
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, 2009

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)

1560 West 190th Street, Torrance, California 90501
(Address of principal executive offices, including zip code)

(310) 527-2800
(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):

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 30, 2009, there were 21,012,565 shares of common stock outstanding.

ENOVA SYSTEMS, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ENOVA SYSTEMS, INC.

BALANCE SHEETS

	September 30, 2009	December 31, 2008
	<small>(unaudited)</small>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,099,000	\$ 5,324,000
Short term investments	200,000	2,000,000
Accounts receivable, net of allowance for doubtful accounts of \$579,000 and \$640,000 as of September 30, 2009 and December 31, 2008, respectively	1,820,000	808,000
Inventories and supplies, net	6,604,000	7,649,000
Prepaid expenses and other current assets	412,000	215,000
Total current assets	13,135,000	15,996,000
Property and equipment, net	1,532,000	1,829,000
Investment in non-consolidated joint venture	—	1,352,000
Intangible assets, net	61,000	65,000
Total assets	\$ 14,728,000	\$ 19,242,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 752,000	\$ 592,000
Deferred revenues	109,000	—
Accrued payroll and related expenses	301,000	295,000
Other accrued liabilities	1,363,000	1,859,000
Current portion of notes payable	71,000	98,000
Total current liabilities	2,596,000	2,844,000
Accrued interest payable	1,054,000	992,000
Notes payable, net of current portion	1,293,000	1,263,000
Total liabilities	4,943,000	5,099,000
Stockholders' equity:		
Series A convertible preferred stock — no par value, 30,000,000 shares authorized; 2,652,000 shares issued and outstanding; liquidating preference at \$0.60 per share as of September 30, 2009 and December 31, 2008	530,000	530,000
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, 2009 and December 31, 2008	1,094,000	1,094,000
Common Stock — no par value, 750,000,000 shares authorized; 21,013,000 and 20,817,000 shares issued and outstanding as of September 30, 2009 and December 31, 2008, respectively	134,520,000	134,233,000
Additional paid-in capital	8,278,000	7,949,000
Accumulated deficit	(134,637,000)	(129,663,000)
Total stockholders' equity	9,785,000	14,143,000
Total liabilities and stockholders' equity	\$ 14,728,000	\$ 19,242,000

The accompanying notes are an integral part of these financial statements.

ENOVA SYSTEMS, INC.

STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Revenues	\$ 2,890,000	\$ 163,000	\$ 4,154,000	\$ 5,811,000
Cost of revenues	<u>2,532,000</u>	<u>256,000</u>	<u>3,724,000</u>	<u>6,434,000</u>
Gross profit (loss)	358,000	(93,000)	430,000	(623,000)
Operating expenses				
Research and development	310,000	677,000	899,000	2,017,000
Selling, general & administrative	<u>1,308,000</u>	<u>2,847,000</u>	<u>4,373,000</u>	<u>6,696,000</u>
Total operating expenses	<u>1,618,000</u>	<u>3,524,000</u>	<u>5,272,000</u>	<u>8,713,000</u>
Operating loss	<u>(1,260,000)</u>	<u>(3,617,000)</u>	<u>(4,842,000)</u>	<u>(9,336,000)</u>
Other income and (expense)				
Interest and other income (expense)	(24,000)	54,000	(128,000)	208,000
Loss from non-consolidated joint venture	<u>—</u>	<u>(25,000)</u>	<u>(4,000)</u>	<u>(83,000)</u>
Total other income (expense)	<u>(24,000)</u>	<u>29,000</u>	<u>(132,000)</u>	<u>125,000</u>
Net loss	<u>\$ (1,284,000)</u>	<u>\$ (3,588,000)</u>	<u>\$ (4,974,000)</u>	<u>\$ (9,211,000)</u>
Basic and diluted loss per share	<u>\$ (0.06)</u>	<u>\$ (0.17)</u>	<u>\$ (0.24)</u>	<u>\$ (0.48)</u>
Weighted average number of common shares outstanding	<u>20,969,000</u>	<u>20,598,000</u>	<u>20,904,000</u>	<u>19,302,000</u>

The accompanying notes are an integral part of these financial statements.

ENOVA SYSTEMS, INC.

STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Nine Months Ended	
	September 30,	
	2009	2008
Cash flows from operating activities:		
Net loss	\$ (4,974,000)	\$ (9,211,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Reserve for doubtful accounts	—	575,000
Inventory reserve	378,000	157,000
Depreciation and amortization	463,000	425,000
Loss on asset disposal	6,000	—
Equity in losses of non-consolidated joint venture	10,000	83,000
Gain from dissolution of non-consolidated joint venture	(6,000)	—
Issuance of common stock for director services	135,000	129,000
Issuance of common stock for employee services	148,000	21,000
Stock option expense	329,000	457,000
(Increase) decrease in:		
Accounts receivable	(1,022,000)	3,018,000
Inventory and supplies	1,742,000	(5,226,000)
Prepaid expenses and other current assets	(93,000)	206,000
Increase (decrease) in:		
Accounts payable	237,000	(715,000)
Deferred revenues	109,000	(67,000)
Accrued payroll and related expenses	6,000	(296,000)
Other accrued liabilities	(531,000)	(360,000)
Accrued interest payable	62,000	85,000
Net cash used in operating activities	(3,001,000)	(10,719,000)
Cash flows from investing activities:		
Purchases of short-term investments	(200,000)	(2,000,000)
Maturities of short-term investments	2,000,000	—
Proceeds from dissolution of non-consolidated joint venture	137,000	—
Purchases of property and equipment	(111,000)	(1,496,000)
Net cash provided by (used in) investing activities	1,826,000	(3,496,000)
Cash flows from financing activities:		
Payments on notes payable	(54,000)	(41,000)
Net cash proceeds from the exercise of stock options	4,000	—
Net cash proceeds from the sale of common stock	—	12,008,000
Net cash provided by (used in) financing activities	(50,000)	11,967,000
Net decrease in cash and cash equivalents	(1,225,000)	(2,248,000)
Cash and cash equivalents, beginning of period	5,324,000	10,485,000
Cash and cash equivalents, end of period	\$ 4,099,000	\$ 8,237,000
Supplemental disclosure of cash flow information:		
Interest paid	\$ 5,000	\$ 5,000
Assets acquired through financing arrangements	\$ 57,000	\$ —
Net assets acquired in exchange for Enova's interest in joint venture:		
Inventory	\$ 1,075,000	\$ —
Prepaid expenses and other current assets	\$ 104,000	\$ —
Reduction of related party payable, net of receivable	\$ 32,000	\$ —

The accompanying notes are an integral part of these financial statements.

ENOVA SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS (Unaudited)

Three and Nine months ended September 30, 2009 and 2008

1. Description of the Company and its Business

Enova Systems, Inc. (“Enova” or the “Company”) changed its name in July 2000. The Company was previously known as U.S. Electricar, Inc., a California corporation, which was incorporated on July 30, 1976. The Company is 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.

2. Summary of Significant Accounting Policies

Basis of Presentation — Interim Financial Statements

The financial information as of and for the nine months ended September 30, 2009 and 2008 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 fiscal year. These condensed interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2008, which are included in the Company’s Annual Report on Form 10-K/A for the year then ended.

Certain reclassifications have been made to the prior years’ financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or stockholders’ equity.

Fair Value of Financial Instruments

The carrying amount of financial instruments, including cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities, approximate fair value due to the short maturity of these instruments. Short-term investments consist of certificates of deposits. The carrying value of all other financial instruments is representative of their fair values. The recorded values of notes payable and long-term debt approximate their fair values as interest rates approximate market rates.

Revenue Recognition

The Company manufactures 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:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;
- The fee for the arrangement is fixed or determinable; and
- Collectibility is reasonably assured.

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.

Collectibility is Reasonably Assured — The Company determines that collectibility is reasonably assured prior to recognizing revenue. Collectibility 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 collectibility 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 collectibility is not reasonably assured, revenue is recognized on a cash basis. Additionally, in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin No. 104 ("SAB 104"), 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.

FASB ASC 605-25 addresses the accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. Specifically, FAS ASC 605-25 requires the recognition of revenue from milestone payments over the remaining minimum period of performance obligations. As required, the Company applies the principles of FAS ASC 605-25 to multiple element agreements.

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.

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 under contract work-in-progress. 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. 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.

Several other factors related to the Company may have a significant impact on our operating results from year to year. For example, the accounting rules governing the timing of revenue recognition related to product contracts are complex and it can be difficult to estimate when we will recognize revenue generated by a given transaction. Factors such as acceptance of services provided, payment terms, creditworthiness of the customer, and timing of delivery or acceptance of our products often cause revenues related to sales generated in one period to be deferred and recognized in later periods. For arrangements in which services revenue is deferred, related direct and incremental costs may also be deferred.

Stock Based Compensation

The accounting principles require measurement of compensation cost for stock-based awards classified as equity at their fair value on the date of grant and the recognition of compensation expense over the service period for awards expected to vest. Such grants are recognized as expense over the service period, net of estimated forfeitures.

See Note 11 *Stock Options* for further information on stock-based compensation expense.

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, 2009	December 31, 2008
Raw Materials	\$ 6,962,000	\$ 7,114,000
Work In Progress	138,000	391,000
Finished Goods	384,000	1,047,000
Reserve for Obsolescence	(880,000)	(903,000)
Total	<u>\$ 6,604,000</u>	<u>\$ 7,649,000</u>

4. Property and Equipment

Property and equipment consisted of the following at:

	September 30, 2009	December 31, 2008
Computers and software	\$ 552,000	\$ 598,000
Machinery and equipment	963,000	1,470,000
Furniture and office equipment	98,000	107,000
Demonstration vehicles and buses	507,000	346,000
Leasehold improvements	<u>1,348,000</u>	<u>1,348,000</u>
	3,468,000	3,869,000
Less accumulated depreciation and amortization	<u>(1,936,000)</u>	<u>(2,040,000)</u>
Total	<u>\$ 1,532,000</u>	<u>\$ 1,829,000</u>

Depreciation expense was \$459,000 and \$421,000 for the nine months ended September 30, 2009 and 2008, respectively.

During the first nine months of this year, the Company disposed of obsolete production equipment, computers and furniture totaling approximately \$569,000 with accumulated depreciation of approximately \$563,000 that were no longer being utilized in our operations.

5. Other Accrued Liabilities

Other accrued liabilities consisted of the following at:

	September 30, 2009	December 31, 2008
Accrued Inventory Received	\$ 560,000	\$ 743,000
Accrued Professional Services	121,000	571,000
Accrued Warranty	<u>682,000</u>	<u>545,000</u>
Total	<u>\$ 1,363,000</u>	<u>\$ 1,859,000</u>

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

Notes payable consisted of the following at:

	<u>September 30, 2009</u>	<u>December 31, 2008</u>
Secured note payable to Credit Managers Association of California, bearing interest at prime plus 3% (6.25% as of September 30, 2009), 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 a financial institution in the original amount of \$95,000, bearing interest at 6.21%, payable in 36 equal monthly installments of principal and interest through October 1, 2009	—	27,000
Secured note payable to a financial institution in the original amount of \$35,000, bearing interest at 10.45%, payable in 30 equal monthly installments of principal and interest through November 1, 2009	3,000	14,000
Secured note payable to a financial institution in the original amount of \$23,000, bearing interest at 11.70%, payable in 36 equal monthly installments of principal and interest through October 1, 2010	10,000	15,000
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
Secured note payable to a financial institution in the original amount of \$39,000, bearing interest at 4.99% per annum, payable in 48 equal monthly installments of principal and interest through September 1, 2011	20,000	27,000
Secured note payable to a financial institution in the original amount of \$38,000, bearing interest at 8.25% per annum, payable in 60 equal monthly installments of principal and interest through February 19, 2014	34,000	—
Secured note payable to a financial institution in the original amount of \$19,000 bearing interest at 10.50% per annum, payable in 60 equal monthly installments of principal and interest through August 25, 2014	<u>19,000</u>	<u>—</u>
	1,364,000	1,361,000
	<u>(71,000)</u>	<u>(98,000)</u>
Long-term portion	<u>\$ 1,293,000</u>	<u>\$ 1,263,000</u>

As of September 30, 2009 and December 31, 2008, the balance of long term interest payable with respect to the Credit Managers Association of California note amounted to \$1,040,000 and \$976,000, respectively.

7. Revolving Credit Agreement

In October 2007, the Company entered into a secured revolving credit facility with a financial institution (the "Credit Agreement") for \$2,000,000, which was secured by a \$2,000,000 certificate of deposit. The facility expired on June 30, 2009.

In June 2009, the Company renewed the Credit Agreement at a reduced principal amount of \$200,000 for a one-year term maturing on June 30, 2010. The agreement is secured by a \$200,000 certificate of deposit. The interest rate on a drawdown from the facility is the certificate of deposit rate plus 1.25% with interest payable monthly and the principal due at maturity. The financial institution also renewed the \$200,000 irrevocable letter of credit for the full amount of the credit facility in favor of Sunshine Distribution LP ("Landlord"), with respect to the lease of the Company's corporate headquarters at 1560 West 190th Street, Torrance, California.

8. Shareholders' Equity

Changes in shareholders' equity were as follows for the nine months ended September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Beginning balance	\$ 14,143,000	\$ 14,177,000
Increase in additional paid-in-capital for stock-based compensation	329,000	457,000
Increase in common stock for issuances of common shares to directors	135,000	129,000
Increase in common stock for issuances of common shares to employees	148,000	20,000
Net proceeds from the sale of common stock	—	12,008,000
Net proceeds from the exercise of stock options	4,000	—
Net loss	(4,974,000)	(9,211,000)
End balance	<u>\$ 9,785,000</u>	<u>\$ 17,580,000</u>

9. Related Party Transactions

During the nine months ended September 30, 2009 and September 30, 2008, the Company purchased \$1,075,000 and \$1,475,000, respectively, in components materials or services from Hyundai Heavy Industries (HHI), a related party. As of September 30, 2009, the Company has a remaining outstanding deposit balance with HHI of approximately \$104,000 from the ITC joint venture dissolution for which inventory will be delivered in the fourth quarter. The Company had a payables balance to HHI of zero and approximately \$310,000 as of September 30, 2009 and 2008, respectively.

10. Subsequent Events

On October 29, 2009, the Company entered into a Purchase Agreement with certain entities, including an affiliate of one of our Directors (collectively, the "Investors"), pursuant to which the Investors have agreed to purchase 9,024,960 shares of Common Stock at \$1.00 per share. The consummation of the sale of such shares is subject to various conditions, including shareholder approval.

On October 29, 2009, the Company also entered into a Placing Agreement pursuant to which Investec Bank (UK) Limited ("Investec") will act as Enova's agent to use its reasonable endeavors to procure subscribers for 1,323,000 shares of the Common Stock at 62.5 Pence (the "Placing Price"), or approximately the equivalent of \$1.00 (U.S. Dollars) per share as of such date based on the exchange rate on October 29, 2009 as reported by Fidessa. The Placing Price will remain at this fixed pence per share price. The actual amount per share in US Dollars will be determined based upon the conversion rate in effect as of the closing. Investec, on behalf of Enova, has conditionally placed the Placing Shares with institutional and certain other investors. The consummation of the sale of such shares is subject to various conditions, including shareholder approval.

11. Stock Options

Stock Option Program Description

As of September 30, 2009, the Company had one equity compensation plan, the 2006 Equity Compensation Plan (the "2006 Plan"). The 1996 Stock Option Plan ("the 1996 Plan") has expired for the purposes of issuing new grants. However, the 1996 Plan will continue to govern awards previously granted under that plan. The 2006 Plan has been 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.

The 2006 Plan has a total of 3,000,000 shares reserved for issuance, of which 2,050,000 shares were available for grant as of September 30, 2009. All stock options have terms of between five and ten years and generally vest and become fully exercisable from two to three years from the date of grant. As of September 30, 2009, the Company had 1,025,000 options outstanding which were comprised of issuances under the 1996 Plan and the 2006 Plan of 96,000 and 929,000, respectively.

Share-based compensation expense related to stock options was \$99,000 and \$329,000 for the three and nine months ended September 30, 2009, respectively. Share-based compensation expense related to stock options was \$184,000 and \$457,000 for the three and nine months ended September 30, 2008, respectively.

Share-based compensation expense reduced the Company's results of operations as follows:

	For the three months ended		For the nine months ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Income from continuing operations before income taxes	\$ 99,000	\$ 184,000	\$ 329,000	\$ 457,000
Income from continuing operations after income taxes	\$ 99,000	\$ 184,000	\$ 329,000	\$ 457,000
Cash flows from operations	\$ 99,000	\$ 184,000	\$ 329,000	\$ 457,000
Cash flows from financing activities	\$ —	\$ —	\$ —	\$ —
Basic and Diluted EPS	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.03

As of September 30, 2009, the total compensation cost related to non-vested awards not yet recognized is \$788,000. The weighted average period over which the future compensation cost is expected to be recognized is 21 months. The aggregate intrinsic value represents the total pretax intrinsic value, which is the difference between the Company's closing stock price on the last trading day of the third quarter of fiscal 2009 of \$1.45 and the exercise price times the number of shares that would have been received by the option holders if they had exercised their options on September 30, 2009. This amount will change based on the fair market value of the Company's stock.

The following table summarizes information about stock options outstanding and exercisable at September 30, 2009:

	Number of Share Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Outstanding at December 31, 2008	623,000	\$ 4.02	7.09	
Granted	515,000	\$ 0.63	7.76	
Exercised	(21,000)	\$ 0.21	—	
Forfeited	(92,000)	\$ 3.67	—	
Outstanding at September 30, 2009	<u>1,025,000</u>	<u>\$ 2.43</u>	<u>7.23</u>	<u>\$ 391,000</u>
Exercisable at September 30, 2009	<u>424,000</u>	<u>\$ 3.55</u>	<u>5.97</u>	<u>\$ 64,000</u>

The weighted-average remaining contractual life of the options outstanding at September 30, 2009 was 7.23 years. The exercise prices of the options outstanding at September 30, 2009 ranged from \$0.21 to \$4.95. Options exercisable were 424,000 and 387,000 at September 30, 2009 and December 31, 2008, respectively. The weighted average grant-date fair value of options granted during the three and nine months ended September 30, 2009 was \$0 and \$0.59, respectively, and was \$0 and \$2.87 for options granted during the three and nine months ended September 30, 2008, respectively. The Company's policy is to issue shares from its authorized shares upon the exercise of stock options.

There were no new options granted during the three months ended September 30, 2009 and 2008. The fair values of all stock options granted during the three and nine months ended September 30, 2009 and 2008 were estimated on the date of grant using the Black-Scholes option-pricing model with the following range of assumptions:

	For the three months ended		For the nine months ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Expected life (in years)	—	—	4	4
Average risk-free interest rate	—	—	2%	3%
Expected volatility	—	—	194%	111% to 113%
Expected dividend yield	—	—	0%	0%
Forfeiture rate	—	—	3%	3%

The estimated fair value of grants of stock options and warrants 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.

12. Concentrations

The Company's trade receivables are concentrated with few customers. The Company performs credit evaluations on their customers' financial condition. Concentrations of credit risk, with respect to accounts receivable, exist to the extent of amounts presented in the financial statements. Two customers represented 63% and 21%, respectively, of total gross accounts receivable at September 30, 2009, and two customers represented 38% and 34%, respectively, of total gross accounts receivable at December 31, 2008.

The Company's revenues are concentrated with few customers. For the three and nine months ended September 30, 2009, three customers represented 75%, 12% and 10% of gross revenues and four customers represented 58%, 15%, 14% and 10% of gross revenues, respectively. For the three and nine months ended September 30, 2008, four customers represented 32%, 19%, 13% and 11% of gross revenues and four customers represented 36%, 17%, 13% and 10% of gross revenues, respectively.

13. Recent Accounting Pronouncements

In June 2009, the FASB issued guidance now codified as ASC Topic 105, "*Generally Accepted Accounting Principles*" ("ASC Topic 105") as the single source of authoritative non-governmental U.S. GAAP, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literature. ASC Topic 105 does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all authoritative literature related to a particular topic in one place (the "Codification"). On the effective date of this Statement, the Codification superseded all then-existing non-SEC accounting and reporting standards, and all other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative. The Company adopted ASC Topic 105 for the quarter ending September 30, 2009. This pronouncement had no effect on the consolidated financial position, results of operations or cash flows, as this change only replaced all references to pre-Codification standards with references to the applicable Codification topic.

In April 2009, the FASB issued guidance in the Fair Value Measurements and Disclosures Topic of the Codification on determining fair value when the volume and level of activity for an asset or liability have significantly decreased and identifying transactions that are not orderly. The guidance emphasizes that even if there has been a significant decrease in the volume and level of activity, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants. The guidance provides a number of factors to consider when evaluating whether there has been a significant decrease in the volume and level of activity for an asset or liability in relation to normal market activity. In addition, when transactions or quoted prices are not considered orderly, adjustments to those prices based on the weight of available information may be needed to determine the appropriate fair value. The guidance is effective for interim or annual reporting periods ending after June 15, 2009, and shall be applied prospectively. The Company adopted this guidance effective for the quarter ending June 30, 2009. There is no impact of the adoption on our condensed financial statements as of September 30, 2009.

In April 2009, the FASB issued guidance that requires disclosures about fair value of financial instruments in interim financial statements. This guidance will be effective for us beginning in fiscal 2010, and because it applies only to financial statement disclosures, it did not have any impact on our financial position, results of operations or cash flows.

In June 2008, the FASB issued guidance clarifying that unvested share-based payment awards with a right to receive nonforfeitable dividends are participating securities and providing information on how to allocate earnings to participating securities to allow computation of basic and diluted earnings per share using the two-class method. This guidance will be effective for us beginning in fiscal 2010 and requires retrospective application for periods prior to the effective date. The adoption of this guidance did not have a material impact on our computation of earnings per share.

In June 2009, the FASB issued additional guidance related to the consolidation of variable interest entities, which makes significant changes to the model for determining who should consolidate an entity and also addresses how often this assessment should be performed. The determination of who should consolidate a variable interest entity will be based on both quantitative and qualitative factors relating to control, as well as risks and benefits of ownership. This guidance is effective in 2010 for calendar-year companies and is to be adopted through a cumulative-effect adjustment. We are currently evaluating the impact of adoption of these provisions on our existing accounting methods.

In May 2009, the FASB issued guidance now codified as ASC Topic 855, "*Subsequent Events*" ("ASC Topic 855") which establishes the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the

basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. The Company adopted ASC Topic 855 in the second quarter of 2009. See Note 10 to the accompanying condensed financial statements for the related disclosure. We evaluated subsequent events through the time of filing these financial statements with the SEC on November 12, 2009.

Effective January 1, 2009, the Company adopted guidance now codified as Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC” or “Codification”) Topic 260, “*Earnings Per Share*,” which clarifies that share-based payment awards that entitle their holders to receive nonforfeitable dividends before vesting should be considered participating securities. As participating securities, these instruments should be included in the computation of earnings per share (“EPS”) using the two-class method. The adoption of this guidance did not have a material impact on the computation of net loss per share for the three and nine months ended September 30, 2009 and 2008.

In October 2009, the FASB issued the following ASU No. 2009-13, *Revenue Recognition* (ASC Topic 605)—*Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force*. This guidance modifies the fair value requirements of ASC subtopic 605-25 *Revenue Recognition-Multiple Element Arrangements* by allowing the use of the “best estimate of selling price” for determining the selling price of a deliverable. A vendor is now required to use its best estimate of the selling price when vendor specific objective evidence or third-party evidence of the selling price cannot be determined. In addition, the residual method of allocating arrangement consideration is no longer permitted. This guidance is effective for the Company in 2011. The Company is currently evaluating the impact of adopting this update on its condensed financial statements.

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 these terms 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/A for the year ended December 31, 2008.

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/A for the year ended December 31, 2008.

Overview

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. Electric drive systems are comprised of an electric motor, an electronics control unit, a gear unit and batteries 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. Our hybrid systems can alternatively utilize a hydrogen fuel cell or a microturbine as a power source to recharge the battery system. Stationary power systems utilize similar components to those which are in a mobile drive system in addition to other elements.

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, focusing chiefly on vehicle 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. Additionally, we perform research and development (“R&D”) 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 electric series and parallel hybrid medium and heavy-duty drive systems for multiple vehicle and marine applications. A series hybrid system is one where only the electric motor connects to the drive shaft; a parallel hybrid system is one where both the internal combustion engine and the electric motor are connected to the drive shaft. We believe series-hybrid and parallel hybrid medium and heavy-duty drive system sales offer Enova the greatest return on investment in both the short and long term. We believe the medium and heavy-duty hybrid market’s best chances of significant growth lie in identifying and pooling the largest possible numbers of early adopters in high-volume applications. By aligning ourselves with key customers 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 or expense. As we penetrate more market areas, we are continually refining both our market strategy and our product line to maintain our leading edge in power management and conversion systems for mobile applications.

Our website, www.enovasystems.com, contains up-to-date information on our company, our products, programs and current events. Our website is a prime focal point for current and prospective customers, investors and other affiliated parties seeking data on our business.

Recent Developments

On October 29, 2009, the Company entered into stock sale agreements with certain entities (including an affiliate of John Micek, a director of the Company) for the sale of 10,347,960 shares of common stock for a gross purchase price of approximately \$10.3 million. We believe these funds will help provide the financial stability to pursue the fulfillment of our strategic plans. One of the agreements, a Purchase Agreement, provides for the sale of 9,024,960 shares of Common Stock (which shares are to be listed for trading on the NYSE Amex) at a purchase price of \$1.00 per share. Enova also entered into a Placing Agreement for the placement of 1,323,000 shares of common stock at a purchase price of 62.5 pence per share (approximately equal to \$1.00 (U.S.) per share based on the exchange rate on October 29, 2009 as reported by Fidessa), which shares are to be admitted for trading on the AIM market in the United Kingdom. The consummation of the stock sale transactions are subject to various conditions, including shareholder approval.. There is no assurance that the transactions contemplated by these agreements will be successfully completed. Further details concerning the stock issuance are provided in Note 10, Subsequent Events, of this report.

During the third quarter of this year, First Auto Works (“FAW”) took delivery of 200 units of our pre-transmission parallel hybrid systems and has placed orders for an additional 60 units for delivery in the fourth quarter of this year. We believe this represents a successful beginning of sustained volume production for this OEM. Furthermore, we have executed a supply agreement with FAW to supply an additional 800 units in 2010. In addition, the government of China issued a three-year development plan in February of this year to produce 500,000 electric and hybrid vehicles per year. As part of this initiative, the government is offering subsidies of up to 600,000 Yuan that will cover about half of the cost of an electric or hybrid vehicle. In joint Enova and FAW marketing efforts, FAW buses with our drive systems were showcased in thirteen trial cities, including Beijing, Shanghai, Changchun, Dalian and Shenzhen. The municipal government of Dalian has confirmed that at least fifty hybrid buses were in operation in the city of Changchun during the World Economic Forum’s Summer event held in September 2009, all of which were equipped with Enova’s drive systems.

In September 2009, Enova and Freightliner Custom Chassis Corporation (“Freightliner”), a subsidiary of Daimler Trucks North America LLC, jointly executed a Letter of Intent (“the development program”) to enter into an all-electric commercial chassis development program. The development program includes close collaboration and will involve the engineering and integration of Enova’s 120kW and 90kW all-electric drive system technologies into target Freightliner chassis platforms, including the MT-45 walk-in van chassis. Freightliner’s highest volume MT-45 chassis offers a gross vehicle weight rating between 14,140 and 19,000 lbs. and maximum payloads of 10,000 lbs. The MT-45 chassis is used by a range of customers including UPS and Federal Express.

Also in September 2009, as part of our government strategy, Enova submitted a proposal for an indefinite quantity contract in

response to the U.S. General Services Administration (“GSA”), Automotive Acquisition Support Division’s solicitation for Cab & Chassis with Aftermarket Vocational Bodies, which includes walk-in vans. The GSA is a mandatory source of vehicles for U.S. government organizations and the military under Federal Property Management Regulations 101-26-501. This proposal outlined a plan for the sale of our all-electric step van (“Ze”).

In addition, Enova submitted a prequalification document to the U.S. Postal Service (“USPS”) for the retrofit conversion of their suburban mail truck fleet into electric vehicles during the third quarter of 2009. Our prequalification document comes after an August 2009 report (“the report”) titled “Electrification of Delivery Vehicles” issued by the USPS Office of Inspector General discussing the operational and economic feasibility of electric vehicles for their suburban mail truck fleet. The USPS estimates their suburban mail truck fleet to be approximately 142,000. Moreover, the report notes the average daily driving distance for mail delivery operations is 18 miles and that 96% of driving distances are less than 40 miles per day. These facts, coupled with the multi-stop nature of delivery routes make electrification an operationally feasible option for the USPS. Enova successfully converted ten suburban mail trucks into all electric vehicles for the USPS in 1998 and we believe this past experience highlights an opportunity for further traction on our government initiatives.

In August 2009, the state of Kentucky won a \$13 million Department of Energy Clean Cities Grant for hybrid school busses. Our customer, Navistar Corporation (“Navistar”), claims 90% of the market for school busses in Kentucky. Enova has already installed our post-transmission hybrid drive system with a new, lighter weight lithium ion battery in a demonstration bus. Other Clean Cities grants may be available for an additional \$5 million. We continue to work closely with Navistar and anticipate we may benefit from these programs starting in 2010.

In April 2009, our customer, Navistar, was selected to receive a cost-shared award of up to \$10 million under the Department of Energy Plug-in Hybrid Electric Vehicle (“PHEV”) Technology Acceleration and Deployment Activity program to develop and deploy 60 plug-in electric hybrid school buses, including engine-off all-electric drive capability. We believe that these awards will result in a greatly improved value proposition for customers. Navistar has also finalized several sales incentive programs, including a universal extended warranty of up to 12 years in certain targeted markets and dedicated funding specialists to pursue product funding and tax incentives for dealers and customers. Enova is working closely with Navistar in support of these initiatives.

As part of the American Recovery and Reinvestment Act of 2009, the U.S. Department of Energy also announced funding opportunities in the form of cost-share grants for supporting the construction of U.S. based manufacturing plants to produce batteries, electric drive components, and to establish development, demonstration, evaluation, and education projects to accelerate the market introduction and penetration of advanced electric drive vehicles. Smith Electric Vehicles’ U.S. subsidiary received a grant of \$10 million under this program to accelerate the production plans at their new U.S. manufacturing facility. As production is ramped up, we anticipate the opportunity to continue supply of our all-electric vehicle drive systems that are used to power Smith’s Newton trucks. Additionally, Navistar Truck also received a grant of \$39M to build an electric truck manufacturing facility and develop associated technologies. Enova will attempt to supply Navistar Truck with EV drive systems to support this manufacturing line.

The California Air Resources Board (“CARB”) through AB 118, highlighted in a meeting notice that a \$25 million voucher incentive program would be implemented to “accelerate the deployment of about 1,000 hybrid trucks and buses in California.” Enova believes these programs will lower the acquisition cost of a hybrid school bus for our California customers and create another funding opportunity for our current initiatives in the hybrid school bus market.

During the third quarter of 2009, we also continued to produce electric and hybrid electric drive systems and components for other customers, including HCATT and United Kingdom bus manufacturers including Tanfield Engineering Systems and Optare UK Limited.

Enova has incurred significant operating losses in the past. As of September 30, 2009, we had an accumulated deficit of approximately \$134.6 million. We expect to incur additional operating losses until we achieve a level of product sales sufficient to cover our operating and other expenses. However, the Company believes that its business outlook will improve, especially in light of government policies being implemented in the United States, China and the United Kingdom regarding the curbing of green house gas emissions in the future as well as intentions to provide government incentives that may induce consumption of our products and services.

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 above named parties may result in additional production contracts during 2009 and beyond, there are no assurances that such additional agreements will be realized.

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, 2008.

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.

Cash and cash equivalents — Cash consists of currency held at reputable financial institutions.

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.

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. 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.

Stock-based Compensation — The Company calculates stock-based compensation expense in accordance with FASB ASC 718, "Share-Based Payment" ("FASB ASC 718"). This pronouncement requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including employee stock options to be based on estimated fair values.

Revenue 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 ASC 605 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.

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.

Several other factors related to the Company may have a significant impact on our operating results from year to year. For example, the accounting rules governing the timing of revenue recognition related to product contracts are complex and it can be difficult to estimate when we will recognize revenue generated by a given transaction. Factors such as acceptance of services provided, payment terms, creditworthiness of the customer, and timing of delivery or acceptance of our products often cause revenues related to sales generated in one period to be deferred and recognized in later periods. For arrangements in which services revenue is deferred, related direct and incremental costs may also be deferred.

RESULTS OF OPERATIONS

Three and Nine Months Ended September 30, 2009 compared to Three and Nine Months Ended September 30, 2008

Third Quarter of Fiscal 2009 vs. Third Quarter of Fiscal 2008

	Three Months Ended September 30,			As a % of Revenues September 30,	
	2009	2008	% Change	2009	2008
Revenues	\$ 2,890,000	\$ 163,000	1,673%	100%	100%
Cost of revenues	2,532,000	256,000	889%	88%	157%
Gross profit (loss)	358,000	(93,000)	485%	12%	-57%
Operating expenses					
Research and development	310,000	677,000	-54%	11%	415%
Selling, general & administrative	1,308,000	2,847,000	-54%	45%	1,747%
Total operating expenses	1,618,000	3,524,000	-54%	56%	2,162%
Gross operating loss	(1,260,000)	(3,617,000)	65%	-44%	-2,219%
Other income and (expense)					
Interest and other income (expense)	(24,000)	54,000	-144%	-1%	33%
Loss from non-consolidated joint venture	—	(25,000)	100%	0%	-15%
Total other income (expense)	(24,000)	29,000	-183%	-1%	18%
Net loss	\$ (1,284,000)	\$ (3,588,000)	64%	-44%	-2,201%

First Nine Months of Fiscal 2009 vs. First Nine Months of Fiscal 2008

	Nine Months Ended September 30,			As a % of Revenues September 30,	
	2009	2008	% Change	2009	2008
Revenues	\$ 4,154,000	\$ 5,811,000	-29%	100%	100%
Cost of revenues	3,724,000	6,434,000	-42%	90%	111%
Gross profit (loss)	430,000	(623,000)	169%	10%	-11%
Operating expenses					
Research and development	899,000	2,017,000	-55%	22%	35%
Selling, general & administrative	4,373,000	6,696,000	-35%	105%	115%
Total operating expenses	5,272,000	8,713,000	-39%	127%	150%
Gross operating loss	(4,842,000)	(9,336,000)	48%	-117%	-161%
Other income and (expense)					
Interest and other income (expense)	(128,000)	208,000	-162%	-3%	4%
Loss from non-consolidated joint venture	(4,000)	(83,000)	95%	0%	-1%
Total other income (expense)	(132,000)	125,000	-206%	-3%	2%
Net loss	\$ (4,974,000)	\$ (9,211,000)	46%	-120%	-159%

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.

Revenue. Net revenues decreased by \$1,657,000 or 29% for the nine months ended September 30, 2009 to \$4,154,000 as compared to \$5,811,000 for the corresponding period in 2008. Revenues for the three months ended September 30, 2009 increased by 1,673% to \$2,890,000 from \$163,000 in the corresponding period in 2008. Revenues in the current year were derived primarily from fulfillment of orders from First Auto Works of China (“FAW”), Navistar Corporation, the Hawaii Center for Advanced Transportation Technologies (“HCATT”) and the Tanfield Group Plc (“Tanfield”). The decline in revenue in the first nine months of 2009 compared to 2008 is mainly due to a decrease in sales to Tanfield due to a change in their growth strategy in the third quarter of 2008 as well as the completion of several low volume contracts for non-core customers in 2008. The increase in revenue for the three months ended September 30, 2009 compared to 2008 was mainly due to the delivery of 200 units to FAW in the third quarter of 2009 combined with the recording of sales returns in the amount of \$515,000 in the third quarter of 2008 on sales which were originally made to Tanfield in the first half of 2008. Although we have seen indications for future production growth, there can be no assurance there will be continuing demand for our products and services.

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 nine months ended September 30, 2009 decreased by 42% to \$3,724,000 from \$6,434,000 for the corresponding period in 2008, primarily due to the decrease in revenue. For the three months ended September 30, 2009, cost of revenues increased by 889% to \$2,532,000 from \$256,000 for the corresponding period in 2008. Cost of revenues was 90% of revenues for the first nine months of 2009 and was 111% of revenue for the corresponding period in 2008. The improvement in cost of revenues as a percentage of revenue is primarily attributable to our strategy to concentrate on higher volume production orders and our continuing focus on manufacturing and inventory processes that result in tighter control over production costs.

Gross Margin. Gross margin improved for the nine months ended September 30, 2009 to a profit of \$430,000 (10% of revenue) from a loss of \$623,000 (-11% of revenue) in the same period in 2008. Gross margin also improved for the three months ended September 30, 2009 to a positive 12% from a negative 57% in the same period in 2008. The improvement in gross margin is primarily attributable to our focus on key customer production contracts, maturity of our supply chain, and efficiencies gained through focus on manufacturing and inventory processes that result in tighter controls over production costs. As we continue to make deliveries on production contracts in the fourth quarter of 2009, we expect to achieve continued benefit from these initiatives, although we may continue to experience variability in our gross margin.

Research and Development (“R&D”). Internal research, development and engineering expenses decreased \$1,118,000 or 55% in the nine months ended September 30, 2009 to \$899,000 from \$2,017,000 in the same period in 2008. In the three months ended September 30, 2009, R&D costs decreased \$367,000, or 54%, to \$310,000 from \$677,000 in the same period in 2008. R&D costs were higher in the first nine months of 2008 due to expenditures to complete the development of our wireless tracking module, a one-time cost incurred for a dynamometer testing of our hybrid system and a higher level of resources expended for development projects. In the first nine months of 2009, R&D efforts were focused on development of our new “Ze” all electric vehicle, a next generation motor control unit, testing of new battery technologies as well as engine off capability for our post transmission parallel hybrid drive system. Development resources utilized in support of non core development projects were reduced due to the current operating environment. We also continued to allocate necessary resources to the development and testing of upgraded proprietary control software, enhanced DC-DC converters and digital inverters as well as other power management firmware.

Selling, General, and Administrative Expenses (“S, G & A”). Selling, general and administrative expenses decreased \$2,323,000 or 35% for the nine months ended September 30, 2009 to \$4,373,000 from \$6,696,000 for the same period in 2008. These expenses also decreased \$1,539,000, or 54%, to \$1,308,000 for the three months ended September 30, 2009 from \$2,847,000 for the same period in 2008. S, G & A is comprised of activities in the executive, finance, purchasing, marketing, field service, quality, and non-cash charges for depreciation and options expense. The Company implemented a series of cost savings measures in response to the severe sales environment, including reducing employee headcount by over 50% from the 2008 peak, eliminating outside IT and marketing consultants, reducing investor relations costs, and placing restrictions on travel and purchasing. In the nine months ended September 30, 2008, a charge of \$575,000 was recorded as a bad debt expense for outstanding receivable balances that are unlikely to be collected, as compared to a bad debt expense of zero recorded in the nine months ended September 30, 2009.

Interest and Other Income (Expense). Interest and Other Income (Expense) decreased by \$336,000 and \$78,000 to a net expense of \$128,000 and \$24,000 in the nine and three months ended September 30, 2009, respectively, from a net income of \$208,000 and \$54,000 for the same periods in 2008. A loss of \$88,000 was recorded in settlement of a vendor dispute in the second quarter of 2009. In addition, interest income decreased as a result of the Company having a smaller average cash balance and lower interest rates on cash balances between the respective periods in 2009 and 2008.

Net Loss. Net loss decreased by \$4,237,000 or 46% for the nine months ended September 30, 2009 to \$4,974,000 from \$9,211,000 for the same period in 2008. Net loss for the three months ended September 30, 2009 was \$1,284,000, a decrease of \$2,304,000 or 64% from \$3,588,000 for the same period in 2008. The decrease in the net loss was due to improved profitability on sales and reduction in both S, G & A and internal research and development expenses in response to the current operating environment.

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 10K for 2008. 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 cash flow shortages due to operating losses primarily attributable to research and development, marketing and other general and administrative 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. The extent of our capital needs will phase out once we reach a breakeven volume in sales or develop and/or acquire the capability to manufacture and sell our products profitably. Our operations during the year ended December 31, 2008 and nine months ended September 30, 2009 were financed by product sales and equity issuances as well as from working capital reserves.

The Company has a secured revolving credit facility with a financial institution (the "Credit Agreement") for \$200,000 which expires on June 30, 2010. The Credit Agreement is secured by a \$200,000 certificate of deposit ("CD"). The interest rate is the certificate of deposit rate plus 1.25% with interest payable monthly and the principal due at maturity. As of September 30, 2009, the renewed Credit Agreement was fully drawn as the financial institution has issued a \$200,000 irrevocable letter of credit in favor of Sunshine Distribution LP ("Landlord"), with respect to the lease of the Company's new corporate headquarters at 1560 West 190th Street, Torrance, California. We anticipate that the credit facility will be renewed with similar terms as the existing facility.

Net cash used in operating activities was \$3,001,000 for the nine months ended September 30, 2009 compared to \$10,719,000 for the nine months ended September 30, 2008. Cash used in operations for the first nine months of 2009 decreased compared to 2008 as we were able to lower personnel, operations and administrative expenditures as well as utilize a large amount of inventory on-hand for current year sales. Cash used in operations in the first nine months of 2008 was affected by the operating loss of \$9,211,000 and purchases of inventory of \$5,226,000 for anticipated sales to Tanfield. Non-cash items include expense for stock-based compensation, depreciation and amortization, and issuance of common stock for director and employee services. We continued to conserve cash resources by maintaining our reduced employee headcount and restrictions on administration and operating expenditures. As of September 30, 2009, the Company had \$4,099,000 of cash and cash equivalents.

Net cash provided by investing activities was \$1,826,000 for the first nine months of 2009 compared to net cash used of \$3,496,000 in the first nine months of 2008. In 2009, in conjunction with the reduction of our credit facility, as explained above, we redeemed the certificate of deposit for \$1,800,000 for use in operating activities. Cash used in investing activities in the first nine months of 2008 was attributed to leasehold improvements and fixed asset purchases associated with our move into a new facility and the purchase of a \$2 million CD to secure the credit facility. No similar equity issuances occurred through September 30, 2009.

Net cash used in financing activities totaled \$50,000 for the first nine months of 2009, compared to net cash provided by financing activities of \$11,967,000 for the first nine months of 2008. In the first nine months of 2008, we completed two equity issuances raising approximately \$12 million in net proceeds.

As of September 30, 2009, net accounts receivable was \$1,820,000, a 125% increase from the balance at December 31, 2008 of \$808,000. The increase in the receivable balance was due to the completion of orders for FAW and Tanfield during the third quarter of 2009.

Inventory decreased by \$1,045,000 when comparing the balances at September 30, 2009 and December 31, 2008, which represents a 14% decrease in the inventory balance between the two dates. The decrease resulted from net inventory activity including receipts totaling approximately \$1,900,000 and normal consumption of approximately \$2,900,000 due to sales and research activities during the first nine months of 2009.

Prepaid expenses and other current assets increased by net \$197,000, or 92%, to \$412,000 at September 30, 2009 from the December 31, 2008 balance of \$215,000. A deposit of \$104,000 for components to Hyundai Heavy Industries from the dissolution of the Hyundai-Enova ITC joint venture was still outstanding at September 30, 2009. These components were delivered to Enova in the fourth quarter of 2009. In addition, the Company incurred approximately \$104,000 of deferred costs in connection with the equity financing transaction that is expected to be completed in December 2009.

Property and equipment decreased by \$297,000, net of depreciation and write-offs, at September 30, 2009, when compared to the December 31, 2008 balance of \$1,829,000. In the first nine months of 2009, the Company recognized depreciation expense of \$459,000 and recorded additions to fixed assets totaling \$168,000, which included the purchase and retrofit of two test vehicles.

Investment in our non-consolidated joint venture, Hyundai-Enova Innovative Technology Center ("ITC") decreased to a zero

balance as of September 30, 2009 from a balance of \$1,352,000 at December 31, 2008. Hyundai Heavy Industries, Enova and ITC mutually agreed to the dissolution of ITC, which was completed on April 6, 2009.

Accounts payable increased in the first nine months of 2009 by \$160,000 to \$752,000 from \$592,000 at December 31, 2008. The accounts payable balance as of September 30, 2009 includes \$250,000 that was reclassified from accrued liabilities and represents the remaining payable to a vendor in settlement of a dispute.

Deferred revenues were \$109,000 at September 30, 2009 compared to a zero balance at the December 31, 2008. This balance is expected to be realized into revenue in the fourth quarter of 2009 and is predominantly associated with a prepayment on a purchase order from Eco Power Technology.

Accrued payroll and related expenses increased by \$6,000, or 2%, to \$301,000 at September 30, 2009 compared to a balance of \$295,000 at December 31, 2008. The change between periods is considered immaterial.

Other accrued liabilities decreased by \$496,000, or 27%, to \$1,363,000 at September 30, 2009 from the balance of \$1,859,000 at December 31, 2008, primarily due to payments for accrued professional and vendor services and a reclassification of approximately \$250,000 to accounts payable in settlement of a vendor dispute.

Accrued interest payable was \$1,054,000 at September 30, 2009, an increase of 6% from the balance of \$992,000 at December 31, 2008. The increase is due to interest related to our debt instruments, primarily the secured note payable in the amount of \$1,238,000 to the Credit Managers Association of California.

Our ongoing operations and anticipated growth will require us to make necessary investments in human and production resources, regulatory compliance, as well as sales and marketing efforts. We anticipate that our current cash balance and projected cash inflow as mentioned in the Recent Development section above regarding our capital raise will be adequate to meet our working capital and capital expenditure needs for at least the next 12 months. If we require additional capital resources to grow our Company, we may seek to sell more equity securities. The sale of equity securities could result in dilution to our stockholders. We may not be able to obtain financing arrangements in amounts or on terms acceptable to us in the future. In the event we are unable to obtain additional financing when needed, we may be compelled to delay or curtail our plans to develop our business, which could have a material adverse effect on our operations, market position and competitiveness.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

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 Rule 13a-15(b) under the Securities and Exchange Act of 1934, as amended, 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 for the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's internal control over disclosure controls and procedures was effective as of September 30, 2009.

Management's Report on 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) 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.

During the period covered by this report, there have been no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 under the Securities Exchange Act of 1934 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

We are subject to a number of lawsuits, investigations and disputes (some of which involve substantial amounts claimed) 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 in excess of current accruals for these matters. Considering our past experience and existing accruals, 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

There have been no other material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2008.

ITEM 2. Unregistered Sales of Equity and Use of Proceeds

None.

ITEM 3. Defaults upon Senior Securities

None.

ITEM 4. Submission of Matters to a Vote of Security Holders

None.

ITEM 5. Other Information

The Bylaws of the Company provide that the size of the Board of Directors of the Company shall be not less than six nor more than nine members, with the exact number of authorized directors to be nine until changed, within such limits, by an amendment to Section 2 of Article III adopted by the Board of Directors or by the shareholders. On November 10, 2009, pursuant to the Bylaws, the Board of Directors adopted an amendment to the Bylaws to provide that the exact number of authorized directors is to be fixed from time to time, within the range noted above, by resolution of the Board of Directors or by the shareholders. The Board also established that the authorized number of directors shall be six, effective with the next annual meeting of shareholders. Attached to this quarterly report as exhibit 3.1 is the amendment to the Bylaws and attached to this quarterly report as exhibit 3.2 are the Bylaws as so amended.

ITEM 6. Exhibits

a) Exhibits

3.1 Amendment to our Amended and Restated Bylaws *

3.2 Our Amended and Restated Bylaws (reflecting the amendment set forth in Exhibit 3.1)*

10.1 Purchase Agreement (incorporated by reference to Exhibit 99.1 of our Current Report on Form 8-K filed October 30, 2009)

10.2 Form of Registration Rights Agreement (incorporated by reference to Exhibit 99.2 of our Current Report on Form 8-K filed October 30, 2009)

10.3 Placing Agreement (incorporated by reference to Exhibit 99.3 of our Current Report on Form 8-K filed October 30, 2009)

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

31.2 Certification of the 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.*

* - 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: November 12, 2009

ENOVA SYSTEMS, INC. (Registrant)

/s/ Jarett Fenton

By: Jarett Fenton, Chief Financial Officer

EXHIBIT INDEX

- 3.1 Amendment to our Amended and Restated Bylaws
- 3.2 Our Amended and Restated Bylaws (reflecting the amendment set forth in Exhibit 3.1)
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- 31.2 Certification of the 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.

The second sentence of Section 2 of Article III of the Bylaws of Enova Systems, Inc. was amended on November 10, 2009 to read in its entirety as follows:

"The exact number of authorized directors shall be fixed from time to time, within such range, by resolution of the Board of Directors or by the shareholders."

AMENDED AND RESTATED
BYLAWS OF ENOVA SYSTEMS, INC.
(Amended and Restated through November 10, 2009)

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AMENDED AND RESTATED
BYLAWS
OF
ENOVA SYSTEMS INC.
ARTICLE I — OFFICES

SECTION 1 — PRINCIPAL OFFICE

The principal office for the transaction of the business of the corporation is hereby fixed and located in the City of Rohnert Park, County of Sonoma, state of California.

The board of directors is hereby granted full power and authority to change said principal office from one location to another in said State.

SECTION 2 — OTHER OFFICES

Branch or subordinate offices may at any time be established by the board of directors at any place or places where the corporation is qualified to do business.

ARTICLE II — MEETINGS OF SHAREHOLDERS

SECTION 1 — PLACE OF MEETINGS

All annual and all other meetings of shareholders shall be held at the principal office of the corporation, or at any other place within or without the State of California which may be designated either by the board of directors pursuant to authority hereinafter granted to said board, or by the written consent of all shareholders entitled to vote thereat, provided such shareholder consent is given either before or after the meeting and filed with the secretary of the corporation.

SECTION 2 — ANNUAL MEETINGS

An annual meeting of shareholders shall be held each year on a date and at a time designated by the board of directors. At that meeting, directors shall be elected. Any other proper business may be transacted at the annual meeting of shareholders.

SECTION 3 — SPECIAL MEETINGS

Special meetings of the shareholders, for any purpose or purposes whatsoever, may be called at any time by the president or by the board of directors or the chairman of the board or by one or more shareholders holding shares in the aggregate entitled to cast not less than ten percent (10%) of the votes at that meeting.

If a special meeting is called by any person or persons other than the board of directors, the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the chairman of the board, the president, any vice president or the secretary of the corporation. The officer receiving the request shall cause notice to be promptly given to the shareholders entitled to vote, in accordance with the provisions of Sections 4 and 5 of this Article II, and the notice shall set forth that a meeting will be held at the time requested by the person or persons calling the meeting, not less than thirty-five (35) or more than sixty (60) days after the receipt of the request. If the notice is not given within twenty (20) days after receipt of the request, the person or persons requesting the meeting may give the notice. Nothing contained in this paragraph of this Section 3 shall be construed as limiting, fixing or affecting the time when a meeting of shareholders called by action of the board of directors may be held.

SECTION 4 — NOTICE OF SHAREHOLDERS' MEETINGS

All notices of meetings of shareholders shall be sent or otherwise given in accordance with Section 5 of this Article II not less than ten (10) or more than sixty (60) days before the date of the meeting. The notice shall specify the place, date and hour of the meeting and, (i) in the case of a special meeting, the general nature of the business to be transacted or, (ii) in the case of the annual meeting, those matters which the board of directors, at the time of giving the notice, intends to present for action by the shareholders. The notice of any meeting at which directors are to be elected shall include the name of any nominee or nominees whom, at the time of the notice, management intends to present for election.

Under the California Corporations Code, the notice shall also state the general nature of the proposal if action is proposed to be taken at any meeting for approval of (i) a contract or transaction in which a director has a direct or indirect financial interest, (ii) an amendment of the articles of incorporation, (iii) a reorganization of the corporation, (iv) a voluntary dissolution of the corporation under Section

1900 of that Code or (v) a distribution in dissolution other than in accordance with the rights of outstanding preferred shares under.

SECTION 5 — MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE

Notice of any shareholders' meeting shall be given either personally or by first-class mail or telegraphic or written communication, charges prepaid, addressed to the shareholder at the address of that shareholder appearing on the books of the corporation or given by the shareholder to the corporation for the purpose of notice. If no such address appears on the corporation's books or has been so given, notice shall be deemed to have been given if sent to that shareholder by first-class mail or telegraphic or other written communication to the corporation's principal executive office, or if published at least once in a newspaper of general circulation in the county where that office is located. Notice shall be deemed to have been given at the time when delivered personally, deposited in the mail, delivered to a common carrier for transmission to the recipient, actually transmitted by electronic means to the recipient by the person giving the notice, or sent by other means of written communication.

If any notice addressed to a shareholder at the address of that shareholder appearing on the books of the corporation is returned to the corporation by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver the notice to the shareholder at that address, all future notices or reports shall be deemed to have been duly given without further mailing if these shall be available to the shareholder on written demand of the shareholder at the principal executive office of the corporation for a period of one year from the date of the giving of the notice.

An affidavit of the mailing or other means of giving any notice of any shareholders' meeting may be executed by the secretary, assistant secretary, or any transfer agent of the corporation giving the notice, and filed and maintained in the minute book of the corporation.

SECTION 6 — ADJOURNED MEETINGS AND NOTICE THEREOF.

Any shareholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of the majority of the shares, the holders of which are either present in person or represented by proxy thereat, but in the absence of a quorum, no other business may be transacted at such meeting except in the case of the withdrawal of a shareholder from a quorum as provided in Section 9 of this Article II.

When any shareholders' meeting, either annual or special, is adjourned for more than forty-five (45) days, or if after the adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given to each shareholder of record entitled to vote at the adjourned meeting in accordance with the provisions of Sections 4 and 5 of this Article II. Save as aforesaid, it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting other than by announcement at the meeting at which such adjournment is taken. At any adjourned meetings the corporation may transact any business that might have been transacted at the regular meeting.

SECTION 7 — VOTING AT MEETINGS OF SHAREHOLDERS

The shareholders entitled to vote at any meeting of shareholders shall be determined in accordance with the provisions of Section 8 of this Article II, subject to the provisions of the California Corporations Code (relating to voting shares held by a fiduciary, in the name of a corporation, or in joint ownership) . The shareholders' vote may be by voice vote or by ballot; provided, however, that any election for directors must be by ballot if demanded by any shareholder before the voting has begun. On any matter other than the election of directors, any shareholder may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or vote them against the proposal, but if the shareholder fails to specify the number of shares which the shareholder is voting affirmatively, it will be conclusively presumed that the shareholder's approving vote is with respect to all shares that the shareholder is entitled to vote. If a quorum is present (or if a quorum had been present earlier at the meeting but some shareholders had withdrawn), the affirmative vote of a majority of the shares represented and voting, provided such shares voting affirmatively also constitutes a majority of the number of shares required for a quorum, shall be the act of the shareholders, unless the vote of a greater number or voting by classes is required by California General Corporation Law or by the articles of incorporation.

Every shareholder entitled to vote at any election for directors shall have the right to cumulate his votes and give one candidate a number of votes equal to the number of directors to be elected, multiplied by the number of votes to which his shares are entitled, or to distribute his votes on the same principle among as many candidates as he shall think fit; provided that the names of the candidate or candidates for whom the shareholder votes have been placed in nomination prior to the voting and that at least one shareholder has given notice at the meeting prior to the voting of an intention to cumulate votes. The candidates receiving the highest number of votes, up to the number of

directors to be elected, shall be elected. Votes against a director and votes withheld shall have no legal effect.

SECTION 8 — RECORD DATE FOR SHAREHOLDER NOTICE, VOTING AND GIVING CONSENTS

For purposes of determining the shareholders entitled to notice of any meeting or to vote or entitled to give consent to corporate action without a meeting, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days or less than ten (10) days before the date of any such meeting or more than sixty (60) days before any such action without a meeting, and in this event only shareholders of record at the close of business on the date so fixed are entitled to notice and to vote or to give consent, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date, except as otherwise provided in the California General Corporation Law.

If the board of directors does not so fix a record date:

(a) The record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held; and

(b) The record date for determining shareholders entitled to give consent to corporate action in writing without a meeting, (i) when no prior action by the board has been taken, shall be the day on which the first written consent is given, or (ii) when prior action of the board has been taken, shall be at the close of business on the day on which the board adopts the resolution relating to that action, or the sixtieth (60th) day before the date of such other action, whichever is later.

SECTION 9 — QUORUM

The presence in person or by proxy of persons entitled to vote a majority of the voting shares at any meeting shall constitute a quorum of the shareholders for the transaction of business.

The shareholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

SECTION 10 — CONSENT OF ABSENTEES

The transactions of any meeting of shareholders, either annual or special, however called and noticed and wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each of the shareholders entitled to vote, who was not present in person or by proxy, signs a written waiver of notice or a consent to the holding of such meeting or an approval of the minutes thereof. The waiver of notice or consent need not specify either the business to be transacted or the purpose of any annual or special meeting of shareholders, except that if action is taken or proposed to be taken for approval of any of those matters specified in the second paragraph of Section 4 of this Article II, the waiver of notice or consent shall state the general nature of the proposal. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Attendance by a person at a meeting shall also constitute a waiver of notice of that meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened, and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters required by law to be included in the notice of the meeting, but not so included, if that objection is expressly made at the meeting.

SECTION 11 — ACTION WITHOUT MEETING

Any action which may be taken at any annual or special meeting of shareholders may be taken without a meeting and without prior notice if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Notwithstanding the previous sentence, directors may be elected by written consent without a meeting only if the written consent of all outstanding shares entitled to vote is obtained, except that a vacancy in the board (other than a vacancy created by removal of a director) not filled by the board may be filled by the written consent of the holders of a majority of the outstanding shares entitled to vote.

All such consents shall be filed with the secretary of the corporation and shall be maintained in the corporate records. Any shareholder giving a written consent, or the shareholder's proxyholders, or a transferee of the shares or a personal representative of the shareholder or their respective proxyholders, may revoke the consent by a writing received by

the corporation prior to the time that written consent of the number of shares required to authorize the proposed action has been filed with the secretary of the corporation, but may not do so thereafter. Such revocation is effective upon its receipt by the secretary of the corporation.

If the consents of all shareholders entitled to vote have been solicited in writing, and corporate action has been approved without a meeting by less than the unanimous written consent of those shareholders entitled to vote on such action, then the secretary shall give to those shareholders entitled to vote who have not consented in writing:

(1) Notice of such approval at least ten (10) calendar days before the consummation of the action authorized by such approval, if the corporate action concerns (i) contracts or transactions in which a director has a direct or indirect financial interest, (ii) indemnification of agents of the corporation, (iii) reorganization, or (iv) a distribution in dissolution other than in accordance with the rights of the outstanding preferred shares.

(2) Prompt notice of any other corporate action. The notice required by this Section 11 shall conform to the requirements of paragraph (b) of Section 8 of this Article II.

SECTION 12 — PROXIES

Every person entitled to vote for directors or on any other matter shall have the right to do so either in person or by one or more agents authorized by a written proxy signed by the person and filed with the secretary of the corporation. A proxy shall be deemed signed if the shareholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission or otherwise) by the shareholder or the shareholder's attorney in fact. A validly executed proxy that does not state that it is irrevocable shall continue in full force and effect unless (i) revoked by the person executing it, before the vote pursuant to that proxy, by a writing delivered to the corporation stating that the proxy is revoked, or by attendance at the meeting and voting in person by the person executing the proxy or by a subsequent proxy executed by the same person and presented at the meeting; or (ii) written notice of the death or incapacity of the maker of that proxy is received by the corporation before the vote pursuant to that proxy is counted; provided, however, that no proxy shall be valid after the expiration of eleven (11) months from the date of the proxy, unless otherwise provided in the proxy. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of the Corporations Code of California.

SECTION 13 — INSPECTORS OF ELECTION

Before any meeting of shareholders, the board of directors may appoint any persons other than nominees for office to act as inspectors of election at the meeting or its adjournment. If inspectors of election are not so appointed, the chairman of the meeting may, and on the request of any shareholder or a shareholder's proxy shall, appoint inspectors of election at the meeting. The number of inspectors shall be either one (1) or three (3). If inspectors are appointed at a meeting on the request of one or more shareholders or proxies, the holders of a majority of shares or their proxies present at the meeting shall determine whether one (1) or three (3) inspectors are to be appointed. If any person appointed as inspector fails to appear or fails or refuses to act, the chairman of the meeting may, and upon the request of any shareholder or a shareholder's proxy shall, appoint a person to fill that vacancy.

These inspectors shall:

- (a) Determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity and effect of proxies;
- (b) Receive votes, ballots or consents;
- (c) Hear and determine all challenges and questions in anyway arising in connection with the right to vote;
- (d) Count and tabulate all votes or consents;
- (e) Determine when the polls shall close;
- (f) Determine the result; and
- (g) Do any other acts that may be proper to conduct the election or vote with fairness to all shareholders.

ARTICLE III — DIRECTORS

SECTION 1 — POWERS

Subject to limitations of the articles of incorporation, of the bylaws and of the California General Corporation Law as to action which shall be authorized or approved by the shareholders, and subject to the duties of directors as prescribed by the bylaws, all corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation shall be controlled by, the board of directors. Without prejudice to such general powers, but subject to the same

limitations, it is hereby expressly declared that the directors shall have the following powers, to wit:

First: To conduct, manage and control the affairs and business of the corporation and to make such rules and regulations therefor not inconsistent with law or with the articles of incorporation or the bylaws, as they may deem best.

Second: To select and remove all the other officers, agents and employees of the corporation, to prescribe such powers and duties for them as may not be inconsistent with law, with the articles of incorporation or with the bylaws, to fix their compensation and to require from them security for faithful service.

Third: To change the principal office for the transaction of the business of the corporation from one location to another within the same state, as provided in Article I, Section 1, hereof; to fix and locate from time to time one or more subsidiary offices of the corporation within or without the State of California, as provided in Article I, Section 2, hereof; to designate any place within or without the State of California for the holding of any shareholders' meeting or meetings except annual meetings; and to adopt, make and use a corporate seal, to prescribe the forms of certificates of stock and to alter the form of such seal and of such certificates from time to time as in their judgment they may deem best, provided that such seal and such certificates shall at all times comply with the provisions of law.

Fourth: To authorize the issue of shares of stock of the corporation from time to time, upon such terms as may be lawful, as dividends or in consideration of money paid, labor done or services actually rendered to the corporation or for its benefit or in its formation or reorganization, debts or securities cancelled, or tangible or intangible property actually received, but neither promissory notes of the purchaser, unless secured by property other than the shares acquired or otherwise permitted by the California Corporations Code, nor future services shall constitute payment or part payment for shares of the corporation.

Fifth: To borrow money and incur indebtedness for the purposes of the corporation and to cause to be executed and delivered therefor, in the corporate name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations or other evidences of debt and securities therefor.

Sixth: To designate, by resolution adopted by a majority of the authorized number of directors, one or more committees, each consisting of two or more directors, to serve at the pleasure of the board. The board may designate one or more directors as

alternate members of any committee, who may replace any absent member at any meeting of the committee. Any such committee shall have all the authority of the board to the extent provided in the resolution of the board or in the bylaws, except with respect to:

- (a) The approval of any action for which, under the General Corporation Law of California, also requires shareholders' approval or approval of the outstanding shares;
- (b) The filling of vacancies on the board or in any committee;
- (c) The fixing of compensation of the directors for serving on the board or on any committee;
- (d) The amendment or repeal of bylaws or the adoption of new bylaws;
- (e) The amendment or repeal of any resolution of the board which by its express terms is not so amendable or repealable;
- (f) A distribution to the Shareholder of the corporation, except at a rate, in a periodic amount or within a price range set forth in the articles or determined by the board; or
- (g) The appointment of other committees of the board or the members thereof;

Seventh: To declare dividends at such times and in such amounts as the condition of the affairs of the corporation may warrant.

Eighth: Generally to exercise all of the powers and to perform all of the acts and duties that from time to time may be permitted by law appertaining to their office.

SECTION 2 — NUMBER OF DIRECTORS

The authorized number of directors of the corporation shall be not less than six (6) nor more than nine (9). The exact number of authorized directors shall be fixed from time to time, within such range, by resolution of the Board of Directors or by the shareholders. The indefinite number of directors may be changed, or a definite number fixed without provision for an indefinite number, by an amendment to the articles of incorporation or by an amendment to this Section 2 by the vote or written consent of holders of a majority of the outstanding shares entitled to vote; provided, however, that an amendment reducing the number or the minimum number of directors to less

than five cannot be adopted if the votes cast against its adoption at a meeting of the shareholders, or the shares not consenting in the case of action by written consent, are equal to more than 16-2/3 percent of the outstanding shares entitled to vote. No amendment may change the stated maximum number of authorized directors to a number greater than two times the stated minimum number of directors minus one.

SECTION 3 — ELECTION AND TERM OF OFFICE

The directors shall be elected at each annual meeting of shareholders, but if any such annual meeting is not held or the directors are not elected thereat, the directors may be elected at any special meeting of shareholders held for that purpose. All directors shall hold office until their respective successors are elected.

SECTION 4 — VACANCIES

Vacancies in the board of directors may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director. Each director so elected shall hold office until his successor is elected at an annual or a special meeting of the shareholders.

A vacancy or vacancies in the board of directors shall be deemed to exist in case of the death, resignation or removal of any director or if the authorized number of directors be increased or if the shareholders fail, at any annual or special meeting of shareholders at which any director or directors are elected, to elect the full authorized number of directors to be voted for at that meeting.

The shareholders may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors. If the board of directors accepts the resignation of a director tendered to take effect at a future time, the board or the shareholders shall have the power to elect a successor to take office when the resignation is to become effective.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of his term of office.

SECTION 5 — PLACE OF MEETING

Regular meetings of the board of directors shall be held at any place within or without the State of California which has been designated from time to time by resolution of the board or by written consent of all members of the board. In the absence of such designation, regular meetings shall be held at the principal office of the corporation. Special meetings of the

board may be held either at a place so designated or at the principal office. Members of the board may participate in a meeting through use of conference telephone or similar communication equipment, so long as all members participating in such meeting can hear one another. Participation in a meeting by means of the above-described procedure shall constitute presence in person at such meeting.

SECTION 6 — ORGANIZATION MEETING

Immediately following each annual meeting of shareholders, the board of directors shall hold a regular meeting for the purpose of organization, election of officers and the transaction of other business. Notice of such meeting is hereby dispensed with.

SECTION 7 — SPECIAL MEETINGS

Special meetings of the board of directors for any purpose or purposes shall be called at any time by the chairman of the board or the president or vice president or the secretary or any two directors.

Written notice of the time and place of special meetings shall be delivered personally to the directors or sent to each director by mail or by other form of written communication, charges prepaid, addressed to him at his address as it appears upon the records of the corporation or, if it is not so shown or is not readily ascertainable, at the place in which the meetings of directors are regularly held. In case such notice is mailed, it shall be deposited in the United States mail in the place in which the principal office of the corporation is located at least four (4) days prior to the time of the meeting. In case such notice is delivered personally or telegraphed, it shall be so delivered or deposited with the telegraph company at least forty-eight (48) hours prior to the time of the meeting. Such mailing, telegraphing or delivery, as above provided, shall be due, legal and personal notice to such director.

SECTION 8 — ADJOURNMENT

A majority of the directors present, whether or not a quorum is present, may adjourn any directors' meeting to another time and place.

SECTION 9 — NOTICE OF ADJOURNMENT

If a meeting is adjourned for more than twenty-four (24) hours, notice of any adjournment to another time or place shall be given prior to the time of the adjourned meeting to the directors who were not present at the time of adjournment.

SECTION 10 — WAIVER OF NOTICE

The transactions at any meeting of the board of directors, however called and noticed, or wherever held, shall be as valid as though such transactions had occurred at a meeting duly held after regular call and notice if a quorum be present and if, either before or after the meeting, each of the directors not present signs a written waiver of notice of or consent to holding the meeting or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

SECTION 11 — QUORUM

A majority of the authorized number of directors shall be necessary to constitute a quorum for the transaction of business, except to adjourn as hereinabove provided. Every act or decision done or made by a majority of the directors at a meeting duly held at which a quorum is present shall be regarded as an act of the board of directors unless a greater number be required by law or by the articles of incorporation. However, a meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for such meeting.

SECTION 12 — FEES AND COMPENSATION

Directors shall not receive any stated salary for their services as directors, but, by resolution of the board, a fixed fee, with or without expenses of attendance, may be allowed to directors not receiving monthly compensation for attendance at each meeting. Nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity, as an officer, agent, employee or otherwise, and from receiving compensation therefor.

SECTION 13 — ACTION WITHOUT MEETING

Any action required or permitted to be taken by the board of directors under the California General Corporation Law may be taken without a meeting if all members of the board individually or collectively consent in writing to such action. Such consent or consents shall be filed with the minutes of the meetings of the board. Any certificate or other document filed under the provision of the California General Corporation Law which relates to action so taken shall state that the action was taken by unanimous written consent of the board of directors without a meeting and that the bylaws authorized the directors to so do.

ARTICLE IV — OFFICERS

SECTION 1 — OFFICERS

The officers of the corporation shall be a chairman of the board or a president or both, a secretary and chief financial officer (treasurer) and such other officers with such titles and duties as may be appointed in accordance with the provisions of Section 3 of this Article. Any number of offices may be held by the same person.

SECTION 2 — ELECTION

The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 3 or Section 5 of this Article, shall be chosen annually by the board of directors, and each shall hold his office until he shall resign or shall be removed or otherwise disqualified to serve or his successor shall be elected and qualified.

SECTION 3 — SUBORDINATE OFFICERS

The board of directors may appoint such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in the bylaws or as the board of directors may from time to time determine.

SECTION 4 — REMOVAL AND RESIGNATION

Any officer may be removed, either with or without cause, by a majority of the directors at the time in office, at any regular or special meeting of the board, or, except in the case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written notice to the board of directors or to the president or to the secretary of the corporation. Any such resignation shall take effect at the date of the receipt of such notice or any later time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 5 — VACANCIES

A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in the bylaws for regular appointments to such office.

SECTION 6 — CHAIRMAN OF THE BOARD

The chairman of the board, if there shall be such an officer, shall, if present, preside at all meetings of the board of directors and exercise and perform all such other powers and duties as may from time to time be assigned to him by the board of directors or prescribed by the bylaws.

SECTION 7 — PRESIDENT

The president shall, subject to the board of directors, have general supervision, direction and control of the business and of other officers and employees of the corporation. He shall preside at all meetings of the shareholders and, if there is no regular, appointed chairman of the board or if such chairman is absent, at all meetings of the board of directors. He shall be ex officio a member of all standing committees, including the executive committee, if any, and shall have general powers and duties of management, together with such other powers and duties as may be prescribed by the board of directors.

SECTION 8 — VICE PRESIDENTS

In the absence or disability of the president, the vice presidents in order of their rank as fixed by the board of directors or, if not ranked, the vice president designated by the board of directors shall perform all the duties of the president and, when so acting, shall have all the powers of and be subject to all the restrictions upon the president. Each vice president shall have such other powers and shall perform such other duties as from time to time may be prescribed for him by the board of directors or the bylaws.

SECTION 9 — SECRETARY

The secretary shall keep, or cause to be kept, a book of minutes at the principal office, or such other place as the board of directors may order, of all meetings of directors and shareholders, with the time and place of holding, whether regular or special and, if special, how authorized, the notice thereof given, the names of those present at directors' meetings, the number of shares present or represented at shareholders' meetings and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal office or at the office of the corporation's transfer agent, a share register or a duplicate share register showing the names of the shareholders and their addresses, the number and classes of shares held by each, the number and the date of certificates issued for the same, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all the meetings of the shareholders and of the board of directors required by the bylaws or by law to be given, shall keep the seal of the corporation in safe custody and shall have such other powers and shall perform such other duties as may be prescribed by the board of directors or the bylaws.

SECTION 10 — ASSISTANT SECRETARIES

In the absence or disability of the secretary, the assistant secretaries in order of their rank as fixed by the board of directors or, if not ranked, the assistant secretary designated by the board of directors shall perform all the duties of the secretary and, when so acting, shall have all the powers of and be subject to all the restrictions upon the secretary. Each assistant secretary shall have such other powers and shall perform such other duties as from time to time may be prescribed for him by the board of directors or the bylaws.

SECTION 11 — TREASURER

The chief financial officer shall be the treasurer. The treasurer shall keep and maintain, or cause to be kept and maintained, adequate and correct accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, surplus and shares.

The treasurer shall deposit all moneys and other valuables in the name and to the credit of the corporation with such depositaries as may be designated by the board of directors. He shall be responsible for the proper disbursement of the funds of the corporation as may be ordered by the board of directors and shall render to the president or directors, whenever they request it, an account of all of his transactions as treasurer and of the financial condition of the corporation. The treasurer shall prepare a proper annual budget of income and expenses for each calendar year, revised quarterly, for approval of or revision by the board of directors and shall be responsible for the handling of finances in connection therewith. He shall have such other powers and shall perform such other duties as may be prescribed by the board of directors. He shall see that all officers signing checks are bonded in such amounts as may be fixed from time to time by the board of directors.

SECTION 12 — ASSISTANT FINANCIAL OFFICERS

In the absence of or disability of the treasurer, the assistant financial officers in order of their rank or, if not ranked, the assistant financial officer designated by the board of directors shall perform all the duties of the treasurer and,

when so acting, shall have the powers of and be subject to all the restrictions upon the treasurer. Each assistant financial officer shall have such other powers and perform such other duties as from time to time may be prescribed for him by the board of directors or the bylaws.

ARTICLE V — SHARES OF STOCK

SECTION 1 — FORM AND ISSUANCE OF SHARES

The shares of the capital stock of the corporation shall be certificated or uncertificated in such form consistent with the articles of incorporation and the laws of the State of California as shall be approved by the board of directors. A share or shares of the capital stock of the corporation shall be issued to each shareholder when any of these shares are fully paid, and the board of directors may authorize the issuance of shares as partly paid provided that these shares shall state the amount of the consideration to be paid for them and the amount paid. All certificated shares shall be signed by the chairman or vice chairman of the board or the president or a vice president, and by the treasurer or an assistant financial officer or the secretary or any assistant secretary, certifying the number of shares and the class or series of shares owned by the shareholder. Any or all of the signatures on the certificate may be facsimile.

SECTION 2 — FRACTIONAL SHARES

The corporation may issue, sell or transfer fractional shares.

SECTION 3 — TRANSFER OF SHARES

Subject to the provisions of law, shares shall be transferable only on the books of the corporation by the person entitled thereto upon presentment of proper evidence of succession, assignment or authority to transfer shares in compliance with customary procedures for transferring shares in uncertificated form or upon surrender of the outstanding certificate thereto.

SECTION 4 — LOST OR DESTROYED CERTIFICATE

The holder of any shares of stock of the corporation shall immediately notify the corporation of any loss or destruction of the certificate therefor, and the corporation may issue a new certificate in the place of any certificate theretofore issued by it alleged to have been lost or destroyed, upon approval of the board of directors. The board may, in its discretion, as a condition to authorizing the issue of such new certificate, require the owner of the lost or destroyed certificate, or his

legal representative, to make proof satisfactory to the board of directors of the loss or destruction thereof and to give the corporation a bond or other security, in such amount and with such surety or sureties as the board of directors may determine, as indemnity against any claim that may be made against the corporation on account of any such certificate so alleged to have been lost or destroyed.

ARTICLE VI — MISCELLANEOUS

SECTION 1 — INDEMNITY OF OFFICERS, DIRECTORS, EMPLOYEES AND OTHER AGENTS

The corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or proceeding (other than an action by or in the right of the corporation to procure a judgment in its favor) by reason of the fact that such person is or was an agent of the corporation, against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with such proceedings if such person acted in good faith and in a manner such person reasonably believed to be in the best interests of the corporation and, in the case of criminal proceeding, with no reasonable cause to believe the conduct of such person to be unlawful. The termination of any proceeding of judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner he reasonably believed to be in the best interests of the corporation or that the person had reasonable cause to believe that his conduct was unlawful except that no indemnification shall be made:

(1) In respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation in the performance of such person's duty to the corporation, unless and only to the extent that the court in which such proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for the expenses which such court shall determine;

(2) of amounts paid in settling or otherwise disposing of a threatened or pending action, with or without court approval; or

(3) of expenses incurred in defending a threatened or pending action which is settled or otherwise disposed of without court approval.

Any indemnification under this Section shall be made by the corporation only if authorized in the specific case, upon a determination that indemnification of the agent is proper in the

circumstances because the agent has met the applicable standard of conduct, by:

(1) A majority vote of a quorum consisting of directors who are not parties to such proceeding; or

(2) Approval of the shareholders by the affirmative vote of a majority of the shares entitled to vote represented at a duly held meeting at which a quorum is present or by the written consent of shareholders as provided in Article II, section 11, with the shares owned by the person to be indemnified not being entitled to vote thereon.

Upon written request of an agent seeking indemnification under this Section, the Board by majority vote shall promptly make a determination in good faith as to whether the applicable standard of conduct has been met. If a positive determination is made, indemnification shall be authorized forthwith if the directors approving the determination includes a majority of a quorum of directors not parties to the proceeding; otherwise the question of authorization by the shareholders shall be put to a shareholder vote no later than the date of the next annual meeting and said question shall be included in any management proxy solicitation for or prior to said meeting.

Expenses incurred in defending any proceeding shall be advanced by the corporation prior to the final disposition of such proceeding upon receipt of an undertaking by or on behalf of the agent to repay such amount, unless it shall be determined ultimately that the agent is entitled to be indemnified as authorized in this Section.

For the purposes of this Section, "agent" means any person who is or was a director, officer, employee or other agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise, or was a director, officer, employee or agent of a foreign or domestic corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation; "proceeding" means any threatened, pending or completed action or proceeding, whether civil, criminal, administrative or investigative; and "expenses" includes without limitation attorneys' fees and any expenses of establishing a right to indemnification.

The right of indemnification provided for herein (a) shall not be deemed exclusive of any other rights, whether now existing or hereafter created, to which those seeking indemnification hereunder may be entitled under any agreement, bylaw or article provision, vote of shareholders or directors or

otherwise, (b) shall be deemed to create contractual rights in favor of persons entitled to indemnification hereunder, (c) shall continue as to persons who have ceased to have the status pursuant to which they were entitled or were denominated as entitled to indemnification hereunder and shall inure to the benefit of the heirs and legal representatives of persons entitled to indemnification hereunder, and (d) shall be applicable to actions, suits or proceedings commenced after the adoption hereof, whether arising from acts or omissions occurring before or after the adoption hereof. The right of indemnification provided for herein may not be amended, modified or repealed so as to limit in any way the indemnification provided for herein with respect to any acts or omissions occurring prior to the adoption of any such amendment or repeal.

The corporation has full power and authority to extend any of the indemnification benefits provided for in this Section 1 to any officer or agent of the corporation, but the corporation is under no obligation to extend such benefits to any person who is not entitled thereto by law or pursuant to the first paragraph of this section 1.

SECTION 2 — SHAREHOLDER INSPECTION OF BYLAWS

The corporation shall keep at its principal office in this state, for the transaction of business, the original, or a copy, of the bylaws and any amendments thereto, certified by the secretary, which shall be open to inspection by shareholders at all reasonable times during office hours.

SECTION 3 — MAINTENANCE AND INSPECTION OF RECORDS OF SHAREHOLDERS

The corporation shall keep at its principal executive office, or at the office of its transfer agent or registrar, if either be appointed and as determined by resolution of the board of directors, a record of its shareholders, giving the names and addresses of all shareholders and the number and class of shares held by each shareholder.

A shareholder or shareholders of the corporation holding at least five percent (5%) in the aggregate of the outstanding voting shares of the corporation may (i) inspect and copy the records of shareholders' names, addresses and shareholdings, during usual business hours on five (5) days' prior written demand on the corporation, and (ii) obtain from the transfer agent of the corporation, on written demand and on the tender of such transfer agent's usual charges for such list, a list of the shareholders' names and addresses, who are entitled to vote for the election of directors, and their shareholdings, as of the most recent record date for which that list has been compiled or as of a date specified by the shareholder after the date of

demand. This list shall be made available to any such shareholder or shareholders by the transfer agent on or before the later of five (5) days after the demand is received or the date specified in the demand as the date as of which the list is to be compiled. The record of shareholders shall also be open to inspection on the written demand of any shareholder or holder of a voting trust certificate, at any time during usual business hours, for a purpose reasonably related to the holder's interests as a shareholder or as the holder of a voting trust certificate. Any inspection and copying under this Section 3 may be made in person or by an agent or attorney of the shareholder or holder of a voting trust certificate making the demand.

SECTION 4 — SHAREHOLDER INSPECTION OF CORPORATE RECORDS

The accounting books and records and minutes of proceedings of the shareholders and the board of directors and any committee or committees of the board of directors shall be kept at such place or places designated by the board of directors, or, in the absence of such designation, at the principal executive office of the corporation. The minutes shall be kept in written form, and the accounting books and records shall be kept either in written form or in any other form capable of being converted into written form. The minutes and accounting books and records shall be open to inspection upon the written demand of any shareholder or holder of a voting trust certificate, at any reasonable time during usual business hours, for a purpose reasonably related to the holder's interests as a shareholder or as the holder of a voting trust certificate. The inspection may be made in person or by an agent or attorney and shall include the right to copy and make extracts. These rights of inspection shall extend to the records of each subsidiary corporation of the corporation.

SECTION 5 — INSPECTION BY DIRECTORS

Every director shall have the absolute right at any reasonable time to inspect all books, records and documents of every kind and the physical properties of the corporation and each of its subsidiary corporations. This inspection by a director may be made in person or by an agent or attorney, and the right of inspection includes the right to copy and make extracts of documents.

SECTION 6 — CHECKS, DRAFTS, ETC.

All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness, issued in the name of or payable to the corporation, shall be signed or endorsed by such person or persons and in such manner as from time to time shall be determined by resolution of the board of directors.

SECTION 7 — CONTRACTS, ETC., HOW EXECUTED

The board of directors, except as otherwise provided in these bylaws, may authorize any officer, or officers or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances; and, unless so authorized by the board of directors, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit to render it liable for any purpose or to any amount.

SECTION 8 — REPRESENTATION OF SHARES OF OTHER CORPORATIONS

The president or, in the event of his absence or inability to serve, any vice president and the secretary or assistant secretary of this corporation are authorized to vote, represent and exercise, on behalf of this corporation, all rights incidental to any and all shares of any other corporation standing in the name of this corporation. The authority herein granted to said officers to vote or represent on behalf of this corporation any and all shares held by this corporation in any other corporation may be exercised either by such officers in person or by any person authorized to do so by proxy or power of attorney duly executed by said officers.

SECTION 9 — ANNUAL REPORT

The annual report to shareholders referred to the California Corporations Code, and subject to the limitations thereof, is expressly waived, but the board of directors of the corporation may cause to be sent to the shareholders, not later than one hundred twenty (120) days after the close of the fiscal or calendar year, an annual report in such form as may be deemed appropriate by the board of directors.

SECTION 10 — ANNUAL STATEMENT OF GENERAL INFORMATION

The corporation shall, each year during the calendar month in which its articles of incorporation originally were filed with the California Secretary of State, or during the preceding five (5) calendar months, file with the Secretary of State, on the prescribed form, a statement setting forth the authorized number of directors, the names and complete business or residence addresses of all incumbent directors, the names and complete business or residence addresses of the chief executive officer, secretary and chief financial officer, the street address of its principal executive office or principal business office in this state, and the general type of business constituting the principal business activity of the corporation, together with a designation of the agent of the corporation for the purpose of

service of process, all in compliance with the California Corporations Code.

ARTICLE VII — AMENDMENTS TO BYLAWS

SECTION 1 — AMENDMENTS BY SHAREHOLDERS

New bylaws may be adopted or these bylaws may be amended or repealed by the vote or written consent of the shareholders entitled to exercise a majority of the voting power of the corporation, except as otherwise provided by either of these laws, these bylaws or the articles of the corporation; provided, however, that if the articles of incorporation set forth the number of authorized directors of the corporation, the authorized number of directors may be changed only by an amendment of the articles of incorporation.

SECTION 2 — AMENDMENT BY DIRECTORS

Subject to the rights of the shareholders as provided in Section 1 of this Article VII to adopt, amend or repeal bylaws, bylaws may be adopted, amended, or repealed by the board of directors; provided, however, that the board of directors may adopt a bylaw or amendment of a bylaw changing the authorized number of directors only for the purpose of fixing the exact number of directors within the limits specified in the articles of incorporation or in Section 2 of Article III of these bylaws.

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael Staran, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Enova Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation: and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2009

/s/ Michael Staran

By: Michael Staran, President and Chief Executive Officer

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jarett Fenton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Enova Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation: and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2009

/s/ Jarett Fenton

By: Jarett Fenton, Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Enova Systems, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Michael Staran, Chief Executive Officer, and Jarett Fenton, Chief Financial Officer, of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Michael Staran

Michael Staran
Principal Executive Officer
November 12, 2009

/s/ Jarett Fenton

Jarett Fenton
Chief Financial Officer
November 12, 2009

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and is not deemed filed by the Company and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934 (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.