ENOVA SYSTEMS INC
Form S-1/A
May 21, 2002

As filed with the Securities and Exchange Commission on May 21, 2002
Registration Statement No. 333-85308

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 3
TO
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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

California	3711
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)

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

19850 South Magellan Drive
Torrance, California 90502
(310) 527-2800
(Address, Including Zip Code, and Telephone Number
Including Area Code, of Registrant's Principal Executive Offices)

Carl D. Perry
Chief Executive Officer
Enova Systems, Inc.
19850 South Magellan Drive
Torrance, California 90502
(310) 527-2800
(Name, Address, Including Zip Code, and Telephone Number
Including Area Code, of Agent for Service)

Copies to:
Donald C. Reinke, Esq.
Kay F. Rubin, Esq.
Crosby, Heafey, Roach & May
1999 Harrison Street, Suite 2200
Oakland, California 94612
(510) 763-2000

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a

delayed or continuous basis pursuant under Rule 415 of the Securities Act of 1933, check the following box. |X|

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. |_|

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. |_|

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. |_|

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. |_|

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Amount to be Registered (1)	Proposed Maximum Offering Price Per Share(2)	Proposed M Aggregate Offering P
Common Stock, no par value	6,200,000	$ .15	$ 930,000

(1) Includes an indeterminate number of additional shares of common stock as may from time to time become issuable by reason of stock splits, stock dividends and other similar transactions, which shares are registered hereunder pursuant to Rule 416 under the Securities Act.

(2) The price of $0.15 per share, which was the average of the bid and asked prices for the common stock on May 17, 2002, is set forth solely for the purpose of calculating the registration fee in accordance with Rule 457(c) of the Securities Act.

(3) Previously paid.

==========

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MAY 21, 2002

Prospectus

6,200,000 Shares
Common Stock

This is a public offering of up to 6,200,000 shares of common stock of Enova Systems, Inc. and an indeterminate number of shares that may become available by reason of stock splits, stock dividends and other similar transactions. All of these shares are being offered by Fontal International, Ltd. We will not receive any of the proceeds from the sale of shares. Fontal may sell the shares offered by this prospectus from time to time in the national over-the-counter market at their prevailing prices, or in negotiated transactions.

Our common stock is traded on the National Association of Securities Dealers, Inc. Electronic Bulletin Board ("OTC Bulletin Board") under the symbol "ENVA". On May 17, 2002, the OTC Bulletin Board reported that the bid price per share was $0.15 and the asked price per share was $0.15.

Investing in the common stock involves risks.
See "Risk Factors" beginning on page 7.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares of common stock offered by this prospectus have not been registered under the blue sky or securities laws of any jurisdiction, and any broker or dealer should assure itself of the existence of an exemption from registration or the effect of such registration in connection with the offer and sale of such shares.

The date of this prospectus is May 21, 2002

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary is not complete and does not contain all the information you should

consider before buying shares in this offering. You should read the entire prospectus carefully, including the risk factors and consolidated financial statements and related notes appearing elsewhere in this prospectus. The prospectus contains forward-looking statements, which involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those described under "Risk Factors" and elsewhere in this prospectus. See "Cautionary Note on Forward-Looking Statements."

Our Company

Enova Systems believes it is a leader in the development and production of commercial digital power management 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. Our business activities focus on the development of electric and hybrid electric drive systems and related components, fuel cell power management systems for both mobile and stationary power applications, vehicle systems integration and the performance of various engineering contracts for government and commercial enterprises. Drive systems are comprised of an electric motor, an electronics control unit and a gear unit which power an electric vehicle. Hybrid systems, which are similar to pure electric drive systems, contain an internal combustion engine in addition to the electric motor, eliminating outside recharging of the battery system. A fuel cell based system is similar to a hybrid system except that instead of an internal combustion engine, a fuel cell is utilized as the power source. A fuel cell is a system which combines hydrogen and oxygen in a chemical process to produce electricity.

For the quarter ended March 31, 2002, our unaudited financial statements reflect revenues of $941,000. Our net loss from operations for the three months ended March 31, 2002 was $704,000. For the year ended December 31, 2001, our audited financial statements reflect revenues of $3,780,000. Our net loss from operations was $3,782,000.

We are now building, under contract with global vehicle and technology companies, efficient, robust, cost effective digital power processing and energy management enabling technologies for electric, hybrid electric and fuel cell powered vehicles. These power management technologies are now being applied to commercialization of fuel cell power generation for stationary non-automotive applications. A stationary application would be similar to a gas-powered generator and would utilize a fuel cell or a microturbine generator as its power source to provide electricity in remote locations or where back-up or standby power is a requirement.

Our development and production program with Ballard Power, formerly Ecostar Electric Drive Systems, for low voltage electric drive system components for use in Ford's Global Th!nk City is progressing as planned. Ford has announced that an all-electric vehicle is scheduled to be introduced in the 2nd half of 2002 for markets in North America. We are designing and manufacturing the electronics for the drive system as well as certain auxiliary components. The final prototype systems are currently undergoing pre-production testing and validation in the Ford Th!nk vehicle. We anticipate that we will begin to deliver production systems to Ballard in

August 2002. The low voltage inverter for the drive system will be priced around $2,000 per unit and will be delivered to Ballard based on their projected annual

requirements.

We continue to expand our alliances with Hyundai, Ford, other Original Equipment Manufacturers and Tier-One suppliers for sales of its automotive products. We offer our modular drive systems to Original Equipment Manufacturers and other customers. These suppliers are described in detail below and also in the Management's Discussion and Analysis section of this prospectus. Our drive systems have been successfully installed and operated in various passenger vehicles and buses operating in North America, Europe and Asia.

We have successfully integrated our newest hybrid electric Panther(TM) 120kW drive system (utilizing a microturbine produced by Capstone Microturbine Corporation as its power source) into vehicles manufactured by Wrights Environment, a division of Wrights Bus, one of the largest low-floor bus manufacturers in the United Kingdom. This is the initial delivery to Wrights as part of our agreement to manufacture and integrate pure electric and hybrid electric drive systems into Wrights' low floor, mid-size buses for sale in the United Kingdom and the European Continent. We have additionally delivered a pure electric Panther(TM) 120kW drive system to Wrights for integration into their Crusader II bus. The microturbine functions as a power source in this hybrid drive system similar to an internal combustion gas or diesel engine.

We have also delivered seventeen 120kW hybrid drive systems to Eco Power Technology in Italy along with three 40kW Fast Charger system. Eco Power is an integrator of medium size transit buses for the European shuttle bus market with key contacts in Rome and Genoa. Eco Power is integrating our systems into its midsize shuttle buses and we anticipate that they will purchase twenty to thirty additional systems during 2002. We can make no assurance that Eco Power will actually purchase any additional systems.

Our stationary power programs continue to attract new potential partners and customers from both fuel cell manufacturers and petroleum companies. It is management's belief that utilizing our power management systems for stationary applications for fuel cells will open new markets for our company. We are currently developing applications for our products in the telecommunications and distributed generation markets. Discussions are progressing well and we anticipate an initial development contract within the first half of 2002, although we can make no assurance that a development contract will materialize during this time period or at all.

Our company continues to attract new development and integration contracts with the U. S. Government's Department of Transportation, or "DOT". Enova, Hyundai Motor Company and the State of Hawaii introduced 15 Hyundai Santa Fe electric vehicles in Honolulu, Hawaii for test and evaluation prior to their entry into the U.S. markets. This program will utilize Hawaii's rapid charging stations, manufactured by AeroVironment, now being installed.

Additionally, in conjunction with the DOT and the State of Hawaii, we are integrating our drive systems into several vehicles. We have already completed the manufacture and integration of our Panther(TM) 120kW drive system into a trolley owned by E Noa Corporation for evaluation in the Hawaii tourist market. E Noa operates in the Hawaii tourist industry, providing scenic transportation services to the islands. We will also be upgrading eight

Chevrolet S-10 trucks owned by the City of Honolulu to our Panther(TM) 60kW drive system, including our BCU II battery care unit which will incorporate fast-charge capability for these vehicles. In addition, we are converting an Eldorado 30-foot bus utilizing our Panther(TM) 120kW drive system for the Hickam

Air Force base in Honolulu. All of these programs are funded in conjunction with the Hawaii Electric Vehicle Development Project, the DOT and the State of Hawaii.

Our contract with the DOT to design and test a three-car tram utilizing the Panther(TM) 120kW drive system is nearing completion. This tram, capable of carrying 100 passengers, was delivered in January 2002 to the Honolulu International Airport for test and evaluation. If successful, we intend to market this tram system to international markets for application to other airports, national and recreational parks and other high capacity transit applications.

The development of our 240kW drive system continues to progress. We are working in conjunction with other motor and gear manufacturers to develop a robust, efficient and powerful drive system for heavy-duty applications including transit buses, heavy-duty trucks and other applications.

We have had many technology advances with Hyundai Motor Company of Korea, the world's seventh largest automobile manufacturer, with engineering contracts to design, develop and test electric and hybrid electric drive systems and related products. These advances include the development of a parallel and series hybrid drive system for automobiles and medium duty truck and buses as well as power management systems for vehicle applications. A hybrid drive system utilizes both an electric motor and an internal combustion engine to maximize performance and fuel efficiency while reducing emissions. Earlier developments included our 60kW all electric drive system and our BCU II battery care unit which monitors and reports on up to 28 automotive batteries in a pack. Having successfully completed our hybrid drive system and fuel cell electric vehicle program, we are working with Hyundai to earn the production contract for their upcoming parallel hybrid drive system program. Hyundai has also produced four fuel cell driven sports utility vehicles for test and evaluation utilizing our Panther(TM) 90kW drive systems.

The industries and markets in which we compete are in their early stages, and we have not yet been able to achieve profitability in these areas, although we have established several important business alliances. We believe these alliances will enable us to gain market penetration which will allow us to become profitable in the future. In the past, the nature of our operations has been primarily research and development. We are now concentrating on production and sales, which we anticipate will increase our profitability. We can make no assurance that our efforts to increase sales or become profitable will be successful.

Our principal executive offices are located at 19850 South Magellan Drive, Torrance, California, 90502, and our telephone number is (310) 527-2800.

The Offering

Common stock offered by Fontal International, Ltd.	6,200,000 shares
Securities to be outstanding after	

this offering (1):	302,732,000 shares of common stock 2,844,336 shares of Series A Convertible Preferred Stock (convertible into an aggregate of 2,844,336 shares of common stock) ("Series A Stock") 1,217,196 shares of Series B Convertible Preferred Stock (convertible into an aggregate of 2,434,392 shares of common stock)("Series B Stock")
Voting Rights: Common Stock: 302,732,000 votes Series A Stock: 2,844,336 votes Series B Stock: 2,434,392 votes	
Use of proceeds from this offering:	We will not receive any of the proceeds from the shares of common stock sold by Fontal. See "Selling Shareholder".
OTC Bulletin Board symbol:	"ENVA"

---

(1) Securities outstanding on May 17, 2002. Excludes (A) 30,544,702 shares of common stock issuable upon exercise of outstanding options granted under our stock option plans plus an additional 19,455,298 shares reserved for issuance under our stock option plans, and (B) 15,000,000 shares issuable upon exercise of outstanding warrants.

Summary Financial Data

As of and (in thousands, except per share data)	For the Quarter ended March 31,	For the Year ended December 31,		Five Months ended Dec 31
	2002	2001	2000	1999
NET SALES	$ 941	$ 3,780	$ 2,883	$ 629
COST OF SALES	702	2,783	2,013	377
GROSS MARGIN	239	997	870	252
OTHER COSTS AND EXPENSES				
Research and Development	275	879	626	262
Selling, general and administrative	615	2,894	1,999	796
Interest and financing fees	55	113	174	724

Other expense (income)	(7)	(7)	6	
Acquisition of research and Development				
Gain on Warranty Reevaluations				
Legal Settlements		900	755	125
Total other costs and expenses	943	4,779	2,880	1,427
LOSS FROM CONTINUING OPERATIONS	(704)	(3,782)	(2,010)	(1,175)
GAIN ON DEBT RESTRUCTURING	0	354	1,551	214
NET LOSS	$ (704)	$ (3,428)	$ (459)	$ (961)
PER COMMON SHARE:				
Loss from continuing operations	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)
Gain on debt restructuring			$ 0.01	
Net loss per common share	$ (0.01)	$ (0.01)	$ 0.00	$ (0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	302,532	275,189	235,199	251,994
Total Assets	$ 4,121	$ 4,340	$ 3,094	$ 2,697
Long-term debt	$ 3,332	$ 3,332	$ 3,332	$ 3,332
Shareholders' equity (deficit)	$ (933)	$ (232)	$ (1,648)	$ (5,015)

RISK FACTORS

You should carefully consider the following risks and all other information contained in this prospectus before you decide to buy our common stock. We have included a discussion of each material risk that we have identified as of the date of this prospectus. If any of the following risks actually occur, our business, financial condition or operating results could suffer. If this occurs, the trading price of our common stock could decline, and you could lose all or part of the money you paid to buy our common stock.

Risks Relating to this Offering

Economic conditions beyond our control may keep the price of our stock low.

Numerous factors, many of which are beyond our control, may cause the market price of our common stock to fluctuate significantly. These factors include, but are not limited to, the following:

- continued losses;
- announcements concerning us, our competitors or our customers;
- market conditions in the electric vehicle and the hybrid electric vehicle industry and the general state of the securities markets.

General economic, political and market conditions, including recession, international instability or military tension or conflicts may adversely affect

the market price of our common stock. If we are named as a defendant in any securities-related litigation as a result of decreases in the market price of our shares, we may incur substantial costs, and our management's attention may be diverted, for lengthy periods of time. The market price of our common stock may not increase above the offering price or maintain its price at or above any particular level.

Securities traded on the OTC Bulletin Board are generally thinly traded and an active market may never develop.

Our common stock trades on the OTC Bulletin Board. Shares traded in the OTC market are generally bought and sold in small amounts, highly volatile and not usually followed by analysts. You may therefore have difficulty selling your shares in the resale market.

"Penny stock" regulations may impose restrictions on marketability of our stock.

The Securities and Exchange Commission has adopted regulations which generally define "penny stock" to be any equity security that is not traded on a national securities exchange or NASDAQ and that has a market price of less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exceptions. Since our securities that are currently included on the OTC Bulletin Board are trading at less than $5.00 per share at any time, our stock may become subject to rules that impose

additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors. Accredited investors generally include investors that have assets in excess of $1,000,000 or an individual annual income exceeding $200,000, or together with the investor's spouse, a joint income of $300,000. For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of the securities and must receive the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving penny stock, unless exempt, the rules require, among other things, the delivery, prior to the transaction, of a risk disclosure document mandated by the SEC relating to the penny stock market and the risks associated therewith. The broker-dealer must also disclose the commission payable to both the broker-dealer and the registered representative, current quotations for the securities and, if the broker-dealer is the sole market-maker, the broker dealer must disclose this fact and the broker-dealer's presumed control over the market. Finally, monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. Consequently, the penny stock rules may restrict the ability of broker-dealers to sell our securities and may affect your ability to sell your shares in the secondary market.

We do not expect to pay dividends in the foreseeable future.

We have not declared or paid any cash dividends in the past and do not expect to pay cash dividends in the foreseeable future. We intend to retain our future earnings, if any, to finance the development of our business. We are required to pay dividends on our Series A Stock and our Series B Stock before we may pay dividends on our common stock. At March 31, 2002, we had an accumulated deficit of approximately $90,997,000 and, until this deficit is eliminated, we are prohibited from paying dividends on any class of our stock except out of net profits unless we can meet certain assets and other tests under Sections 500 through 511 of the California Corporations Code. Our board of directors will

determine any future dividend policy in light of the all of the foregoing information and then existing conditions, including our earnings, financial condition and financial requirements. You may never receive dividend payments from us.

As of the date of this prospectus, we have outstanding 302,732,000 shares of common stock, 2,844,336 shares of Series A Stock, each of which is convertible into one share of common stock, and 1,217,196 shares of Series B Stock, each of which is convertible into two shares of common stock. Sales of a substantial number of shares of our common stock in the public market following this offering could cause our stock price to decline. All the shares sold in this offering will be freely tradable. Currently 93,676,002 shares of common stock are freely tradable and an additional 5,278,728 shares of Series A Stock or Series B Stock would be freely tradable upon conversion to common stock. An additional 131,494,137 shares of common stock are eligible for sale in the public market subject to volume restrictions of Rule 144, shares of common stock issuable upon exercise of outstanding options will become freely tradable upon issuance. In addition, the sale of these shares could impair our ability to raise capital through the sale of additional stock. See "Shares Eligible for Future Sale."

Our principal shareholders, executive officers and directors have substantial control over most matters submitted to a vote of the shareholders, thereby limiting your power to influence corporate action.

Our officers, directors and principal shareholders beneficially own approximately 60% of our common stock (including in that percentage shares of our Series A Stock and Series B Stock). As a result, these shareholders have the power to control the outcome of most matters submitted to a vote of shareholders, including the election of members of our board, and the approval of significant corporate transactions. The shareholders purchasing shares in this offering will have little influence on these matters. This concentration of ownership may also have the effect of making it more difficult to obtain the needed approval for some types of transactions that these shareholders oppose, and may result in delaying, deferring or preventing a change in control of our company.

The effects of anti-takeover provisions in our charter and bylaws could inhibit the acquisition of us by others.

Several provisions of our articles of incorporation and bylaws could discourage potential acquisition proposals and could delay or prevent a change in control of our company.

Risks Related to Our Business

Our industry is new and is subject to technological changes.

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

are developing new technologies. Cost-effective methods to reduce price per kilowatt have yet to be established and the stationary power market is not yet viable.

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

There are substantial risks involved in the development of unproven products.

In order to remain competitive, we must adapt existing products as well as develop new products and technologies. In fiscal years 2000 and 2001 we spent in excess of $1.5 million on research and development of new products and technology. Despite our best efforts a new product or technology may prove to be unworkable, not cost effective, or otherwise unmarketable. We can give you no assurance that any new product or technology we may develop will be successful or that an adequate market for such product or technology will ever develop.

We may be unable to effectively compete with other companies who have significantly greater resources than we have.

Many of our competitors, in the automotive, electronic and other industries, are larger, more established companies that have substantially greater financial, personnel, and other resources than we do. These companies may be actively engaged in the research and development of power management and conversion systems. Because of their greater resources, some of our competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the promotion and sales of their products than we can. We believe that developing and maintaining a competitive advantage will require continued investment in product development, manufacturing capability and sales and marketing. We cannot assure you that we will have sufficient resources to make the necessary investments to do so. In addition, current and potential competitors may establish collaborative relationships among themselves or with third parties, including third parties with whom we have relationships. Accordingly, new competitors or alliances may emerge and rapidly acquire significant market share.

We have continued losses.

Our company was founded in 1976 as Clover Solar Corporation, but initial sales were very limited and were unprofitable as a manufacturer of solar powered toys. The name was then changed to Solar Electric Engineering in 1978. In 1992, we became known as U. S. Electricar, Inc. In July 2000, we changed our name to Enova Systems, Inc.

We have been profitable in only one year, fiscal 1986. For the three months ended March 31, 2002, the Corporation lost an additional $704,000 on sales of $941,000. There can be no assurance that we will achieve profitability in the near or foreseeable future.

If we do not raise significant additional capital, we will be unable to fund continuing operations and will likely be forced to reduce or even cease operations.

We need substantial working capital to fund our operations. As of March 31, 2002, we had cash, cash equivalents and short-term investment balances of approximately $793,000. Our projections show that cash on hand as of March 31, 2002 will be sufficient to fund operations at the current level through December 2002 based in part upon receipt of additional capital from our majority stockholder, Jagen Pty, Ltd. Jagen has committed to fund up to $2,000,000 during 2002.

We are currently negotiating to correct a payment default with respect to a $120,000 unsecured note to Jeann Schulz. Unless we are successful in our efforts to raise additional funds, our cash resources will be used to satisfy our existing liabilities, such as that of Ms. Schulz, and we will be unable to fund our current operations, which may result in the reduction or cessation of operations. Even if we are successful in these efforts to raise funds, such funds may not be adequate to fund our operations on a long-term basis.

Future equity financings may dilute your holdings in our company.

We need to obtain additional funding through public or private equity or debt financing, collaborative agreements or from other sources. If we raise additional funds by issuing equity securities, current shareholders may experience significant dilution of their holdings. We may be unable to obtain adequate financing on acceptable terms, if at all. If we are unable to obtain adequate funds, we may be required to reduce significantly our spending and delay, scale back or eliminate research, development or marketing programs, or cease operations altogether.

Potential intellectual property, shareholder or other litigation could adversely impact our business.

Because of the nature of our business, we may face litigation relating to intellectual property matters, labor matters, product liability or shareholder disputes. Any litigation could be costly, divert management attention or result in increased costs of doing business. Although we intend to vigorously defend any future lawsuits, we cannot assure you that we would ultimately prevail in these efforts. An adverse judgment could negatively impact the price of our common stock and our ability to obtain future financing on favorable terms or at all.

We may be exposed to product liability or tort claims if our products fail, which could adversely impact our results of operations.

A malfunction or the inadequate design of our products could result in product liability or other tort claims. Accidents involving our products could lead to personal injury or physical damage. Any liability for damages resulting from malfunctions could be substantial and could materially adversely affect our business and results of operations. In addition, a well-publicized actual or perceived problem could adversely affect the market's perception of our products. This could result in a decline in demand for our products, which would

materially adversely affect our financial condition and results of operations.

We are highly subject to general economic conditions.

The financial success of our company is sensitive to adverse changes in general economic conditions, such as inflation, unemployment, and consumer demand for our products. These changes could cause the cost of supplies, labor, and other expenses to rise faster than we can raise prices. Such changing conditions also could significantly

reduce demand in the marketplace for our products. We have no control over any of these changes.

We are an early growth stage company.

Although our company was originally founded in 1976, many aspects of our business are still in the early growth stage development, and our proposed operations are subject to all of the risks inherent in a start-up or growing business enterprise, including the likelihood of continued operating losses. The likelihood of our success must be considered in light of the problems, expenses, difficulties, complications, and delays frequently encountered in connection with the growth of an existing business, the development of new products and channels of distribution, and current and future development in several key technical fields, as well as the competitive and regulatory environment in which we operate.

We operate in a highly regulated business environment and changes in regulation could impose costs on us or make our products less economical.

Our products are subject to federal, state, local and foreign laws and regulations, governing, among other things, emissions as well as laws relating to occupational health and safety. Regulatory agencies may impose special requirements for implementation and operation of our products or may significantly impact or even eliminate some of our target markets. We may incur material costs or liabilities in complying with government regulations. In addition, potentially significant expenditures could be required in order to comply with evolving environmental and health and safety laws, regulations and requirements that may be adopted or imposed in the future.

We are highly dependent on a few key personnel and will need to retain and attract such personnel in a labor competitive market.

Our success is largely dependent on the performance of our key management and technical personnel, including Carl Perry, our Chief Executive Officer, Abas Goodarzi, our Chief of Technology, Don Kang, our Vice President of Engineering and Larry Lombard, Finance and Administration, the loss of one or more of whom could adversely affect our business. Additionally, in order to successfully implement our anticipated growth, we will be dependent on our ability to hire additional qualified personnel. There can be no assurance that we will be able to retain or hire other necessary personnel. We do not maintain key man life insurance on any of our key personnel. We believe that our future success will depend in part upon our continued ability to attract, retain, and motivate additional highly skilled personnel in an increasingly competitive market. There are minimal barriers to entry in our market.

We presently license or own a limited amount of proprietary technology and, therefore, have created little or no barrier to entry for competitors other than the time and significant expense required to assemble and develop similar

production and design

capabilities. Our competitors may enter into exclusive arrangements with our current or potential suppliers, thereby giving them a competitive edge which we may not be able to overcome, and which may exclude us from similar relationships.

Our industry is affected by political and legislative changes.

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

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

Some of the matters discussed under the captions "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this prospectus include forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "predicts," "potential," "continue," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates" and similar expressions. These statements are based on our current beliefs, expectations and assumptions and are subject to a number of risks and uncertainties. Actual results, levels of activity, performance, achievements and events may vary significantly from those implied by the forward-looking statements. A description of risks that could cause our results to vary appears under the caption "Risk Factors" and elsewhere in this prospectus. These forward-looking statements are made as of the date of this prospectus, and, except as required under applicable securities law, we assume no obligation to update them or to explain the reasons why actual results may differ.

USE OF PROCEEDS

All proceeds from any sale of shares of common stock offered by the selling shareholder will be received by the selling shareholder and not by us.

PRICE RANGE OF COMMON STOCK

Our common stock is traded in the National Association of Securities Dealers, Inc. Electronic Bulletin Board ("OTC Bulletin Board") under the symbol "ENVA". The following table sets forth, for the fiscal quarters indicated, the high and

low prices for our common stock as reported on the OTC Bulletin Board by the National Quote Bureau. The following over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not necessarily represent actual transactions.

	Common Stock High Price	Low Price	Average Daily Volume
Fiscal 2000			
First Quarter	$ 0.77	$ 0.31	1,337,885
Second Quarter	$ 0.47	$ 0.23	476,538
Third Quarter	$ 0.44	$ 0.20	476,523
Fourth Quarter	$ 0.42	$ 0.16	332,731
Fiscal 2001			
First Quarter	$ 0.31	$ 0.17	237,760
Second Quarter	$ 0.31	$ 0.15	245,504
Third Quarter	$ 0.26	$ 0.13	116,110
Fourth Quarter	$ 0.31	$ 0.13	197,554
Fiscal 2002			
First Quarter	$ 0.23	$ 0.14	265,875
Second Quarter (through May 17, 2002)	$ 0.18	$ 0.14	127,248

DIVIDEND POLICY

We have never declared or paid any cash dividends on our capital stock. We retain any future earnings to fund our business. Additionally, we are required to pay dividends on our Series A Stock and our Series B Stock before we may pay dividends on our common stock. Therefore, we do not anticipate paying cash dividends on our common stock in the foreseeable future. At March 31, 2002, we had an accumulated deficit of approximately $90,997,000. Until this deficit is eliminated, we are prohibited from paying dividends on any class of our stock except out of net profits unless we can meet certain assets and other tests under Sections 500 through 511 of the California Corporations Code. Our board of directors will determine any future dividend policy in light of the all of the foregoing information and then existing conditions, including our earnings, financial condition and financial requirements.

CAPITALIZATION

The following table summarizes our balance sheet data as of March 31, 2002, December 31, 2001 and December 31, 2000:

	As of 03/31/200
DEBT:	
Long Term Debt - CMAC Note	3,332

SHAREHOLDERS DEFICIT:	
Series A preferred stock - No par value; 30,000,000 shares authorized; 2,844,000 shares issued and outstanding at 03/31/02, 12/30/01 and 12/31/00	1,867
Series B preferred stock - No par value; 5,000,000 shares authorized; 1,217,000 shares issued and outstanding at 03/31/02, 12/30/01 and 12/31/00	2,434
Stock notes receivable	(1,208
Common Stock - No par value; 500,000,000 shares authorized; 302,732,000 issued and outstanding at 03/31/02, 302,702,000 and 244,249,000 shares issued and outstanding at 12/31/01 and 12/31/00	79,862
Common stock subscribed	160
Additional paid-in capital	6,949
Accumulated deficit	(90,997
Total Shareholders Deficit	(933
TOTAL CAPITALIZATION	$ 2,399

This information should be read together with our Financial Statements and the related Notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus.

SELECTED FINANCIAL DATA

The following selected financial data tables set forth selected financial data for three months ended March 31, 2002, the year ended December 31, 2001 and 2000, the five month period ended December 31, 1999 and the fiscal years ended July 31, 1999, 1998 and 1997. The five-month period is related to a change in the fiscal year end which was effective December 31, 1999. The statement of income data and balance sheet data for the three months ended March 31, 2002 are unaudited. The statement of income data and balance sheet data for and as of the end of the year ended December 31, 2001 and 2000, the five month period ended December 31, 1999 and the three years ended July 31, 1999 are derived from the audited Financial Statements of Enova. The following selected financial data should be read in conjunction with, and are qualified in their entirety by, our financial statements, including the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the following pages of this prospectus.

As of and (in thousands, except per share data)	For the Quarter ended March 31,	For the Year ended December 31,		Five Months ended Dec 31
	2002	2001	2000	1999
NET SALES	$ 941	$ 3,780	$ 2,883	$ 629
COST OF SALES	702	2,783	2,013	377
GROSS MARGIN	239	997	870	252

OTHER COSTS AND EXPENSES				
Research and Development	275	879	626	262
Selling, general and administrative	615	2,894	1,999	796
Interest and financing fees	55	113	174	724
Other expense (income)	(7)	(7)	6	
Acquisition of research and Development				
Gain on Warranty Reevaluations				
Legal Settlements		900	755	125
Total other costs and expenses	943	4,779	2,880	1,427
LOSS FROM CONTINUING OPERATIONS	(704)	(3,782)	(2,010)	(1,175)
GAIN ON DEBT RESTRUCTURING	0	354	1,551	214
NET LOSS	$ (704)	$ (3,428)	$ (459)	$ (961)
PER COMMON SHARE:				
Loss from continuing operations	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)
Gain on debt restructuring			$ 0.01	
Net loss per common share	$ (0.01)	$ (0.01)	$ 0.00	$ (0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	302,532	275,189	235,199	251,994
Total Assets	$ 4,121	$ 4,340	$ 3,094	$ 2,697
Long-term debt	$ 3,332	$ 3,332	$ 3,332	$ 3,332
Shareholders' equity (deficit)	$ (933)	$ (232)	$ (1,648)	$ (5,015)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this Management's Discussion and Analysis of Financial Condition and Results of Operations in conjunction with our 2002 and 2001 Financial Statements and Notes thereto. The matters addressed in this Management's Discussion and Analysis of Financial Condition and Results of Operations, with the exception of the historical information presented contains certain forward-looking statements involving risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading "Risk Factors."

Overview

Enova develops and produces advanced software, firmware and hardware for applications in the alternative power industry. Our focus is digital power conversion, power management, and system integration, for two broad market applications - vehicle power generation and stationary power generation.

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

Our products and systems are the enabling technologies for power systems. Without these types of enabling technologies, power cannot be converted into the appropriate form required by the vehicle or device; nor is power properly managed to protect the battery, vehicle or device, and user.

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.

During 2001, we expanded our sales and development efforts to capture additional global market share for our product line and our technical expertise. We expanded into European and Asian markets with our heavy duty drive systems and continued to progress on our development programs with Ford, Ballard, Hyundai and the DOT. Our

balance sheet strengthened, we are now focusing on building our product line, increasing our market share and developing the next generation of advanced power management and conversion systems.

Our operations during the year ended December 31, 2001 were financed by development contracts and product sales, as well as an additional equity infusion of $3,000,000 from Jagen Pty, Ltd and Anthony Rawlinson for the purchase of 50,000,000 shares of common stock, as previously reported.

We have completed the restructuring of our prior liabilities and debt. It is our intention to continue to seek additional financing through private placements and other means to increase research and development spending, procure inventory and seek additional alliances to market our products. As of May 17, 2002, we have received a commitment from Jagen Pty, Ltd to fund up to $2,000,000 during 2002.

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. Actual results could differ significantly from those estimates under different assumptions and conditions. The Company believes that the following discussion addresses the Company's most critical accounting policies, which are those that are most important to the portrayal of the Company's financial condition and results. The Company constantly re-evaluates these significant factors and makes adjustments where facts and circumstances dictate. Historically, actual results have not

significantly deviated from those determined using the necessary estimates inherent in the preparation of financial statements. Estimates and assumptions include, but are not limited to, customer receivables, inventories, equity investments, fixed asset lives, contingencies and litigation. The Company has also chosen certain accounting policies when options were available, including:

- The first-in, first-out (FIFO) method to value our inventories;
- The intrinsic value method, or APB Opinion No. 25, to account for our stock options;
- Review of customers' receivable to determine the need for an allowance for credit losses based on estimates of customers' ability to pay. If the financial condition of our customers were to deteriorate, additional allowances may be required.

These accounting policies are applied consistently for all years 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 consolidated financial statements.

The financial statements present our financial condition as of March 31, 2002, December 31, 2001 and 2000, the results of operations and cash flows for the three months ended March 31, 2002, the year ended December 31, 2001 and 2000 and the five month period ended December 31, 1999, as well as the three preceding fiscal years ended July 31, 1999, 1998 and 1997. All references to the 1999 fiscal year denote the twelve months ended July 31, 1999.

Three Months Ended March 31, 2002

During the three months ended March 30, 2002, we continued to develop and produce electric and hybrid electric drive systems and components for Ford Motor Company, Hyundai Motor Company and several domestic and international vehicle and bus manufacturers. We also are continuing on our current research and development programs with Hyundai Motor Company and the U.S. Department of Transportation as well as developing new programs with Hyundai and the federal government.

Ford Motor Company

Our program with Ford Motor Company to develop and manufacture a high power, high voltage conversion module for their fuel cell vehicle is progressing well. The High Voltage Energy Converter was a key component in Ford's Focus FCV, which was featured at the New York International Auto Show in February 2002. The high voltage conversion module converts high voltage power from the fuel cell into a lower voltage. We are currently in the second phase of this program and the units are meeting expectations in performance and reliability. In the three months ended March 31, 2002, we billed approximately $70,000 from this Ford program.

Ballard Power

Our development and production program with Ballard Power for low voltage electric drive system components for use in Ford's Global Th!nk City has moved into its production phase. Ford has announced that the all-electric vehicle is scheduled to be introduced in 2002 for markets in North America and Europe. We have designed and are commencing high-volume manufacturing of the electronics

for the drive system including the power inverter, charger and controller. In conjunction with Hyundai Autonet of Korea, we are finalizing production planning for initial production systems to be delivered in mid 2002. Gross revenues for the three months ended March 31, 2002 from this Ballard program were approximately $69,000. Additional revenues for non-recurring engineering will be realized in the second quarter and production revenues should commence in the third quarter of 2002 based on projections we have received from Ford and Ballard. We anticipate that sales of these systems will provide additional revenues in the upcoming years, however, we cannot assure that there will be any such future revenues.

Hyundai Motor Company Programs

Hyundai continues to contract with our company for the development of advanced hybrid and fuel cell powered drive systems. In regards to passenger vehicle programs, we have developed a commercially viable parallel hybrid motor and controller for Hyundai's new hybrid vehicle to be introduced in 2004. We have teamed with SL Montevideo of Minnesota and Hyundai Heavy Industries of Korea to build this new motor and controller. The prototype drive system for this program was delivered to Hyundai Motor Company in February 2002. We expect to learn the results of Hyundai's evaluation of the prototype during the second quarter of 2002.

Additionally, Hyundai Motor is procuring a number of our High Energy Converter modules for use in their hybrid fuel cell programs. Hyundai has indicated that they will purchase additional systems for other programs during 2002.

Development programs with Hyundai generated approximately $470,000 in sales for the quarter ended March 31, 2002. We anticipate additional contracts for both development and purchase of our components during 2002 for Hyundai's alternative vehicle applications, however we cannot assure that such additional contracts will be realized.

Light-Duty Drive Systems

In addition to the 30kW motor controller, charger and DC-DC converter that we, in alliance with Hyundai Autonet, are manufacturing for Ballard Power, we are also marketing and manufacturing our Panther(TM) 90kW drive systems. Our 90kW controller, motor and gear unit provide outstanding performance for light duty vehicles such as midsize automobiles and delivery vehicles. Our outsource manufacturer for the Panther(TM) 90kW drive system is Hyundai Heavy Industries.

We have received a purchase order for over 200 Panther(TM) 90kW drive systems for delivery in 2002 and 2003 from Voltage Vehicles of California, an integrator of specialty vehicles. We have begun delivery of these systems and anticipate producing approximately 100 systems representing approximately $1,000,000 in gross revenues this year. Additionally, we are discussing further sales of this system configuration to other domestic and international customers; however, we can give no assurance at this time that such discussions will result in any further sales.

Heavy-Duty Drive Systems

Sales of our Panther(TM) 120kW drive systems continue to provide increased revenues for our company. We are selling drive systems to manufacturers in Europe and Japan as well as domestically. Hyundai Heavy Industries is also our

outsource manufacturer for the Panther(TM) 120kW as well as the motor and controller for our Panther(TM) 240kW drive systems.

Eco Power Technology of Italy has purchased an additional 27 Panther(TM) 120kW electric and hybrid electric drive systems which will be delivered in 2002. The hybrid electric drive systems include the Capstone 30kW microturbine as their power source. Eco Power is one of the largest integrators of medium size transit buses for the European

shuttle bus market with key customers in Rome and Genoa. Total sales for the quarter ended March 31, 2002 from Eco Power were $152,000 which does not include the new systems sales.

Wrights Environment, a division of Wrights Bus, one of the largest low-floor bus manufacturers in the United Kingdom, has integrated our hybrid electric Panther(TM) 120kW drive system, which utilizes a microturbine from Capstone Turbine Corporation as its power source. The bus is currently performing to specifications and has been tested at the Milford Test facility, a renowned European bus test location. Wrights has purchased additional pure electric drive systems for their midsize buses for sale in the United Kingdom and the European Continent. Further, we are in negotiations with them to purchase both our new 240kW drive system and our Fast Charger system. We anticipate additional orders for both electric and hybrid-electric 240kW drive systems during 2002; however, we cannot assure at this time that such additional contracts will be realized.

Tomoe Electro-Mechanical Engineering and Manufacturing, Inc. and Moria Corporation of Japan have both received our 120kW drive systems and have begun integrating them into their bus platforms. We are working closely with these companies to ensure a successful integration and future sales. We anticipate that both companies will purchase additional systems during 2002, however we can make no assurance that any purchases will occur.

The development of a utility vehicle for Southern California Edison, in partnership with the South Coast Air Quality Management District, utilizing our 120kW drive system and a Capstone Turbine Corporation 30kW microturbine continues on schedule. We are completed the development and production of our additional power management accessories for this vehicle so that it can run power applications such as drills and motors used by the Southern California Edison technicians. The purpose of this project is to demonstrate and evaluate this unique hybrid power drive system. Our system will be able to power the vehicle as well as the auxiliary utility accessories which will eliminate the need for a separate diesel generator normally trailered behind the vehicle. These systems have been delivered and are being integrated into the vehicle. This line service truck will be a demonstration vehicle, which we anticipate will lead to sales to utility companies throughout the U.S. We cannot assure at this time that such sales will occur.

In the high performance heavy-duty drive system area, our 240kW drive system has been successfully integrated into a heavy-duty application and its performance is exceeding expectations. We have currently produced five initial systems and have begun on the next order for five to ten more. Advanced Vehicle Systems "AVS" of Tennessee has purchased one electric 240kW system and is in the process of integration and performance evaluation. The 240kW drive system is designed for heavy-duty applications such as transit buses and heavy-duty trucks. We are finalizing an agreement with Hyundai for the purchase of this 240kW system for their heavy-duty vehicle applications which will be combined with a fuel cell

for urban and transit bus applications. Additionally, we are in discussions with Wrights of the United Kingdom and other bus manufacturers regarding the purchase of these drive systems in 2002. We

can make no assurance that these discussions will result in any sales of the Panther(TM) 240kW drive system.

Research and Development Programs

Our research and development programs with the U.S. department of Transportation and the State of Hawaii continue to provide us with new insights and innovations in the development and integration of our electric vehicle programs.

The Hyundai Santa Fe electric vehicle program has provided us with valuable data regarding performance, battery life and vehicle maintenance. The program utilizes Hawaii's rapid charging stations, manufactured by AeroVironment, and has enabled us to fine tune our power management systems to the specifications of numerous battery manufacturers. The contract has two elements, one for integration of our BCU II battery care unit, which allows the vehicles to accept fast charging, and a second contract for maintenance of the vehicles over the two-year program. The participants in the program include state and local offices as well as Hickam Air Force base. The vehicles are performing well and reports on their performance and handling continue to be positive.

Our contract with the DOT to design and test a three-car tram utilizing the Panther(TM) 120kW drive system has been completed and has been delivered to the High Technology Development Corporation's facility in Honolulu. This tram, capable of carrying 100 passengers, will now be delivered to the Honolulu International Airport for further test and evaluation. If successful, we intend to market this tram system to international markets for application to other airports, national and recreational parks and other high capacity transit applications.

The Eldorado 30-foot bus conversion utilizing our Panther(TM) 120kW drive system for the Hickam Air Force base is nearing completion. The success of this program is leading to a potential new contract with Hickam to integrate a hybrid drive system into a second 30-foot bus for the Air Force base. We cannot assure at this time that such a contract will be finalized.

All of these programs are funded in conjunction with the Hawaii Electric Vehicle Development Project, the DOT and the State of Hawaii.

We will continue to establish new development programs with the Hawaii High Technology Development Corporation as well as other state and federal government agencies as funding becomes available.

Stationary Power Applications

Our stationary power programs continue to attract new potential partners and customers from both fuel cell manufacturers and petroleum companies. It is our belief that utilizing our power management systems for stationary applications for fuel cells will open new markets for our company. We are also developing applications for these products in the telecommunications and distributed generation markets. We can make no assurance

that we will successfully develop such applications or that any such applications will find acceptance in the marketplace.

Our fuel cell care units are being delivered to UTC Fuel Cells, a division of United Technologies Corp., for use in their stationary fuel cell systems. To date, UTC Fuel Cells and Hamilton Sundstrand, an aerospace division of United Technologies, have ordered approximately 30 fuel cell care units. The Hyundai companies have also expressed interest in working with us on the development of advanced fuel cell management technologies and we are currently in negotiations with a domestic energy company for stationary applications of our fuel cell management system. We believe this market will play a key role in our future and we continue to pursue alliances with leading manufacturers in this area, however, we can make no assurance that this market will develop as anticipated or that such alliances will occur.

LIQUIDITY AND CAPITAL RESOURCES

We have experienced cash flow shortages due to operating losses primarily attributable to research, development, marketing and other costs associated with the our strategic plan to become an international manufacturer and supplier of electric propulsion and power management systems and components. Cash flows from operations have not been sufficient to meet our obligations as they came due. We have therefore had to raise funds through several financial transactions. At least until we reach breakeven volume in sales and develop and/or acquire the capability to manufacture and sell its products profitably, we will need to continue to rely on cash from external financing. We anticipate that it will require additional outside financing to meet research and development expenditures through 2003.

We have completed the restructuring of our prior liabilities and debt. It is our intention to continue to seek additional financing through private placements and other means to increase research and development spending, procure inventory and seek additional alliances to market our products. As of May 17, 2002, we have received a commitment from Jagen Pty, Ltd to fund up to $2,000,000 during 2002.

During the three months ended March 31, 2002, we spent $387,000 in cash on operating activities to fund the net loss of $704,000 resulting from factors explained in the following section of this discussion and analysis. Accounts receivable decreased by $359,000 due to aggressive collection of receivables. Inventory increased by $420,000 from December 31, 2001 as we continue to build up our raw materials and work in progress inventories for the Ballard production commencing in second quarter 2002 and other programs such as our 120kW drive system sales to EcoPower, Wrights and other bus manufacturers.

Current liabilities increased by a net of $434,000 due to purchases made in connection with various on-going development programs. As we expand our customer base and produce higher inventories for sales, we have negotiated extended terms with several of our key suppliers, which allows us improved cash flows. Interest accruing on notes payable increased by $27,000 for the three months ended March 31, 2002 compared

with the similar period in 2001 due to an increase in the interest rate on the $3.3 million CMAC note per the terms of that agreement.

RESULTS OF OPERATIONS for the Three Months Ended March 31, 2002

Net sales in the three months ending March 31, 2002 decreased by $174,000 from the corresponding quarter in 2001. The decrease as compared with the prior year was primarily due to carry forward of the Ballard billings which would have increased sales over the prior year had they been included in this quarter. Due to milestone restrictions set forth by Ballard, these revenues will not be earned until the final hardware is proven.

We believe these revenues will be booked during the second quarter of 2002. Development contracts with Hyundai Motor Company, Ballard Power Systems (for the Ford Th!nk City Car) and Eco Power Technology account for a majority of the Company's sales in the first quarter of 2002.

Cost of sales in the quarter ended March 31, 2002 increased to $702,000 compared to cost of sales of $658,000 for the same three-month period in 2001. Costs incurred with respect to the Ballard development program have been recorded to cost of sales prior to the booking of the revenues associated with that program due to certain contract limitations set forth by Ballard. We believe these associated revenues will be recorded in the second quarter of 2002.

Research and development expense increased in the first quarter of 2002 to $275,000 as compared with $267,000 in the first quarter of 2001. We intend to utilize internal research and development as well as seek partners in the mobile and stationary alternative energy fields to develop new and enhanced products for drive system and distributed generation markets.

Selling, general and administrative expense increased $167,000 to $615,000 for the three months ended March 31, 2002 from the previous year's comparable period. We incurred additional professional fees in the amount of approximately $100,000 in connection with a Form S1 prospectus filing during the first quarter of 2002. Additionally, we incurred additional marketing and travel expenses in our efforts to attract new customers and partners for the sale and distribution of our products.

Interest and financing fees increased to $55,000 in the first quarter of 2002 from $28,000 in the first quarter of 2001. Interest costs have increased due to a change in interest accrual for our $3.3 million CMAC note in accordance with the original terms of that note.

We incurred a net loss from continuing operations of $704,000 in the first quarter of 2002 compared to a net loss of $270,000 in the first quarter of 2001. As discussed above, the net loss for the first quarter was significantly affected by the exclusion of the Ballard revenues, which could not be included.

Three Years Ended December 31, 2001

Our fiscal year ends December 31. All year references refer to fiscal years.

During 1999, we concentrated on creating new business in the mobile power management and conversion markets as well as reducing operating costs and outstanding debt. Our business activities focused on the development of electric and hybrid electric drive trains and related components, fuel cell systems, vehicle systems integration and the performance of various engineering contracts. Enova completed several key contracts with the U.S. Government's Defense Advanced Research Project Agency or "DARPA" and the DOT, including the analysis of a new plastic lithium ion vehicle battery concept, testing of advanced vehicle batteries and development of an airport electric passenger tram system. We have enhanced our relationship with Hyundai, the world's seventh largest automobile manufacturer, with several engineering contracts to design, develop and test electric and hybrid electric drive systems and related products. We completed development of an advanced battery charging unit and a parallel hybrid production vehicle, and continue to produce the family of Panther(TM) drive systems for their electric vehicles. We also developed a high power charger for use with our drive systems. Hyundai has adapted a customized version of the Panther(TM) 60 for their production electric vehicle, the Santa Fe sports utility vehicle.

Beginning in 2000, we started working with Ecostar Electric Drive Systems, now known as Ballard Power, to develop and manufacture low voltage electric drive system components for use in Ford's Global Th!nk City. Ballard has announced that an all-electric vehicle is scheduled to be introduced in late 2002 for markets in North America. We are designing and manufacturing the electronics for the drive system in this vehicle as well as certain auxiliary components. The final prototype systems are currently undergoing pre-production testing and validation in the Ford Th!nk vehicle. We continue to develop our relationships with Hyundai, Ballard and other Original Equipment Manufacturers and Tier-One suppliers for sales of our automotive products. We offer modular drive systems to such manufacturers and other customers. These drive systems have been installed in various vehicles currently operating in North America, Europe and Asia.

In 2001, we commenced new development programs with automotive and transit manufacturers both domestically and internationally. Additionally, we completed various research and development programs sponsored by the U.S. Government and private corporations.

Ford Motor Company Programs

In July 2001, we entered into a strategic relationship with Ford Motor Company under which we were selected by Ford's Th!nk brand to develop and manufacture a high power, high voltage conversion module for their upcoming fuel cell vehicle. The high voltage conversion module will convert high voltage power from the fuel cell into a lower voltage. We are currently in the second phase of this program having successfully designed and tested the proof of concept prototype. To date, we have received approximately $500,000 from this Ford program.

This strategic relationship also grants Ford warrants to purchase up to 4.6% of our outstanding common stock over the life of the relationship. The vesting of these warrants is dependent upon Ford contracting with us for additional new production programs. The relationship will last for five years during which time

Ford will evaluate our company for future programs. Ford's warrants will vest at the rate of 2,500,000 warrants for every $2,000,000 in new production business between Ford and Enova. The agreement between Ford and ourselves is referenced as Exhibit 10.18 in this Prospectus. Confidential treatment of this exhibit was requested for portions of this document.

Our development and production program with Ballard Power for low voltage electric drive system components for use in Ford's Global Th!nk City has moved into its production phase. Ford has announced that the all-electric vehicle is scheduled to be introduced in 2002 for markets in North America and Europe. We are designing and manufacturing the electronics for the drive system including the power inverter, charger and controller. In conjunction with Hyundai Autonet of Korea, we are finalizing production planning for initial production systems to be delivered in mid 2002. Gross revenues for the year ended December 31, 2001 from this Ballard program were approximately $950,000. Based on projections we have received from Ford and Ballard, we anticipate that sales of these systems will provide additional revenues in the upcoming years, however, we cannot assure that there will by any such future revenues.

Hyundai Motor Company Programs

We continue to develop hybrid and fuel cell based systems with Hyundai Motor Company, the world's seventh largest automobile manufacturer. Having successfully completed our hybrid drive system and fuel cell electric vehicle program, we will work with Hyundai on advanced hybrid and fuel cell applications in 2002. We have delivered four series hybrid drive systems for use in Hyundai's county bus at the World Cup Soccer in Seoul, Korea in June 2002.

Hyundai continues to contract with our company for the development of advanced hybrid and fuel cell powered drive systems. In regards to passenger vehicle programs, we continue in our efforts to develop a commercially viable parallel hybrid motor and controller for Hyundai's new hybrid vehicle to be introduced in 2004. The prototype drive system for this program was delivered to Hyundai in February 2002. We expect to learn the results of Hyundai's evaluation of the prototype during the second quarter of 2002.

Development programs with Hyundai generated approximately $450,000 in sales in the year ended December 31, 2001. We anticipate additional contracts for both development and purchase of our components during 2002 for Hyundai's alternative vehicle applications, however we cannot assure that such additional contracts will be realized.

Light-Duty Drive Systems

In addition to the 30kW motor controller, charger and DC-DC converter which we, in alliance with Hyundai Autonet, are manufacturing for Ballard Power, we are also marketing our Panther(TM) 90kW drive systems. Our 90kW controller, motor and gear unit provide outstanding performance for light duty vehicles such as midsize automobiles and delivery vehicles. We have received a purchase order for over 200 Panther(TM) 90kW drive systems for delivery in 2002 and 2003 from Voltage Vehicles of California, an integrator of specialty vehicles Additionally, we are discussing further sales of this system configuration to other domestic and international

customers, however, we can give no assurance at this time that such discussions

will result in any further sales.

Heavy-Duty Drive Systems

Sales of our Panther(TM) 120kW drive systems continue to provide increased revenues for our company.

Eco Power Technology of Italy purchased 15 Panther(TM) 120kW electric drive systems, which were delivered during 2001, as well as three of our Fast Chargers. Eco Power has given notice of their production requirements for 2002, which range from 25 to 30 Panther(TM) 120kW systems and additional Fast Chargers. Eco Power is one of the largest integrators of medium size transit buses for the European shuttle bus market with key customers in Rome and Genoa. Total sales for the year ended December 31, 2001 from Eco Power were $360,000.

Wrights Environment, a division of Wrights Bus, one of the largest low-floor bus manufacturers in the United Kingdom, has integrated our hybrid electric Panther(TM) 120kW drive system, which utilizes a microturbine from Capstone Turbine Corporation as its power source. Wrights has purchased additional pure electric drive systems for their midsize buses for sale in the United Kingdom and the European Continent. Further, Wrights has begun discussions to purchase both our new 240kW drive system and our Fast Charger system. We anticipate additional orders for both electric and hybrid-electric P120 drive systems during 2002, however, we cannot assure at this time that such additional contracts will be realized.

We have entered the Japanese bus market with two new customers, Tomoe Electro-Mechanical Engineering and Manufacturing, Inc. and Moriah Corporation. We have already delivered our first Panther(TM) 120kW system to Tomoe. We anticipate that both companies will purchase additional systems during 2002, however we can make no assurance that any purchases will occur.

The development of a utility vehicle for Southern California Edison utilizing our 120kW drive system and a Capstone Turbine Corporation 30kW microturbine continues on schedule. We are developing additional power management accessories for this vehicle so that it can run power applications such as drills and motors used by the Southern California Edison technicians. This line service truck will be a demonstration vehicle, which we anticipate will lead to sales to utility companies throughout the U.S. We cannot assure at this time that such sales will occur.

In the high performance heavy-duty drive system area; we have completed the first prototype of our Panther(TM) 240kW drive system. In conjunction with Hyundai Heavy Industries and Ricardo, Inc, of Michigan, a developer and manufacturer of advanced transmissions, we have produced a robust, efficient and powerful drive system for heavy-duty applications including transit buses, heavy-duty trucks and other applications. We have been in discussions with Wrights, Hyundai and a major alternative transit bus manufacturer in the U.S. regarding the purchase of these

drive systems in 2002. We can make no assurance that these discussions will

result in any sales of the Panther(TM) 240kW drive system.

Research and Development Programs

Our development and integration contracts with the DOT and the State of Hawaii continue to create new opportunities for our drive systems.

During 2001, Enova, Hyundai and the State of Hawaii introduced 15 Hyundai Santa Fe electric vehicles in Honolulu, Hawaii for test and evaluation prior to their entry into the U.S. markets. The program will utilize Hawaii's rapid charging stations, manufactured by AeroVironment. The contract has two elements, one for integration of our BCU II battery care unit, which allows the vehicles to accept fast charging, and a second contract for maintenance of the vehicles over the two-year program. The participants in the program include state and local offices as well as Hickam Air Force base. The vehicles are performing well and initial reactions to their performance and handling are positive.

Our contract with the DOT to design and test a three-car tram utilizing the Panther(TM) 120kW drive system has been completed and has been delivered to the High Technology Development Corporation's facility in Honolulu. This tram, capable of carrying 100 passengers, will now be delivered to the Honolulu International Airport for further test and evaluation. If successful, we intend to market this tram system to international markets for application to other airports, national and recreational parks and other high capacity transit applications.

We completed the integration of our drive systems into several State of Hawaii and DOT vehicles. We upgraded eight Chevrolet S-10 trucks owned by the City of Honolulu to our Panther(TM) 60kW drive system, including our BCU-II battery care unit for fast-charge capability. Also, we are converting an Eldorado 30-foot bus utilizing our Panther(TM) 120kW drive system for the Hickam Air Force base. All of these programs are funded in conjunction with the Hawaii Electric Vehicle Development Project, the DOT and the State of Hawaii.

Development programs with the Department of Transportation and the State of Hawaii accounted for approximately $1,180,000 of total revenues for the year ended December 31, 2001. We will continue to establish new development programs with the Hawaii High Technology Development Corporation as well as other state and federal government agencies as funding becomes available.

Stationary Power Applications

Our stationary power programs continue to attract new potential partners and customers from both fuel cell manufacturers and petroleum companies. It is our belief that utilizing our power management systems for stationary applications for fuel cells will open new markets for our company. We are also developing applications for these products in the telecommunications and distributed generation markets. We can make no assurance that we will successfully develop such applications or that any such applications will find acceptance in the marketplace.

Our fuel cell care unit is being delivered to UTC Fuel Cells, a division of United Technologies Corp., for use in their stationary fuel cell systems. To date, we have delivered approximately

20 fuel cell care units to UTC Fuel Cells and to Hamilton Sundstrand, an aerospace division of United Technologies. The Hyundai companies have also

expressed interest in working with us on the development of advanced fuel cell management technologies, as have certain domestic energy companies. We believe this market will play a key role in our future and we continue to pursue alliances with leading manufacturers in this area, however, we can make no assurance that this market will develop as anticipated or that such alliances will occur.

We view stationary power applications of our power management systems as an important new area of product development. In the stationary power management field, we are developing applications for our products in the telecommunications and distributed generation markets. We believe our approach of providing the enabling technology in power management and conversion to power generation companies is key to early access to these markets. Our joint marketing and development efforts with Capstone Turbine Corporation, Avestor and UTC Fuel Cells have the potential to assist us in penetrating these markets. As discussed earlier, we are now producing and selling an advanced version of our BCU II battery care unit and fuel cell care unit for use with fuel cells in both stationary and mobile systems, starting with UTC Fuel Cells and the Institute for a Sustainable Environment Research Lab.

Investment Funding

We are seeking new investment capital to fund research and development and create new market opportunities. In order to fuel our growth in the stationary power market, we will need additional capital in order to create additional intellectual property. In May 2001, Jagen Pty, Ltd exercised warrants to purchase 41,666,666 shares of common stock at $0.06 per share for a total of $2,500,000. In July 2001, Anthony Rawlinson, our chairman, exercised warrants to purchase 8,333,334 shares of common stock at $0.06 per share for a total of $500,000. Jagen and Mr. Rawlinson represented that they were accredited investors. We relied on Rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended, for the exemption from registration of the sale of such shares.

In June 2001, we issued warrants to purchase 15,000,000 shares of our common stock to Ford Motor Company with respect to a participation program. We relied on Rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended, for the exemption from registration of the sale of such shares.

In early 2001, we retained Merrill Lynch as our investment advisor to pursue equity financing options and other strategic alternatives. We intend to vigorously pursue additional equity capital in order to fund new product development.

Liquidity and Capital Resources

We have experienced cash flow shortages due to operating losses primarily attributable to research, development, marketing and other costs associated with our strategic plan to become an international manufacturer and supplier of electric propulsion and power management systems and components. Due to increased research and development spending, cash flows from operations have not been sufficient. We therefore have to raise funds through private financial transactions. At least until we reach breakeven volume in sales and develop and/or acquire the capability to manufacture and sell our products profitably, we will need to continue to rely on cash from external financing. We anticipate that

we will require approximately $5,000,000 in additional outside financing to fund planned operations and development programs through the end of 2003 at which time we believe we will begin to be profitable from ongoing operations. We can make no assurances that we will receive this amount of funding or that after receiving such, that our company will become profitable.

During the year ended December 31, 2001, our operations required $3,023,000 more in cash then was generated. We continue to increase research and development spending, as well as increased sales, marketing and administrative expenses necessary for expansion to meet customer demand. Accounts receivable increased by $233,000 from $1,004,000, or 23% from the balance at December 31, 2000, as we continued to expand our customer base and increased sales. Inventory increased by $520,000 from $406,000 or 128% from December 31, 2000 balances. As we continue to enter into additional production contracts with companies such as Eco Power, Ford, Ballard and others, we will continue to require additional raw materials and finished goods to meet demand.

Fixed assets increased by $219,000 or 28% before depreciation for the year ended December 31, 2001 from the prior year balance of $784,220 as we increased both the number of engineers and the complexity of our programs. Increases in test equipment, production machinery and both technical hardware and software attributed to the increase.

Other assets increased by $668,000 during 2001 from $68,000 in 2000 primarily due to the booking of an asset in relation to the Ford Value Participation Agreement. We determined, utilizing the Black Scholes method, the value of the initial tranche of the vested warrants under this program is $577,000. As additional warrants become vested in the coming years, they will be valued under the same methodology and booked as an expense and into stockholders equity. Additionally, increases were due to intellectual property expenses being applied as they relate to several new patents on our technology.

As of December 31, 2001, we completed our restructuring of the remainder of our antecedent payables, reducing those accounts to zero from $210,000 in 2000.

Long term debt includes a secured promissory note to Credit Managers Association of California in the amount of $3,332,000, with interest at 3% for the first five years beginning June 1996, 6% for years six and seven, and then at prime plus 3% through maturity; interest payments are made upon payment of principal, which is due no later than April 2016; a sinking fund escrow is required to be funded with 10% of future equity financing, as defined in the agreement. The note is secured with a UCC1 filing for all the assets of our company. We also have an unsecured promissory note for $120,000 to Jeann Schulz with interest at 10%. This note is past due, however we are currently renegotiating terms to bring the note current.

Due to the nature of our industry and the amount of research and development which has been necessary to begin to produce commercially viable products, we have experienced the need for cash for operations from outside sources. We changed our business strategy in 1997 to focus on the development of drive systems and components for electric, hybrid-electric and fuel cell mobile and stationary applications. Invested capital from 1997 to the present has been used for the development and advancement of these systems which are now being sold as discussed elsewhere in this prospectus. We may, from time to time,

require additional invested capital to fund development of new or advanced technologies for our products.

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

RESULTS OF OPERATIONS

Year Ended December 31, 2001 and 2000

Net sales of $3,780,000 for the twelve months ended December 31, 2001 increased $897,000 or 31% from $2,883,000 during the same period in 2000. Our further expansion into production programs of our Panther(TM) 120kw systems as well as new contracts with Ford and the DOT accounted for the increase in sales. We changed our fiscal year end from July 31 to December 31 effective December 31, 1999. All comparisons of year-to-year financial data for 2000 to 1999 are for the twelve months ended December 31, 2000 and the twelve months ended July 31, 1999. Net sales of $2,883,000 for the twelve months ended December 31, 2000 increased $109,000 or 4% from $2,774,000 during the same period in 1999.Cost of sales of $2,783,000 for the year ended December 31, 2001 reflect an increase of $770,000, or 38%, from $2,013,000 for the year ended December 31, 2000. Cost of sales as a percentage of sales remained at approximately 70% in 2001 which is consistent with 2000. As our sales mix changes from primarily development contract revenues to more product sales, we believe this gross margin will remain the same or improve on a year-to-year basis. Cost of sales of $2,013,000 for the year ended December 31, 2000 increased $553,000, or 37%, from $1,460,000 during the same period ending July 31, 1999. During the fiscal year ended July 31, 1999, we sold a technology license to Hyundai Heavy Industries which did not have associated costs of sales which accounted for the lesser amount in 1999.Product development costs incurred in the performance of engineering development contracts for the U.S. Government and private companies are charged to cost of sales for this contract revenue. Non-funded development costs are reported as research and development expense. Research and development expense increased in 2001 to $879,000 from $626,000 for the same period in 2000, an increase of $253,000, or 40%. Research and development expense increased in 2000 to $626,000 from $499,000 in fiscal 1999, an increase of $127,000 or 25%. As part of our long-term strategic plan, we will continue to expend funds for research and development for new technologies to enhance existing products as well as develop new products in the areas of mobile and stationary power management and conversion. Examples of these internally funded development programs include the 240kW drive system and our advanced power management systems for fuel cells and turbines.

Selling, general and administrative expense increased in the year ended December 31, 2001 to $2,894,000 from $1,999,000 for the similar period in 2000. Increased legal and accounting fees for the Fontal matter of approximately $400,000, as well as increased regulatory requirements, account for the majority of the rise in expense. We do not anticipate this level of professional fees to continue. Additionally, we continue to increase sales, marketing and travel expenses in relation to acquiring new business, creating alliances and servicing current customers, which has resulted in additional sales for 2001 and will facilitate in increasing

sales for 2002. During 2001 and 2000, we continued to add employees to

accommodate our increased sales and customer services.

For the year ended December 31, 2001, interest and financing fees decreased by $61,000 to $113,000, a decrease of 35%. The reduction was due to restructuring of our long-term debt by forgiveness or conversion into equity. In 2000, interest and financing fees decreased to $174,000 from $724,000 in 1999, a decrease of 76%, due to the forgiveness of $4,300,000 of debt, formerly the Itochu debt, and the conversion of $1,000,000 of debt into common stock.

In 2001, we completed our restructuring of the remainder of our antecedent payables, reducing those accounts to zero from $210,000 in 2000, which resulted in contributing to an extraordinary gain of $354,000 for the year. Our liabilities and long-term debt are now current. During the year ended December 31, 2000, several unsecured creditors agreed to settle their trade debt claims for amounts less than the original debt owed to them. Additionally, other trade debt, which has had no activity for over four years and has now become uncollectible pursuant to state statute of limitations, was recaptured. The reductions from the original amounts owed and the settlement amounts resulted in a gain on debt restructuring of $1,551,000 during the year ended December 31, 2000. Additional settlements resulted in a gain on debt restructuring of $140,000 in fiscal 1999.

During 2001, we settled a lawsuit brought against us by Fontal International Ltd., the selling shareholder in this prospectus. The settlement requires us to issue, and register by March 31, 2002, 6,000,000 share of common stock at a cost of $900,000, non-cash, exclusive of our legal fees. This expense is recorded as legal settlements for 2001. Legal settlements for 2000 and 1999 were $75,000 and $125,000, respectively, and related to matters involving claims made in 1996 and 1998 respectively. In the first half of 2002, we agreed to issue additional shares to Fontal based on the timing of the approval of this prospectus by the Securities and Exchange Commission.

During 2001, we incurred several non-recurring professional expenses of $400,000 and the legal settlement of $900,000 with respect to the Fontal International lawsuit for an increase in operating expense of approximately $1,300,000. Without these charges, our net loss from operations would be $2,382,000, an increase of $372,000 or 18% from our $2,010,000 loss from operations for the same period in 2000. We do not believe these types of expenses will occur in 2002. The increase in net loss is attributable to a number of factors as discussed previously in this Prospectus including the increased legal and accounting fees, the legal settlement with respect to the Fontal matter, increased research and development expenses and increased marketing and administrative expenses relating to further establishing ourselves as a key player in the mobile power conversion and management markets and to develop new systems for the stationary markets. We anticipate continued increases in engineering, production, and support personnel as we deem necessary to meet our current and prospective customer needs. The loss from operations for 2000 of $2,010,000 represented an increase of $1,001,000 or 99% from the $1,009,000 loss in fiscal 1999, which excludes the recapture of approximately $474,000 of prior warranty reserves.

Fiscal Year Ended December 31, 2000 v. Fiscal Year Ended July 31, 1999

Effective December 31, 1999 we changed our fiscal year end from July 31 to December 31. Because we do not experience seasonal fluctuations in revenues and expenses, all comparisons of year-to-year financial data are for the twelve months ended December 31, 2000 and the twelve months ended July 31,1999.

During the year ended December 31, 2000, operations required $2,358,000 more in cash then were generated. We continued to encounter increased research and development costs, as well as increased sales and marketing and administrative expenses necessary for expansion. Accounts receivable increased by $432,000 from $572,000 as we continued to expand our product and customer bases and to increase sales. Customer Deposits decreased by $102,000 from $102,000 as we applied an advance payment from one of our customers for engineering services performed. Inventory increased by $151,000 from $256,000. The increase was due the purchase of raw materials for current development and production contracts.

Results of Operations

Net sales of $2,883,000 for the twelve months ended December 31, 2000 increased $109,000 or 4% from $2,774,000 during the same period in 1999. Of total sales for the year ended December 31, 2000, $2,662,900, or 92% were revenues realized on engineering contracts with Ecostar, the DOT, the Hyundai Group of Korea and other customers.

Cost of sales of $2,013,000 for the year ended December 31, 2000 reflect an increase of $553,000, or 37%, from $1,460,000 during the same period ending July 31, 1999. During the fiscal year ended July 31, 1999, we sold a technology license to Hyundai Heavy Industries that did not have associated costs of sales and thus accounted for the lesser amount in 1999.

Cost of sales as a percentage of sales increased to 70% in fiscal 2000 from 53% in fiscal 1999. As stated, sales revenue for fiscal 1999 included a sale of a technology license of $600,000. Excluding the sale of the technology license, cost of sales for fiscal 1999 was 67% of sales.

Research and development expense increased in the year ended December 31, 2000 to $626,000 from $499,000 in the year ended July 31, 1999. Product development costs incurred in the performance of engineering development contracts are charged to cost of sales for this contract revenue. Non-funded development costs are reported as research and development expense. Research and development expense increased in 2000 to $626,000 from $499,000 in fiscal 1999, an increase of $127,000, or 25%.

Selling, general and administrative expense increased in the year ended December 31, 2000 to $1,999,000 from $1,141,000 for the similar period in 1999. The increase was due to increased sales, marketing, legal and travel expenses in relation to acquiring new business and creating alliances with several key manufacturers during 2000, including Gillig Bus, Capstone Turbine, Wright Bus of Ireland and EPT of Italy. Selling, general and administrative expense was $1,141,000 in fiscal 1999, which declined by $1,697,000, or 33%, from fiscal 1998, as we reduced spending and consolidated operations. During 1999 and 2000, we began to increase operations as we began to move from a pure research and development company to a more diversified development and production business.

For the year ended December 31, 2000, interest and financing fees decreased by $550,000 to $174,000, a decrease of 76%. The reduction was due to continued restructuring of long-term debt by forgiveness or conversion into equity. In fiscal 1999, interest and financing fees increased to $724,000 from $665,000 in 1998, an increase of 9%, due mainly to default interest rates becoming effective on certain notes payable. The forgiveness of $4,300,000 of debt, formerly the Itochu debt, and the conversion of $1,000,000 of Fontal debt, reduced interest expense significantly during 2000.

During the year ended December 31, 2000, several unsecured creditors agreed to

settle their trade debt claims for amounts less than the original debt owed to them. Additionally, other trade debt, which has had no activity for over four years and has now become uncollectible pursuant to state statute of limitations, was recaptured. The reductions from the original amounts owed and the settlement amounts resulted in a gain on debt restructuring of $1,551,000 during the year ended December 31, 2000. Additional settlements resulted in a gain on debt restructuring of $140,000 in fiscal 1999 and $42,000 in 1998.

As a result of the foregoing changes in net sales, cost of sales, other costs and expenses and gain on debt restructuring, the net loss of $459,000 increased 16% from the $395,000 loss during the similar period in 1999. As noted previously, the increase in net loss is attributed primarily to efforts to establish our company as a key player in the mobile power conversion and management markets and to develop new systems for the stationary markets. The net loss for fiscal 1999 of $395,000 decreased $3,130,000 or 89% from the $3,525,000 loss in 1998. These results reflect the successful shift from an electric vehicle conversion business to a mobile and stationary power electronics components developer and producer.

Fiscal Year Ended July 31, 1999 v. Fiscal year Ended July 31, 1998

During 1999, we continued to concentrate on the reduction of operating costs and outstanding debt. Our business activities focus primarily on the development of electric and hybrid electric drive-trains and related components, fuel cell systems, vehicle systems integration and the performance of various engineering contracts.

We received capital investments from Jagen, Pty, Ltd. in the amount of $2,500,000 on June 4, 1999 and from Anthony Rawlinson in the amount of $500,000 on July 30, 1999, which enabled us to further develop our hybrid drive systems as well as embark on other in-house funded research and development.

During 1999, we spent $798,000 in cash on operating activities to fund the net loss of $395,000, resulting from the factors explained in the following section of this discussion and analysis. Accounts receivable increased by $560,000 as we increased the number of engineering contracts from Hyundai Motor Corporation and Hyundai Heavy Industries. Customer Deposits decreased by $387,000 as we completed various contracts started in 1998 and moved toward a milestone based billing procedure. Inventory decreased by $329,000, net of write-downs of $36,000. The decrease was primarily caused by our reclassification of certain finished goods inventory to fixed assets to reflect the assets current usage. These items will now be depreciated over their useful lives.

Our operations during 1999 were financed primarily by the funds received on engineering contracts and partly on funds received from the sale of a technology license to Hyundai Heavy

Industries. In June and July 1999, we received $3,000,000 from two investors, Jagen. Pty., Ltd. Of Australia and Anthony Rawlinson

Results of Operations

Net sales of $2,774,000 for 1999 increased $836,000 or 43% from $1,938,000 in 1998. Two primary factors caused the increase. In 1999, we sold a technology license to Hyundai Heavy Industries for $600,000. Second, we increased engineering, development and testing of electric and hybrid drive trains and related components in conjunction with Hyundai Motor Company and the U.S. Government through United States Postal Service, Defense Advance Research

Project Agency and DOT programs. Of our total sales for 1999, $1,954,000, or 70% were revenues realized on engineering contracts with the Defense Advance Research Project Agency, the Hyundai Group and other customers.

Cost of sales as a percentage of sales decreased to 53% in 1999 from 143% in 1998. Sales revenue for 1999 included a sale of a technology license of $600,000. Excluding the sale of the technology license, cost of sales for 1999 was 67% of sales.

Research and development expense increased in 1999 to $499,000 from $445,000 in 1998, an increase of $54,000, or 12%. While we reduced staff and cut costs in all areas, our focus continues to be centered on research and development. The product development cost incurred in the performance of engineering development contracts is charged to cost of sales for this contract revenue. Non-funded development costs are reported as research and development expense.

Selling, general and administrative expense of $1,141,000 in 1999 continued to decline from $1,697,000, or 33% from 1998, as we continued to reduce spending and consolidated operations.

In 1999, interest and financing fees increased slightly to $724,000 from $665,000 in 1998, an increase of 9% due mainly to a default interest rate on certain notes payable becoming effective.

During 1999, several unsecured creditors agreed to settle their trade debt claims for amounts less than the original debt owed to them. The reductions from the original amounts owed and the settlement amounts resulted in a gain on debt restructuring of $140,000 in 1999. Additional settlements resulted in a gain on debt restructuring of $42,000 in 1998.

As a result of the foregoing changes in net sales, cost of sales, other costs and expenses and gain on debt restructuring, the 1999 net loss of $395,000 decreased $3,130,000 or 89% from the $3,525,000 loss in 1998. These results reflect a significant change in our operating condition. Our cost structure and operating conditions are now more in line with the sales volume and the scope of business.

Recent Accounting Pronouncements

The Financial Accounting Standards Board has recently issued the following Financial Accounting Standards (FAS):

FAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. This Statement replaces FAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". It revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures. This statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001.

FAS No. 141, "Business Combinations", addresses financial accounting and reporting for business combinations and supersedes Accounting Principles Board Opinion No. 16. This Statement requires that all business combinations are to be accounted for using the purchase method of accounting. The provisions of this Statement apply to all business combinations initiated after June 30, 2001.

FAS No. 142, "Goodwill and Other Intangible Assets", addresses financial accounting and reporting for acquired goodwill and other intangible assets. It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements.

FAS No. 143, " Accounting for Asset Retirement Obligations", addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002.

FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2001.

Implementation of the above financial accounting pronouncements are not expected to have a material effect on our financial position or results of operations.

BUSINESS

General

In July 2000, we changed our name to Enova Systems, Inc. from U.S. Electricar, Inc. We were incorporated in California on July 30, 1976.

We believe that we are a leader in the development and production of commercial digital power management systems. We are now producing, under contract with global vehicle and technology companies, digital power processing and energy management enabling technologies for electric, hybrid electric, and fuel cell powered vehicles. These power management technologies are now being applied to commercialization of fuel cell power generation for stationary non-automotive applications. Our business activities continue to be focused on the development of electric and hybrid electric drive systems and related components, fuel cell power management systems for both mobile and stationary power

applications, vehicle systems integration and the performance of various engineering contracts.

Our fiscal year ends December 31. All year references refer to fiscal years.

Products

Our focus is digital power management, power conversion, and system integration. Our software, firmware and hardware manage and control the power that drives a vehicle or device. They convert the power into the appropriate forms required by the vehicle or device, whether DC to AC, AC to DC or DC to DC, and they manage the flow of this energy to protect the battery, the vehicle or device, and the driver or operator. Our systems work "from drive train to drive wheel" for both vehicle and stationary applications.

The latest state-of-the-art technologies such as hybrid vehicles, fuel cell and microturbine based systems, and stationary power generation all require some type of power management and conversion mechanism. We supply these essential

components. Our drive train systems work with any kind of fuel/power source, from electric to hybrid to fuel cell to turbine, and they are essential components for any vehicle, system or device that uses power.

We are moving to expand our product base into new markets outside of the traditional electric and hybrid-electric automotive fields. Key areas in which we have begun to penetrate include energy management in the telecommunications industry, distributed generation in the utility industry, and stand-by/backup power generation in the commercial electronics industry. All three of these markets can be served with our existing energy management and power control products. We have entered into agreements or begun discussions with various alternative power generation manufacturers such as Capstone Turbine Corporation and UTC Fuel Cells, as well as others. We currently have a joint marketing agreement with Capstone for sales of our combined systems. UTC Fuel Cell purchases components on a purchase order basis. Other companies such as Pentadyne Power Corporation and Maxwell Technologies have entered into Memorandums of Understanding with us which define, in general terms, systems and market segments in which our companies could potentially produce and sell components. We believe our enabling technologies will prove beneficial to these types of companies in their strate