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.

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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

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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	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Deficit	Total
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

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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: