

ENOVA SYSTEMS INC  
Form 10-Q  
November 13, 2015

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

FORM 10-Q

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

For the quarterly period ending September 30, 2015

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. 1-33001

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

California  
(State or other jurisdiction of  
incorporation or organization)

95-3056150  
(I.R.S. Employer  
Identification Number)

2945 Columbia Street, Torrance, California 90503  
(Address of principal executive offices, including zip code)

(650) 346-4770  
(Registrant's telephone number, including area code)

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

(Do not check if a smaller reporting company)

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

As of October 31, 2015, there were 64,520,000 shares of common stock outstanding.

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ENOVA SYSTEMS, INC.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## ENOVA SYSTEMS, INC.

## BALANCE SHEETS

	September 30, 2015 (unaudited)	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ -	\$ -
Accounts receivable, net	-	-
Inventories and supplies, net	112,000	368,000
Prepaid expenses and other current assets	-	7,000
Total current assets	112,000	375,000
Property and equipment, net	-	-
Total assets	\$ 112,000	\$ 375,000
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 614,000	\$ 560,000
Loans from employees	123,000	55,000
Deferred revenues	-	213,000
Accrued payroll and related expenses	220,000	211,000
Accrued loss for litigation settlement	2,014,000	2,014,000
Other accrued liabilities	594,000	431,000
Current portion of accrued interest payable	1,543,000	-
Current portion of notes payable	1,278,000	40,000
Total current liabilities	6,386,000	3,524,000
Accrued interest payable	-	1,482,000
Notes payable, net of current portion	-	1,238,000
Total liabilities	6,386,000	6,244,000
Stockholders' deficit:		
Series A convertible preferred stock — no par value, 30,000,000 shares authorized; 0 shares issued and outstanding; liquidating preference at \$0.60 per share as of September 30, 2015 and December 31, 2014	-	-
Series B convertible preferred stock — no par value, 5,000,000 shares authorized; 546,000 shares issued and outstanding; liquidating preference at \$2 per share as of September 30, 2015 and December 31, 2014	1,094,000	1,094,000
Common Stock to be issued	553,000	553,000
Common Stock — no par value, 750,000,000 shares authorized; 64,520,000 shares issued and outstanding as of September 30, 2015 and December 31, 2014	145,735,000	145,735,000
Additional paid-in capital	9,641,000	9,619,000
Accumulated deficit	(163,297,000)	(162,870,000)
Total stockholders' deficit	(6,274,000)	(5,869,000)
Total liabilities and stockholders' deficit	\$ 112,000	\$ 375,000

See accompanying condensed notes to these financial statements.

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ENOVA SYSTEMS, INC.  
STATEMENTS OF OPERATIONS  
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Revenues	\$ -	\$ -	\$ -	\$ -
Cost of revenues	109,000	-	181,000	60,000
Gross loss	(109,000)	-	(181,000)	(60,000)
Operating expenses				
Selling, general & administrative	58,000	87,000	176,000	342,000
Total operating expenses	58,000	87,000	176,000	342,000
Operating loss	(167,000)	(87,000)	(357,000)	(402,000)
Other income and (expense)				
Interest and other income (expense)	(21,000)	(20,000)	(70,000)	(92,000)
Total other income and (expense)	(21,000)	(20,000)	(70,000)	(92,000)
Net loss	\$ (188,000)	\$ (107,000)	\$ (427,000)	\$ (494,000)
Basic and diluted loss per share	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding	64,520,000	64,520,000	64,520,000	58,659,000

See accompanying condensed notes to these financial statements.

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ENOVA SYSTEMS, INC.  
STATEMENTS OF CASH FLOWS  
(Unaudited)

	Nine Months Ended September 30	
	2015	2014
Cash flows from operating activities:		
Net loss	\$ (427,000)	\$ (494,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	-	29,000
Inventory reserve	256,000	59,000
Loss on Asset Impairment	7,000	32,000
Stock option expense	22,000	18,000
(Increase) decrease in:		
Prepaid expenses and other current assets	-	3,000
Increase (decrease) in:		
Accounts payable	54,000	(95,000)
Deferred Revenue	(213,000)	-
Accrued payroll and related expense	9,000	14,000
Other accrued liabilities	163,000	132,000
Accrued interest payable	61,000	60,000
Net cash used in operating activities	(68,000)	(242,000)
Cash flows from investing activities		
Cash flows from financing activities:		
Net proceeds from the issuance of common stock	-	223,000
Proceeds from related party loans, net	68,000	18,000
Net cash provided by financing activities	68,000	241,000
Net decrease in cash and cash equivalents	-	(1,000)
Cash and cash equivalents, beginning of period	-	1,000
Cash and cash equivalents, end of period	\$ -	\$ -

See accompanying condensed notes to these financial statements.

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ENOVA SYSTEMS, INC.

CONDENSED NOTES TO FINANCIAL STATEMENTS  
(Unaudited)

1. Description of the Company and its Business

Enova Systems, Inc., (“Enova”, “We” or “the Company”), a California corporation, was incorporated in July 1976, and trades on the OTCQB under the trading symbol “ENVS” and on the London Stock Exchange under the symbol “ENV” or “ENVS”. The Company believes it has been a globally recognized leader as a supplier of efficient, environmentally-friendly digital power components and systems products, in conjunction with associated engineering services. The Company’s core competencies are focused on the commercialization of power management and conversion systems for mobile and stationary applications.

THE DISCUSSION SET FORTH BELOW AND ELSEWHERE IN THIS 10-Q IS QUALIFIED IN ITS ENTIRETY BY THE FOLLOWING: ENOVA REMAINS INSOLVENT AND OWES IN EXCESS OF \$4.7 MILLION IN THE AGGREGATE TO ITS TWO PRINCIPAL CREDITORS, THE CREDIT MANAGERS ASSOCIATION AND ARENS CONTROLS COMPANY, L.L.C. (“ARENS”). WITHOUT IMMEDIATE ADDITIONAL FINANCING, THE COMPANY WILL NEED TO CEASE OPERATIONS. THE COMPANY CURRENTLY HAS NO VISIBILITY AS TO EITHER ADDITIONAL FINANCING OR THE COLLECTION OF RECEIVABLES. SPECIFICALLY, WITHOUT A MUTUALLY ACCEPTABLE SETTLEMENT OF THE ARENS JUDGMENT ARISING OUT OF ARENS CONTROLS COMPANY, L.L.C. v. ENOVA SYSTEMS, INC., CASE NO. 13-1102 (7TH CIRCUIT) IN THE AMOUNT OF \$2.0 MILLION, THE COMPANY DOES NOT CURRENTLY BELIEVE IT HAS ANY ALTERNATIVE OTHER THAN TO CEASE OPERATIONS. THE COMPANY CURRENTLY EMPLOYS ONLY TWO PERSONNEL, JOHN MICEK, THE COMPANY’S CEO, CFO AND SECRETARY, AND ONE ADDITIONAL INDIVIDUAL IN THE FINANCE DEPARTMENT.

ON SEPTEMBER 24, 2013, THE COMPANY ENTERED INTO A SETTLEMENT AGREEMENT AND MUTUAL RELEASE WITH ARENS PROVIDING A PERIOD OF 120 DAYS TO SETTLE THE JUDGMENT FOR THE AMOUNT OF \$300,000. THE COMPANY WAS NOT ABLE TO MAKE THE PAYMENT BY THE DUE DATE OF JANUARY 22, 2014. THEREFORE, THE JUDGMENT AGAINST THE COMPANY CAN BE ENFORCED WITHOUT FURTHER NOTICE.

2. Summary of Significant Accounting Policies

Basis of Presentation — Interim Financial Statements

The financial position, results of operations and cash flows for the three and nine months ended September 30, 2015 and 2014 is unaudited but includes all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair statement of its financial position at such dates and the operating results and cash flows for those periods. The year-end balance sheet data was derived from audited financial statements, and certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to SEC rules or regulations; however, the Company believes the disclosures made are adequate to make the information presented not misleading.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although management believes these estimates and assumptions



are adequate, actual results could differ from the estimates and assumptions used.

The results of operations for the interim periods presented are not necessarily indicative of the results of operations to be expected for the year. These interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2014, which are included in the Company's Annual Report on Form 10-K for the year then ended.

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### Liquidity and Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. However, historically the Company has experienced significant recurring net losses and operating cash flow deficits. The Company's ability to continue as a going concern is dependent on many factors, including among others, its ability to raise additional funding, and its ability to successfully restructure operations.

To date, the Company has incurred recurring net losses and negative cash flows from operations. At September 30, 2015, the Company had an accumulated deficit of approximately \$163.3 million, working capital of approximately negative \$6.3 million and shareholders' equity deficit of approximately \$6.3 million. Until the Company can generate significant cash from its operations, the Company expects to continue to fund its operations with borrowings from employees, proceeds from one or more private placement agreements, or potentially through debt financing or the sale of equity securities. However, the Company may not be successful in obtaining additional funding. In addition, the Company cannot be sure that additional financing will be available when needed or that, if available, financing will be obtained on terms favorable to the Company or its shareholders.

Our operations will require us to make necessary investments in human and production resources, regulatory compliance, as well as sales and marketing efforts. We do not currently have adequate internal liquidity to meet these objectives. On June 21, 2012, we reported in a Form 8-K filing that, as part of cost cutting measures in response to our decrease in revenue amid continued delays in industry adoption of EV technology resulting from ongoing battery cost and reliability concerns, in excess of 90% of our workforce left our Company, including the resignation of members of our senior management. We continue to evaluate strategic partnering opportunities and other external sources of liquidity, including the public and private financial markets and strategic partners. As a result of having insufficient funds, the Company has delayed all of its product development. Failure to obtain adequate financing also will adversely affect the Company's ability to continue in business. If the Company raises additional funds by issuing equity securities, substantial dilution to existing stockholders would likely result. If the Company raises additional funds by incurring debt financing, the terms of the debt may involve significant cash payment obligations, as well as covenants and specific financial ratios that may restrict its ability to operate its business.

The Company continues to pursue other options to raise additional capital to fund its operations; however, there can be no assurance that we can successfully raise additional funds through the capital markets.

As of September 30, 2015, the Company had no cash and cash equivalents and received loans from an employee in order to maintain minimal operations. We do not anticipate that our remaining assets will be sufficient to meet projected operating requirements through the end of 2015 to continue operations and market trading.

### Significant Accounting Policies

The accounting and reporting policies of the Company conform to US GAAP. There have been no significant changes in the Company's significant accounting policies during the nine months ended September 30, 2015 compared to what was previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

### Revenue Recognition

The Company business is the manufacture of proprietary products and other products based on design specifications provided by its customers. The Company recognizes revenue only when all of the following criteria have been met:



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• **Persuasive Evidence of an Arrangement** — The Company documents all terms of an arrangement in a written contract signed by the customer prior to recognizing revenue.

• **Delivery Has Occurred or Services Have Been Rendered** — The Company performs all services or delivers all products prior to recognizing revenue. Professional consulting and engineering services are considered to be performed when the services are complete. Equipment is considered delivered upon delivery to a customer's designated location. In certain instances, the customer elects to take title upon shipment.

• **The Fee for the Arrangement is Fixed or Determinable** — Prior to recognizing revenue, a customer's fee is either fixed or determinable under the terms of the written contract. Fees for professional consulting services, engineering services and equipment sales are fixed under the terms of the written contract. The customer's fee is negotiated at the outset of the arrangement and is not subject to refund or adjustment during the initial term of the arrangement.

• **Collectability is Reasonably Assured** — The Company determines that collectability is reasonably assured prior to recognizing revenue. Collectability is assessed on a customer-by-customer basis based on criteria outlined by management. New customers are subject to a credit review process which evaluates the customer's financial position and ultimately its ability to pay. The Company does not enter into arrangements unless collectability is reasonably assured at the outset. Existing customers are subject to ongoing credit evaluations based on payment history and other factors. If it is determined during the arrangement that collectability is not reasonably assured, revenue is recognized on a cash basis. Amounts received upfront for engineering or development fees under multiple-element arrangements are deferred and recognized over the period of committed services or performance, if such arrangements require the Company to provide on-going services or performance. All amounts received under collaborative research agreements or research and development contracts are nonrefundable, regardless of the success of the underlying research.

The Company recognizes revenue from milestone payments over the remaining minimum period of performance obligations.

The Company also recognizes engineering and construction contract revenues using the percentage-of-completion method, based primarily on contract costs incurred to date compared with total estimated contract costs. Customer-furnished materials, labor, and equipment, and in certain cases subcontractor materials, labor, and equipment, are included in revenues and cost of revenues when management believes that the company is responsible for the ultimate acceptability of the project. Contracts are segmented between types of services, such as engineering and construction, and accordingly, revenue and gross margin related to each activity is recognized as those separate services are rendered.

Changes to total estimated contract costs or losses, if any, are recognized in the period in which they are determined. Claims against customers are recognized as revenue upon settlement. Revenues recognized in excess of amounts received are classified as current assets. Amounts billed to clients in excess of revenues recognized to date are classified as current liabilities on contracts.

Changes in project performance and conditions, estimated profitability, and final contract settlements may result in future revisions to engineering and development contract costs and revenue.

These accounting policies were applied consistently for all periods presented. Information about the impact on our operating results is included in the footnotes to our financial statements.



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## Deferred Revenues

The Company recognizes revenues as earned. Amounts received or collected advance of the period in which service is rendered are recorded as a liability under deferred revenues. When the Company enters into production and development contracts with customers, an evaluation is made to ascertain the specific revenue generating activities of each contract and establishes the units of accounting for each activity. Revenue on these units of accounting is not recognized until a) there is persuasive evidence of the existence of a contract, b) the service has been rendered and delivery has occurred, c) there is a fixed and determinable price, and d) collectability is reasonably assured.

## Warranty Costs

The Company provides product warranties for specific product lines and accrues for estimated future warranty costs in the period in which revenue is recognized. Our products are generally warranted to be free of defects in materials and workmanship for a period of 12 to 24 months from the date of installation, subject to standard limitations for equipment that has been altered by other than Enova Systems personnel and equipment which has been subject to negligent use. Warranty provisions are based on past experience of product returns, number of units repaired and our historical warranty incidence over the past twenty-four month period. The warranty liability is evaluated on an ongoing basis for adequacy and may be adjusted as additional information regarding expected warranty costs becomes known.

## Stock Based Compensation

We measure the compensation cost for stock-based awards classified as equity at their fair value on the date of grant and recognize compensation expense over the service period for awards expected to vest, net of estimated forfeitures.

## Loss Per Share

Basic loss per share is computed by dividing loss available to common stockholders by the weighted-average number of common shares outstanding. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Common equivalent shares are excluded from the computation if their effect is anti-dilutive. The Company's common share equivalents consist of stock options, warrants and preferred stock.

The potential shares, which are excluded from the determination of basic and diluted net loss per share as their effect is anti-dilutive, are as follows:

	Nine Months Ended September 30,	
	2015	2014
Options to purchase common stock	8,361,000	8,891,000
Warrants to purchase common stock	11,250,000	11,250,000
Common shares to be issued for debt conversion	1,250,000	1,250,000
Series A and B preferred shares conversion	83,000	83,000
Potential equivalent shares excluded	20,944,000	21,474,000

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## Accounting Changes and Recent Accounting Pronouncements

Certain accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations and cash flows.

## 3. Inventory

Inventory, consisting of materials, labor and manufacturing overhead, is stated at the lower of cost (first-in, first-out) or market and consisted of the following at:

	September 30, 2015	December 31, 2014
Raw materials	\$ 3,098,000	\$ 3,098,000
Work-in-process	222,000	222,000
Finished goods	449,000	449,000
Reserve for obsolescence	(3,657,000)	(3,401,000)
	\$ 112,000	\$ 368,000

The Company did not have production operations in the nine months ended September 30, 2015. Therefore, there was no change in the balance of inventory between September 30, 2015 and December 31, 2014. Inventory valuation adjustments amounted to \$110,000 and \$256,000 for the three and nine months ended September 30, 2015 and \$59,000 for the three and nine months ended September 20, 2014.

## 4. Property and Equipment

Property and equipment consisted of the following at:

	September 30, 2015	December 31, 2014
Computers and software	\$ 59,000	\$ 59,000
Machinery and equipment	209,000	209,000
Furniture and office equipment	86,000	86,000
Demonstration vehicles and buses	127,000	127,000
Sub-total	481,000	481,000
Less accumulated depreciation and amortization	(481,000)	(481,000)
Total	\$ -	\$ -

Depreciation and amortization expense was \$0 and \$9,000 for the three months ended September 30, 2015 and 2014, respectively. Depreciation and amortization expense was \$0 and \$29,000 for the nine months ended September 30, 2015 and 2014, respectively.

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## 5. Other Accrued Liabilities

Other accrued liabilities consisted of the following at:

	September 30, 2014	December 31, 2014
Accrued inventory received	\$ 10,000	\$ 10,000
Accrued professional services	330,000	298,000
Accrued warranty	-	74,000
Other	254,000	49,000
Total	\$ 594,000	\$ 431,000

Accrued warranty consisted of the following activities during the nine months ended September 30:

	2015	2014
Balance at beginning of year	\$74,000	\$74,000
Accruals for warranties issued during the period	-	-
Expired warranty	(74,000 )	-
Warranty claims	-	-
Balance at end of quarter	\$-	\$74,000

## 6. Notes Payable, Long-Term Debt and Other Financing

Notes payable consisted of the following at:

	September 30, 2015	December 31, 2014
Secured note payable to Credit Managers Association of California, bearing interest at prime plus 3% (6.25% as of September 30, 2015), and is adjusted annually in April through maturity. Principal and unpaid interest due in April 2016. A sinking fund escrow may be funded with 10% of future equity financing, as defined in the Agreement	\$ 1,238,000	\$ 1,238,000
Secured note payable to Coca Cola Enterprises in the original amount of \$40,000, bearing interest at 10% per annum. Principal and unpaid interest due on demand	40,000	40,000
	1,278,000	1,278,000
Less current portion of notes payable	(1,278,000)	(40,000)
Notes payable, net of current portion	\$ -	\$ 1,238,000

As of September 30, 2015 and December 31, 2014, the balance of interest payable amounted to \$1,543,000 and \$1,482,000, respectively, of which the Credit Managers Association of California note amounted to \$1,500,000 and \$1,442,000, respectively. Interest expense on notes payable amounted to approximately \$20,000 for the three months ended September 30, 2015 and 2014, respectively. Interest expense on notes payable amounted to approximately \$61,000 and \$60,000 for the nine months ended September 30, 2014 and 2013, respectively.

In June 2013, the vehicle that secured the note payable due March 10, 2016 was repossessed by the secured lender. The Company was invoiced by the lender for \$8,000 for final settlement, which is included in accounts payable at September 30, 2015 and December 31, 2014, respectively. In the fourth quarter of 2013, three vehicles that secured



notes due on February 19, 2014, August 25, 2014 and April 9, 2015 were repossessed by the secured lenders. The Company has accrued approximately \$17,000 for final settlements for the three vehicles, which is included in other accrued liabilities at September 30, 2015 and December 31, 2014, respectively.

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7. Deferred Revenues

The Company had deferred revenue of \$0 and \$213,000 in revenue related to a production contract at September 30, 2015 and December 31, 2014. The Company's management does not anticipate that funding can be obtained to complete the order in 2015. Therefore, the full amount of deferred revenue has been reclassified to other accrued liabilities as of September 30, 2015.

8. Stockholders' Equity

On February 23, 2014, Enova Systems, Inc, entered into Subscription Agreements with various offshore investors to sell approximately GBP 150,000 (approximately US\$249,000) in gross proceeds by a private subscription of 19,999,998 common shares to be newly issued on the Alternative Investment Market of the London Stock Exchange (the "AIM Exchange"). The common shares were issued at a price of 0.0075 pence (approximately US\$0.01 per share) to certain eligible offshore investors (the "Subscription"). In connection with the Subscription, Enova entered into an Agreement for the Provision of Receiving Agent Services (the "Agreement") with Daniel Stewart & Company PLC (UK) for receiving agent services. Daniel Stewart presently serves as the Nominated Adviser for the listing of Enova's common shares on the AIM Exchange. The newly issued common shares for the Subscription were issued in three tranches of approximately GBP 50,000 each.

Daniel Stewart received an introducing agent's fee of 10% of the aggregate funds raised pursuant to the subscription in addition to reimbursement of expenses. Factoring in the commission, legal and other expenses of the offering, Enova received approximately US\$223,000 in net proceeds.

The offer and sale of the shares were made pursuant to Regulation S under the Securities Act of 1933, as amended (the "Securities Act"). Among other things, each investor purchasing shares of Enova's common stock in the offering represented that the investor is not a United States person as defined in Regulation S. In addition, neither Enova nor the receiving agent conducted any selling efforts directed at the United States in connection with the offering. All shares of common stock issued in the offering included a restrictive legend indicating that the shares were issued pursuant to Regulation S under the Securities Act and are deemed to be "restricted securities." As a result, the purchasers of such shares will not be able to resell the shares unless in accordance with Regulation S, pursuant to a registration statement, or upon reliance of an applicable exemption from registration under the Securities Act. The shares to be sold pursuant to the Subscription Agreements were not registered under the Securities Act, and there is no obligation on the part of Enova to so register such shares.

During the three and nine months ended September 30, 2015, the Company did not issue any shares of common stock to directors or employees as compensation.

9. Stock Options

Stock Option Program Description

As of September 30, 2015, the Company had one equity compensation plan, the 2006 equity compensation plan (the "2006 Plan"). The 1996 Stock Option Plan (the "1996 Plan") expired during the third quarter of 2015 due to expiration and forfeiture of the last grant under the plan. The 2006 Plan was approved by the Company's shareholders. Equity compensation grants are designed to reward employees and executives for their long term contributions to the Company and to provide incentives for them to remain with the Company. The number and frequency of equity compensation grants are based on competitive practices, operating results of the company, and government regulations.



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The maximum number of shares issuable over the term of the 1996 Plan was limited to 65 million shares (without giving effect to subsequent stock splits). Options granted under the 1996 Plan typically have an exercise price of 100% of the fair market value of the underlying stock on the grant date and expire no later than ten years from the grant date. On August 27, 2013, the Board of Directors of Enova Systems approved amendments to Enova's 2006 Equity Compensation Plan (a) to increase the number of shares authorized for issuance from 3,000,000 shares to 9,000,000 shares and (b) to increase the number of shares of common stock that may be issued to an individual in any calendar year from 500,000 shares to 5,000,000 shares.

Of the 9,000,000 shares reserved for issuance under the amended 2006 Plan, none were granted in the nine months ended September 30, 2015 and 3,750,000 were granted in the nine months ended September 30, 2014. As of September 30, 2015, 530,000 shares were available for grant. Options granted under the 2006 Plan have terms of between three and ten years and generally vest and become fully exercisable from one to three years from the date of grant or vest according to the price performance of our shares.

Stock-based compensation expense related to stock options was \$22,000 and \$18,000 for the nine months ended September 30, 2015 and 2014, respectively. As of September 30, 2015, the total compensation cost related to non-vested awards not yet recognized is \$33,000. The remaining period over which the future compensation cost is expected to be recognized is 17 months.

The following table summarizes information about stock options outstanding and exercisable at September 30, 2015:

	Number of Share Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value(1)
Outstanding at December 31, 2014	8,641,000	\$ 0.06	2.03	\$ —
Granted	—	\$ —	—	\$ —
Exercised	—	\$ —	—	\$ —
Forfeited or Cancelled	(280,000)	\$ —	—	\$ —
Outstanding at September 30, 2015	8,361,000	\$ 0.05	1.33	\$ —
Exercisable at September 30, 2015	211,000	\$ 1.13	4.60	\$ —
Vested and expected to vest (2)	8,361,000	\$ 0.05	1.33	\$ —

(1) Aggregate intrinsic value represents the value of the closing price per share of our common stock on the last trading day of the fiscal period in excess of the exercise price multiplied by the number of options outstanding or exercisable, except for the "Exercised" line, which uses the closing price on the date exercised.

(2) Number of shares includes options vested and those expected to vest net of estimated forfeitures.

The exercise prices of the options outstanding at September 30, 2015 ranged from \$0.02 to \$3.81. The Company's policy is to issue shares from its authorized shares upon the exercise of stock options.



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Unvested share activity for the nine months ended September 30, 2015 is summarized below:

	Unvested Number of Options	Weighted Average Grant Date Fair Value
Unvested balance at December 31, 2014	8,192,000	\$ 0.01
Granted	—	\$ —
Vested	(42,000)	\$ 0.04
Forfeited	—	\$ —
Unvested balance at September 30, 2015	8,150,000	\$ 0.01

The fair values of all stock options granted are estimated on the date of grant using the Black-Scholes option-pricing model. During the nine months ended September 30, 2015, no options were granted. Options granted during the nine months ended September 30, 2014 were 3,750,000.

The estimated fair value of grants of stock options to nonemployees of the Company is charged to expense in the financial statements. These options vest in the same manner as the employee options granted under each of the option plans as described above.

#### 10. Warrants

In December 2011, the Company completed a private equity placement of 11,250,000 shares of common stock for \$1,245,000 together with warrants to purchase up to 11,250,000 shares of common stock to a group of 17 shareholders (the “Low-Beer Managed Accounts”). The warrants are exercisable for a period of five years and exercisable at a price of \$0.22 per share. The warrants further provide that if, for a twenty consecutive trading day period, the average of the closing price quoted on the OTCQB market is greater than or equal to \$0.44 per share, with at least an average of 10,000 shares traded per day, then, on the 10th calendar day following written notice from the Company, any outstanding warrants will be deemed automatically exercised pursuant to the cashless/net exercise provisions under the warrants.

The following is a summary of changes to outstanding warrants during the nine months ended September 30, 2015:

	Number of Share Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding at December 31, 2014	11,250,000	\$ 0.22	2.00
Granted	—	\$ —	—
Exercised	—	\$ —	—
Forfeited or Cancelled	—	\$ —	—
Outstanding at September 30, 2015	11,250,000	\$ 0.22	1.25
Exercisable at September 30, 2015	11,250,000	\$ 0.22	1.25

#### 11. Concentrations

The Company's trade receivables are concentrated with a few customers. The Company performs credit evaluations on its customers' financial condition and generally requires no collateral from its customers. Concentrations of credit risk, with respect to accounts receivable, exist to the extent of amounts presented in the financial statements. Two customers represented 62% and 38%, respectively, of gross accounts receivable at September 30, 2015 and December 31, 2014, respectively. There were no inventory purchases in 2014 or 2015.

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

This Quarterly Report on Form 10-Q contains statements indicating expectations about future performance and other forward-looking statements that involve risks and uncertainties. We usually use words such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “future,” “intend,” “potential,” or “continue” or the negative of or similar expressions to identify forward-looking statements. These statements appear throughout this Quarterly Report on Form 10-Q and are statements regarding our current intent, belief or expectation, primarily with respect to our operations and related industry developments. Examples of these statements include, but are not limited to, statements regarding the following: our future operating expenses, our future losses, our future expenditures for research and development and the sufficiency of our cash resources. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the risks faced by us and described in our Annual Report on Form 10-K for the year ended December 31, 2014, as updated by the disclosure contained in Item 1A of Part II of this Form 10-Q.

The following discussion and analysis should be read in conjunction with the unaudited interim financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and with the financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2014.

Enova believes it has been a leader in the development, design and production of proprietary, power train systems and related components for electric and hybrid electric buses and medium and heavy duty commercial vehicles. Electric drive systems are comprised of an electric motor, electronics control unit and a gear unit which power a vehicle. Hybrid electric systems, which are similar to pure electric drive systems, contain an internal combustion engine in addition to the electric motor, and may eliminate 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.

A fundamental element of Enova's strategy has been to develop and produce advanced proprietary software and hardware for applications in these alternative power markets. Our focus has been on powertrain systems including digital power conversion, power management and system integration, focusing chiefly on vehicle power generation.

Specifically, we developed, designed and produced drive systems and related components for electric, hybrid electric and fuel cell powered vehicles in both the new and retrofit markets. We also performed internal research and development (“R&D”) and funded third party R&D to augment our product development and support our customers.

Enova's primary market focus has been centered on aligning ourselves with key customers and integrating with original equipment manufacturers (“OEMs”) in our target markets. We believe that alliances will result in the latest technology being implemented and customer requirements being met, with an optimized level of additional time and expense. Provided we generate necessary funding, we may continue to work refining both our market strategy and our product line in power management and conversion systems for vehicle applications.



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Our website, [www.enovasystems.com](http://www.enovasystems.com), contains further information on our company and products.

Enova has incurred significant operating losses in the past. As of September 30, 2015, we had an accumulated deficit of approximately \$163.3 million, working capital of approximately negative \$6.3 million and shareholders' deficit of approximately \$6.3 million. As reported in our Form 8-K filing on June 21, 2012, due to continued delays in industry adoption of EV technology, we implemented a reduction in our workforce whereby in excess of 90% of our employees left the Company. We continue to evaluate strategic opportunities to leverage resources and assist with operations. We expect to incur additional operating losses until we re-position the company in order to achieve a level of product sales sufficient to cover operating and other expenses. As of September 30, 2015, the Company had no cash and cash equivalents and received loans from an employee in order to maintain minimal operations. We do not anticipate that our remaining assets will be sufficient to meet projected operating requirements through the end of 2015 to continue operations and market trading.

## Technology Highlights

**OMNI INVERTER.** Power-source and motor design agnostic, Enova's new Omni-series inverter/vehicle controller offers increased flexibility and ease-of-integration. With plug-and-play connectivity, it is compatible with a wide range of vehicle drive systems and motors, and can be configured for HEV, PHEV and EV applications. The inverter is fully production validated.

**OMNI CHARGER.** Our Omni-series 10kW on-board battery charger for plug-in hybrid-electric and all-electric vehicles is a CAN control based unit that offers increased flexibility, ease-of-integration and compatibility with a wide range of vehicle platforms.

Enova has delayed further introduction of the Omni Inverter and Charger with customers due to the reduction in our workforce and current financial resource constraints. Provided additional resources are obtained, we anticipate continuing development and marketing of these two products, which we believe can gain broad market acceptance.

## Critical Accounting Policies

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. The Company constantly re-evaluates these significant factors and makes adjustments where facts and circumstances dictate. Estimates and assumptions include, but are not limited to, customer receivables, inventories, equity investments, fixed asset lives, contingencies and litigation. There have been no material changes in estimates or assumptions compared to our most recent Annual Report for the fiscal year ended December 31, 2014.

The following represents a summary of our critical accounting policies, defined as those policies that we believe: (a) are the most important to the portrayal of our financial condition and results of operations and (b) involve inherently uncertain issues which require management's most difficult, subjective or complex judgments.

**Inventory** — Inventories are priced at the lower of cost or market utilizing first-in, first-out ("FIFO") cost flow assumption. 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.

Inventory reserve — We maintain an allowance against inventory for the potential future obsolescence or excess inventory. 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.

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Allowance for doubtful accounts — We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The assessment of the ultimate realization of accounts receivable including the current credit-worthiness of each customer is subject to a considerable degree to the judgment of our management. At September 30, 2015 our accounts receivable are fully reserved.

Stock-based Compensation — The Company measures and recognizes compensation expense for all share-based payment awards made to employees and directors, including employee stock options based on the estimated fair values at the date of grant. The compensation expense is recognized over the requisite service period.

Revenue recognition — Effective January 1, 2011, we adopted the provisions of Accounting Standards Update, or ASU, 2009-13, Multiple-Deliverable Revenue Arrangements, or ASU 2009-13, which is included within the Codification as Revenue Recognition-Multiple Element Arrangements, on a prospective basis. Under the provisions of ASU 2009-13, we no longer rely on objective and reliable evidence of the fair value of the elements in a revenue arrangement in order to separate a deliverable into a separate unit of accounting, and the use of the residual method has been eliminated. We instead use a selling price hierarchy for determining the selling price of a deliverable, which is used to determine the allocation of consideration to each unit of accounting under an arrangement. The selling price used for each deliverable will be based on vendor-specific objective evidence, if available, third-party evidence if vendor-specific objective evidence is not available or estimated selling price if neither vendor-specific objective evidence nor third-party evidence is available. As of September 30, 2015, we had not applied the provisions of ASU 2009-13 to any revenue arrangements as we had not entered into any new revenue arrangements since our adoption of ASU 2009-13. Therefore, there was no material impact on our financial position or results of operations from adopting ASU 2009-13. However, the provisions of ASU 2009-13 could have a material impact on the revenue recognized from any collaboration agreements that we may enter into in future periods.

We generally recognize revenue at the time of shipment when title and risk of loss have passed to the customer, persuasive evidence of an arrangement exists, performance of our obligation is complete, our price to the buyer is fixed or determinable, and we are reasonably assured of collection. If a loss is anticipated on any contract, a provision for the entire loss is made immediately. Determination of these criteria, in some cases, requires management's judgment. Should changes in conditions cause management to determine that these criteria are not met for certain future transactions, revenue for any reporting period could be adversely affected.

The Company also recognizes engineering and construction contract revenues using the percentage-of-completion method, based primarily on contract costs incurred to date compared with total estimated contract costs. Customer-furnished materials, labor, and equipment, and in certain cases subcontractor materials, labor, and equipment, are included in revenues and cost of revenues when management believes that the company is responsible for the ultimate acceptability of the project. Contracts are segmented between types of services, such as engineering and construction, and accordingly, gross margin related to each activity is recognized as those separate services are rendered.

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.

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## RESULTS OF OPERATIONS

Three and Nine Months Ended September 30, 2015 compared to Three and Nine Months Ended September 30, 2014

Third Quarter of Fiscal 2015 vs. Third Quarter of Fiscal 2014

	Three Months Ended September 30,			As a % of Revenues September 30,	
	2015	2014	% Change	2015	2014
Revenues	\$ -	\$ -	n/a	n/a	n/a
Cost of revenues	109,000	-	n/a	n/a	n/a
Gross loss	(109,000)	-	n/a	n/a	n/a
Operating expenses					
Selling, general & administrative	58,000	87,000	-33%	n/a	n/a
Total operating expenses	58,000	87,000	-33%	n/a	n/a
Operating loss	(167,000)	(87,000)	92%	n/a	n/a
Other income (expense)					
Interest and other income (expense)	(21,000)	(20,000)	-5%	n/a	n/a
Total other income (expense)	(21,000)	(20,000)	-5%	n/a	n/a
Net loss	\$ (188,000)	\$ (107,000)	76%	n/a	n/a

First Nine Months of Fiscal 2015 vs. First Nine Months of Fiscal 2014

	Nine Months Ended September 30,			As a % of Revenues September 30,	
	2015	2014	% Change	2015	2014
Revenues	\$-	\$ --	n/a	n/a	n/a
Cost of revenues	181,000	60,000	202%	n/a	n/a
Gross loss	(181,000 )	(60,000 )	202%	n/a	n/a
Operating expenses					
Selling, general & administrative	176,000	255,000	-49%	n/a	n/a
Total operating expenses	176,000	255,000	-49%	n/a	n/a
Operating loss	(357,000 )	(402,000 )	-11%	n/a	n/a
Other income (expense)					
Interest and other income (expense)	(70,000 )	(92,000 )	-24%	n/a	n/a
Total other income (expense)	(70,000 )	(92,000 )	-24%	n/a	n/a
Net loss	\$(427,000 )	\$(494,000 )	-14%	n/a	n/a

The sum of the amounts and percentages may not equal the totals for the period due to the effects of rounding.

Computations of percentage change period over period are based upon our results, as rounded and presented herein.

Revenues. Due to the reduction in our operations in June 2012, our ability to produce and market electric and hybrid electric drive systems and components was severely restricted. As a result, we recorded no sales in 2014 and the first nine months of 2015.

Cost of Revenues. Cost of revenues consists of component and material costs, direct labor costs, integration costs and overhead related to manufacturing our products as well as inventory valuation reserve amounts. Cost of revenues for the three and nine months ended September 30, 2015 and 2014 consisted of inventory valuation charges resulting from management's evaluation of obsolete inventory.

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**Gross Loss.** The increase in gross loss for the three and nine months ended September 30, 2015 compared to the same period in the prior year is primarily attributable to the increase in inventory valuation reserve expenses incurred in the three and nine months ended September 30, 2015.

**Selling, General, and Administrative Expenses (“S, G & A”).** S, G & A is comprised of activities in the executive and finance departments’ compensation and benefits, general corporate functions and non-cash charges for depreciation and options expense. The decrease in S, G & A for the three and nine months ended September 30, 2015 compared to the same period in the prior year is primarily due to decreases in exchange fees due to our delisting from the UK AIM Exchange and decreases in professional fees. We continually monitor S, G & A in light of our business outlook and take steps to control these costs.

**Interest and Other Income (Expense).** The interest and other income (expense) for the nine months ended September 30, 2015 decreased compared to the same period in the prior year primarily due to the timing of recording asset impairment charges.

**Net Loss.** The increase in net loss for the three months ended September 30, 2015 compared to the same period in the prior year was primarily due to an increase in the reserve for obsolete inventory. The decrease in the net loss for the nine months ended September 30, 2015 compared to the same period in the prior year was mainly due to the decreases in exchange fees and asset impairment charges.

**Comparability of Quarterly Results.** Our quarterly results have fluctuated in the past and we believe they will continue to do so in the future. Certain factors that could affect our quarterly operating results are described in Part I, Item 1A-Risk Factors contained in our Form 10-K for 2014. Due to these and other factors, we believe that quarter-to-quarter comparisons of our results of operations are not meaningful indicators of future performance.

## LIQUIDITY AND CAPITAL RESOURCES

We have experienced losses primarily due to no sales. Historically, cash flows from operations have not been sufficient to meet our obligations and 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. Our operations during the nine months ended September 30, 2015 were financed primarily by employee loans.

Net cash used in operating activities was \$68,000 for the nine months ended September 30, 2015, a decrease of \$174,000 compared to net cash used in operating activities of \$242,000 for the nine months ended September 30, 2014. Operating cash used in the first nine months of 2015 decreased compared to the prior year period primarily due to increases in payables and the inventory reserve, and a decrease in the loss. Non-cash items include expense for stock-based compensation, depreciation and amortization and other losses. These non-cash items increased by \$147,000 for the nine months ended September 30, 2015 as compared to the same period in the prior year primarily due to increase in the inventory reserve in 2015 resulting from management’s decision to further write down the value of inventory. The decrease in net loss was primarily due to a decrease in administrative costs for UK AIM exchange fees and our restricting other administrative expenditures. As of September 30, 2015 and December 31, 2014, the Company had \$0 of cash and cash equivalents.

Net cash from financing activities was \$68,000 for the nine months ended September 30, 2015, a decrease of \$173,000 compared to net cash from financing activities of \$241,000 in 2014. The decrease was primarily attributable to net proceeds of \$223,000 from the issuance of Common Stock that were received during the first quarter of 2014, as explained in Note 8 – Stockholders’ Equity to the financial statements included in Item 1 of this Form 10-Q.

Net accounts receivable were \$0 at September 30, 2015 and December 31, 2014, respectively. The Company wrote down the value of its receivables at the end of 2013 due to management's concern over the ability of the Company to continue as a going concern and collect receivables in the normal course of business.

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Net inventory and supplies decreased by \$256,000, or 70%, to \$112,000 at September 30, 2015 compared to a balance of \$368,000 December 31, 2014. The Company's operations were halted in the first quarter of 2014 due to the Company's lack of resources to complete customer orders. In the first nine months of 2015, the inventory reserve was increased by \$256,000 to approximately \$3.7 million to reflect management's assessment of inventory valuation.

Prepaid expenses and other current assets decreased by \$7,000, or 100%, to \$0 at September 30, 2015, from a balance of \$7,000 at December 31, 2014. Management determined that a vendor deposit would not be recoverable and charged off the remaining deposit.

Property and equipment, net of depreciation, was zero at September 30, 2015 and December 31, 2014. Management wrote down the value of fixed assets in the fourth quarter of 2014.

Accounts payable increased by \$54,000, or 10%, to \$614,000 at September 30, 2015 compared to a balance of \$560,000 at December 31, 2014. The increase was primarily due to recording of rent costs for the storage of inventory.

Loans from employees increased by \$68,000, or 124%, to \$123,000 at September 30, 2015 compared to a balance of \$55,000 at December 31, 2014. Due the financial condition of the company, employees loaned funds to the Company to pay for certain necessary administrative costs.

Deferred revenues decreased by \$213,000, of 100%, to \$0 at September 30, 2015 from \$213,000 at December 31, 2014. The Company received prepayments on purchase orders from certain customers. The Company's management does not anticipate that funding can be obtained to complete the order. Therefore, the balance of deferred revenue was reclassified to Other Accrued Liabilities.

Accrued payroll and related expenses increased by \$9,000, or 4%, to \$220,000 at September 30, 2015 compared to a balance of \$211,000 at December 31, 2014. The increase was primarily due to an increase in unpaid compensation in the first nine months of 2015 that resulted from the financial condition of the Company.

Accrued loss for litigation settlement was unchanged at September 30, 2015 compared to the balance at December 31, 2014. As disclosed under the heading "Judgment entered in Arens Controls Litigation" below, on December 12, 2012, a judgment was entered in favor of Arens Controls Company, L.L.C. by the United States District Court Northern District of Illinois in the amount of \$2,014,169 in the case of Arens Controls Company, L.L.C. v. Enova Systems, Inc. See also Item 1 of Part II of this report on Form 10-Q.

Other accrued liabilities increased by \$163,000, or 38%, to \$594,000 at September 30, 2015 compared to a balance of \$431,000 at December 31, 2014. The increase was primarily due to the reclass of deferred revenue to other accrued liabilities, as management does not anticipate that the order can be completed.

Accrued interest payable increased by \$61,000, or 4%, to \$1,543,000 at September 30, 2015 compared to a balance of \$1,482,000 at December 31, 2014. The increase was due to interest related to our debt instruments, primarily the interest on the secured note payable in the amount of \$1,238,000 to the Credit Managers Association of California.

Going concern

To date, the Company has incurred recurring net losses and negative cash flows from operations. At September 30, 2015, the Company had an accumulated deficit of approximately \$163.3 million, working capital of approximately negative \$6.3 million and shareholders' deficit of approximately \$6.3 million. Until the Company can generate significant cash from its operations, the Company expects to continue to fund its operations with proceeds from one or



more private placement agreements, as well as potentially through debt financing or the sale of equity securities. However, the Company may not be successful in obtaining additional funding. In addition, the Company cannot be sure that additional financing will be available when needed or that, if available, financing will be obtained on terms favorable to the Company or its shareholders.

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Our operations will require us to make necessary investments in human and production resources, regulatory compliance, as well as sales and marketing efforts. We do not currently have adequate internal liquidity to meet these objectives in the long term. On June 21, 2012, we reported in a Form 8-K filing that, as part of cost cutting measures in response to our decrease in revenue amid continued delays in industry adoption of EV technology resulting from ongoing battery cost and reliability concerns, in excess of 90% of our workforce left our Company, including the resignation of members of our senior management. We continue to evaluate strategic partnering opportunities and other external sources of liquidity, including the public and private financial markets and strategic partners. Having insufficient funds has required the Company to eliminate its product development activities. Failure to obtain adequate financing also will adversely affect the Company's ability to continue in business. If the Company raises additional funds by issuing equity securities, substantial dilution to existing stockholders would likely result. If the Company raises additional funds by incurring debt financing, the terms of the debt may involve significant cash payment obligations, as well as covenants and specific financial ratios that may restrict its ability to operate its business.

As of September 30, 2015, the Company had no cash and cash equivalents and we do not anticipate that our remaining assets will be sufficient to meet projected operating requirements through the end of 2015 to continue operations and market trading.

### Judgment entered in Arens Controls Litigation

On December 12, 2012, a judgment was entered by the United States District Court Northern District of Illinois in favor of Arens Controls Company, L.L.C. in the amount of \$2,014,169 regarding claims for two counts. In 2008, Arens Controls Company, L.L.C. ("Arens") filed claims against Enova with the United States District Court Northern District of Illinois. A Partial Settlement Agreement, as amended on January 14, 2011, resolved certain claims made by Arens. However, the claims were preserved under two remaining counts concerning i) anticipatory breach of contract by Enova for certain purchase orders that resulted in lost profit to Arens and ii) reimbursement for engineering and capital equipment costs incurred by Arens exclusively for the fulfillment of certain purchase orders received from Enova.

On September 24, 2013, Enova and Arens entered into a Settlement Agreement and Mutual Release (the "Settlement Agreement") to resolve the remaining issues between them. Under the terms of the Settlement Agreement, Enova filed on September 27, 2013 a motion to dismiss the pending appeal with prejudice and Arens agreed that, for a period of 120 calendar days from the date of the Settlement Agreement, Arens would not take any action to enforce the Judgment. Thereafter, Arens is entitled, without further notice, to enforce the Judgment against Enova or otherwise exercise all available procedures and remedies for collection of the full amount of the Judgment and Enova has agreed not to contest the validity of the Judgment. However, if Enova had paid to Arens \$300,000 at any time during the 120 day period, then within 3 business days after Arens received confirmation of such payment, Arens agreed to file a satisfaction of judgment stating that the Judgment has been satisfied and completely release and forever discharge Enova from any and all claims for damages whatsoever that occurred prior to the date of the Settlement Agreement. In exchange for Arens's release, Enova agreed to completely release and forever discharge Arens from any and all claims for damages whatsoever that occurred prior to the date of the Settlement Agreement. The Company was not able to comply with the due date for such payment by January 22, 2014. Therefore, the judgment against the Company can be enforced without further notice.

### Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures which are designed to provide reasonable assurance that information required to be disclosed in the Company's periodic Securities and Exchange Commission ("SEC") reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by SEC Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 30, 2015. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that as of September 30, 2015, our disclosure controls and procedures were not effective to ensure the information required to be disclosed by an issuer in the reports it files or submits under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms relating to us, and was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Changes in Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act. We maintain internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

In June 2012, all but two of the Company's employees resigned, and such staff reduction resulted in our inability to complete documentation of proper accounting procedures and management review. Not all fully implemented fundamental elements of an effective control system were present as of September 30, 2015, including formalized monitoring procedures. Based on this evaluation, management has concluded that the aforementioned factors constituted a material weakness in the Company's internal control over financial reporting as of September 30, 2015.

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PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

As reported in our Form 10-K for the fiscal year 2012, six of the eight counts in the litigation between Enova and Arens Controls Company, L.L.C. were settled. The two counts that were not settled remained outstanding. The two remaining counts concerned i) anticipatory breach of contract by Enova for certain purchase orders that resulted in lost profit to Arens and ii) reimbursement for engineering and capital equipment costs incurred by Arens exclusively for the fulfillment of certain purchase orders received from Enova.

On December 12, 2012, a judgment was entered under the two remaining counts by the United States District Court Northern District of Illinois in favor of Arens Controls Company, L.L.C. in the amount of \$2,014,169.

On September 24, 2013, Enova and Arens entered into a Settlement Agreement and Mutual Release (the "Settlement Agreement") to resolve the remaining issues between them. Under the terms of the Settlement Agreement, Enova filed on September 27, 2013 a motion to dismiss the pending appeal with prejudice and Arens agreed that, for a period of 120 calendar days from the date of the Settlement Agreement, Arens would not take any action to enforce the Judgment. Thereafter, Arens is entitled, without further notice, to enforce the Judgment against Enova or otherwise exercise all available procedures and remedies for collection of the full amount of the Judgment and Enova has agreed not to contest the validity of the Judgment. However, if Enova had paid to Arens \$300,000 at any time during the 120 day period, then within 3 business days after Arens received confirmation of such payment, Arens agreed to file a satisfaction of judgment stating that the Judgment has been satisfied and completely release and forever discharge Enova from any and all claims for damages whatsoever that occurred prior to the date of the Settlement Agreement. In exchange for Arens's release, Enova agreed to completely release and forever discharge Arens from any and all claims for damages whatsoever that occurred prior to the date of the Settlement Agreement. The Company was not able to comply with the due date for such payment by January 22, 2014. Therefore, the judgment against the Company can be enforced without further notice

From time to time, we are subject to legal proceedings arising out of the conduct of our business, including matters relating to commercial transactions. We recognize a liability for any contingency that is probable of occurrence and reasonably estimable. We continually assess the likelihood of adverse outcomes in these matters, as well as potential ranges of probable losses (taking into consideration any insurance recoveries), based on a careful analysis of each matter with the assistance of outside legal counsel and, if applicable, other experts.

Given the uncertainty inherent in litigation, we do not believe it is possible to develop estimates of the range of reasonably possible loss for these matters. Considering our past experience, we do not expect the outcome of these matters, either individually or in the aggregate, to have a material adverse effect on our consolidated financial position. Because most contingencies are resolved over long periods of time, potential liabilities are subject to change due to new developments, changes in settlement strategy or the impact of evidentiary requirements, which could cause us to pay damage awards or settlements (or become subject to equitable remedies) that could have a material adverse effect on our results of operations or operating cash flows in the periods recognized or paid.

ITEM 1A. Risk Factors

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 lists risk factors for the Company. There have been no material changes from the risk factors as previously disclosed in such Annual Report on Form 10-K.



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ITEM 2. Unregistered Sales of Equity and Use of Proceeds

On February 23, 2014, Enova Systems, Inc, entered into Subscription Agreements with various offshore investors to sell approximately GBP 150,000 (approximately US\$249,000) in gross proceeds by a private subscription of 19,999,998 common shares to be newly issued on the Alternative Investment Market of the London Stock Exchange (the "AIM Exchange"). The common shares were issued at a price of 0.0075 pence (approximately US\$0.01per share) to certain eligible offshore investors (the "Subscription"). In connection with the Subscription, Enova entered into an Agreement for the Provision of Receiving Agent Services (the "Agreement") with Daniel Stewart & Company PLC (UK) for receiving agent services. Daniel Stewart presently serves as the Nominated Adviser for the listing of Enova's common shares on the AIM Exchange. The newly issued common shares for the Subscription were issued in three tranches of approximately GBP 50,000 each.

Daniel Stewart received an introducing agent's fee of 10% of the aggregate funds raised pursuant to the subscription in addition to reimbursement of expenses. Factoring in the commission, legal and other expenses of the offering, Enova received approximately US\$223,000 in net proceeds.

The offer and sale of the shares were made pursuant to Regulation S under the Securities Act of 1933, as amended (the "Securities Act"). Among other things, each investor purchasing shares of Enova's common stock in the offering represented that the investor is not a United States person as defined in Regulation S. In addition, neither Enova nor the receiving agent conducted any selling efforts directed at the United States in connection with the offering. All shares of common stock issued in the offering included a restrictive legend indicating that the shares were issued pursuant to Regulation S under the Securities Act and are deemed to be "restricted securities." As a result, the purchasers of such shares will not be able to resell the shares unless in accordance with Regulation S, pursuant to a registration statement, or upon reliance of an applicable exemption from registration under the Securities Act. The shares to be sold pursuant to the Subscription Agreements were not registered under the Securities Act, and there is no obligation on the part of Enova to so register such shares.

ITEM 3. Defaults upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

- 31.1 Certification of the Chief Executive Officer and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act Of 2002.\*
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*

101.XMLXBRL Instance Document\*\*

101.XSD XBRL Taxonomy Extension Schema Document\*\*

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document\*\*

101.DEF XBRL Taxonomy Extension Definition Linkbase Document\*\*

101.LAB XBRL Taxonomy Extension Label Linkbase Document\*\*

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document\*\*

\* Filed herewith

\*\* In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be “furnished” and not “filed.”



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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: November 13, 2015

ENOVA SYSTEMS, INC. (Registrant)

By: /s/ John Micek  
John Micek, Chief Executive Officer and Chief Financial Officer

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