

**ECotality, Inc. (ETLY)****Rating:****Volatility Risk:****Analyst:***July 16, 2007***Speculative Buy  
High**

Kipley J. Lytel, CFA

Share Statistics	
Symbol (OTC BB)	ETLY
Last Trade (7/13/07)	\$0.53
Low/High 52 weeks	\$0.11-\$2.19
Average Volume (3m)	106,103
Market Capitalization	\$52.4Mn
Wgt Avg Shares Outstanding	110.1 Mn

*Source: Yahoo Finance, SEC Filing***INVESTMENT SUMMARY**

We reiterate our Speculative Buy Rating on ECotality ("ETLY" or "The Company"). Since our Initiation of Coverage, the Company has executed and advanced on several developmental milestones, partnerships/acquisitions, agreements, while also accomplishing marked improved results from laboratory testing. The traction exhibited during the period from Initiation of Coverage has been qualitative achievements given ETLY's incremental maturation path toward commercialization.

For example, on March 19, 2007, ETLY received a memorandum from the National Aeronautics and Space Administration's Jet Propulsion Laboratory reporting that significant performance advancements were made with regard to the Hydratus™, the on-demand hydrogen storage and delivery system fueled by magnesium and water (JPL has been developing on our behalf). In summary, the JPL memo states that, in laboratory tests of the modified Hydratus™, the following has occurred:

1. Hydrogen-fuel storage capacity, by weight for the entire system, has increased from 4.7% to between 8% and 9%, depending on operating mode, allowing the modified Hydratus™ to meet the Department of Energy's 2010 goal of 6% hydrogen storage capacity.
2. A drop in operating temperature of the modified Hydratus™ of 300-400 degrees Centigrade will allow the use of less expensive materials in system construction.
3. The amount of heat generated by the modified Hydratus™ has decreased significantly by approximately 80% is expected to result in reduced system complexity, in terms of cost and size. Additionally, because less energy is generated, and subsequently wasted during operation, the regeneration efficiency of the reaction products is increased by approximately 400%.

As a result of the technical, performance and cost advancements, JPL has recommended all future research and development efforts be shifted to focus on the modified Hydratus™ and all associated systems and processes. JPL and Ecotality have agreed to develop and test a 7kW prototype, which JPL believes is suitable to power various commercial applications, as well as can be scaled for future systems. Additionally, JPL and Ecotality plan to design and test a full-size 65kW Hydratus™ suitable for application in a bus. Hence, ECotality believes the modified 65kW Hydratus™ will be implemented in a proof of concept vehicle in the second half of 2007.

ETLY also has engaged Airboss Aerospace, Inc., a leader in the aerospace industry, to act as consulting engineers on its Hydratus bus. Airboss will work in conjunction with the National Aeronautics and Space Administration's (NASA) Jet Propulsion Labs (JPL) and the California Institute of Technology to continue the development of the Hydratus, a system that generates hydrogen on demand. Airboss should enable ETLY to quickly quantify and implement recent new advancements in the Hydratus project, providing the Company with a strong adjunct to the JPL team, as well as spearhead the key task of integration of the Hydratus into the hydrogen bus.

In another agreement, GreenMountain Engineering, LLC, a leading product and manufacturing consulting firm specializing in clean energy technologies, will act as consulting engineers on the Hydratus(TM) project. GreenMountain Engineering will work with the National Aeronautics and Space Administration's (NASA) Jet Propulsion Laboratory (JPL) and Airboss Aerospace, Inc. in the research, development, and testing of a 5-10 kW stationary Hydratus system for remote and residential use.

Finally, in December 2006, ETLY acquired, at a cost of \$750,000, a hydrogen powered bus from Hydrogenics of Canada, along with an engineering package intended to complete the transition of the vehicle from pure hydrogen power to the Hydratus system. Known as the "ECObus," it is one of 13 hydrogen powered busses in North America and is Arizona's first hydrogen fuel cell bus. The ECObus is the result of a partnership with Arizona Public Service (APS) company, and began its tour of Arizona at the Clean Cities Coalition Legislative event at Wesley Bolin Memorial Plaza in Phoenix, Arizona. During its statewide tour, the public is invited to step onto the zero-emission mobile learning center and experience hydrogen fuel cell technology.

ECOTality's mission is simple: to develop and commercialize environmentally friendly energy systems and solutions that address today's global energy challenge. ETLY is a technology innovator committed to the development and commercialization of clean energy technologies, striving to identify inventive ways to efficiently power our lives while striking a harmonious balance with the natural environment. Hydratus is a portable apparatus that operates in conjunction with existing hydrogen fuel cell technology and produces hydrogen on demand using readily available materials -- magnesium and water -- in a system that emits no exhaust other than pure water. The on-demand technology offers a solution to the current disadvantages of compressed hydrogen as Hydratus does not require additional heat to start up or to operate and the technology allows for storage and generation of hydrogen.



## Financial Overview

ECotality had \$3.1M in cash and \$4.7M in positive net working capital at the end of the quarterly period March 31, 2007.

### Balance Sheet (unaudited)

March 31,  
2007

#### Assets

##### Current assets:

Cash	\$3,124,771
Prepaid expenses	83,341
Certificate of Deposit	2,036,510
Total current assets	5,244,622

##### Fixed assets

Building	575,615
Computers and Equipment	38,455
Vehicle	795,848
Accumulated Depreciation	(69,174)
Total Fixed Assets	1,340,744

Total Assets	6,585,366
--------------	-----------

#### Liabilities and Stockholders' Equity

##### Current liabilities:

Accounts payable	506,968
Payroll liabilities	13,585
Total current liabilities	520,553

Mortgage Payable	287,500
Total Long Term Liabilities	287,500

Total Liabilities	808,053
-------------------	---------

##### Stockholders' equity

Preferred stock, \$0.001 par value, 200,000,000 shares authorized, no shares issued and outstanding	-
Common stock, \$0.001 par value, 300,000,000 shares authorized, 106,999,906 shares issued and outstanding	107,000
Additional paid-in capital	20,540,643



**WASSERMAN MORRIS**

(Deficit) accumulated during development stage	(14,870,330)
<b>Total Stockholders' Equity</b>	<b>5,777,313</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$6,585,366</b>

ETLY efforts during fiscal year 2007 will be directed at achieving our research and development objectives, and represent at least 60% of our operating plan. Total expenses for the three month period ended March 31, 2007 were \$964,150. Approximately 39% of these expenses were research and development costs related to engineering work performed for the Company by the Jet Propulsion Laboratories and other firms supporting our project. In addition to the research and development costs for the three months ended March 31, 2007, ETLY incurred \$464,056 in general and administrative expenses, of which \$119,475 can be attributed to legal, and professional fees related to registration of common stock, the settlement with Foote and Winfield, and public entity accounting and reporting requirements. In addition, the Company incurred \$77,140 in executive compensation and \$48,087 in depreciation.

In comparison, total expenses during the three month period ended March 31, 2006 were \$696,310. A material component of total expenses during this period was attributable to \$350,000 in research and development costs specifically related to the power cell technology acquired under the Technology Contribution Agreement. In addition to research and development expenses, for the three months ended March 31, 2006 ETLY also incurred \$322,815 in general and administrative expenses, \$23,354 in executive compensation and \$141 in depreciation.

**Statements of Operations  
(unaudited)**

	<b>Three Months Ended</b>		<b>April 21, 1999</b>
	<b>March 31,</b>		<b>(Inception) to</b>
	<b>2007</b>	<b>2006</b>	<b>March 31, 2007</b>
Revenue	\$-	\$-	\$851
Cost of Goods Sold	-	-	506
Gross Profit			345
Expenses:			
Depreciation	48,087	141	69,174
Executive compensation	77,140	23,354	418,390
General and administrative expenses	464,054	322,815	2,474,186
Licenses and Permits	1,339	-	8,223,911
Research and development	373,530	350,000	1,461,634
Total expenses	964,150	696,310	12,647,295
Operating loss	(964,150)	(696,310)	(12,646,950)
Other income:			
Interest income	21,743	-	36,650



WASSERMAN MORRIS

Total other income	21,743	-	36,650
Other expenses:			
Interest expense	3,234	21,606	460,030
Settlement Expense	1,800,000	-	1,800,000
Total other expenses	1,803,234	21,606	2,260,030
Loss from operations before income taxes	(2,745,641)	(717,916)	(14,870,330)
Provision for income taxes	-	-	-
(Loss) from continuing operations	(2,745,641)	(717,916)	(14,870,330)
Net (loss)	\$(2,745,641)	\$(717,916)	\$(14,870,330)
Weighted average number of			
common shares outstanding – basic and fully diluted	110,066,566	67,548,590	
Net (loss) per share – basic and fully diluted			
Continuing operations	\$(0.02)	\$(0.01)	

The net burn rate during the quarter ending March 31, 2007, was \$(2.2)M in the form of net cash used in operating and investing activities.

**Statements of Cash Flows  
(unaudited)**

	Three Months Ended		April 21, 1999
	March 31,	2006	(Inception) to
	2007		March 31, 2007
<b>Cash flows from operating activities</b>			
Net (loss)	\$(2,745,641)	\$(717,916)	\$(14,870,330)
Adjustments to reconcile net (loss) to			
Net cash (used) by operating activities:			
Stock compensation – related party	-	21,250	21,250
Shares issued for services	-	-	1,000
Shares issued for licenses	-	-	8,217,391
Shares issued for settlement	1,200,000	-	1,200,000
Depreciation	48,087	141	69,174
Warrants issued with notes payable	-	26	382,656
Stock split adjustments	-	-	38,412

Changes in operating assets and liabilities:

(Increase) decrease in inventory	-	2,453	-
(Increase) in interest income from Certificate of Deposit	(21,743)	-	(36,510)
(Increase) in prepaid expenses	5,543	(95,400)	(83,341)
Increase in accounts payable	(87,107)	3,500	506,968
Increase in accrued interest	-	4,192	-
Increase in payroll liabilities	1,183	8,075	13,585
Net cash (used) by operating activities	(1,599,678)	(773,679)	(4,539,745)

**Cash flows from investing activities**

Purchase of fixed assets	(611,019)	-	(1,409,918)
Purchase of Certificate of Deposit	-	-	(2,000,000)
Net cash (used) by investing activities	(611,019)	-	(3,409,918)

**Cash flows from financing activities**

Mortgage payable	287,500	-	287,500
Proceeds from notes payable	-	750,000	1,425,000
Repayments of notes payable	-	-	(1,425,000)
Issuance of common stock	-	375,000	10,786,934
Net cash provided by financing activities	287,500	1,125,000	11,074,434

Net (decrease) increase in cash	(1,923,197)	351,321	3,124,771
Cash – beginning	5,047,968	5,878	-
Cash – ending	\$3,124,771	\$357,199	\$3,124,771

Supplemental disclosures;

Interest paid	\$3,234	\$15,000	\$62,374
Income taxes paid	\$-	\$-	\$-

**Analyst:** Kipley J. Lytel, CFA, is a Senior Partner with money management firm Montecito Capital Management and Chief Operating Officer of a publicly traded company focused on taking companies public and staying public with a compliance support platform. Mr. Lytel also provides investment services to several independent equity research companies. For over three years, Mr. Lytel served as the lead securities analyst for M.L. Stern & Company - a leading regional investment securities firm headquartered in Beverly Hills, with offices serving most major California markets & Nevada. Previously, he performed portfolio management and analyst coverage during his employment with two hedge funds. His background has been marked by his experience as a technology sector analyst, coverage spanning various sectors: telecommunications & wireless, IT equipment/services, integrated systems, networks, etc. He received his Masters of Business Administration (MBA) from the Peter F. Drucker School of Management at Claremont Graduate University, where he also received his undergraduate Bachelors of Arts (BA) degree in Economics. Mr. Lytel is a Chartered Financial Analyst (CFA) and an active member of the CFA Institute and the Los Angeles Society of Financial Analysts (LASFA). He has frequently served as a Senior Grader for CFA Institute's Examination and has been a Regional Expert for CFA Institute's advisory panel on investment management covering: institutional portfolio

management, individual portfolio management, analysis of alternative investments, macro strategy formulation, and quantitative modeling applications. Mr. Lytel has been cited and/or published in Barons, Financial Planning Magazine, Physicians Financial News, Forbes, Wealth Manager, among others.

**Wasserman Morris & Company**, ltd, is an independent fee based research, publishing and distribution firm whose contract analyst adhere to the ethics and standards of the Association for Investment Research Management. The views expressed in this research report reflect the analyst's personal views about the issuer and its securities. Opinions and recommendations contained in this report are submitted solely for advisory and information purposes and are not intended as an offering or a solicitation to buy or sell the securities mentioned above. The analysts are responsible only to the public and this report is not a service to the company. We received a fee of \$25,000 for the Initiation of Coverage contract of one year coverage from a third party. We do not inform any company in advance of the nature or conclusions of our analysts' reports in advance of paying the fee nor can a company withdraw from coverage before the expiration of the one year term. Neither the Analysts nor the company own equity or debt securities of the companies on which our contract analysts report. More information about Wasserman Morris & Company policies are available at [www.wassermanmorris.com](http://www.wassermanmorris.com). Wasserman Morris & Company Inc. 36 West 44th Street, Suite 620, New York, NY 10036 Phone: (212) 382 1791 Fax: (212) 221 1578 Web [www.wassermanmorris.com](http://www.wassermanmorris.com) Email: [info@wassermanmorris.com](mailto:info@wassermanmorris.com)

**Information, opinions or recommendations** contained in this report are submitted solely for advisory and information purposes by the qualified professional analyst. Wasserman Morris & Company provides report publication and distribution services only. The information used and statements of fact made have been obtained from sources considered reliable but neither guarantee nor representation is made as to the completeness or accuracy. Such information and the opinions expressed are subject to change without notice. This report or study is not intended as an offering or a solicitation of an offer to buy or sell the securities mentioned or discussed. Please read full disclosures at [www.wassermanmorris.com](http://www.wassermanmorris.com).