also filing the certifications pursuant to Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002 as exhibits to this Second Amended Report.

Except as otherwise expressly stated for the items amended in this Second Amended Report, this Second Amended Report continues to speak as of the date of the Original Report and we have not updated the disclosure contained herein to reflect events that have occurred since the filing of the Original Report. Accordingly, this Second Amended Report should be read in conjunction with our Original Report, First Amended Report and our other filings made with the SEC subsequent to the filing of the Original Report.

**Item 7. Financial Statements.**

TRULITE, INC.  
(A DEVELOPMENT STAGE COMPANY)  
FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of  
Trulite, Inc.  
Houston, Texas

We have audited the accompanying balance sheets of Trulite, Inc., (a development stage company) (the “Company”) as of December 31, 2006 and 2005, and the related statements of operations, stockholders’ equity (deficit), and cash flows for the years then ended, and for the period from inception (July 15, 2004) through December 31, 2006. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Trulite, Inc. as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, and for the period from inception (July 15, 2004) through December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the financial statements, the Company has incurred significant losses and negative cash flows from operations since inception. Those conditions raise substantial doubt about the Company’s ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ UHY LLP

March 30, 2007, except for Note 8 and Note 12 as to which the date is April 5, 2007  
Houston, Texas

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

	<b>December 31, 2006</b>	<b>December 31, 2005</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 275,957	\$ 235,982
Due from affiliate	-	23,773
Accounts receivable (net of allowance for doubtful accounts of \$0 as of December 31, 2006 and December 31, 2005)	-	16,667
Patent application fees	19,843	19,843
Prepaid expenses and other current assets	13,372	7,844
Total current assets	309,172	304,109
Property and equipment, net	50,079	33,038
Total assets	\$ 359,251	\$ 337,147
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 301,907	\$ 44,821
Notes payable	1,250,000	-
Total current liabilities	1,551,907	44,821
Commitments and contingencies		
Stockholders' (deficit) equity:		
8% Cumulative Convertible, Series A Preferred Stock; \$0.0001 par value, 1,500,000 shares authorized, 0 and 1,454,725 shares issued and outstanding as of December 31, 2006 and December 31, 2005, respectively. Liquidation value of \$1.00 per share plus preferred dividend per share of \$0.0623 and an aggregate liquidation value of \$1,545,354 as of December 31, 2005	-	90,843
Common Stock; \$0.0001 par value, 20,000,000 shares authorized, 11,785,491 and 3,631,500 shares issued and outstanding as of December 31, 2006 and December 31, 2005, respectively	1,178	363
Additional paid-in-capital	9,537,426	1,905,094
Deficit accumulated during the development stage	(10,731,260)	(1,703,974)
Total stockholders' (deficit) equity	(1,192,656)	292,326
Total liabilities and stockholders' (deficit) equity	\$ 359,251	\$ 337,147

The accompanying notes are an integral part of these financial statements

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

	Year Ended December 31,		Period From Inception (July 15, 2004) Through December 31, 2006
	2006	2005	
Sales	\$ 8,333	\$ 16,667	\$ 26,750
Cost of sales	5,912	12,216	18,778
<b>GROSS PROFIT</b>	<b>2,421</b>	<b>4,451</b>	<b>7,972</b>
Operating expenses:			
Research and development	1,142,472	410,958	2,266,539
Depreciation	14,848	6,823	22,811
General and administrative	2,264,463	412,877	2,842,213
<b>TOTAL OPERATING EXPENSES</b>	<b>3,421,783</b>	<b>830,658</b>	<b>5,131,563</b>
<b>LOSS FROM OPERATIONS</b>	<b>(3,419,362)</b>	<b>(826,207)</b>	<b>(5,123,591)</b>
Other income (expense):			
Interest expense	(29,726)	(663)	(30,389)
Interest income	5,794	5,329	11,123
Other	-	(4,411)	(4,411)
<b>TOTAL OTHER INCOME (EXPENSE)</b>	<b>(23,932)</b>	<b>255</b>	<b>(23,677)</b>
<b>LOSS BEFORE INCOME TAXES</b>	<b>(3,443,294)</b>	<b>(825,952)</b>	<b>(5,147,268)</b>
Income taxes	-	-	-
<b>NET LOSS</b>	<b>(3,443,294)</b>	<b>(825,952)</b>	<b>\$ (5,147,268)</b>
Preferred stock dividends	(39,275)	(84,074)	
Deemed dividend on conversion of preferred stock to common stock	(1,586,150)	-	
<b>NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS</b>	<b>\$ (5,068,719)</b>	<b>\$ (910,026)</b>	
<b>NET LOSS PER COMMON SHARE</b>			
Basic and diluted	\$ (0.37)	\$ (0.23)	
Preferred and deemed dividends	(0.18)	(0.02)	
Attributable to common stockholders	\$ (0.55)	\$ (0.25)	
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:</b>			
Basic	9,139,510	3,607,433	
Diluted	9,139,510	3,607,433	

The accompanying notes are an integral part of these financial statements

**Trulite, Inc. (a Development Stage Company)**  
**Statements of Stockholders' (Deficit) Equity**  
**For the Periods From Inception (July 15, 2004) Through December 31, 2006**

	8% Cumulative Convertible Series A Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
<i>Cash issuances:</i>							
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
<i>Non-cash issuances:</i>							
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 of \$0.20 per share (post April 2005 split)	-	-	343,850	34	68,736	-	68,770
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
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June 1, 2005; issuance  
of preferred stock at  
\$0.80 per share

934,725	93	-	-	749,907	-	750,000
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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
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Accretion of  
dividends

-	84,074	-	-	(84,074)	-	-
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*Net loss*

-	-	-	-	-	(825,952)	(825,952)
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Balance, December  
31, 2005

1,454,725	90,843	3,631,500	363	1,905,094	(1,703,974)	292,326
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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  
based on fair value of  
stock issued of \$0.95  
per share

-	-	300,000	30	284,970	-	285,000
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April 26, 2006;  
warrants to purchase  
common stock issued  
for consulting services  
based on fair value of  
warrants issued

-	-	-	-	162,155	-	162,155
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Accretion of  
dividends

-	39,275	-	-	(39,275)	-	-
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May 2, 2006;  
accretion of preferred  
stock for deemed  
dividend on  
conversion of accrued  
dividends to common  
stock

-	161,388	-	-	(161,388)	-	-
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May 2, 2006;  
accretion of preferred  
stock for deemed

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dividend on conversion to common stock	-	1,424,762	-	-	(978,493)	(446,269)	-
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)
Deficit, December 31, 2006	-	\$ -	11,785,491	\$ 1,178	\$ 9,537,426	\$ (10,731,260)	\$ (1,192,656)

The accompanying notes are an integral part of these financial statements

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

	Year Ended Ended December 31,		Period From Inception (July 15, 2004) Through December 31, 2006
	2006	2005	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss	\$ (3,443,294)	\$ (825,952)	\$ (5,147,268)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	14,848	6,823	22,811
Common stock issued for consulting services	285,000	-	285,000
Common stock issued for management fees	-	65,070	133,840
Stock-based compensation expense	511,157	-	511,157
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 from affiliate	23,773	(23,773)	-
Accounts receivable	16,667	(13,967)	-
Patent application fees	-	(13,378)	(19,843)
Prepaid expenses and other current assets	(5,528)	(928)	(6,907)
Grants receivable	-	-	850
Accounts payable and accrued expenses	257,086	(4,627)	293,798
Net cash used in operating activities	(2,178,136)	(810,732)	(3,157,609)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment	(31,889)	(29,751)	(66,434)
Net cash used in investing activities	(31,889)	(29,751)	(66,434)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of common stock	1,000,000	-	1,000,000
Issuance of notes payable	1,250,000	-	1,250,000
Issuance of preferred stock	-	950,000	1,250,000
Net cash provided by financing activities	2,250,000	950,000	3,500,000
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
	39,975	109,517	275,957
CASH AND CASH EQUIVALENTS, beginning of period	235,982	126,465	-
CASH AND CASH EQUIVALENTS, end of period	\$ 275,957	\$ 235,982	\$ 275,957

NON-CASH INVESTING AND FINANCING  
ACTIVITIES:

Common stock issued for consulting services	\$	285,000	\$	-	\$	285,000
Common stock issued for management fees	\$	-	\$	65,070	\$	133,840
Warrants issued for consulting services	\$	162,155	\$	-	\$	162,155
Common stock options issued for compensation	\$	511,157	\$	-	\$	511,157
Preferred stock issued for acquisition	\$	-	\$	-	\$	20,000
Common stock issued for acquisition	\$	-	\$	-	\$	592,460
Cash paid for interest	\$	28,897	\$	-	\$	28,897

The accompanying notes are an integral part of these financial statements

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## **Note 1 - Nature of Operations**

Trulite, Inc. (the "Company") was incorporated on July 15, 2004, in the State of Delaware. The Company is a development stage entity and is primarily engaged in the development of compact, lightweight hydrogen fuel cell systems.

For the year ended December 31, 2006, and since inception (July 15, 2004), the Company has not had significant revenues. The Company has no significant operating history as of December 31, 2006. The accompanying financial statements have been prepared assuming the Company will continue as a going concern. From inception (July 15, 2004) through December 31, 2006, 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.

The accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the possible inability of the Company to continue as a going concern.

## **Note 2 - Summary of Significant Accounting Policies**

*Cash and Cash Equivalents.* Cash and cash equivalents include short-term investments with original maturities of three months or less.

*Accounts Receivable and Allowance for Doubtful Accounts.* Accounts receivable are reported at outstanding principal less allowance for doubtful accounts. Earnings are charged with a provision for doubtful accounts based on a current review of the collectibility of the accounts. Accounts deemed uncollectible are applied against the allowance for doubtful accounts.

*Concentrations of Credit Risk.* The Company maintains cash balances at a financial institution which at times exceeds federally insured amounts. The Company has not experienced any material losses in such accounts.

*Revenue Recognition.* Revenue from sales is recognized on delivery.

*Property and Equipment.* Property and equipment is carried at cost. The Company depreciates property and equipment using the straight-line method over the estimated useful lives of the related assets ranging from 3 to 7 years. Maintenance and repairs are charged to expense as incurred and expenditures for major improvements are capitalized. Gains and losses from retirement or replacement of property and equipment are included in operations.

Depreciation expense was \$14,848 and \$6,823 for the years ended December 31, 2006 and 2005, respectively.

*Research and Development Costs.* Expenditures for research activities relating to product development and improvement are charged to expense as incurred.

*Impairment of Long-Lived Assets.* 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.

*Income Taxes.* The liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The realizability of deferred tax assets are evaluated annually and a valuation allowance is provided if it is more likely than not that the deferred tax assets will not give rise to future benefits in the Company's tax returns.

*Use of Estimates.* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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*Stock-Based Compensation.* Prior to January 1, 2006, the Company accounted for its stock option plan using the intrinsic value method of accounting provided under APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. This was permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," under which no compensation expense was recognized for stock options. Stock-based compensation expense using the fair value method under SFAS 123 was included as a pro forma disclosure in the financial statement footnotes and such disclosure continues to be provided herein for periods prior to 2006.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), "Share-Based Payment," using the modified-prospective transition method. Under this transition method, compensation cost recognized in 2006 includes: (a) compensation cost for all stock-based payments granted through December 31, 2005, for which the requisite service period had not been completed as of December 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and (b) compensation cost for all stock-based payments granted subsequent to December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). As permitted under the transition rules for SFAS 123(R), results for prior periods have not been restated.

*New Accounting Pronouncements:*

In May 2005, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 154, "Accounting Changes and Error Corrections" which replaces Accounting Principles Board Opinion ("APB") No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements-An Amendment of APB Opinion No. 28." SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. SFAS No. 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 did not have an effect on the Company's financial statements.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments." SFAS No. 155 provides entities with relief from having to separately determine the fair value of an embedded derivative that would otherwise have to be bifurcated from its host contract in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 155 allows an entity to make an irrevocable election to measure such a hybrid financial instrument at fair value in its entirety, with changes in fair value recognized in earnings. SFAS No. 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company believes that the adoption of SFAS No. 155 will not have a material impact on its financial statements.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets an Amendment to FASB Statement No. 140." Once effective, SFAS No. 156 will require entities to recognize a servicing asset or liability each time they undertake an obligation to service a financial asset by entering into a servicing contract in certain situations. This statement also requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value and permits a choice of either the amortization or fair value measurement method for subsequent measurements. The effective date of this statement is for annual periods beginning after September 15, 2006, with earlier adoption permitted as the beginning of an entity's fiscal year provided the entity has not issued any financial statements for that year. The Company does not believe that this pronouncement will have a material impact on its financial statements.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109." This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company is

currently assessing the impact of the interpretation on its future results of operations and financial position.

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In September 2006, the FASB issued 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 September 2006, the FASB issued SFAS No. 158, "Employers' Accounting For Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)." The standard requires companies to recognize the funded status (plan obligations less the fair value of plan assets) of pension and other postretirement benefit plans on their balance sheets, effective for fiscal years ending after December 15, 2006. The statement will also require fiscal year-end measurements of plan assets and benefit obligations, effective for fiscal years ending after December 15, 2008. SFAS No. 158 will have no effect on the Company's financial statements, as the Company does not maintain defined benefit pension or other postretirement plans.

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. We do not expect the new standard to have any material impact on our financial position and results of operation.

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") No. 108, to address diversity in practice in quantifying financial statement misstatements and the potential for the build up of improper amounts on the balance sheet. SAB No. 108 identifies the approach that registrants should take when evaluating the effects of unadjusted misstatements on each financial statement, the circumstances under which corrections of misstatements should result in a revision to financial statements, and disclosures related to the correction of misstatements. SAB No. 108 is effective for any report for an interim period of the first fiscal year ending after November 16, 2006. The Company is currently evaluating the impact of adopting SAB No. 108 on its financial statements.

### **Note 3 - 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 3,110,805 shares are reserved for issuance, and as of December 31, 2006, 765,841 shares remained available for grant, under the Plan. Prior to January 1, 2006, the Company accounted for grants of options using the intrinsic value method under the recognition and measurement principles of Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees and related interpretations, and applied SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, for disclosure purposes only. Under APB No. 25, stock-based compensation cost related to stock options was not recognized in net income (loss) since the options granted under those plans had exercise prices greater than or equal to the market value of the underlying stock on the date of grant.

Effective January 1, 2006, the Company adopted SFAS No. 123R (revised 2004), Share-Based Payment, which revises SFAS No. 123 and supersedes APB No. 25. SFAS No. 123R requires that all share-based payments to employees be recognized in the financial statements based on their fair values at the date of grant. The calculated fair value is recognized as expense over the requisite service period, net of estimated forfeitures, using the straight-line method under SFAS No. 123R. The statement was adopted using the modified prospective method of application which requires compensation expense to be recognized in the financial statements for all unvested stock options beginning in the quarter of adoption. No adjustments to prior periods have been made as a result of adopting SFAS No. 123R. Under this transition method, compensation expense for share-based awards granted prior to January 1, 2006, but not yet vested as of January 1, 2006, and not previously amortized through the pro forma disclosures required by SFAS No. 123, will be recognized in the Company's financial statements over their remaining service

period. The cost was based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123. As required by SFAS No. 123R, compensation expense recognized in future periods for share-based compensation granted prior to adoption of the standard will be adjusted for the effects of estimated forfeitures.

For the year ended December 31, 2006, the total stock-based compensation expense recognized was \$511,157. Basic and diluted loss per common share was therefore \$0.06 lower for the year ended December 31, 2006, than if the Company had continued to account for the stock-based compensation under APB 25.

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The total unrecognized compensation cost at December 31, 2006, relating to non-vested share-based compensation arrangements granted under the Plan, was \$581,603. That cost is expected to be recognized over four years, with a weighted average period of 3.5 years.

During 2006, the Company granted options to purchase 2,339,465 shares of common stock under the Plan. With respect to 1,175,339 of these shares, the exercise price is \$0.88 per common share, which is equivalent to the fair value of a share of common stock on the date of grant. With respect to 5,000 of these shares, the exercise price is \$0.88 per common share, whereas the fair value of a share of common stock on the date of grant was \$0.18. With respect to options to purchase the additional 1,159,126 shares of common stock, the exercise price is \$1.00 per common share. 1,065,407 of these options were vested upon grant, whereas the remaining 1,274,058 vest over four years and have varying contractual lives ranging from four to seven years. For the year ended December 31, 2005, the Company granted 466,692 options to purchase shares of common stock with an exercise price of \$0.88, whereas the fair value of a share of common stock on the date of grant was \$0.18. All of these options vest over four years and have a seven-year contractual life. The weighted average assumptions for the periods indicated are noted in the following table:

	For the Year Ended December 31,	
	2006	2005
Risk free rate	4.85%	4.14%
Expected life (in years)	3.5	4.8
Expected volatility	71%	83%
Expected dividends	\$ -	\$ -
Fair value	\$ 0.47	\$ 0.06

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, which is consistent with the valuation technique previously utilized to value options for the footnote disclosures required under SFAS No. 123. 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 options granted in 2006 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 for options granted in 2006 is 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 December 31, 2006, and the changes during the twelve months then ended:

	Shares Under Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2006	466,692	\$ 0.88		
Granted	2,339,465	0.94		
Exercised	(100)	0.88		
Forfeited	(461,293)	0.89		
Outstanding at December 31, 2006	2,344,764	0.94	5.0 years	\$ 84,402
Vested or expected to vest at December 31, 2006	2,216,918	0.94		83,314
Exercisable at December 31, 2006	1,080,268	\$ 0.88	3.3 years	\$ 74,569

The following table provides the pro forma net loss attributable to common stock and net loss per common share had the Company applied the fair value method of SFAS No. 123 for the year ended December 31, 2005. The pro forma effects presented are not necessarily indicative of the pro forma effects in future years:

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	<b>Twelve Months Ended December 31, 2005</b>
Net loss attributable to common stockholders, as reported	\$ (910,026)
Add: Stock-based employee compensation expense included in reported net loss	-
Deduct: Total stock-based employee compensation expense determined under fair value based method	2,414
Pro Forma net loss attributable to common stock	\$ (912,440)
<b>Loss per share</b>	
Basic - as reported	\$ (0.25)
Basic - pro forma	\$ (0.25)
<b>Loss per share</b>	
Diluted - as reported	\$ (0.25)
Diluted - pro forma	\$ (0.25)

**Note 4 - Property and Equipment**

	<b>At December 31,</b>	
	<b>2006</b>	<b>2005</b>
Office equipment	\$ 59,249	\$ 27,360
Manufacturing equipment	9,491	9,491
Test equipment	4,150	4,150
Total fixed assets	72,890	41,001
Accumulated depreciation	(22,811)	(7,963)
Property and equipment, net	\$ 50,079	\$ 33,038

**Note 5 - Accounts Payable and Accrued liabilities**

	<b>At December 31,</b>	
	<b>2006</b>	<b>2005</b>
Accounts payable	\$ 197,267	\$ 24,531
Accrued expenses	104,640	20,290
	\$ 301,907	\$ 44,821

As of December 31, 2006, \$62,363 of the \$197,267 accounts payable is to Standard Renewable Energy Group, LLC ("SREG"). SREG owns NewPoint Energy Solutions, LP ("NewPoint"), the owner of approximately 45.2% of the Company's common stock.

**Note 6 - Income taxes**

The Company did not incur any income tax expense due to operating losses and the related increase in the valuation allowance. The Company has established a valuation allowance for the full amount of the deferred tax assets as management does not currently believe that it is more likely than not that these assets will be recovered in the foreseeable future.

The reconciliation of income taxes at the statutory rate of 35% applied to the loss before taxes for the years ended December 31, 2006 and 2005, respectively, are as follows:

	Twelve Months Ended December 31,	
	2006	2005
Computed income tax benefit	\$ (1,205,153)	\$ (289,083)
Increase in valuation allowance	1,205,153	289,083
Tax expense	\$ -	\$ -

The tax effects of the temporary differences that give rise to deferred tax assets and liabilities at December 31, 2006 are as follows:

	At December 31,	
	2006	2005
Deferred tax assets (liabilities):		
Loss carryforwards	\$ 1,342,459	\$ 377,575
Stock-based expense	235,659	-
Other temporary differences	10,953	6,343
	1,589,071	383,918
Less valuation allowance	(1,589,071)	(383,918)
Net deferred tax asset	\$ -	\$ -

At December 31, 2006, the Company had net operating loss carryforwards for federal income tax purposes of \$3,835,596 that are available to offset future taxable income. To the extent not utilized, the net operating loss carryforwards will expire in 2026.

**Note 7 - Series A Preferred Stock**

In May 2006, all of the Company's 8% Cumulative Convertible Series A Preferred Stock was converted into the Company's common stock.

The 8% Cumulative Convertible Series A Preferred Stock ("Series A Preferred Stock") had a liquidation value of \$1.00 per share plus dividends whether or not earned or declared from the issuance date thereof at the annual rate of eight percent (8%) (the "Preferred Dividends") of \$1.00 per share (the "Original Issue Price"), payable at the option of the Company in cash or in shares of Series A Preferred Stock. In addition, the Preferred Stock had preferential treatment in liquidation to all Common Stock and any other stock of the Company ranking junior to the Series A Preferred Stock. Accretion of cumulative dividends outstanding on these shares was \$39,275 and \$84,074 for the twelve months ended December 31, 2006 and 2005, respectively.

Each share of Series A Preferred Stock was convertible at any time into common shares of the Company by dividing the original issue price by a conversion price as defined. The Series A Preferred Stock was redeemable at the option of the majority holders in cash at \$1.00 per share plus all accrued and unpaid Preferred Dividends on the fifth anniversary of the date of initial issuance or other events relating to change in 25% or more of the outstanding voting stock of the Company or a merger or consolidation as defined. Each holder of Series A Preferred Stock was entitled to the number of votes equal to the number of whole shares of Common Stock into which the shares of Series A Preferred Stock was convertible.

On May 2, 2006, 1,454,725 shares of Series A Preferred Stock were converted into 6,562,630 shares of common stock. In addition, the cumulative accreted dividends of \$129,973 were converted into 291,361 shares of common stock. Upon the conversion of the Series A Preferred Stock, the Company recorded a non-cash charge of \$1,424,762 to reflect the deemed dividend on conversion in accordance with EITF Topic D-42, "The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock." In addition, the Company recorded a non-cash charge of \$161,388 to reflect the deemed dividend on conversion of accreted dividends. The total of the two "deemed dividends" was \$1,586,150. The amount of charge is equal to the difference in the value at the time of exchange of the shares of common stock exchanged for the preferred stock minus the value of the shares that the holders of the preferred stock otherwise would have had the right to receive upon conversion of the preferred stock. The charge did not affect the Company's reported revenue, operating income, net loss, assets, liabilities or stockholders' (deficit) equity.

#### **Note 8 - Notes Payable and Other Related Party Transactions**

On August 1, 2006, the Company subleased office space from Standard Renewable Energy Group, LLC, ("SREG"). SREG owns NewPoint Energy Solutions, LP ("NewPoint"), the owner of approximately 45.2% of the Company's common stock. The monthly rent is \$1,905 beginning August 1, 2006 (rental expense for the year was \$9,525), with future rental commitment for a lease expiring in July 2007 of approximately \$13,335.

During the twelve months ended December 31, 2006, SREG billed the Company \$71,121 for management and administrative services.

On August 9, 2006, the Company incurred indebtedness of \$250,000 pursuant to the terms of two \$125,000 promissory notes. Under the terms of the first promissory note, the Company borrowed \$125,000 from Contango Venture Capital Corporation, LLC ("CVCC") which beneficially owns approximately 17.0% of the Company's common stock. Under the terms of the second promissory note, the Company borrowed \$125,000 from Standard Renewable Energy LP, also a wholly owned subsidiary of SREG. Both notes bear interest at a rate of 11.25% until February 8, 2007, at which time the rate will become the prime rate plus 3%. Both notes mature on May 1, 2007, and may be prepaid by the Company at any time without penalty.

On September 21, 2006, the Company incurred indebtedness of \$250,000 pursuant to the terms of a promissory note to SREG. The note bears interest at a rate of 11.25% until May 21, 2007, at which time the rate will become the prime rate plus 3%. The note matures on June 18, 2007, and may be prepaid by the Company at any time without penalty.

On October 26, 2006, the Company incurred indebtedness of \$250,000 pursuant to the terms of a promissory note with SREG. The note bears interest at a rate of 11.25% until April 24, 2007, at which time the rate will become the prime rate plus 3%. The note matures on July 22, 2007, and may be prepaid by the Company at any time without penalty.

On November 22, 2006, the Company incurred indebtedness of \$400,000 pursuant to the terms of a promissory note with CVCC. The note bears interest at a rate of 11.25% until April 24, 2007, at which time the rate will become the

prime rate plus 3%. The note matures on July 22, 2007, and may be prepaid by the Company at any time without penalty.

On November 28, 2006, the Company incurred indebtedness of \$100,000 pursuant to the terms of a promissory note with SREG. The note bears interest at a rate of 11.25% until April 24, 2007, at which time the rate will become the prime rate plus 3%. The note matures on July 22, 2007, and may be prepaid by the Company at any time without penalty.

On April 5, 2007, the Company entered into agreements with SREG, Standard Renewable Energy, LP, and CVCC to convert all of the \$1,250,000 of promissory note borrowings outstanding at 12/31/2006, in addition to subsequent borrowings of \$600,000 made in February 2007, plus accrued interest, into shares of the Company's common stock. See Note 12.

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## **Note 9 - Stockholders' Equity**

### Common Stock Split

In April 2005, the Company's Board of Directors authorized a five-for-one split of the Company's common stock. In conjunction with the stock split, the Company amended its certificate of incorporation to increase its authorized common stock to 20,000,000 shares and retained the par value of \$0.0001 per share. Accordingly, all references to the number of common shares authorized and common shares issued and outstanding in the accompanying financial statements have been adjusted to reflect the effects of the common stock split on a retroactive basis.

### Warrants:

The Company raised additional equity of \$1,000,000 during April 2006 through the issuance of common stock for cash consideration of \$1.00 per share. These issuances of common stock also included one year warrants 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 expires on April 13, 2007. The value of the warrants is included as additional paid in capital.

During 2006, the Company also entered into two consulting agreements for investment banking services, under which the Company was required to issue 300,000 shares of restricted common stock and 400,000 five-year warrants to purchase the Company's common stock at \$3.00 per share. One of the agreements terminates on April 25, 2008, and the second terminates on June 30, 2008. The fair value of the warrants, utilizing the Black-Scholes method and assuming a risk-free interest rate of 4.97%, expected volatility of 77%, expected life of 5 years and no dividend yield, resulted in a fair value of \$162,155, which was recorded as a component of general and administrative expense in the second quarter of 2006.

## **Note 10 - Commitments**

### *Leases*

Rent expense during the twelve months ended December 31, 2006 and 2005, was \$42,198 and \$10,925, respectively. Rent expense is included in general and administrative expenses in the accompanying statements of operations.

As of December 31, 2006, total future rental commitments under all operating leases (all of which expire in 2007) total \$35,913.

### *Other*

The Company had employment agreements with certain employees that expire through 2007, under which the committed obligations totaled \$222,500 at December 31, 2006.

**Note 11 - Net Loss Per Share**

	<b>Twelve Months Ended December 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Numerator:</b>		
Net loss	\$ (3,443,294)	\$ (825,952)
<b>Increases to Net Loss:</b>		
Preferred stock dividends	(39,275)	(84,074)
Deemed dividend on conversion of preferred stock to common stock	(1,586,150)	-
Net loss attributable to common stockholders	\$ (5,068,719)	\$ (910,026)
<b>Denominator</b>		
Basic earnings per share - weighted average common shares outstanding	9,139,510	3,607,433
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	9,139,510	3,607,433
Net loss per common share		
Basic and diluted	\$ (0.37)	\$ (0.23)
Preferred and deemed dividends	(0.18)	(0.02)
Attributable to common stockholders	\$ (0.55)	\$ (0.25)

Basic and diluted net loss per share for the years ended December 31, 2006, and 2005, is the same since the effect of all common stock equivalents are antidilutive 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:

	<b>Twelve Months Ended December 31,</b>	
	<b>2006</b>	<b>2005</b>
Common stock options	1,610,461	208,679
Common stock warrants	986,301	-
8% cumulative convertible series A preferred stock	486,237	1,407,935

## Note 12 - Subsequent Events

On February 6, 2007, the Company incurred indebtedness of \$360,000 pursuant to the terms of a promissory note with SREG. The note bears interest at a rate of 11.25% until August 6, 2007, at which time the rate will become the prime rate plus 3%. The note matures on October 31, 2007, and may be prepaid by the Company at any time without penalty.

On February 6, 2007, the Company incurred indebtedness of \$240,000 pursuant to the terms of a promissory note with CVCC. The note bears interest at a rate of 11.25% until August 6, 2007, at which time the rate will become the prime rate plus 3%. The note matures on October 31, 2007, and may be prepaid by the Company at any time without penalty.

On February 22, 2007, the Company's Board of Directors agreed to extend the term of the warrants, until April 13, 2008, that were issued during April 2006 in connection with the issuance of common stock for cash consideration of \$1.00 per share. See Note 9. 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 expires on April 13, 2007.

On April 4, 2007, the Company entered into a consulting agreement with the Fenway Advisory Group ("Fenway") for the following services: (i) identification of potential investors; (ii) general consulting advice regarding financing strategies; and (iii) general consulting advice regarding the Company's business. The agreement terminates on May 31, 2007. In exchange for these services, we issued to Fenway 150,000 shares of common stock and warrants having a five year term to purchase 100,000 shares of common stock at an exercise price of \$3.00 per share.

On April 5, 2007, the Company entered into agreements with SREG, Standard Renewable Energy, LP, and CVCC regarding the exchange of all of the Company's outstanding promissory notes aggregating \$1,850,000 in principal amount for shares of the Company's common stock. Under each of these agreements, we and the holder of the note agreed that on the third business day following the last of the first ten trading days on which the Company's common stock has been traded on the Over the Counter Bulletin Board, all principal and accrued but unpaid interest on the notes would be canceled, and in consideration of cancellation the Company would issue to the holder of the notes in a private transaction a number of shares of the Company's 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 average closing sale price for the Company's common stock as quoted on the Over the Counter Bulletin Board for the first ten trading days. At March 31, 2007, accrued but unpaid interest on the notes aggregated \$45,469.

**Item 13. Exhibits.**

Index to Exhibits

Number	Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief 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 Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**TRULITE, INC.**

Dated: May 18, 2007

By: /s/ Jonathan Godshall

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Jonathan Godshall  
President and Chief Executive Officer