TRULITE INC
Form 10QSB
December 22, 2006

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

FORM 10-QSB

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

For the quarterly period ended September 30, 2006

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

Commission file number 0-51696

Trulite, Inc.
(Exact name of small business issuer as specified in its charter)

Delaware	20-1372858
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

Three Riverway Suite 1050 Houston, TX	77056
(Address of principal executive offices)	(Zip Code)

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

Copies to:
James Ryan, III, Esq.
Jackson Walker
901 Main St. Ste. 6000
Dallas,TX 75702
Tel: (214) 953-6000
Fax: (214) 953-5822

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

Check whether the issuer is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes o No x

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 11,785,491 shares of Common Stock, par value $.0001 per share, outstanding as of December 22, 2006.

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

TRULITE, INC.

INDEX to Form 10-QSB

PART I- FINANCIAL INFORMATION

Note Regarding Forward-looking Statements

This Form 10-QSB for the quarter ended September 30, 2006, 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 sell our products;
- Our ability to retain and attract experienced and knowledgeable personnel; and
- Our ability to compete in the alternative energy industry.

In addition, the words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” and similar expre 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, 2006 Unaudited	December 31, 2005 Audited
ASSETS		
Current assets:		
Cash and cash equivalents	$ 120,856	$ 235,982
Due from affiliate	-	23,773
Accounts receivable (net of allowance for doubtful accounts of $0 as of September 30, 2006 and December 31, 2005)	-	16,667
Patent application fees	19,843	19,843
Prepaid expenses and other current assets	18,567	7,844
Total current assets	159,266	304,109
Property and equipment, net	35,993	33,038
Total assets	$ 195,259	$ 337,147
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 107,802	$ 44,821
Notes payable	500,000	-
Total current liabilities	607,802	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 June 30, 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 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 September 30, 2006 and December 31, 2005, respectively	1,178	363
Additional paid-in-capital	9,503,428	1,905,094
Deficit accumulated during the development stage	(9,917,149)	(1,703,974)
Total stockholders' (deficit) equity	(412,543)	292,326
Total liabilities and stockholders' (deficit) equity	$ 195,259	$ 337,147

The accompanying notes are an integral part of these financial statements

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

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005	Period From Inception (July 15, 2004) Through September 30, 2006
Sales	$ -	$ -	$ 8,333	$ -	$ 26,750
Cost of sales	-	-	5,912	-	18,778
GROSS PROFIT	-	-	2,421	-	7,972
Operating expenses:					
Research and development	301,304	61,844	726,292	261,043	1,850,359
Depreciation	5,131	1,835	10,572	4,186	18,535
General and administrative	419,730	79,935	1,893,832	335,412	2,471,582
LOSS FROM OPERATIONS	(726,165)	(143,614)	(2,628,275)	(600,641)	(4,332,504)
Other income (expense):					
Interest expense	(4,854)	(203)	(4,913)	(548)	(5,576)
Interest income	799	2,980	4,005	3,787	9,334
Other	-	-	-	-	(4,411)
LOSS BEFORE INCOME TAXES	(730,220)	(140,837)	(2,629,183)	(597,402)	(4,333,157)
Income taxes	-	-	-	-	-
NET LOSS	(730,220)	(140,837)	(2,629,183)	(597,402)	$ (4,333,157)
Preferred dividends	-	(29,085)	(39,275)	(79,086)	
Deemed dividend on conversion of preferred stock to common stock	-	-	(1,586,150)	-	
NET LOSS ATTRIBUTABLE TO COMMON STOCK	$ (730,220)	$ (169,922)	$ (4,254,608)	$ (676,488)	
NET LOSS PER COMMON SHARE					
Basic and diluted	$ (0.06)	$ (0.04)	$ (0.32)	$ (0.17)	
Preferred and deemed dividends	-	(0.01)	(0.20)	(0.02)	
Attributable to common stock	$ (0.06)	$ (0.05)	$ (0.52)	$ (0.19)	
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING					
Basic	11,785,491	3,631,500	8,247,825	3,599,323	
Diluted	11,785,491	3,631,500	8,247,825	3,599,323	

The accompanying notes are an integral part of these financial statements

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

	Nine Months Ended September 30, 2006	2005	Period From Inception (July 15, 2004) Through September 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (2,629,183)	$ (597,402)	$ (4,333,157)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	10,572	4,186	18,535
Common stock issued for consulting services	285,000	-	285,000
Common stock issued for management fees	-	65,070	133,840
Stock-based compensation expense	477,159	-	477,159
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	(112,635)	-
Accounts receivable	16,667	2,700	-
Patent application fees	-	-	(19,843)
Prepaid expenses and other current assets	(10,723)	782	(12,102)
Grants receivable	-	-	850
Accounts payable and accrued expenses	62,981	12,972	99,693
Net cash used in operating activities	(1,601,599)	(624,327)	(2,581,072)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	(13,527)	(22,729)	(48,072)
Net cash used in investing activities	(13,527)	(22,729)	(48,072)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock	1,000,000	-	1,000,000
Issuance of notes payable	500,000	-	500,000
Issuance of preferred stock	-	950,000	1,250,000
Net cash provided by financing activities	1,500,000	950,000	2,750,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(115,126)	302,944	120,856
CASH AND CASH EQUIVALENTS, beginning of period	235,982	126,465	-
CASH AND CASH EQUIVALENTS, end of period	$ 120,856	$ 429,409	$ 120,856
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	$ 477,159	$ -	$ 477,159
Preferred stock issued for acquisition	$ -	$ -	$ 20,000

Common stock issued for acquisition	$ -	$ -	$ 592,460

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 September 30, 2006
(Unaudited)

	8% Cumulative Convertible Series A Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Cash issuances:							
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
Non-cash issuances:							
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)	-	-
Net loss	-	-	-	-	-	(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)	-	-
Net loss	-	-	-	-	-	(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	-	-	1,000,000	100	999,900	-	1,000,000
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
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	-	1,424,762	-	-	(978,493)	(446,269)	-

stock							
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	-	-	-	-	477,159	-	477,159
Net loss	-	-	-	-	-	(2,629,183)	(2,629,183)
Balance, September 30, 2006	-	$ -	11,785,491	$ 1,178	$ 9,503,428	$ (9,917,149)	$ (412,543)

The accompanying notes are an integral part of these financial statements

TRULITE, INC. (A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
FOR THE QUARTERLY PERIODS ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited)

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 American 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 consolidated financial statements and footnotes included in our Annual Report on Form 10-KSB for the year ended December 31, 2005. Interim results are not necessarily indicative of results to be expected for the full fiscal year ending December 31, 2006.

The Company from inception (July 15, 2004) through September 30, 2006, did not have significant revenues. The Company has no significant operating history as of September 30, 2006. The accompanying financial statements have been prepared assuming the Company will continue as a going concern. From inception (July 15, 2004) through September 30, 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.

All references to issued and outstanding shares, weighted average shares, and per share amounts in the accompanying unaudited financial statements have been retroactively adjusted to reflect our five-for-one stock split that occurred in April 2005.

<u>New Accounting Pronouncements</u>:

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 Serving 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 serving 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.

TRULITE, INC. (A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
FOR THE QUARTERLY PERIODS ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited)

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.

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 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 2 - 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 September 30, 2006, 758,441 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.

TRULITE, INC. (A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
FOR THE QUARTERLY PERIODS ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited)

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 three and nine months ended September 30, 2006, the total stock-based compensation expense recognized in our net loss was $45,372 and $477,159, respectively. Basic and diluted loss per common share was therefore $0.06 greater for the nine months ended September 30, 2006, than if the Company had continued to account for the stock-based compensation under APB 25. The impact to the Company's loss per share for the three months ended September 30, 2006, was insignificant.

The total unrecognized compensation cost at September 30, 2006, relating to non-vested share-based compensation arrangements granted under the Plan, was $609,020. That cost is expected to be recognized over 3.8 years, with a weighted average period of 3.7 years.

During the first nine months of 2006, the Company granted options to purchase 2,271,965 shares of common stock under the Plan. With respect to 1,180,339 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 $0.95. With respect to options to purchase the additional 1,091,626 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 1,206,558 vest over four years and have varying contractual lives ranging from four to seven years. For the nine months ended September 30, 2005, the Company granted 385,900 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:

	Nine months ended September 30,	
	2006	**2005**
Risk free rate	4.86%	4.10%
Expected life (in years)	3.47 years	4.75 years
Expected volatility	71%	85%
Expected dividends	$ -	$ -
Fair value	$ 0.5	$ 0.07

TRULITE, INC. (A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
FOR THE QUARTERLY PERIODS ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited)

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 September 30, 2006, and the changes during the nine 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	2,271,965	$ 0.94		
Exercised	-	$ -		
Forfeited	(386,293)	$ 0.88		
Outstanding at September 30, 2006	2,352,364	$ 0.94	5.24 years	$ 88,252
Vested or expected to vest at September 30, 2006	2,223,668	$ 0.93		86,779
Exercisable at September 30, 2006	1,075,578	$ 0.88	3.6 years	$ 74,240

No options were exercised during the nine months ended September 30, 2006 and 2005.

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 three and nine month periods ended September 30, 2005. The pro forma effects for the periods presented are not necessarily indicative of the pro forma effects in future years:

TRULITE, INC. (A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
FOR THE QUARTERLY PERIODS ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited)

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net loss attributable to common stock, as reported	$ (169,922)	$ (676,488)
Add: Stock-based employee compensation expense included in reported net loss	-	-
Deduct: Total stock-based employee compensation expense determined under fair value based method	(1,065)	(2,045)
Pro Forma net loss attributable to common stock	$ (170,987)	$ (678,533)
Loss per share		
Basic - as reported	$ (0.05)	$ (0.19)
Basic - pro forma	$ (0.05)	$ (0.19)
Loss per share		
Diluted - as reported	$ (0.05)	$ (0.19)
Diluted - pro forma	$ (0.05)	$ (0.19)

NOTE 3 - Property and Equipment

Property and Equipment consists of the following:

	September 30, 2006	December 31, 2005
Office equipment	$ 40,887	$ 27,360
Manufacturing equipment	9,491	9,491
Test equipment	4,150	4,150
Total fixed assets	54,528	41,001
Accumulated depreciation	(18,535)	(7,963)
Property and equipment, net	$ 35,993	$ 33,038

TRULITE, INC. (A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
FOR THE QUARTERLY PERIODS ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited)

NOTE 4 - Accounts Payable and Accrued liabilities

	September 30, 2006	December 31, 2005
Accounts payable	$ 82,616	$ 24,531
Accrued expenses	25,186	20,290
	$ 107,802	$ 44,821

NOTE 5 - 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, 2006 and December 31, 2005.

NOTE 6 - Research and Development Costs

Expenditures for research activities relating to product development and improvement are charged to expense as incurred. Such expenditures amounted to $301,304 and $61,844 for the quarters ended September 30, 2006 and September 30, 2005, respectively. The cumulative expenditures for the nine months ended September 30, 2006 and September 30, 2005 were $726,292 and $261,043, respectively.

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 $79,086 for the nine months ended September 30, 2006 and September 30, 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.

13

TRULITE, INC. (A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
FOR THE QUARTERLY PERIODS ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited)

On May 2, 2006, 1,454,725 shares of Series A Preferred Stock were converted to 6,562,630 shares of common stock. In addition, the cumulative accreted dividends of $129,973 were converted to 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, Trulite subleased office space from Standard Renewable Energy Group, LLC, ("SREG"). SREG owns NewPoint Energy Solutions, LP ("NewPoint"), the owner of approximately 45% of the Company's common stock. The monthly rent is $1,905 beginning August 1, 2006 with future rental commitment for a lease expiring in July 2007 of approximately $22,860.

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.

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.

14

TRULITE, INC. (A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
FOR THE QUARTERLY PERIODS ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited)

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 shall expire on April 13, 2007. The value of the warrants is included in 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 nine months ended September 30, 2006 and 2005, was $24,781 and $8,226, respectively. Rent expense is included in general and administrative expenses in the accompanying statements of operations.

As of September 30, 2006, total future rental commitments under operating leases (all of which expire in 2007) total approximately $32,745.

Other

As of September 30, 2006, the Company had employment agreements with certain employees that expire through 2007, under which the committed obligations totaled $222,500 at September 30, 2006.

On June 1, 2006, the Company entered into a consulting agreement for product development that expires on December 31, 2006, with Mr. Ken Pearson. Mr. Pearson will be paid $9,583 per month for the term of the agreement and received a one time bonus of $15,000 in June 2006. In addition, Mr. Pearson was also granted options to purchase 315,000 common shares at $1.00 per share. In December 2006, Mr. Pearson was also awarded a $15,000 performance bonus and an option to purchase an additional 40,000 common shares. The agreement provides that if Mr. Pearson is terminated without cause or he terminates for good reason (as such terms are defined in the consulting agreement) he will be entitled to receive his base salary for six months following such termination and his unexercised stock options will continue to vest for twelve months following such termination.

On August 7, 2006, the Board of Directors of the Company appointed Mr. Jonathan Godshall as President and Chief Executive Officer of the Company. In connection with entering into a one-year employment agreement with Mr. Godshall, the Company terminated the consulting agreement entered into with Mr. Godshall on June 15, 2006. Under the employment agreement, Mr. Godshall will receive an annual base salary of $120,000, provided that such salary will increase to $200,000 per year upon the earlier of (1) November 30, 2006 or (2) the completion of a financing round. Mr. Godshall will develop a cash incentive bonus plan by February 7, 2007 and submit such plan to the Board for approval. The employment agreement provides that if Mr. Godshall is terminated without cause or he terminates for good reason (as such terms are defined in the employment agreement) he will be entitled to receive his base salary for six months following such termination and his unexercised stock options will continue to vest for twelve months following such termination. In addition, if the Company does not renew the employment agreement at the end of the one-year term, Mr. Godshall will be entitled to receive his base salary for four months.

TRULITE, INC. (A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
FOR THE QUARTERLY PERIODS ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited)

On August 7, 2006, the Board granted Mr. Godshall a stock option to acquire 676,626 shares of Company common stock, at an exercise price of $1.00 per share and which vests 25% each year with the first year starting one year after the date of employment as a consultant which was June 15, 2006. The stock option expires on August 7, 2013. In addition, Mr. Godshall's employment agreement provides that the Board will grant him additional stock options to acquire a number of shares equal to 5% of any new stock issued and any new stock options granted after August 7, 2006, such grant to occur on the earlier of (1) December 31, 2006 and (2) the completion of a financing round. The exercise price of such stock options will be the fair market value on the date of grant, and the vesting terms of such stock options will be the same as described above with respect to Mr. Godshall's stock option to acquire 676,626 shares. All of such stock options will automatically vest upon a change in control, merger or buyout of the Company.

NOTE 11 - Net Loss Per Share

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Numerator:				
Net loss	$ (730,220)	$ (140,837)	$ (2,629,183)	$ (597,402)
Increases to Net Loss:				
Preferred dividends	-	(29,085)	(39,275)	(79,086)
Deemed dividend on conversion of preferred stock to common stock	-	-	(1,586,150)	-
Net loss attributable to common stock	$ (730,220)	$ (169,922)	$ (4,254,608)	$ (676,488)
Denominator				
Basic earnings per share - weighted average common shares outstanding	11,785,491	3,631,500	8,247,825	3,599,323
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	11,785,491	3,631,500	8,247,825	3,599,323
Net loss per common share				
Basic and diluted	$ (0.06)	$ (0.04)	$ (0.32)	$ (0.17)
Preferred and deemed dividends	-	(0.01)	(0.20)	(0.02)
Attributable to common stock	$ (0.06)	$ (0.05)	$ (0.52)	$ (0.19)

Basic and diluted net loss per share for the nine months ended September 30, 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.

TRULITE, INC. (A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
FOR THE QUARTERLY PERIODS ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited)

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2006	**2005**	**2006**	**2005**
Common stock options	2,134,388	377,048	1,430,351	225,588
Common stock warrants	1,400,000	-	846,886	-
8% cumulative convertible series A preferred stock	-	1,454,725	650,097	910,849

NOTE 12 - Subsequent Events

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.

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

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations 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.

Business Overview

Trulite is an emerging technology company engaged in the development and production of portable and stationary products that produce hydrogen for the generation of electricity for the commercial and consumer markets. The Company has developed, tested, sold and delivered its first hydrogen storage product - the HydroCell, an environmentally-friendly alternative to battery power. The Company has submitted two patent applications for the HydroCell.

Trulite, Inc. was incorporated in Delaware on July 15, 2004. Later that month, Trulite purchased all membership interests of Trulite Technology, LC (“Trulite Technology”), a Utah limited liability company, and merged with Trulite Technology, whereby Trulite survived the merger.

In January 2002, members of Trulite Technology submitted a proposal in response to a Small Business Innovation Research (“SBIR”) solicitation from the Defense Threat Reduction Agency (“DTRA”) to research and develop a high energy density hydrogen source to ultimately power nuclear, chemical and biological detection equipment in the field. The intended applications of the hydrogen fuel source were for use by the military as a source of portable power.

Trulite Technology, LC was incorporated in May 20, 2002, upon receipt of notification from the DTRA that Trulite Technology would receive a 6 month, $100,000, Phase 1 SBIR award to develop a hydrogen fuel source (that is, a technology for producing hydrogen gas) that could convert hydrogen gas into electricity. All patent, software and other technical rights in any products are retained by Trulite.

Work on the project commenced in August 2002, and in January 2003, Trulite Technology built and tested its first dry chemical hydride hydrogen fuel source. In January 2003 Trulite Technology submitted a proposal to the United States Air Force (“USAF”) for a very high energy density hydrogen source for larger fuel cell systems. Trulite Technology received notification from the USAF in May 2003 that it had been selected for another six month, $100,000 Phase 1 SBIR award. All patent, software and other technical rights in any products are retained by Trulite.

In January 2004, Trulite Technology received an order from Jadoo Power Systems for two prototype chemical hydride cartridges. These were shipped in March 2004. Trulite Technology also received an order from the Naval Research Laboratory for four larger cartridges. These were shipped in July 2004. In October 2003, Trulite had been introduced to William Jackson Berger (a.k.a. “John Berger”) of Contango Capital Partners, LP (“CCP”) through Jadoo Power Systems. CCP became interested in Trulite Technology’s hydrogen source technology, and Trulite Technology concluded its first round of private funding with CCP in July 2004. Also in July 2004, Trulite Technology merged with, and transferred all if its interests to, the Company, a newly-formed Delaware corporation.

In February 2005, the Company entered into a strategic relationship with Synexus Energy, Inc., ("Synexus") a supplier of fuel cell stack and control technology. Synexus, a research and development company was working on a product that can be used in conjunction with Trulite's HydroCell and was primarily funded by CCP. Synexus ceased doing business in June 2006. Receivables or payables between the two companies were settled in July 2006.

In August, 2005, the Company demonstrated its first, complete, commercially packaged, integrated, hydrogen fuel cell power system. In September 2005, the Company introduced its Kitty Hawk system. The product consists of three technologies: one that generates hydrogen gas from powdered chemical compounds (the HydroCell); one that transforms the hydrogen gas into electricity (the fuel cell stack) and, one that controls the flow of hydrogen for the actual generation of electricity (the control technology). The Company believes the Kitty Hawk is the least expensive energy source on the market capable for producing 25 Watts of power for several hours (as an example, 25 Watts of power is sufficient to power a DVD player for several hours while concurrently charging a cell phone).

In November 2005, the Company received its first orders for twenty-five Kitty Hawk systems. The units were manufactured in its Utah product development facility and were delivered to a selected target audience in February and March, 2006. Also in November 2005, the Company received a $25,000 contract from Protonex to develop three high energy density prototype HydroCells.

Trulite has developed the next generation of the Kitty Hawk (the KH-3X), which has a number of enhancements: improved physical design; noise reduction; faster start up cycle (several seconds versus 2 to 3 minutes); fuel level gauge to indicate the level of energy remaining in the cartridge; an attached carrying handle; a status display screen indicating the power output of the unit; interior technical modifications to eliminate hose pinching; and increased power output to 30 watts of power. Each of these enhancements required several steps including designing and building the enhancement; testing the enhancement to ensure it performs as specified; incorporating and testing the enhancement in the Kitty Hawk unit; and testing the Kitty Hawk unit in a customer environment.

Trulite is also developing the Kitty Hawk 4. The product will be designed to have a power output over three times greater than the KH-3X. Product enhancements to the Kitty Hawk 4 will include: reducing the overhead required to run the Kitty Hawk 4 power system; increased ruggedness; and enhanced ergonomics and physical design. Each of these enhancements will also require going through the proving process set forth above prior to commercial availability.

The design of the Kitty Hawk 4 system is commenced in September 2006 and is anticipated to be completed by the third quarter of 2007. The Kitty Hawk 4 system is anticipated to be available for field testing by the end of the second quarter of 2007. Field testing is anticipated to take eight to ten weeks. Upon completion of field testing of the Kitty Hawk 4 system, expected to be by the end of the third quarter of 2007, we anticipate units will be available for sale and delivery into selected commercial and consumer markets.

The primary drivers for future earnings growth will be developing, manufacturing and selling a commercially viable product. Trulite believes its integrated Kitty Hawk units powered by Trulite’s HydroCell technology provides consumers with a superior alternative energy product. As compared to conventional battery technologies, the HydroCell does not lose the ability to generate electricity even when put in storage for long periods of time (up to three years). By comparison, conventional lithium-ion batteries will lose their ability to generate energy if they are not used before their expiration date. Trulite believes it has the ability to bring this power to numerous kinds of portable electronic devices through its Kitty Hawk power system. The primary markets we currently seek to enter for Trulite’s products are the pipeline and well head market for remote sensing and monitoring of operating conditions in oil and gas fields, the high end recreational camping market, and the back-up power generation market for home and commercial applications. The opportunity in the pipeline market resulted from estimating the number of oil and gas wells in the United States (the data was obtained from available public information from companies such as Shell, ChevronTexaco and British Petroleum), estimating the existing operating and maintenance costs to service and repair these wells, assuming a 20% adoption rate over the next five years for companies implementing a Trulite Kitty Hawk solution and calculating the cost differential between existing operating costs and Trulite’s Kitty Hawk solution. Trulite intends to seek out oil field service companies, trying to identify the most viable operators and influence both large and small energy companies, as well as other providers to the oil and gas industry, to adopt the Kitty Hawk integrated power system as an alternative power source. As currently envisioned, the manufacture and distribution of the Kitty Hawk power system to alliance partners will occur from the Company’s manufacturing facilities, which will most likely be located in Houston, Texas.

The Company plans to distribute its consumer Kitty Hawk products through three different channels: (1) direct to consumer sales (expected to be on a limited basis); (2) bundling; and (3) retail stores. The Company also plans on using the Internet, through sites such as eBay, Amazon, Overstock and Yahoo, to sell directly to consumers on a limited basis in order to test market its products, as well as establish consumer price points. The Company is also targeting original equipment manufacturers (“OEM”) in an attempt to bundle its products with those of the OEM. Advantages to partnering with an OEM include leveraging the OEM’s customer base and cross-selling Trulite’s products with existing OEM products. Lastly, the Company intends to attempt to market the Kitty Hawk to major high-end retail stores, such as REI, Northface, Patagonia and Brookstone in an attempt to attract the high end camping market.

The principal challenges we face include:

· We expect to have a need for additional capital as we continue to execute our business plan.

· Technological changes could force us to alter our business plan.

· We must demonstrate value and reliability in order to gain consumer acceptance.

· We have limited experience manufacturing and selling fuel cell systems.

· A large scale consumer market for our products may never develop or take longer to develop than we anticipate.

· Attract and retain key personnel

Results of Operations

The following table summarizes our results of operations for the three and nine months ended September 30, 2006 and 2005

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Sales	$ -	$ -	$ 8,333	$ -
Cost of sales	-	-	5,912	-
GROSS PROFIT	-	-	2,421	-
Operating expenses:				
Research and development	301,304	61,844	726,292	261,043
Depreciation	5,131	1,835	10,572	4,186
General and administrative	419,730	79,935	1,893,832	335,412
LOSS FROM OPERATIONS	(726,165)	(143,614)	(2,628,275)	(600,641)
Other income (expense):				
Interest expense	(4,854)	(203)	(4,913)	(548)
Interest income	799	2,980	4,005	3,787
Other	-	-	-	-
LOSS BEFORE INCOME TAXES	(730,220)	(140,837)	(2,629,183)	(597,402)
Income taxes	-	-	-	-
NET LOSS	$ (730,220)	$ (140,837)	$ (2,629,183)	$ (597,402)

Three and nine months ended September 30, 2006, compared to the three and nine months ended September 30, 2005

Revenues

The Company did not have any revenue for the three month period ended September 30, 2006 and September 30, 2005.

For the nine months ended September 30, 2006, revenues totaled $8,333 versus zero for the same period ended September 30, 2005.

Gross profit

The Company did not have any gross profit for the three month period ended September 30, 2006 and September 30, 2005.

For the nine months ended September 30, 2006, gross profit was $2,421 compared to zero for the same nine month period in 2005.

Operating expenses

For the three months ended September 30, 2006, as compared to 2005, operating expenses increased by $582,551. Operating expenses were $726,165 for the three month period ended September 30, 2006, as compared to $143,614 for the period ending September 30, 2005. Research and development expenses increased to $301,304 for the three month period ended September 30, 2006, as compared to $61,844 for the corresponding prior year period. This increase was due to development and production of demonstration units in 2006, as compared to 2005 when no demonstration units were produced. Depreciation expense increased $3,296 for the three months ended September 30, 2006, compared to the corresponding prior year period. This increase was due to additions of equipment purchased for research and development. General and administrative costs increased to $419,730 for the three months ended September 30, 2006, as compared to $79,935 for the corresponding prior period in 2005, primarily due to higher personnel related costs as well as increased legal and accounting fees resulting from the level of effort to register the Company's securities.

Operating expenses were $2,630,696 for the nine months ended September 30, 2006. This compares to operating expenses of $600,641 for the nine months ended September 30, 2005. Research and development expenses increased to $726,292 for the nine months ended September 30, 2006, compared to $261,043 for the nine months ended September 30, 2005. The Company increased its research and development expenditures during 2006 and produced its first demonstration units. Depreciation expense increased $6,386 for the nine month period ended September 30, 2006, as compared to the nine month period ended September 30, 2005. General and administrative costs increased to $1,893,832 for the nine months ended September 30, 2006, as compared to $335,412 for the corresponding prior period in 2005, primarily due to higher personnel related costs as well as increased legal and accounting fees resulting from the level of effort to register the Company's securities.

Loss from Operations

Operating losses were $726,165 for the three months ended September 30, 2006, as compared to operating losses of $143,614 for the three months ended September 30, 2005, due to the increases in operating expenses noted above.

Operating losses for the nine months ended September 30, 2006 were $2,628,275, as compared to an operating loss of $600,641 during the nine months ended September 30, 2005, due to the increases in operating expenses noted above.

Other Income (Expense)

Other income (expense) for the three months ended September 30, 2006, totaled a loss of $4,055, a decrease from the $2,777 of other income for the three months ended September 30, 2005, primarily due to lower average cash balances and interest expense on outstanding borrowings.

For the nine months ended September 30, 2006, other income (expense) was a loss of $908, as compared to income of $3,239 for the nine month period ended September 30, 2005, as higher interest income was offset by interest expense on outstanding borrowings.

Net Loss

Net loss for the three months ended September 30, 2006, was $730,220 as compared to $140,837 for the three months ended September 30, 2005. The increase was due to increased operating expenses.

For the nine months ended September 30, 2006, the net loss was $2,629,183 as compared to $597,402 for the nine months ended September 30, 2005. The increased loss was also due to increased operating expenses.

Historical Sources of Cash

During the period from inception (July 15, 2004) through December 31, 2004, the Company financed its operations principally through the sale of an aggregate of $300,000 of preferred stock. The Company, for the year ended December 31, 2005, financed its operations through the sale of an aggregate of $950,000 of preferred stock, along with sale of three Kitty Hawk units. The Company conducted a private placement in April 2006, raising $1,000,000 through the sale of 1,000,000 shares of Common Stock and warrants. In addition, through September 30, 2006, the Company had borrowed $500,000 pursuant to three promissory notes with related parties. Subsequent to September 30, 2006, the Company borrowed an additional $750,000 pursuant to three additional promissory notes with these same parties.

Cash position and sources and uses of cash

Our cash position at September 30, 2006, was $120,856 as compared to $235,982 at December 31, 2005.

Our operating activities for the nine months ended September 30, 2006, used cash in the amount of $1,601,599, as compared to $624,327 used in the nine months ended September 30, 2005. Cash used in operating activities for the nine month period ending September 30, 2006, and September 30, 2005, reflected a net loss of $2,629,183 and $597,402, respectively, both partially offset by adding back the non-cash charges associated with depreciation, common stock and warrants issued for consulting and management services and stock-based compensation.

The Company used $13,527 and $22,729 in investing activities for the purchase of property and equipment for the nine months ended September 30, 2006, and 2005, respectively.

The Company had cash inflows from financing activities of $1,000,000 during 2006 from the issuance of common stock and warrants and $950,000 during 2005 from issuances of preferred stock. During 2006, the Company also had financing cash inflows of $500,000 from the issuance of the above noted promissory notes.

Capital Resources Going Forward

Our intended plan of operations for the twelve month period beginning October 1, 2006, is to manufacture, sell and distribute limited quantities of our product and to continue to develop our products. 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, 2006, 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.

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.

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 are reasonable.

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.

23

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 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.

To the best knowledge of the officers and directors, the Company is not a party to any legal proceeding or litigation.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. None

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.

Exhibit No.	Description
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, 2006.
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, 2006.
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.

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: December 22, 2006

Trulite, Inc.

By: /s/ Jonathan Godshall

Jonathan Godshall
President