

# **ENOVA SYSTEMS, INC.**

## **AUDIT COMMITTEE CHARTER**

### **I. Purpose**

The Board of Directors (the “Board”) of Enova Systems, Inc. (the “Company”) has established a nominating committee (the “Committee”) governed by this charter (the “Charter”).

The general purpose of the Committee is to assist the Board in overseeing the accounting and financial reporting processes of the Company and the audits of the financial statements of the Company. To fulfill this purpose and otherwise satisfy applicable legal requirements, the Committee has the specific authority, responsibilities, and duties as set forth in this Charter.

Notwithstanding the authority, responsibilities, and duties of the Committee, its purpose and role is subject to the following considerations:

- The Company’s management is responsible for the preparation, presentation, and integrity of the Company’s financial statements. Management also is responsible for maintaining appropriate accounting and financial reporting policies and procedures that provide for compliance with accounting standards and applicable laws and regulations.
- The Company’s independent registered public accounting firm (the “Auditor”) is responsible for planning and carrying out a proper audit of the Company’s financial statements and expressing an opinion on the conformity of the financial statements with U. S. generally accepted accounting principles.
- In fulfilling their responsibilities hereunder, it is recognized that members of the Committee are not full-time employees of the Company and are not performing the functions of management or auditors.

### **II. Composition**

Committee members shall be appointed by the Board. The members of the Committee may be removed and replaced by a majority vote of the Board. The Board may designate one alternate member to the Committee who may replace any absent or disqualified member at any meeting of the Committee.

The Board shall appoint one member of the Committee as chairperson. He or she shall be responsible for leadership of the Committee, including overseeing the Committee agenda, presiding over Committee meetings, and reporting to the Board on behalf of the Committee. If the chairperson of the Committee is not present at a meeting, the members of the Committee may designate a chairperson for that meeting.

The Committee shall consist of at least three members, each of whom shall be qualified and independent under (i) Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and other applicable law, and (ii) the listing standards of the American Stock Exchange (the AMEX”) or its successor. In this regard, the Board, Committee, and its members shall take into account the following:

- No member shall accept directly or indirectly any consulting, advisory, or other compensatory fee from the Company or any subsidiary other than (i) in his or her capacity as a member of the Board or any of its committees, or (ii) fixed amounts of compensation under a retirement plan for prior service with the Company, provided that the compensation is not contingent in any way on continued service.
- No member shall be an affiliated person (as that term is defined in Rule 10A-3) of the Company or any subsidiary.
- A director who participated in the preparation of the Company’s or any current subsidiary’s financial statements at any time during the prior three years is not eligible to serve as a member of the Committee.
- All members of the Committee shall be able to read and understand financial statements, including a balance sheet, income statement, and cash flow statement.
- At least one member of the Committee must qualify as a “financial expert” as that term is defined under applicable U.S. Securities and Exchange Commission (“SEC”) SEC rules and likewise be “financially sophisticated” as described under applicable AMEX rules. The Board in the exercise of its business judgment shall determine and designate which member is financially sophisticated and otherwise qualified as a “financial expert.” A member only may be so designated if he or she consents to being named as “financial expert” in the Company’s public filings with the SEC.

However, with respect to the composition of the Committee, the Board may rely upon any available exception or cure period provided under the rules of the SEC or applicable law, or listing standards of the American Stock Exchange or its successor. In addition, for so long as the Company satisfies the definition of “Smaller Reporting Company” in Item 10(f)(1) of Regulation S-K as promulgated by the SEC, the Committee may consist of only two members, both of whom shall be independent and qualified under standards established by applicable law and the listing standards of the AMEX or its successor.

### **III. Meetings**

The Committee shall meet at least quarterly to carry out its responsibilities. The chairperson shall distribute an agenda a reasonable time in advance of any meeting. In addition to attending in person, members of the Committee may participate by telephone, video conference, or any other similar means through which all members may communicate simultaneously.

A majority of the members of the Committee shall constitute a quorum. The Committee shall act on the affirmative vote of a majority of members present at a meeting at which a quorum is present. The Committee may also act by unanimous written consent in lieu of a meeting.

Minutes of each meeting of the Committee shall be kept and distributed to each member of the Committee, members of the Board who are not members of the Committee, and the Secretary of the Company. The chairperson shall report to the Board from time to time, or whenever so requested by the Board.

#### **IV. Authority, Responsibilities, and Duties**

**A. *Selection and Evaluation of Auditors.*** The Committee shall have the direct authority, responsibility, and duty to:

1. Engage the Auditor to audit the books and accounts of the Company and its subsidiaries for each fiscal year.
2. Review and approve the annual engagement letter, including the proposed fees, submitted by the Auditor.
3. Review the performance of the Auditor and replacement or termination of the Auditor when circumstances warrant.
4. Oversee the independence of the Company's Auditor by, among other things:
  - a) requiring the Auditor to deliver to the Committee on a periodic basis a formal written statement delineating all relationships between the Auditor and the Company, consistent with Independence Standards Board Standard 1 or its successor standard; and
  - b) actively engaging in a dialogue with the Auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the Auditor; and
  - c) taking appropriate action to satisfy itself of the Auditor's independence.

**B. *Oversight of Annual Audit and Quarterly Reviews.*** The Committee shall have the direct authority, responsibility, and duty to:

1. Review and accept, if appropriate, the annual audit plan of the Company's Auditor, including the scope of audit activities, and monitor such plan's progress and results during the year.
2. Confirm through private discussions with the Auditor and the Company's management that no management restrictions are being placed on the scope of the Auditor's work.

3. Review the results of the year-end audit of the Company, including (as applicable):

a) the audit report, the published financial statements, the management representation letter, the Memorandum Regarding Accounting Procedures and Internal Control or similar memorandum prepared by the Auditor, any other pertinent reports and management's responses concerning such memorandum;

b) the qualitative judgments of the Auditor about the appropriateness, not just the acceptability, of accounting principle and financial disclosure practices used or proposed to be adopted by the Company and, particularly, about the degree of aggressiveness or conservatism of its accounting principles and underlying estimates;

c) the methods used to account for significant unusual transactions;

d) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus;

e) management's process for formulating sensitive accounting estimates and the reasonableness of these estimates;

f) significant recorded and unrecorded audit adjustments;

g) any material accounting issues among management and the Auditor;  
and

h) other matters required to be communicated to the Committee under generally accepted auditing standards as applicable to the Auditor.

4. Review with management and the Auditor such accounting policies (and changes therein) of the Company, including any financial reporting issues which could have a material impact on the Company's financial statements, as are deemed appropriate for review by the Committee prior to any interim or year-end filings with the SEC or other regulatory body.

5. Confirm that the Company's interim financial statements included in Quarterly Reports on Form 10-Q have been reviewed by the Auditor.

***C. Oversight of Financial Reporting Process and Internal Controls.*** The Committee shall have the authority, responsibility, and duty to:

1. Review the adequacy and effectiveness of the Company's accounting and internal control policies and procedures through inquiry and discussions with the Auditor and management of the Company.

2. Review with management the Company's administrative, operational and accounting internal controls, including controls and security of the computerized information systems, and evaluate whether the Company is operating in accordance with its prescribed policies, procedures, and codes of conduct.

3. Review with management and the Auditor any reportable conditions and material weaknesses, as defined by the American Institute of Certified Public Accountants, affecting internal control.

4. Receive periodic reports from the Auditor and management of the Company to assess the impact on the Company of significant accounting or financial reporting developments proposed by the Financial Accounting Standards Board or the SEC or other regulatory body, or any other significant accounting or financial reporting related matters that may have a bearing on the Company.

5. Establish and maintain free and open means of communication between and among the Board, the Committee, the Auditor, and the management of the Company.

#### ***D. Legal and Compliance***

1. The Committee has the authority to engage independent counsel and other advisers, as it determines necessary to carry out its duties.

2. The Committee, as appropriate, shall prepare a report to be included in each annual proxy statement (or, if not previously provided during the fiscal year, any other proxy statement or consent statement relating to the election of directors) of the Company that states, among other things, whether:

a) the Committee has reviewed and discussed with management the audited financial statements to be included in the Company's Annual Report on Form 10-K;

b) the Committee has discussed with the Company's independent auditors the matters that the auditors are required to discuss with the Committee by Statements on Auditing Standard No. 61 (as it may be modified or supplemented);

c) the Committee has received the written disclosures and the letter from the Company's independent auditors required by Independence Standards Board Standard No. 1, as may be modified or supplemented, and has discussed with the independent auditors their independence; and

d) based on the review and discussions described in subsections (a), (b) and (c) above, the Committee has recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the last fiscal year for filing with the SEC.

3. The Committee shall review the Company's policies relating to the avoidance of conflicts of interest and review past or proposed transactions between the Company and members of management (including to determine the applicability of Item 404 of Regulation S-K under SEC rules) as well as policies and procedures with respect to officers' expense accounts and perquisites, including the use of corporate assets. The Committee shall consider the results of any review of these policies and procedures by the Auditor.

4. The Committee shall establish procedures for:

a) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and

b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

5. The Committee shall obtain from the Auditor any information pursuant to Section 10A of the Exchange Act.

6. The Committee shall conduct or authorize investigations into any matters within the Committee's scope of responsibilities, including retaining outside counsel or other consultants or experts for this purpose.

***E. Other.*** The Committee also shall perform such other functions as may be assigned by law, the Company's certificate of incorporation or bylaws, stock exchange upon which the Company lists its shares of common stock for trading, or otherwise properly assigned by the Board.

***F. Funding.*** The Company will provide appropriate funding, as determined by the Committee, for the payment of:

1. Compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services for the Company;

2. Compensation to any independent counsel and other advisers employed by the Committee as it determines necessary to carry out its duties; and

3. Ordinary administrative expenses of the Committee necessary or appropriate in carrying out its duties.

## **V. Evaluation**

The Committee shall evaluate its performance periodically. The results of an evaluation shall be presented to the Board at its next meeting.

## **VI. Review**

The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board. This Charter may be amended only by the Board.