ENOVA SYSTEMS INC
Form 10-Q
May 16, 2005

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2005

or

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

For the Transition Period From _____ To _____.

Commission File No. 0-25184

ENOVA SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

CALIFORNIA	95-3056150
(State or other jurisdiction of incorporation or organization)	(IRS employer identification number)

19850 South Magellan Drive Torrance, CA 90502
(Address of Principal Executive Offices and Zip Code)
Registrant's telephone number, including area code (310) 527-2800

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods 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 (___)

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

As of May 13, 2005, there were 416,912,000 shares of Common Stock, no par value, 2,734,000 shares of Series A Preferred Stock, no par value, and 1,217,000 shares of Series B Preferred Stock, no par value, outstanding.

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ASSETS	
Current assets	
Cash and cash equivalents	$
Accounts receivable, net	

Inventories and supplies, net	
Prepaid expenses and other current assets	
Total Current Assets	
Property and equipment, net	
Equity method investment	
Other assets	
Total assets	$
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	
Current liabilities	
Accounts payable	$
Deferred revenues	
Line of credit	
Accrued payroll and related expense	
Other accrued expenses	
Current portion of notes payable	
Current portion of capital lease obligations	
Total current liabilities	
Accrued interest payable	
Notes payable, net of current portion	
Total liabilities	$
Commitments and contingencies	
Stockholders' equity (deficit)	
Series A convertible preferred stock - no par value	
30,000,000 shares authorized	
2,734,000 and 2,748,000 shares issued and outstanding	
Liquidating preference at $0.60 per share, aggregating	
$1,640,000 and $1,649,000	$
Series B convertible preferred stock - no par value	
5,000,000 shares authorized	
1,217,000 and 1,217,000 shares issued and outstanding	
Liquidating preference at $2 per share aggregating $2,434,000	
Common Stock, no par value	
750,000,000 shares authorized	
416,473,000 and 415,265,000 shares issued and outstanding	9
Common stock subscribed	
Stock notes receivable	(
Additional paid-in capital	
Accumulated deficit	(10
Total stockholders' equity (deficit)	
Total liabilities and stockholders' equity (deficit)	$

ENOVA SYSTEMS, INC.
STATEMENTS OF OPERATIONS (Unaudited)
For the Three Months Ended March 31,

	2005	2004
Net revenues		
Research and development contracts	$ 200,000	$ 436,000
Production	492,000	672,000
Total net revenues	692,000	1,108,000
Cost of revenues		
Research and development contracts	119,000	305,000
Production	451,000	353,000
Total cost of revenues	570,000	658,000
Gross profit	122,000	450,000
Other costs and expenses		
Research & development	217,000	128,000
Selling, general & administrative	608,000	438,000
Interest and other income/expense, net	69,000	1,000
Equity in losses of equity method investee	40,000	44,000
Total other costs and expenses	934,000	611,000
Net loss	$ (812,000)	$ (161,000)
Basic loss and diluted loss per share	$ (0.01)	$ (0.01)
Weighted-average number of shares outstanding	415,717,000	374,644,000

Cash flows from operating activities	
Net loss	$
Adjustments to reconcile net loss	
to net cash used by operating activities	
Change in allowance for doubtful accounts	
Depreciation and amortization	
Equity in losses of equity method investee	
Issuance of common stock for services	
(Increase) decrease in	
Accounts receivable	
Inventory and supplies	
Prepaid expenses and other current assets	
Increase (decrease) in	
Accounts payable	
Accrued expenses	
Deferred revenues	
Accrued interest payable	
Net cash used by operating activities	
Cash flows from investing activities	
Purchases of property and equipment	$
Net cash used in investing activities	
Cash flows from financing activities	
Net payments on line of credit	$
Payment on notes payable and capital lease obligations	
Proceeds from exercise of stock options	
Net cash provided by (used in) financing activities	
Net increase (decrease) in cash and cash equivalents	
Cash and cash equivalents, beginning of year	1
Cash and cash equivalents, end of year	$

Supplemental disclosure of cash flow information

Interest paid	$
Income taxes paid	$

Supplemental schedule of non- cash investing and financing activities

Conversion of preferred stock to common stock	$

ENOVA SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS
(Unaudited)
For the Three Months Ended March 31, 2005 and 2004

NOTE 1 - Basis of Presentation

The accompanying unaudited financial statements have been prepared from the records of our company without audit and have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not contain all the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position at March 31, 2005 and the interim results of operations for the three months ended March 31, 2005 and cash flows for the three months ended March 31, 2005 have been included. The balance sheet at December 31, 2004, presented herein, has been prepared from the audited financial statements of our company for the year then ended.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. The March 31, 2005 and December 31, 2004 inventories are reported at market value. Inventories have been valued on the basis that they would be used, converted and sold in the normal course of business. Certain reclassifications have been made to the prior period's financial statements to conform to the current period's presentation. The amounts estimated for the above, in addition to other estimates not specifically addressed, could differ from actual results; and the difference could have a significant impact on the financial statements.

Accounting policies followed by us are described in Note 1 to the audited financial statements for the fiscal year ended December 31, 2004. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted for purposes of the interim financial statements. The financial statements should be read in conjunction with the audited financial statements, including the notes thereto, for the year ended December 31, 2004, which are included in our Form 10-K Annual

Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 as filed with the Securities and Exchange Commission.

Basic and diluted net loss per common share is computed using the weighted average number of common shares outstanding. Since a loss from operations exists, diluted earnings per share number is not presented because the inclusion of common stock equivalents, consisting of Series A and B preferred stock, unexercised stock options and warrants, would be anti-dilutive.

The results of operations for the three months ended March 31, 2005 presented herein are not necessarily indicative of the results to be expected for the full year.

Revenue Recognition

From time to time, the Company enters into arrangements with its customers where there are multiple deliverables. In accordance with Emerging Issues Task Force Issue No. 00-21 "Revenue Arrangements with Multiple Deliverables", when a company enters into these types of arrangements, the contract is divided into

separate units of accounting based on relative fair values, and revenue recognition criteria are assessed separately for each separate unit of accounting. These elements will include product sales, service elements, and fixed-price development elements.

Revenues from Component Sales

Revenues from sales of components are recognized when shipped and title passes to the customer.

Service Revenue

Services revenues are billed and recognized in the period the services are rendered and earned and the collection of the related receivable is probable.

Method of Accounting for Long-Term Contracts

In accordance with the American Institute of Certified Public Accountant's Statement of Position 81-1, "Accounting for Performance of Certain Construction-Type and Certain Product Type Contracts," the Company records its revenues on long-term, fixed price contracts on the basis of the percentage-of-completion method applied to individual contracts, commencing when progress reaches a point where experience is sufficient to estimate final results with reasonable accuracy and collection of the related receivable is probable.

That portion of the total contract price is accrued which is allocable, on the basis of the Company's estimates of the percentage-of-completion, to contract expenditures and work performed. Operating expenses, including indirect costs and administrative expenses, are charged to income as incurred and are not allocated to contract costs.

As these long-term contracts are performed, revisions in cost and profit estimates during the course of the work are recognized in the accounting period in which the facts which require the revision become known.

At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss on both short- and long-term contracts is accrued.

Recently Issued Pronouncement

In March 2005, the FASB issued FIN 47, "Accounting for Conditional Asset Retirement Obligations - an Interpretation of FASB Statement No. 143, Accounting for Asset Retirement Obligations." This interpretation addresses the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset when the timing and/or method of settlement of the obligation are conditional on a future event. The interpretation requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. The adoption of this interpretation did not have any impact on our financial statements

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NOTE 2 - Notes Payable, Long-Term Debt and Other Financing

Notes payable and long-term debt is comprised of the following:

Secured note payable to Credit Managers Association of California, bearing interest at 6% per annum during 2003 and at prime plus 3% per annum in 2004 and through maturity. Principal and unpaid interest due in April 2016. A sinking fund escrow is required to be funded with 10% of future equity financing, as defined in the agreement

Unsecured note payable, bearing interest at 10% per annum. This note payable is in default

Secured note payable to a Coca Cola Enterprises in the original amount of $40,000, bearing interest at 5% per annum. Principal and unpaid interest due in July 2005

Secured note payable to a financial institution in the original amount of $33,000, bearing interest at 8% per annum, payable in 36 equal monthly installments

Less current maturities

Total

NOTE 3 - Tomoe LTA Long-Term Contract

Enova has entered into a development and production contract with Tomoe Electro-Mechanical Engineering and Manufacturing, Inc. for eight battery-electric locomotives for the Singapore Land Transport Authority for service vehicles for the Singapore Mass Rapid Transit Circle Line system for

maintenance, repair, shunting and recovery of passenger trains. Completion of the contract will take approximately 15-18 months and is valued at approximately $3,100,000. We are recording revenues for this long-term, fixed price contract on the basis of the percentage-of-completion method. The contract contains several deliverables over its life and therefore we will divide these deliverables into separate units of accounting based on relative fair values. Revenue recognition criteria will be assessed separately for each separate unit of accounting. As of March 31, 2005, we recorded revenues of $188,000 related to the development portion of this contract.

NOTE 4 - Shareholders' Equity/ (Deficit)

During the three months ended March 31, 2005, we recorded 272,000 shares of restricted common stock as common stock subscribed to the Board of Directors at an average price of $0.105 per share for full board meetings and committee meetings during the first quarter of 2005.

During the three months ended March 31, 2005, 1,196,000 shares of restricted common stock, totaling $165,000, were issued to the Board of Directors from common stock subscribed.

NOTE 5 - Subsequent Events

On April 21, 2005, the Board of Directors of Enova Systems, Inc. approved an Employment Agreement between the Company and Edwin Riddell, the President and Chief Executive Officer of the Company. The agreement is effective as of May 1, 2005. Mr. Riddell is also a director of the Company. Pursuant to the agreement, Mr. Riddell will receive a yearly salary of at least $208,000, subject to increase upon annual reviews of his compensation and performance. In addition, Mr. Riddell will be eligible for performance bonuses to be mutually agreed upon by both parties. Mr. Riddell will also receive options to purchase 1,000,000 shares of the Company's common stock at an original exercise price of $0.11 per share, representing at least the fair market value of the Companys' common stock as of April 21, 2005 as determined in accordance with the Company's equity plan. The stock options will vest over three years in equal monthly installments and will expire five years from the date of issuance. Mr. Riddell shall be entitled to all other fringe benefits to which all executives and employees of the Enova are entitled as well as a company automobile and company apartment while employed by the Company. Mr. Riddell's employment is at-will and may be terminated by the Company for any reason and at any time. In the event that Mr. Riddell's employment is terminated by the Company without cause, as defined in the Agreement, Mr. Riddell is entitled to receive one year's salary and health benefits as severance. If the Board should change Mr. Riddell's duties or authority so that it may reasonably be found that Mr. Riddell is no longer performing as the Chief Executive Officer of the Company or if the Company is sold, merged, or closed, then, in either instance, Mr. Riddell shall have the right to terminate the Agreement and receive the same severance payment as if his employment had been terminated without cause. Mr. Riddell may otherwise terminate his employment at any time but will not be entitled to any severance benefits. In the event of a single period of prolonged inability to work due to the result of a sickness or an injury, Mr. Riddell will be compensated at his full rate pay for at least 6 (six) months from the date of the sickness or injury.

On April 21, 2005, the Company also entered into a Release Agreement with Carl Perry relating to his transition from the position of Chief Executive Officer of

the Company. The agreement is effective as of April 21, 2005. Pursuant to the release agreement, (a) Mr. Perry will receive a lump sum payment of $75,924.18, and (b) the Company will pay him an amount for health insurance coverage and will continue to pay the premiums of a life insurance policy, in each case for the period January through December 2005. Under the release agreement, Mr. Perry also received his salary of Ten Thousand Dollars ($10,000.00) per month from August 18, 2004 through the end of December 2004. The foregoing amounts and benefits, among other things, are being provided to Mr. Perry in exchange for a general release of all claims, an express release of claims for age discrimination and a covenant not to pursue complaints with the Company. The release agreement sets forth certain restrictions on the sale of Enova common stock which Mr. Perry holds through the earlier of (a) January 1, 2006 or (b) six months after Enova receives additional capital funding of at least Five Million Dollars .

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The following information should be read in conjunction with the interim financial statements and the notes thereto in Part I, Item I of this Quarterly Report and with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual report on Form 10-K for the year ended December 31, 2004. The matters addressed in this Management's Discussion and Analysis of Financial Condition and Results of Operations, with the exception of the historical information presented contains certain forward-looking statements involving risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks discussed in this Item 2 and specifically discussed in this report under the heading "Certain Factors That May Affect Future Results" following this Management's Discussion and Analysis section, and elsewhere in this report.

In the ordinary course of business, the Company has made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of its financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. The Company believes that the following discussion addresses the Company's most critical accounting policies, which are those that are most important to the portrayal of the Company's financial condition and results. The Company constantly re-evaluates these significant factors and makes adjustments where facts and circumstances dictate. Historically, actual results have not significantly deviated from those determined using the necessary estimates inherent in the preparation of financial statements. Estimates and assumptions include, but are not limited to, customer receivables, inventories, equity investments, fixed asset lives, contingencies and litigation. The Company has also chosen certain accounting policies when options were available, including:

- Inventories are priced at the lower of cost or market using standard costs, which approximate actual costs on a first-in, first-out (FIFO) basis. We maintain a perpetual inventory system and continuously record the quantity on-hand and standard cost for each product, including purchased components, subassemblies and finished goods. We maintain the integrity of perpetual inventory records through periodic physical counts of quantities on hand. Finished goods are reported as

inventories until the point of transfer to the customer. Generally, title transfer is documented in the terms of sale.

Standard costs are generally re-assessed at least annually and reflect achievable acquisition costs, generally the most recent vendor contract prices for purchased parts, currently obtainable assembly and test labor, and overhead for internally manufactured products. Manufacturing labor and overhead costs are attributed to individual product standard costs at a level planned to absorb spending at average utilization volumes.

We maintain an allowance against inventory for the potential future obsolescence or excess inventory that is based on our estimate of future sales. A substantial decrease in expected demand for our products, or decreases in our selling prices could lead to excess or overvalued inventories and could require us to substantially increase our allowance for excess inventory. If future customer demand or market conditions are less favorable than our projections, additional inventory write-downs may be required, and would be reflected in cost of revenues in the period the revision is made.

- Stock Based Compensation - we periodically issue common stock or stock options to employees and non-employees for services rendered. For common stock issuances, the cost of these services is recorded based upon the fair value of our common stock on the date of issuance. SFAS No. 123, "Accounting for Stock-Based Compensation," establishes and encourages the use of the fair value based method of accounting for stock-based compensation arrangements under which compensation cost is determined using the fair value of stock-based compensation determined as of the date of grant and is recognized over the periods in which the related services are rendered. The statement also permits companies to elect to continue using the current implicit value accounting method specified in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," to account for stock-based compensation. We have elected to use the intrinsic value based method and has disclosed the pro forma effect of using the fair value based method to account for its stock-based compensation. For issuances of stock options to employees and directors we measure compensation costs using the intrinsic value method, or APB Opinion No. 25. Stock options granted to non-employees are accounted for under the fair value method. The fair value of stock options granted is calculated using the Black Scholes option pricing model based on the weighted average assumptions.

- Allowance for Doubtful Accounts - we maintain allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. A considerable amount of judgment is required in assessing the ultimate realization of accounts receivable including the current credit-worthiness of each customer. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

- Contract Services Revenue and Cost Recognition - The Company is required to make judgments based on historical experience and future expectations, as to the reliability of shipments made to its customers. These judgments are required to assess the propriety of the recognition of revenue based on Staff Accounting Bulletin ("SAB") No. 101 and 104, "Revenue Recognition," and related guidance. The Company makes these

assessments based on the following factors: i) customer-specific information, ii) return policies, and iii) historical experience for issues not yet identified. Under FAS Concepts No. 5, revenues are not recognized until earned.

The Company manufactures proprietary products and other products based on design specifications provided by its customers. Revenue from sales of products are generally recognized at the time title to the goods and the benefits and risks of ownership passes to the customer which is typically when products are shipped based on the terms of the customer purchase agreement. Revenue relating to long-term fixed price contracts is recognized using the percentage of completion method. Under the percentage of completion method, contract revenues and related costs are recognized based on the percentage that costs incurred to date bear to total estimated costs. Changes in job performance, estimated profitability and final contract settlements may result in revisions to cost and revenue, and are recognized in the period in which the revisions are determined. Contract costs include all direct materials, subcontract and labor costs and other indirect costs. General and administrative costs are charged to expense as incurred. At the time a loss on a contract becomes known, the entire amount of the estimated loss is accrued. The aggregate of costs incurred and estimated earnings recognized on uncompleted contracts in excess of related billings is shown as a current asset, and billings on uncompleted contracts in excess of costs incurred and estimated earnings is shown as a current liability.

These accounting policies were applied consistently for all periods presented. Our operating results would be affected if other alternatives were used. Information about the impact on our operating results is included in the footnotes to our financial statements.

Recently Issued Accounting Standard

In March 2005, the FASB issued FIN 47, "Accounting for Conditional Asset Retirement Obligations - an Interpretation of FASB Statement No. 143, Accounting for Asset Retirement Obligations." This interpretation addresses the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset when the timing and/or method of settlement of the obligation are conditional on a future event. The interpretation requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. The adoption of this interpretation did not have any impact on our financial statements

GENERAL

Enova Systems, Inc., a California Corporation ("Enova" or the "Company"), was incorporated on July 30, 1976. The Company's fiscal year ends December 31.

Enova believes it is a leader in the development and production of proprietary, commercial digital power management systems for transportation vehicles and stationary power generation systems. Power management systems control and monitor electric power in an automotive or commercial application such as an automobile or a stand-alone power generator. Drive systems are comprised of an electric motor, an electronics control unit and a gear unit which power an electric vehicle. Hybrid systems, which are similar to pure electric drive systems, contain an internal combustion engine in addition to the electric

motor, eliminating external recharging of the battery system. A hydrogen fuel cell based system is similar to a hybrid system, except that instead of an internal combustion engine, a fuel cell is utilized as the power source. A fuel cell is a system which combines hydrogen and oxygen in a chemical process to produce electricity. Stationary power systems utilize similar components to those which are in a mobile drive system in addition to other elements. These stationary systems are effective as power-assist or back-up systems, alternative power, for residential, commercial and industrial applications.

A fundamental element of Enova's strategy is to develop and produce advanced proprietary software, firmware and hardware for applications in these alternative power markets. Our focus is digital power conversion, power management, and system integration, for two broad market applications - vehicle power generation and stationary power generation.

Specifically, we develop; design and produce drive systems and related components for electric, hybrid-electric, fuel cell and microturbine-powered vehicles. We also develop, design and produce power management and power conversion components for stationary distributed power generation systems. These stationary applications can employ hydrogen fuel cells, microturbines, or advanced batteries for power storage and generation. Additionally, we perform research and development to augment and support others' and our own related product development efforts.

Our product development strategy is to design and introduce to market successively advanced products, each based on our core technical competencies. In each of our product / market segments, we provide products and services to leverage our core competencies in digital power management, power conversion and system integration. We believe that the underlying technical requirements shared among the market segments will allow us to more quickly transition from one emerging market to the next, with the goal of capturing early market share.

Enova's primary market focus centers on both series and parallel heavy-duty drive systems for multiple vehicle and marine applications. We believe series-hybrid and parallel hybrid heavy-duty drive system sales offer Enova the greatest return on investment in both the short and long term. Additionally, Enova management believes that this area will see significant growth over the next several years. As we penetrate more market areas, we are continually refining and optimizing both our market strategy and our product line to maintain our leading edge in power management and conversion systems for mobile applications.

Management's strategy is to provide a dual path approach in offering both a series and parallel hybrid drive systems solution. We have developed or are developing a variety of heavy-duty drive system solutions including our series hybrid drive system featuring our diesel generator set; a post-transmission parallel hybrid system and two variations of a pre-transmission parallel hybrid drive system. Many of these systems are currently being utilized in our customer's trucks and buses such as the Mack R-11 refueler vehicle which utilizes our post-transmission parallel hybrid and WrightBus of the United Kingdom's 10m bus which utilizes our series hybrid drive system.

Additionally, we continue to pursue privately and governmental funded development programs. These programs allow us to increase our revenue base, form new alliances with major OEMs and participate in the latest trends in alternative fuel technologies. Research and development revenues in the first quarter of 2005 are a result of engineering services for the Mack/Volvo hybrid drive system, the EDO minesweeper project, the First Auto Work (FAW) parallel hybrid program and various Hawaii Center for Advanced Transportation

Technologies (HCATT) programs.

In the quarter ended March 31, 2005, we entered into contracts for several new development efforts with both new and existing customers. Enova is teaming with Concurrent Technologies Corporation (CTC) to provide and integrate a fuel cell hybrid drive system for another MB4 tow tractor for the U.S. Air Force. Additionally, we are working on a parallel hybrid drive system study for HCATT in conjunction with the U.S. Air Force. We continue to receive greater recognition from both governmental and private industry with regards to both commercial and military application of our hybrid drive systems and fuel cell power management technologies. Although we believe that current negotiations with several parties may result in development and production contracts during 2005 and beyond, there are no assurances that such additional agreements will be realized.

During the quarter ended March 31, 2005, we continued to develop and produce electric and hybrid electric drive systems and components for FAW China, Wright Bus and Eneco of the United Kingdom, EcoPower Technology (EPT) of Italy, Tsinghua University of China, MTrans of Malaysia, Tomoe Electro-Mechanical Engineering and Manufacturing, Inc. of Japan and several other domestic and international vehicle and bus manufacturers.

Our various electric and hybrid-electric drive systems, power management and power conversion systems are being used in applications, including Class 8 trucks, train locomotives, transit buses and industrial vehicles as well as in non-transportation applications such as fuel-cell management and power management systems, including the EDO minesweeper. We have furthered our development and production of systems for both mobile and stationary fuel cell powered systems with major companies such as Ford and Hydrogenics, a fuel cell developer in Canada.

Heavy-Duty Drive Systems - Buses, Trucks, Vans and Other Industrial Vehicle Applications

Enova's primary market focus centers on both series and parallel heavy-duty drive systems for multiple vehicle and marine applications. We believe series-hybrid and parallel hybrid heavy-duty drive system sales offer Enova the greatest return on investment in both the short and long term. Although this market sector has developed more slowly than anticipated, management believes that this area will see significant growth over the next several years. As the Company penetrates more market areas, we are continually refining and optimizing both our market strategy and our product line to enhance our power management and conversion systems for mobile applications.

In the first quarter of 2005, we continued to market our latest hybrid, the HybridPower Series Hybrid, to customers in Europe and Asia. Enova's new diesel

generator set, the power component within the hybrid drive system, delivers 60 kilowatts volts of continuous power, enabling it to integrate seamlessly with Enova's 240kW or 120kW drive motors and other digital power management components. The series hybrid genset consists of a 60kW electric motor, a motor controller and a diesel engine meeting stringent Euro 3 or Euro 4 emission specifications. The genset is distinctively designed to allow end users to choose the engine best suited for their commercial needs, permitting a wide variety of engine choices.

For the three months ended March 31, 2005, we received orders for six HybridPower Series Hybrid 120kW drive systems to WrightBus of the United Kingdom and one system to Tomoe of Japan for their Seoul Metro Railway Transit (SMRT) project. Additionally, WrightBus has ordered our HybridPower Series Hybrid 240kW drive system for its double-decker buses and Tomoe has ordered three of our post-transmission parallel hybrid drive systems for its SMRT project.

Tsinghua University in China continues to order both 120kW and 240kW HybridPower drive system for its fuel cell hybrid bus development program. During the first quarter of 2005, we received orders for two each of these systems. Our pre-transmission parallel hybrid drive system program with FAW for their buses continued during the first quarter of 2005. The first vehicle was successfully integrated and tested, and FAW has commenced integration of the second and third buses. We anticipate an order for an additional three systems in the second quarter of 2005 to be followed by increased demand toward the end of 2005. Management believes that these development and initial production programs will result in additional production contracts during 2005 and beyond; however at this time; there are no assurances that such additional contracts will be consummated.

Our eight drive system contract with Tomoe for Singapore Land Transport Authority's eight battery-electric locomotives continues on target. Over the last several years, Enova successfully integrated its HybridPowerTM drive systems into Tomoe's heavy-duty Isuzu dump truck application, three passenger trams and a mine tunnel crawler. It is anticipated that the hybrid drive train components will begin being delivered in late 2005 at Tomoe's Japan-based facilities. Enova anticipates the total contract to exceed US$3 million over the life of the contract which is anticipated to run through the second quarter of 2006. This latest market penetration in Asia enhances not only Enova's alliances with both Tomoe and HHI, but also advances Enova's hybrid-electric technologies in high voltage power management components. As part of this contract, Enova will develop a high voltage charging system to enable the locomotive to receive a direct battery charge from the high voltage rail. Tomoe and Enova continue to develop other commercial and industrial applications for our drive systems, including potential light rail applications. For the quarter ended March 31, 2005 we billed approximately $108,000 for these various systems. Although we anticipate additional orders for these systems in 2005 and beyond, there are no assurances that such additional orders will be forthcoming.

As noted, WrightBus, one of the largest low-floor bus manufacturers in the United Kingdom, continues to purchase our diesel genset-powered, series hybrid drive systems for their medium and large bus applications. WrightBus ordered six 120kW drive systems and one 240kW drive system in early 2005 for a total of $215,000 to be delivered in the 1st and 2nd quarters of 2005. In late 2004, we entered into an exclusive three-year agreement with WrightBus for the sale of certain Enova products for specific vehicles in the United Kingdom. WrightBus has notified us of potential additional orders for 2005 as well as requirements for 2006 through 2007. At this time, however, there are no assurances that such additional orders will be forthcoming.

Eneco of the United Kingdom, a vehicle integrator which utilizes Enova's HybridPower 120kW drive systems in its hybrid bus applications, has ordered sixteen 120kW electric drive systems in early 2005, totaling $483,000 for delivery in the second and third quarters of 2005. Eneco has notified us of its plans to order additional 120kw systems in the 3rd and 4th quarter 2005 for its bus programs. At this time, however, there are no assurances that such additional orders will be forthcoming.

In Italy, our relationship with EPT continues to build as they order additional

hybrid electric HybridPowerTM 120kw drive systems for their bus customers in Turin, Genoa, Brescia, Ferrara and Vicenza. EcoPower ordered five additional drive systems in the first quarter of 2005 for delivery in the 2nd quarter which totals $138,000. EPT has notified Enova of its requirements for additional drive systems in 2005; however, there are no assurances that such additional orders will be forthcoming.

MTrans of Malaysia continues to utilize Enova's series hybrid drive system solutions in its hybrid bus applications. In the 1st quarter 2005, MTrans ordered two additional drive systems, a 120kW and a 240kW, for integration into their vehicles. MTrans has discussed the potential of utilizing Enova drive systems for all of its hybrid and monorail requirements in 2005 and beyond. At this time, however, there are no assurances that such additional orders will be forthcoming.

Additionally, we are in discussions with other bus manufacturers and industrial, commercial and military vehicle manufacturers regarding the purchase of our heavy-duty, high performance, parallel and series hybrid drive systems in 2005. There are no assurances, however, that these discussions will result in any sales of the HybridPower parallel or series hybrid drive systems.

Light-Duty Drive Systems - Automobiles and Delivery vehicles

Our 90kW controller, motor and gear unit is utilized in light duty vehicles such as midsize automobiles and delivery vehicles. The topology of this system is being adapted to also be utilized as a parallel hybrid motor and controller system. We are beginning to receive more interest in our light-duty systems from both European and Asian customers.

Our 90kW motor controller is utilized in the parallel hybrid drive system designed for FAW. In conjunction with the 90kW motor, FAW and Enova are evaluating this latest usage of our hybrid technologies. As noted earlier, we anticipate additional demand for these systems. At this time, however, there are no assurances that such additional orders will be forthcoming.

We continue to cross-sell our systems to new and current customers in the light and medium duty vehicle markets, both domestically and globally.

Fuel Cell Technologies

Due to the success of the 20kW High Voltage Energy Converter (HVEC) development program with Ford Motor Company for their fuel cell vehicle, Ford has entered into another development contract with Enova for a 30kW converter. The new program is for two 30kW HVEC systems for delivery in the third quarter of 2005. The 20kW HVEC is a key component in Ford's Focus Fuel Cell Vehicle (FCV) which utilizes the Ballard fuel cell system. It converts high voltage power from the fuel cell into a lower voltage for use by the drive system and electronic accessories. There is a potential for additional production orders for HVEC units from Ford in 2005 and beyond; however, at this time, there are no assurances that such additional orders will be forthcoming.

Furthermore, we are applying the technology and components derived from this program to other applications. The HVEC is a critical component of our Fuel Cell bus programs and other fuel cell powered systems such as the Hyundai fuel cell vehicle. Both of these projects are further detailed in the research and development programs section set forth below.

Our latest projects with both CTC and HCATT for a fuel cell powered MB-4 tow tractor and a step-van, respectively, both utilize our HVEC units to control and adapt power between the fuel cells, the batteries and the power electronics of

the drive system. In heavy-duty mobile applications such as these, Enova has developed firmware to run our HVEC units in parallel for greater power capacity.

Enova's fuel cell enabling components are part of the proposed fleets of fuel cell vehicles being utilized by both Ford Motor Company - the Ford Focus FCV- and Hyundai Motor Company - the Hyundai Tucson fuel cell hybrid electric vehicle - in response to the U.S. Department of Energy's solicitation, entitled "Controlled Hydrogen Fleet and Infrastructure Demonstration and Validation Project." This government-funded project, which commenced in late 2004, will last over five years evaluating the economic and performance feasibility of fuel cell vehicles and infrastructure across the U.S.

The Company will continue to explore new applications for this versatile technology in both mobile and stationary systems.

Research and Development Programs

We continue to pursue government and commercially sponsored development programs for both ground and marine heavy-duty drive system applications.

Our program with Mack Truck, Inc., Powertrain division - a unit of The Volvo Group, Sweden, for the development and manufacture of a motor controller, electric motor and battery management systems for a new parallel hybrid drive system continues on schedule. The new parallel hybrid vehicle program is part of the Air Force's efforts to improve efficiency, reduce fuel and maintenance costs, provide re-generative brake energy and reduce emissions. The refueler fleet consists of approximately 300 vehicles and, upon successful completion and evaluation of the refueler vehicle, there is the potential for additional upgrades to the parallel hybrid drive system. As part of the program, Mack Trucks will also evaluate the applicability of the drive system to commercial vehicles commencing with its Class 8 Refuse Hauler. Mack Trucks currently produces approximately 3,000 refuse vehicles per annum for major customers such as Waste Management. This development program is anticipated to be completed in mid 2005, followed by an evaluation period of approximately three to nine months.

Our development contract with EDO Corporation of New York for the design and fabrication of a high voltage DC-DC power conversion system utilizing a Capstone microturbine as the primary power source for the U.S. Navy unmanned minesweeper project was completed in the first quarter of 2005. The electronics package will include Enova's advanced power components, including a new, enhanced 50V, 700A DC-DC power converter, our Battery Care Unit and Hybrid Control Unit which will power the minesweeper's electromagnetic detection system. Our power management and conversion system will be used to provide on-board power to other accessories on the minesweeper platform. Although this program also has the potential for additional system sales following the demonstration phase, there are no assurances that such additional orders will be forthcoming.

The all-electric Hyundai Santa Fe SUV demonstration project in Honolulu Hawaii is nearing its completion in June 2005 for three of the program's vehicles. Fast-charging capabilities and performance will be the primary focus of this continued evaluation. This is a continuation of the State of Hawaii and Hyundai Motor Company's program for pure electric vehicle performance.

Enova has completed its development for Hyundai Motor Company (HMC) of the fuel cell power management and conversion components for Hyundai's latest fuel cell hybrid electric vehicle, the Tucson, which was unveiled at the Geneva Auto Show in March 2004. During the first quarter of 2005, Enova completed test and

evaluation of the 8 systems delivered in 2004. HMC has notified Enova of its intent to order up to 40 more motors and controllers for additional vehicles commencing in the second half of 2005. Although we believe there is potential for such production in 2005, there can be no assurances at this time that such orders will be realized.

We also completed our Hydrogenics fuel cell HybridPower 120kW hybrid drive program for the Purolator step-van. In integrating this system, we utilized several Enova power management systems, including our dual 8kW inverter and our Mobile Fuel Cell Generator that utilizes our HVECs. This fuel cell vehicle application utilized a Hydrogenics 20kW fuel cell power generation module underscoring our technologies' ability to optimize fuel cell performance across a range of fuel cell products. The program is in its final stage of evaluation.

Our HCATT fuel cell powered step-van continues on schedule to be completed in the third quarter of 2005, ending with an evaluation phase. This vehicle is almost identical to the Purolator step-van and utilizes the same fuel cell powered drive systems and components. We are experiencing a notable increase in interest from both government and military organizations for our products and integration services. The first of these being the project with CTC for the fuel cell powered MB-4 tow tractor. For the quarter ended March 31, 2005, we billed approximately $139,000 for all of our HCATT programs.

Additionally, during the first quarter of 2005, we commenced a parallel hybrid study project with HCATT which may lead to a contract for the development of a pre-transmission parallel hybrid step-van for the U.S. Air Force in the second half of 2005. . Although we believe there is potential for production of this type of drive system and other development programs in 2005, there can be no assurances at this time that such contracts will be realized.

We intend to establish new development programs with the Hawaii Center for Advanced Transportation Technologies in mobile and marine applications as well as other state and federal government agencies as funding becomes available.

Stationary Power Applications

Enova continues to attract new partners and customers from both fuel cell manufacturers and petroleum companies. It is our belief that utilizing our power management systems for stationary applications for fuel cells will open new markets for our Company.

We believe the stationary power market will play a key role in our future. We continue to pursue alliances with leading manufacturers in this area. There are, however, no assurances that this market will develop as anticipated or that such alliances will occur.

LIQUIDITY AND CAPITAL RESOURCES

The audited December 31, 2004 financial statements have been prepared on a going concern basis which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. Over the next few years, we expect to incur losses from operations as we continue to develop future products and market our current products. We will need to raise additional capital through debt or equity financings or collaborative arrangements with industry partners to continue our business operations.

Our ability to continue as a going concern is dependent on our success at obtaining additional capital sufficient to meet our obligations on a timely

basis, and to ultimately attain profitability. Management is actively engaged in seeking to raise capital through product licensing, co-development programs, or public or private equity financing. There is no assurance, however, that we will raise capital sufficient to enable us to continue operations through the end of the fiscal year.

In the event we are unable to successfully obtain additional capital, it is unlikely that we will have sufficient cash flows and liquidity to finance our business operations as currently contemplated. Accordingly, in the event additional capital is not obtained, we will likely further downsize the organization, defer marketing programs, reduce general and administrative expenses and delay or reduce the scope of research and development projects until we are able to obtain sufficient financing to do so. These factors could

significantly limit our ability to continue as a going concern. The balance sheets do not include any adjustments relating to recoverability and classification of recorded asset amounts or the amounts of classification of liabilities that might be necessary should the Company be unable to continue in existence.

We have experienced cash flow shortages due to operating losses primarily attributable to research, development, marketing and other costs associated with our strategic plan as an international developer and supplier of electric propulsion and power management systems and components. Cash flows from operations have not been sufficient to meet our obligations. Therefore, we have had to raise funds through several financing transactions. At least until we reach breakeven volume in sales and develop and/or acquire the capability to manufacture and sell our products profitably, we will need to continue to rely on cash from external financing sources.

We are seeking new investment capital to fund research and development and create new market opportunities. In order to fuel our growth in the stationary power market, we will need additional capital to further these development programs and augment our intellectual properties. However, our current sources of funds are not sufficient to provide the working capital for material growth, and we will need to obtain additional debt or equity financing to support such growth. As of March 31, 2005, there were no firm commitments for such funds.

Our operations during the quarter ended March 31, 2005 were financed by development contracts and product sales, as well as from working capital reserves.

During the quarter ended March 31, 2005, our operations required $825,000 more in cash than was generated. Enova continues to increase marketing and development spending as well as administrative expenses necessary for expansion to meet customer demand. Accounts receivable increased by $170,000 from $522,000, or approximately 32% from the balance at December 31, 2004 (net of write-offs). The increase results from additional product sales in the first quarter as well as the completion of several development contracts which were originally scheduled to finish in late 2004. We are realizing an increase in sales activity for our drive systems, components and development services which commenced in the fourth quarter of 2004 and we anticipate that we will increase receivables during the next several quarters. Inventory increased slightly by $135,000 from $1,036,000 or 13% from December 31, 2004 balances. The increase was due to purchases of additional raw materials and finished goods for orders to be fulfilled in the second and third quarters of 2005.

Prepaid expenses increased by net $60,000 at March 31, 2005 from the December

31, 2004 balance of $304,000 or 20% due to the renewal of our various insurance policies. There was an offsetting increase in insurance contracts payables as these policies are financed in the normal course of business.

Fixed assets increased by $46,000 or 3%, before depreciation, for the quarter ended March 31, 2005 from the prior year balance of $1,754,000 due to the purchase of both computer and production equipment.

Investments decreased by $40,000 in the first quarter of 2005 from $1,768,000 at December 31, 2004, which reflects our pro-rata share of losses attributable to our forty percent investment interest in the Hyundai-Enova Innovative Technology Center (ITC). For the quarter ended March 31, 2005, the ITC generated a net loss of approximately $100,000, resulting in a charge to Enova of $40,000 utilizing the equity method of accounting for our interest in the ITC.

Other assets decreased by $27,000 during the three months ended March 31, 2005 from $296,000 at December 31, 2004 as we continued to amortize the asset relating to the Ford Value Participation Agreement and our other intellectual property assets. Intellectual property assets, including patents and trademarks remained unchanged at $92,000 at March 31, 2005.

Accounts payable increased in the first quarter of 2005 by $225,000 to $291,000 from $66,000 at December 31, 2004. The increase in accounts payable is due to additional purchases of materials and goods for customers, as well as expenses incurred for the 2004 audit and Form 10K. These payables were subsequently reduced in the second quarter of 2005. Deferred revenue decreased from $392,000 to $274,000 in the first quarter of 2005 as we recognized $108,000 in revenues on the Tomoe Singapore project based on the percentage of completion method of revenue recognition. These deferred revenues will continue to be recognized throughout 2005 and early 2006 as we progress on the development and production phases of that contract. Other accrued expenses increased by $61,000 for the three months ended March 31, 2005 from the balance of $13,000 at December 31, 2004, primarily due to an increase in insurance contracts payable associated with our liability insurance policies.

Accrued interest increased by $73,000 for the quarter ended March 31, 2005, an increase of 5% from the balance of $1,378,000 at December 31, 2004. The increase was due to interest on the Note due the Credit Managers Association of California for $3.2 million per the terms of the Note as well as the Schulz note payable.

The future unavailability or inadequacy of financing to meet future needs could force us to delay, modify, suspend or cease some or all aspects of our planned operations.

RESULTS OF OPERATIONS

Net revenues for the three months ending March 31, 2005 were $692,000 as compared to $1,108,000 for the corresponding period in 2004. Net production sales for the quarter ended March 31, 2005 decreased to $492,000 from $672,000 in the same period in 2004. The decrease in production revenues is primarily the result of our customers shifting orders to later in 2004 and early 2005 than originally anticipated and extensions of integration and evaluation time lines. We anticipate that these revenues will be generated in the second and third quarters of 2005. Research and development revenues decreased to $200,000 in the first quarter of 2005 from $436,000 during the same period in 2004. Our sources of revenue for the first quarter of 2005 came predominantly from product sales rather than development contracts. Product sales as a percentage of total revenues of 71% for the three months ended March 31, 2005 with sales of our

HybridPower 120kW drive systems accounted for a majority of our product sales. We believe this trend will continue to accelerate for the foreseeable future as more current and prospective customers purchase additional drive systems for their production vehicles. We will continue to seek out and contract for new development programs with both our current partners such as Ford, Mack/Volvo, FAW, Tomoe, Hyundai and our other U.S., Asian and European alliance partners, as well as with new alliances with other vehicle manufacturers and energy companies to enhance our technology and our product offerings. Research and development revenues for the first quarter of 2005 are a result of engineering services for the Mack/Volvo hybrid drive system, the EDO minesweeper project and various HCATT programs.

Cost of revenues consists of component and material costs, direct labor costs, integration costs and overhead related to manufacturing our products. Product development costs incurred in the performance of engineering development contracts for the U.S. Government and private companies are charged to cost of sales for this contract revenue. Cost of revenues for the quarter ended March 31, 2005 decreased $88,000, or 13%, from $658,000 for the same period in 2004. This decrease is primarily attributable to the decrease in sales for the quarter, although we are also experiencing a reduction in integration support costs. We anticipate there may be an increase in cost of sales for products in 2005 due to foreign exchange rate fluctuations of the U.S. dollar versus those currencies of our primary manufacturers. We anticipate this to be offset by a reduction in costs associated with manufacturing these products due to increasing purchases, thereby improving our gross margins.

Internal research, development and engineering expenses increased in the three months ended March 31, 2005 to $217,000 as compared with $128,000 in the same period in 2004. Enova continues to develop several new products such as its post transmission parallel hybrid drive system and enhancements to its diesel generator set which account for a majority of the increase. Enova continues to allocate increased resources to the development of its parallel hybrid drive systems, upgraded proprietary control software, enhanced DC-DC converters and advanced digital inverters and other power management firmware.

Selling, general and administrative expenses increased $170,000 to $608,000 for the three months ended March 31, 2005 from the previous year's comparable period. The increase is attributable to additional marketing, engineering and technical staff employed in the first quarter as well as increased expense due to stricter regulatory oversight in conjunction with the Sarbanes-Oxley Act of 2002. Management continues to implement cost reduction strategies in 2005 in its efforts to achieve profitability, although management cannot assure that profitability will be achieved.

Interest and financing fees remained relatively constant at approximately $69,000 for the first quarter of 2005, up slightly from the same period in 2004 due to an increase in the interest rate charged per the terms of our long term note.

We incurred a loss from continuing operations of $812,000 in the first quarter of 2005 compared to a loss of $161,000 in the first quarter of 2004. The increase was attributable to several factors, including lower revenues, higher comparative cost of revenues due to the type of products sold in the fist quarter of 2005, increased internal development efforts and higher general operating costs due to factors noted above.

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

This Form 10-Q contains forward-looking statements concerning our existing and

future products, markets, expenses, revenues, liquidity, performance and cash needs as well as our plans and strategies. Forward-looking statements may be identified by the use of terminology such as "may," "anticipate," "estimate," "plans," "expects," "believes," "will," "potential" and by other comparable terminology or the negative of any of the foregoing. These forward-looking statements involve risks and uncertainties and are based on current management's expectations and we are not obligated to update this information. Many factors could cause actual results and events to differ significantly from the results anticipated by us and described in these forward looking statements including, but not limited to, the following risk factors.

Net Operating Losses. We experienced recurring losses from operations and had an accumulated deficit of $101,271,000 at March 31, 2005. There is no assurance, however, that any net operating losses will be available to us in the future as an offset against future profits for income tax purposes.

Continued Losses. For the three months ended March 31, 2005 and 2004, we had losses from continuing operations of $812,000 and $161,000 respectively on sales of $692,000 and $1,108,000, respectively.

Our independent auditors' opinion on our audited financial statements includes a going concern qualification. Our independent auditors have included an explanatory paragraph in their audit report issued in connection with our financial statements which states that our recurring operating losses raise substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should we be unable to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to generate profitable operations in the future and/or to obtain the necessary financing to meet our obligations and repay our liabilities arising from normal business operations when they come due. The outcome of these matters cannot be predicated with any certainty at this time.

The Company's ability to continue as a going concern is dependent on its success at obtaining additional capital sufficient to meet its obligations on a timely basis, and to ultimately attain profitability. Management is actively engaged in seeking to raise capital through product licensing, co-promotional arrangements, or public or private equity financing. However, there is no assurance that the Company will raise capital sufficient to enable the Company to continue its operations through the end of the fiscal year. In the event the Company is unable to successfully obtain additional capital, it is unlikely that the Company will have sufficient cash flows and liquidity to finance its business operations as currently contemplated. Accordingly, in the event additional capital is not obtained, the Company will likely further downsize the organization, defer marketing programs, reduce general and administrative expenses and delay or reduce the scope of research and development projects until it is able to obtain sufficient financing to do so.

Nature of Industry. The mobile and stationary power markets, including electric vehicle and hybrid electric vehicles, continue to be subject to rapid technological change. Most of the major domestic and foreign automobile manufacturers: (1) have already produced electric and hybrid vehicles, and/or (2) have developed improved electric storage, propulsion and control systems, and/or (3) are now entering or have entered into production, while continuing to improve technology or incorporate newer technology. Various companies are also developing improved electric storage, propulsion and control systems. In addition, the stationary power market is still in its infancy. A number of established energy companies are developing new technologies. Cost-effective

methods to reduce price per kilowatt have yet to be established and the stationary power market is not yet viable.

Our current products are designed for use with, and are dependent upon, existing technology. As technologies change, and subject to our limited available resources, we plan to upgrade or adapt our products in order to continue to provide products with the latest technology. We cannot assure you, however, that we will be able to avoid technological obsolescence, that the market for our products will not ultimately be dominated by technologies other than ours, or that we will be able to adapt to changes in or create "leading-edge" technology. In addition, further proprietary technological development by others could prohibit us from using our own technology.

Our industry is affected by political and legislative changes. In recent years there has been significant public pressure to enact legislation in the United States and abroad to reduce or eliminate automobile pollution. Although states such as California have enacted such legislation, we cannot assure you that there will not be further legislation enacted changing current requirements or that current legislation or state mandates will not be repealed or amended, or that a different form of zero emission or low emission vehicle will not be invented, developed and produced, and achieve greater market acceptance than electric or hybrid electric vehicles. Extensions, modifications or reductions of current federal and state legislation, mandates and potential tax incentives could also adversely affect our business prospects if implemented.

Changed legislative climate. Because vehicles powered by internal combustion engines cause pollution, there has been significant public pressure in Europe and Asia, and enacted or pending legislation in the United States at the federal level and in certain states, to promote or mandate the use of vehicles with no tailpipe emissions ("zero emission vehicles") or reduced tailpipe emissions ("low emission vehicles"). Legislation requiring or promoting zero or low emission vehicles is necessary to create a significant market for electric vehicles. The California Air Resources Board (CARB) is continuing to modify its regulations regarding its mandatory limits for zero emission and low emission vehicles. Furthermore, several car manufacturers have challenged these mandates in court and have obtained injunctions to delay these mandates.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), an evaluation was carried out by the Company's President, Chief Executive Officer and its acting Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) and 15d-14(c) under the Exchange Act) as of the end of the quarter ended March 31, 2005. Based upon that evaluation of these disclosure controls and procedures, the President, Chief Executive Officer and acting Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the quarter ended March 31, 2005 to ensure that material information relating to the Company was made known to him particularly during the period in which this quarterly report on Form 10-Q was being prepared.

Changes in internal controls over financial reporting.

There was not any change in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We may from time to time become a party to various legal proceedings arising in the ordinary course of business. As of May 12, 2005, the Company was not involved in any legal proceedings.

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

California law prohibits the payment of dividends unless the Company has sufficient retained earnings or meets certain asset to liability ratios.

During the three months ended March 31, 2005, the Company has issued or accrued common stock of Enova to the non-executive board directors in accordance with the September 1999 Board of Directors compensation package for outside directors. For each meeting attended in person, each outside director is to receive $1,000 in cash and $2,000 of stock valued on the date of the meeting at the average of the closing ask and bid prices; for each telephonic Board meeting, each outside director is to receive $250 in cash and $250 of stock valued on the date of the meeting at the average of the closing ask and bid prices; for each meeting of a Board committee attended in person, the committee members are to receive $500 in cash and $500 of stock valued on the date of the meeting at the average of the closing ask and bid prices. During the three months ended March 31, 2005, 272,000 shares of common stock were issued to our outside Board members at an average price of $0.105 per share for full board meetings and committee meetings during that period. We relied on Rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended, for the exemption from registration of the sale of such shares. As of March 31, 2005, 3,811,602 shares had been issued under the above compensation plan for Directors.

Item 3. Defaults upon Senior Securities: None.

Item 4. Submission of Matters to a Vote of Securities Holders: None.

Item 5. Other Information: None.

Item 6. Exhibits:

10.22* Form of Employment Agreement dated May 1, 2005 between Registrant and Edwin Riddell, Chief Executive Officer and president of the Registrant.

10.23* Form of Release Agreement dated April 21, 2005 between Registrant and Carl D. Perry, Vice Chairman of the Board of Directors of Registrant.

31.1* Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act Of 2002

31.2* Certification of Chief Financial Officer Pursuant to Section 302 of the

Sarbanes-Oxley Act of 2002

32* Certification Pursuant to 18 U.S.C. Section 1350

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* - filed herewith

SIGNATURE

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

Date: May 16, 2005

ENOVA SYSTEMS, INC.
(Registrant)

/s/ Larry B. Lombard

By: Larry B. Lombard, Chief Financial Officer