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ENOVA SYSTEMS INC  
Form 10-K/A  
September 19, 2005

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K/A

For Annual and Transition Reports  
Pursuant to Sections 13 or 15(d) of the  
Securities and Exchange Act of 1934

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

For the fiscal year ended December 31, 2004

Commission File No. 0-25184

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

California

95-3056150

-----  
(State or other jurisdiction of  
incorporation or organization)

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

19850 South Magellan Drive, Torrance, California 90502  
(Address of principal executive offices, including zip code)

(310) 527-2800  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, no par value  
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendment to this Form 10-K/A.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2004 (the last business day of the registrant's more recently completed second quarter) was \$7,958,000. For

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purposes of this calculation only, (i) shares of Series A and Series B Preferred Stock have been included in the calculation, (ii) shares of Common Stock and Series A Preferred Stock are deemed to have a market value of \$0.06 per share, and the Series B Preferred Stock is deemed to have a market value of \$0.12 per share, based on the average of the bid and ask prices of the Common Stock on June 30, 2004, and (iii) each of the executive officers, directors and persons holding 5% or more of the outstanding Common Stock (including Series A and B Preferred Stock on an as-converted basis) is deemed to be an affiliate.

The number of shares of Common Stock outstanding as of March 30, 2005 was 416,473,000.

### EXPLANATORY NOTE

On March 29, 2005, Enova Systems, Inc. (the "Company") filed its Annual Report on Form 10-K for its fiscal year ended December 31, 2004. The Company hereby amends its 2004 Form 10-K to include within it the audited financial statements of the Hyundai-Enova Innovative Technology Center (the "ITC Financial Statements"), a 40% owned equity method investment of the Company, in compliance with Rule 3-09 of Regulation S-X. Additionally, we have amended `Note 1 - Organization and Line of Business'; `Note 2 - Summary of Significant Accounting Policies'; `Note 4 - Equity Method Investment'; and `Note 11 - Income Taxes' and `Note 14 - Geographic Area Data' of the Notes to the Company's Financial Statements for the Years Ended December 31, 2004, 2003 and 2002. The amended notes reflect the addition of the ITC Financial Statements and correct computational errors which we believe are immaterial to the fair presentation of the Company's financial position, results of operations and cash flows for the year ended December 31, 2004. No other amendments or changes are, or were, made to the 2004 Form 10-K.

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#### Item 8. Financial Statements and Supplementary Data

The response to this Item is submitted as a separate section of this Form 10-K/A. See Item 15.

#### Item 15. Exhibits and Financial Statement Schedules

(a)1. Financial Statements

The financial statements filed as a part of this report are identified in the Index to Financial Statements on page F-1.

(a)2. Financial Statement Schedule

No financial statement schedules are filed as a part of this report.

(a)3. Exhibits

See Item 15 (c) for Index of Exhibits.

(b) Reports on Form 8-K

On September 2, 2005, Registrant filed a Form 8-K, with date of earliest event reported of September 1, 2005, reporting under items 8 and 9.

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(c) Exhibits

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation of the Registrant (filed as Exhibit 3.1 to the Registrant's Annual Report on Form 10K for the year ended December 31, 2000 filed on March 30, 2001 and incorporated herein by reference).
3.2	Bylaws of Registrant (filed as Exhibit 3.12 to the Registration Statement on Form 10 filed on November 29, 1994, and incorporated herein by reference).
4.1	Cashless Exercise Warrants dated October 25, 1996 issued to Fontal International, Ltd. (filed as Exhibit 4.1 to the Registrant's Annual Report on Form 10-K/A for the year ended July 31, 1996, as filed on November 12, 1996, and incorporated herein by reference).
10.1	Form of Stock Option Agreement under 1993 Employee and Consultant Stock Plan (filed as Exhibit 10.15 to the Registration Statement on Form 10 filed on November 29, 1994, and incorporated herein by reference).
10.2	Form of Solar Electric Engineering, Inc. 1993 Employee and Consultant Stock Plan (filed as Exhibit 10.16 to the Registration Statement on Form 10 filed on November 29, 1994, and incorporated herein by reference).
10.3	Form of Confidential Private Placement Memorandum and Debt Restructuring Disclosure Statement of U.S. Electricar, Inc., dated January 2, 1996, delivered by Enova to certain of its unsecured trade creditors, including exhibits (filed as Exhibit 10.91 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 1996, as filed on March 18, 1996, and incorporated herein by reference).
10.4	Form of Stock Purchase, Note and Debt Exchange Agreement dated January 2, 1996 between Enova and certain unsecured trade creditors (filed as Exhibit 10.92 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 1996, as filed on March 18, 1996, and incorporated herein by reference).
10.5	Form of Indemnification Agreement (filed as Exhibit 10.63 to the Registration Statement on Form 10 filed on November 29, 1994, and incorporated herein by reference).
10.6	Form of Security Agreement made as of May 31, 1995, between Enova and Credit Managers Association of California, Trustee (filed as Exhibit 10.85 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1996, as filed on June 14, 1996, and incorporated herein by reference).
10.7	Amended 1996 Employee and Consultant Stock Option Plan (filed as Exhibit 10.7 to the Registrant's Annual Report on Form 10-K/A for fiscal year ended July 31, 1999, as filed on October 29, 1999, and incorporated herein by reference).
10.8	Stock Purchase Agreement and Technology License Agreement dated February 27, 1997, by and between Enova and Hyundai Motor Company and

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Hyundai Electronics Industries Co., Ltd. (filed as Exhibit 10.98 to the Registrant's Quarterly Report on Form 10-Q for fiscal quarter ended January 31, 1997, as filed on March 14, 1997, and incorporated herein by reference).

- 10.9 Letter of Intent between Registrant and a domestic supplier, dated December 9, 1999, to design, develop and manufacture low voltage electric drive system components (filed as Exhibit 10.16 to the Registrant's Annual Report on Form 10-K/A for fiscal year ended December 31, 2000 and incorporated herein by reference).
- 10.10 Put/Call Option to sell Itochu shares between Registrant and Carl D. Perry dated September 1, 1999 (filed as Exhibit 10.16 to the Registrant's Annual Report on Form 10-K/A for fiscal year ended December 31, 2000 and incorporated herein by reference).
- 10.11 Agreement (redacted) between the Registrant and a customer dated June 14, 2001, to develop and produce power management systems. (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for Six Months ended June 30, 2001 and incorporated herein by reference).
- 10.12 Agreement (redacted) between the Registrant and Eco Power Technology, dated June 12, 2001, to produce and sell power drive systems (filed as Exhibit 10.19 to Amendment No. 6 to the Registrant's Registration Statement on Form S-1, No. 333-85308, and incorporated herein by reference).
- 10.13 Agreement (redacted) between the Registrant and Tomoe Electro-Mechanical Engineering and Manufacturing, Inc., dated November 19, 2001, to produce and sell power drive systems (filed as Exhibit 10.20 to Amendment No. 6 to the Registrants Registration Statement on Form S-1, No. 333-85308, and incorporated herein by reference).
- 10.14 Agreement (redacted) between the Registrant and Moriah Corporation, dated January 22, 2002, to produce and sell power drive systems (filed as Exhibit 10.21 to Amendment No. 6 to the Registrant's Registration Statement on Form S-1, No. 333-85308, and incorporated herein by reference).
- 10.15 Form of Stock Purchase Agreement dated June 7, 2002 between Registrant and each of the selling shareholders listed in a Prospectus dated July 26, 2002 (filed as Exhibit 10.22 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1, No. 333-96829, and incorporated herein by reference).
- 10.16 Form of Registration Rights Agreement dated June 7, 2002 between Registrant and each of the selling shareholders listed in a Prospectus dated July 26, 2002 (filed as Exhibit 10.23 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1, No. 333-96829, and incorporated herein by reference).
- 10.17 Joint Venture Agreement (redacted\*\*) to form advanced research and development corporation, dated as of March 18, 2003, by and between the Registrant and Hyundai Heavy Industries Co. Ltd. (filed as Exhibit 10.24 to the Registrant's Quarterly Report on Form 10-Q for Three Months ended March 31, 2003 and incorporated herein by reference).
- 10.18 Securities Purchase Agreement dated as of March 18, 2003, by and between the Registrant and Hyundai Heavy Industries Co. Ltd. (filed as Exhibit 10.25 to the Registrant's Quarterly Report on Form 10-Q for Three Months ended March 31, 2003 and incorporated herein by reference).

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- 10.19 Form of Stock Purchase Agreement dated March 30, 2004 between Registrant and various investors. (filed as Exhibit 10.19 to the Registrant's Quarterly Report on Form 10-Q for Three Months ended March 31, 2004 and incorporated herein by reference).
- 10.20 Form of Registration Rights Agreement dated March 30, 2004 between Registrant and various investors. (filed as Exhibit 10.20 to the Registrant's Quarterly Report on Form 10-Q for Three Months ended March 31, 2004 and incorporated herein by reference).
- 10.21 Form of Finder's Fee agreement dated April 1, 2004 between Registrant and The Global Value Investment Portfolio Management Pte Ltd as disclosed in our Form 10-Q for the quarter ended March 31, 2004. (filed as Exhibit 10.21 to the Registrant's Quarterly Report on Form 10-Q for Six Months ended June 30, 2004 and incorporated herein by reference).

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- 23.1\* Consent of Singer Lewak Greenbaum & Goldstein LLP, Independent Registered Public Accounting Firm
- 23.2\* Consent of Moss Adams, LLP, Independent Registered Public Accounting Firm
- 24\* Power of Attorney (included on signature page)
- 31.1\* Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act Of 2002
- 31.2\* Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32\* Certification Pursuant to 18 U.S.C. Section 1350

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\* Filed herewith.

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### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ENOVA SYSTEMS, INC.

By: /s/ Larry B. Lombard

-----  
Larry B. Lombard, Chief Financial Officer

Dated: September 15, 2005

### POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Larry B. Lombard, with full power to act alone, his true and lawful attorney-in-fact and agent, with full power of

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substitution for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to the annual report on Form 10-K/A, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has executed this Power of Attorney as of the date indicated. Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature -----	Title -----	Date ----
/s/ Larry B. Lombard ----- Larry B. Lombard	Chief Financial Officer and Director (Principal Financial Officer)	September 15, 2
/s/ Edwin O. Riddell ----- Edwin O. Riddell	Chief Executive Officer and Director (Principal Executive Officer)	September 15, 2
/s/ Anthony N. Rawlinson ----- Anthony N. Rawlinson	Chairman	September 15, 2
/s/ Malcolm Currie ----- Malcolm Currie	Director	September 15, 2
/s/ Bjorn Ahlstrom ----- Bjorn Ahlstrom	Director	September 15, 2
/s/ Donald H. Dreyer ----- Donald H. Dreyer	Director	September 15, 2
/s/ John R. Wallace ----- John R. Wallace	Director	September 15, 2

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FOR THE YEARS ENDED  
DECEMBER 31, 2004, 2003, AND 2002

ENOVA SYSTEMS, INC.  
CONTENTS  
December 31, 2004

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
Enova Systems, Inc.  
Torrance, California

We have audited the balance sheets of Enova Systems, Inc. as of December 31, 2004 and 2003, and the related statements of operations, stockholders' equity/(deficit), and cash flows for each of the two years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan

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and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provided a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Enova Systems, Inc. as of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations and negative cash flows from operations. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described in Note 2 to the financial statements, the Company has made certain corrections related to the previously filed December 31, 2004 footnotes to the financial statements.

SINGER LEWAK GREENBAUM & GOLDSTEIN LLP

Los Angeles, California  
March 10, 2005

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors  
Enova Systems, Inc.

We have audited the statements of operations, stockholders' equity, and cash flows of Enova Systems, Inc., for the year ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of Enova Systems, Inc.'s, operations and cash



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flows for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

/s/ MOSS ADAMS LLP

Santa Rosa, California  
February 24, 2003

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ASSETS

Current assets

Cash and cash equivalents  
Accounts receivable  
Inventories and supplies  
Note receivable - related party  
Prepaid expenses and other current assets

Total Current Assets

Property and equipment, net  
Equity method investment  
Other assets

Total assets

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LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current liabilities

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Accounts payable  
Deferred revenues  
Line of credit  
Accrued payroll and related expense  
Other accrued expenses  
Current portion of notes payable  
Current portion of capital lease obligations

Total current liabilities

Accrued interest payable  
Capital lease obligations, net of current portion  
Notes payable, net of current portion

Total liabilities

Commitments and contingencies

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LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) (continued)

Stockholders' equity (deficit)

Series A convertible preferred stock - no par value  
30,000,000 shares authorized  
2,748,000 and 2,820,000 shares issued and  
outstanding  
Liquidating preference at \$0.60 per share, aggregating  
\$1,648,507 and \$1,692,000  
Series B convertible preferred stock - no par value  
5,000,000 shares authorized  
1,217,000 and 1,217,000 shares issued and outstanding  
Liquidating preference at \$2 per share aggregating \$2,434,000  
Common Stock, no par value  
500,000,000 shares authorized  
415,265,000 and 378,341,000 shares issued and  
outstanding  
Common stock subscribed  
Stock notes receivable  
Additional paid-in capital  
Accumulated deficit

Total stockholders' equity (deficit)

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Total liabilities and stockholders' equity (deficit)

\$

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	2004	
	-----	
Net revenues		
Research and development contracts	\$ 1,070,000	\$
Production	1,484,000	
	-----	
Total net revenues	2,554,000	
	-----	
Cost of revenues		
Research and development contracts	499,000	
Production	1,627,000	
Writedown Ford Think program inventory	113,000	
	-----	
Total cost of revenues	2,239,000	
	-----	
Gross profit	315,000	
	-----	
Other costs and expenses		
Research & development	925,000	
Selling, general & administrative	2,325,000	
Interest and financing fees, net	255,000	
Equity in losses of equity method investee	192,000	
Asset impairment	--	
Legal settlements	--	
	-----	
Total other costs and expenses	3,697,000	
	-----	
Net loss	\$ (3,382,000)	\$
	=====	
Basic loss and diluted loss per share	\$ (0.01)	\$
	=====	
Weighted-average number of shares outstanding	397,435,175	
	=====	

	Convertible Preferred Stock			
	Series A		Series B	
	Shares	Amount	Shares	Amount
Balance, December 31, 2000	2,844,00	\$1,867,000	1,217,00	\$2,434,000
Issuance of common stock for				
Exercise of warrants	--	--	--	--
Exercise of options	--	--	--	--
Services	--	--	--	--
Legal settlement	--	--	--	--
Warrants issued for value participation agreement	--	--	--	--
Net loss	--	--	--	--
Balance, December 31, 2001	2,844,000	1,867,000	1,217,000	2,434,000
Conversion of Series A preferred stock	(20,000)	(25,000)	--	--
Issuance of common stock for				
Cash, net of offering costs of \$206,000	--	--	--	--
Exercise of options	--	--	--	--
Services	--	--	--	--
Legal settlement	--	--	--	--
Stock notes receivable	--	--	--	--
Net loss	--	--	--	--
	Common Stock Subscribed		Stock Notes Receivable	Additional Paid-In Capital
	Shares	Amount		
Balance, December 31, 2000	45,000	\$13,000	\$ (1,149,000)	\$6,372,000
Issuance of common stock for				
Exercise of warrants	--	--	--	--
Exercise of options	--	--	(59,000)	--

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Services	955,000	147,000	--	--
Legal settlement	--	--	--	--
Warrants issued for value participation agreement	--	--	--	577,000
Net loss	--	--	--	--
-----				
Balance, December 31, 2001	1,000,000	160,000	(1,208,000)	6,949,000
Conversion of Series A preferred stock	--	--	--	--
Issuance of common stock for				
Cash, net of offering costs of \$206,000	1,000,000	100,000	--	--
Exercise of options	--	--	--	--
Services	(628,000)	(130,000)	--	--
Legal settlement	--	--	--	--
Stock notes receivable	--	--	5,000	--
Net loss	--	--	--	--
-----				

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	Convertible Preferred Stock			
	Series A		Series B	
	Shares	Amount	Shares	Amount
Balance, December 31, 2002	2,824,000	\$ 1,842,000	1,217,000	\$ 2,434,000
Conversion of Series A preferred stock	(4,000)	(5,000)	--	--
Issuance of common stock for				
Cash				
Issuance of subscribed common stock	--	--	--	--
Exercise of options	--	--	--	--
Stock option	--	--	--	--
Services	--	--	--	--
Net loss	--	--	--	--
-----				
Balance, December 31, 2003	2,820,000	\$ 1,837,000	1,217,000	\$ 2,434,000
====	=====	=====	=====	=====
Conversion of Series A preferred stock	(73,000)	(63,000)	--	--

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Issuance of common stock for				
Cash	--	--	--	--
Issuance of subscribed common stock	--	--	--	--
Exercise of options	--	--	--	--
Stock option conversions	--	--	--	--
Services	--	--	--	--
Net loss	--	--	--	--
	-----	-----	-----	-----
Balance, December 31, 2004	2,747,000	\$ 1,774,000	1,217,000	\$ 2,434,000
	=====	=====	=====	=====

	Common Stock Subscribed		Stock Notes Receivable	Additional Paid-In Capital
	Shares	Amount		
	-----	-----	-----	-----
Balance, December 31, 2002	1,372,000	\$ 130,000	\$ (1,203,000)	\$ 6,949,000
Conversion of Series A preferred stock	--	--	--	--
Issuance of common stock for				
Cash	--	--	--	--
Issuance of subscribed common stock	(1,000,000)	(100,000)	--	--
Exercise of options	--	--	--	--
Stock option conversions	--	--	--	82,000
Services	754,000	30,000	--	--
Net loss	--	--	--	--
	-----	-----	-----	-----
Balance, December 31, 2003	1,126,000	\$ 60,000	\$ (1,203,000)	\$ 7,031,000
Conversion of Series A preferred stock	--	--	--	--
Issuance of common stock for				
Cash	--	--	27,000	--
Issuance of subscribed common stock	(1,126,000)	(60,000)	--	--
Exercise of options	--	--	--	--
Stock option conversions	--	--	--	(39,000)
Services	1,196,000	165,000	--	(92,000)
Net loss	--	--	--	--
	-----	-----	-----	-----
Balance, December 31, 2004	1,196,000	\$ 165,000	\$ (1,176,000)	\$ 6,900,000
	=====	=====	=====	=====

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	2004	
Cash flows from operating activities		
Net loss	\$ (3,382,000)	\$
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation and amortization	376,000	
Provision for asset impairment	--	
Equity in losses	192,000	
Issuance of common stock for services	89,000	
Issuance of common stock for legal settlement	--	
(Increase) decrease in		
Accounts receivable	281,000	
Inventory and supplies	570,000	
Note receivable - related party	8,000	
Prepaid expenses and other current assets	(226,000)	
Other assets	--	
Increase (decrease) in		
Accounts payable	(702,000)	
Accrued expenses	(11,000)	
Deferred revenues	392,000	
Accrued interest payable	256,000	
Net cash used by operating activities	(2,157,000)	
Cash flows from investing activities		
Purchases of property and equipment	\$ (174,000)	\$
Net cash used in investing activities	(174,000)	
Cash flows from financing activities		
Net increase from line of credit	\$ 109,000	\$
Payment on notes payable and capital lease obligations	(33,000)	
Proceeds from notes payable	40,000	
Proceeds from sales of common stock	2,450,000	
Offering costs	--	
Proceeds from exercise of stock options	783,000	
Payments on stock notes receivable	27,000	
Net cash provided by financing activities	3,376,000	
Net increase (decrease) in cash and cash equivalents	1,045,000	
Cash and cash equivalents, beginning of year	530,000	
Cash and cash equivalents,		

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end of year	\$	1,575,000	\$
		=====	=====

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		2004	
		-----	-----
Supplemental disclosure of cash flow information			
Interest paid	\$	10,000	\$
		=====	=====
Income taxes paid	\$	--	\$
		=====	=====
Supplemental schedule of non- cash investing and financing activities			
Equipment acquired under capital lease agreements	\$	--	\$
		=====	=====
Conversion of preferred stock to common stock	\$	63,000	\$
		=====	=====
Acquired investment under common stock purchase	\$	1,000,000	\$
		=====	=====
Offering costs on common stock purchases	\$	92,500	\$
		=====	=====
Common stock issued for purchase of options	\$	39,000	\$
		=====	=====

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ENOVA SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

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NOTE 1 - ORGANIZATION AND LINE OF BUSINESS



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### General

-----  
Enova Systems, Inc. (the "Company") is a California corporation that develops drive trains and related components for electric, hybrid electric, and fuel cell systems for mobile and stationary applications. The Company retains development and manufacturing rights to many of the technologies created, whether such research and development is internally or externally funded. The Company develops and sells components in the United States and Asia, and sells components in Europe.

### Liquidity

-----  
At December 31, 2004, the Company had a net working capital of approximately \$2,371,000 as compared to \$1,765,000 at December 31, 2003, representing an increase of \$606,000. This increase is due primarily to capital raised during the year offset by losses from operations. Operating and investing activities used approximately \$2,157,000 and \$174,000, respectively, while financing activities provided \$3,376,000. During the year ended December 31, 2004, the Company increased its headcount minimally to control expenses and still maintain its competitive edge in power management systems. The Company's business plan for 2005 provides for raising additional capital in order to continue with the Company's operations until it becomes profitable. The Company will also continue to search for areas in which to further reduce expenses and increase sales.

### Stock Purchase Agreement

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The Company has entered into a joint venture agreement (the Agreement) with Hyundai Heavy Industries of Korea ("HHI") to create a joint venture corporation, Hyundai-Enova Innovative Technology Center (the "ITC") to be domiciled in Torrance, California. In conjunction with this Agreement, HHI and the Company entered into a stock purchase agreement in which HHI agreed to make a \$3 million investment in the Company through the purchase of shares of the Company's authorized and unissued common stock pursuant to Regulation D of the Securities Act of 1933. This investment was made in two installments of \$1.5 million each. The first installment was made in June 2003 upon incorporation of the ITC and in consideration for the issuance to HHI by the Company of 23,076,923 shares of common stock at \$0.065 per share.

The second installment was made in September 2004 in consideration for the issuance to HHI by the Company of 11,335,315 shares of common stock at \$0.1323 per share.

The Company invested \$1 million of each installment into the ITC in consideration for the issuance to the Company of a 40% equity interest in the ITC (the balance of the installments, in the amount of \$500,000 each, is to be retained by Enova). HHI acquired a 60% equity interest in ITC by investing \$3 million in the ITC in two installments of \$1.5 million each, to be made concurrently with the two installment payments to be paid by HHI for the Company's common stock. HHI and the Company have invested an aggregate of \$5 million in the ITC.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Amendments to Previously Filed Financial Statements  
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The Company has amended its 2004 Form 10-K to include as the audited financial statements of Hyundai-Enova Innovative Technology Center, a 40% owned equity method investment of the Company. Additionally, the Company has made certain corrections to the previously filed December 31, 2004 footnotes to the financial statements in regards to disclosures related to segment reporting, deferred taxes, and certain other footnote disclosures for computational errors. These corrections did not have any impact on the Company's reported financial position, results of operations, or cash flows for the year ended December 31, 2004.

Management's Plans Related to Liquidity and Capital Needs  
-----

The Company has incurred significant losses from operations. During the year ended December 31, 2004, the Company incurred a net loss of \$3,382,000, and it had negative cash flows from operations of \$2,157,000. At December 31, 2004 the Company had an accumulated deficit of \$100,459,000. Such losses have resulted principally from research and development costs, sales and marketing costs and general and administrative costs associated with the development of the Company's technologies and products and expanding its level of operations.

The Company is subject to all of the many risks inherent in growing a new enterprise, and the development and commercialization of new products, including changing technologies, competition from companies offering the same or similar products, managing growth and lack of financial resources. As with any growing enterprise, there can be no assurance that the Company will achieve or sustain profitability or positive cash flow from operations.

The accompanying financial statements have been prepared on a going concern basis which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. Over the next few years the Company expects to incur losses from operations as it continues to develop future products and market its current products. The Company will need to raise additional capital through debt or equity financings or collaborative arrangements with industry partners to continue its business operations.

The Company's ability to continue as a going concern is dependent on its success at obtaining additional capital sufficient to meet its obligations on a timely basis, and to ultimately attain profitability. Management is actively engaged in seeking to raise capital through product licensing, co-promotional arrangements, or public or private equity financing. The Company believes it has demonstrated the ability to raise the necessary funds for the Company's growth and development activities. However, there is no assurance that the Company will raise capital sufficient to enable the Company to continue its operations through the end of the fiscal year.

In the event the Company is unable to successfully obtain additional capital, it is unlikely that the Company will have sufficient cash flows and liquidity to finance its business operations as currently contemplated. Accordingly, in the event additional capital is not obtained, the Company will likely further downsize the organization,

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management's Plans Related to Liquidity and Capital Needs (continued)  
-----

defer marketing programs, reduce general and administrative expenses and delay or reduce the scope of research and development projects until it is able to obtain sufficient financing to do so. These factors could significantly limit the Company's ability to continue as a going concern. The balance sheets do not include any adjustments relating to recoverability and classification of recorded asset amounts or the amounts of classification of liabilities that might be necessary should the Company be unable to continue in existence.

Contract Services Revenue and Cost Recognition  
-----

The Company manufactures proprietary products and other products based on design specifications provided by its customers. Revenue from sales of products are generally recognized at the time title to the goods and the benefits and risks of ownership passes to the customer which is typically when products are shipped based on the terms of the customer purchase agreement.

Revenue relating to long-term fixed price contracts is recognized using the percentage of completion method. Under the percentage of completion method, contract revenues and related costs are recognized based on the percentage that costs incurred to date bear to total estimated costs.

Changes in job performance, estimated profitability and final contract settlements may result in revisions to cost and revenue, and are recognized in the period in which the revisions are determined.

Contract costs include all direct materials, subcontract and labor costs and other indirect costs. General and administrative costs are charged to expense as incurred. At the time a loss on a contract becomes known, the entire amount of the estimated loss is accrued.

The aggregate of costs incurred and estimated earnings recognized on uncompleted contracts in excess of related billings is shown as a current asset, and billings on uncompleted contracts in excess of costs incurred and estimated earnings is shown as a current liability.

Comprehensive Income  
-----

The Company utilizes Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income." This statement establishes standards for reporting comprehensive income and its components in a financial statement. Comprehensive income as defined includes all changes in equity (net assets) during a period from non-owner sources. Examples of items to be included in comprehensive income, which are excluded from net income, include foreign currency translation adjustments, minimum pension liability adjustments, and unrealized gains and losses on available-for-sale securities. Comprehensive income is not presented in the Company's financial

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statements since the Company did not have any changes in equity from non-owner sources.

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ENOVA SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

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### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Cash and Cash Equivalents

---

Highly liquid investments with an original maturity of three months or less are considered cash equivalents.

#### Accounts Receivable

---

Receivables are reported at net realizable value and are considered past due when payments have not been received for 90 days. In general, receivables are charged off as uncollectible upon exhausting all avenues of collection. Receivables older than 90 days totaled \$165,000 (without reserve) and \$678,000 (of which \$595,000 had been reserved for) at December 31, 2004 and 2003, respectively. The Company believes the \$165,000 will be collected in its entirety in 2005 pending resolution of various customer requests.

#### Allowance for Doubtful Accounts

---

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. A considerable amount of judgment is required in assessing the ultimate realization of accounts receivable including the current credit-worthiness of each customer. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As of December 31, 2004, the Company did not maintain any allowances for doubtful accounts as all prior uncollectible balances have been charged to bad debt expense.

#### Inventories and Supplies

---

Inventories and supplies are comprised of materials used in the design and development of electric, hybrid electric, and fuel cell drive systems, and other power and ongoing management and control components for production and ongoing development contracts, and is stated at the lower of cost (first-in, first-out) or market. During 2004, the Company charged off \$113,000 of inventory related to a prior project with Ford Th!nk program which was terminated in 2003. Additionally, the Company charged-off approximately \$162,000 for obsolete or slow-moving inventory for a total of \$275,000 during the year ended December 31, 2004.

#### Property and Equipment

---

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the related assets, which range from three to seven years. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the sum of expected cash flows from use of the asset is less

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than its carrying value. Long-lived assets that management commits to sell or abandon are reported at the lower of carrying amount or fair value less cost to sell.

### Equity Method Investment

-----

Investment in joint venture (see Note 1) is accounted for by the equity method. The audited financial statements for the Hyundai-Enova Innovative Technology Center, Inc. are attached following these Notes to the Financial Statements.

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ENOVA SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

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### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Fair Value of Financial Instruments

-----

The carrying amount of financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, approximate fair value due to the short maturity of these instruments. The carrying value of all other financial instruments is representative of their fair values. The Company's short and long term debt may be substantially less than the carrying value since there is no readily ascertainable market for the debt given the financial position of the Company.

#### Stock-Based Compensation

-----

SFAS No. 123, "Accounting for Stock-Based Compensation," establishes and encourages the use of the fair value based method of accounting for stock-based compensation arrangements under which compensation cost is determined using the fair value of stock-based compensation determined as of the date of grant and is recognized over the periods in which the related services are rendered. The statement also permits companies to elect to continue using the current implicit value accounting method specified in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," to account for stock-based compensation. Summary of Statement

SFAS No. 148 "Accounting for Stock-Based Compensation--Transition and Disclosure" amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

The Company has elected to use the intrinsic value based method and has disclosed the pro forma effect of using the fair value based method to account for its stock-based compensation. The Company has adopted only the disclosure provisions of SFAS No. 123. It applies APB Opinion No. 25 and related interpretations in accounting for its plans and does not recognize compensation expense for its stock-based compensation plans other than for restricted stock and options issued to outside third

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parties.

For purposes of adjusted pro forma disclosures, the estimated fair value of the options is amortized to expense over the vesting period.

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ENOVA SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation (continued)

If the Company had elected to recognize compensation expense based upon the fair value at the grant date for awards under this plan consistent with the methodology prescribed by SFAS No. 123, the Company's net loss and loss per share would be reduced to the pro forma amounts indicated below for the years ended December 31, 2004, 2003, and 2002:

	2004	2003	
	-----	-----	-----
Loss applicable to common stockholders	\$ (3,382,000)	\$ (3,186,000)	\$ (3,
Stock-based employee compensation expense determined under fair value presentation for all options	(76,000)	(315,000)	(
Pro forma net loss	\$ (3,458,000)	\$ (3,501,000)	\$ (3,
Basic and diluted loss per common share			
As reported	\$ (0.01)	\$ (0.01)	\$
Pro forma	\$ (0.01)	\$ (0.01)	\$

For purposes of computing the pro forma disclosures required by SFAS No. 123, the fair value of each option granted to employees and directors is estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions for the years ended December 31, 2004, 2003, and 2002: dividend yields of 0%, 0%, and 0%, respectively; expected volatility of 73%, 88%, and 83%, respectively; risk-free interest rates of 4%, 4%, and 4%, respectively; and expected lives of one, three, and five years, respectively. The weighted-average fair value of options granted during the year ended December 31, 2004 for which the exercise price equals the market price on the grant date was \$0, and the weighted-average exercise price was \$0.115.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which do not have vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input

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assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

### Advertising Expense

-----  
The Company expenses all advertising costs, including direct response advertising, as they are incurred. Advertising expense for the years ended December 31, 2004, 2003, and 2002 was \$12,000, \$21,000, and \$20,000, respectively.

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ENOVA SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

-----  
NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Research and Development

-----  
Costs of researching and developing new technology or significantly altering existing technology is expensed as incurred.

### Income Taxes

-----  
The Company utilizes SFAS No. 109, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

### Loss Per Share

-----  
The Company utilizes SFAS No. 128, "Earnings per Share." Basic loss per share is computed by dividing loss available to common stockholders by the weighted-average number of common shares outstanding. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Common equivalent shares are excluded from the computation if their effect is anti-dilutive. The Company's common share equivalents consist of stock options.

### Estimates

-----  
The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could

differ from those estimates.

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. The Company places its cash and cash equivalents with high credit, quality financial institutions. At times, such cash and cash equivalents may be in excess of the Federal Deposit Insurance Corporation insurance limit of \$100,000. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. With respect to accounts receivable, the Company routinely assesses the financial strength of its customers and, as a consequence, believes that the receivable credit risk exposure is limited.

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ENOVA SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major Customers

During the year ended December 31, 2004, the Company conducted business with five customers whose sales comprised 16%, 13%, 10%, 9% and 8% of total revenues. As of December 31, 2004, these customers accounted for 0%, 9%, 33%, 0% and 13%, respectively, of total accounts receivable.

In addition, one of the Company's stockholders accounted for 10%, 1%, and 16% of total revenues during the years ended December 31, 2004, 2003, and 2002, respectively. This stockholder holds less than 5% of the total issued and outstanding common stock. Demand deposits are placed with known, creditable financial institutions.

Recently Issued Pronouncements

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs". SFAS No. 151 amends the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) under the guidance in ARB No. 43, Chapter 4, "Inventory Pricing". Paragraph 5 of ARB No. 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. . . ." This statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management does not expect adoption of SFAS No. 151 to have a material impact, if any, on the Company's financial position or results of operations.

In December 2004, the FASB issued SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions". The FASB issued this statement as a result of the guidance provided in AICPA Statement of Position (SOP)



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04-2, "Accounting for Real Estate Time-Sharing Transactions". SOP 04-2 applies to all real estate time-sharing transactions. Among other items, the SOP provides guidance on the recording of credit losses and the treatment of selling costs, but does not change the revenue recognition guidance in SFAS No. 66, "Accounting for Sales of Real Estate", for real estate time-sharing transactions. SFAS No. 152 amends Statement No. 66 to reference the guidance provided in SOP 04-2. SFAS No. 152 also amends SFAS No. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects", to state that SOP 04-2 provides the relevant guidance on accounting for incidental operations and costs related to the sale of real estate time-sharing transactions. SFAS No. 152 is effective for years beginning after June 15, 2005, with restatements of previously issued financial statements prohibited. Management does not expect adoption of SFAS No. 152 to have a material impact, if any, on the Company's financial position or results of operations.

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ENOVA SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

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### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Recently Issued Pronouncements (continued)

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In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets," an amendment to Opinion No. 29, "Accounting for Nonmonetary Transactions". SFAS No. 153 eliminates certain differences in the guidance in Opinion No. 29 as compared to the guidance contained in standards issued by the International Accounting Standards Board. The amendment to Opinion No. 29 eliminates the fair value exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Such an exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in periods beginning after December 16, 2004. Management does not expect adoption of SFAS No. 153 to have a material impact, if any, on the Company's financial position or results of operations. In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment". SFAS 123(R) amends SFAS No. 123, "Accounting for Stock-Based Compensation", and APB Opinion No. 25, "Accounting for Stock Issued to Employees". SFAS No. 123(R) requires that the cost of share-based payment transactions (including those with employees and non-employees) be recognized in the financial statements. SFAS No. 123(R) applies to all share-based payment transactions in which an entity acquires goods or services by issuing (or offering to issue) its shares, share options, or other equity instruments (except for those held by an ESOP) or by incurring liabilities (1) in amounts based (even in part) on the price of the company's shares or other equity instruments, or (2) that require (or may require) settlement by the issuance of a company's shares or other equity instruments. This statement is effective (1) for public companies qualifying as SEC small business issuers, as of the first interim period or fiscal year beginning after December 15, 2005, or (2) for all other public companies, as of the first interim period or fiscal year beginning

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after June 15, 2005, or (3) for all nonpublic entities, as of the first fiscal year beginning after December 15, 2005. Management is currently assessing the impact of this statement on its financial position and results of operations.

### Fourth Quarter Adjustments

-----

During the fourth quarter of fiscal 2004, the Company:

- o wrote-down inventory by a net of \$275,000 for obsolete and slow-moving inventory. The Company charged off approximately \$113,000 of this reduction for inventory relating to raw materials for the Ballard/Ford Think city program which was terminated in 2003. This was inventory specific to that program which the Company believed may be useable in other components, or would be purchased by third parties, but was not due to the Company's increased focus on the heavy-duty hybrid markets. The Company also charged off an additional \$162,000 in obsolete or

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ENOVA SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

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### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Fourth Quarter Adjustments (continued)

-----

slow moving inventory during 2004. This resulted in an increase of cost of sales by \$275,000 for the year.

- o allocated certain expenses to cost of sales, which had been charged to general and administrative expense, based on the Company's improved method of apportioning such costs. This resulted in an increase in cost of sales of approximately \$147,000 in the fourth quarter, a portion of which may have been attributable to prior quarters in 2004 but none that the Company believes would have a material impact on the presentation of those quarters.

The above two adjustments (i) increased cost of sales by \$422,000 in the fourth quarter, (ii) reduced gross profit by \$422,000, (iii) increased loss from operations by \$275,000 and (iv) reduced net loss by \$275,000.

### NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2004 and 2003 consisted of the following:

	2004
	-----
Computers	\$ 229,000
Machinery and equipment	709,000

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Furniture and office equipment	192,000
Demonstration vehicles and buses	461,000
Equipment under capital lease obligations	94,000
Leasehold improvements	68,000
	-----
	1,753,000
Less accumulated depreciation and amortization	1,366,000
	-----
Total	\$ 387,000
	=====

Depreciation and amortization expense was \$376,000, \$351,000, and \$134,000 for the years ended December 31, 2004, 2003, and 2002, respectively.

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ENOVA SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

-----  
NOTE 4 - EQUITY METHOD INVESTMENT

During the year ended December 31, 2004, the Company invested \$1,000,000 of the proceeds received from sale of common stock to HHI into a joint venture formed with HHI in 2003 (see Note 1). The Company's share of income and losses is 40% as stated in the agreement. During the year ended December 31, 2004, the Company recorded \$192,000 as its proportionate share of losses in the joint venture.

The financial statements of the ITC were audited for the year ended December 31, 2004, the period from June 11, 2003 (Inception) to December 31, 2003, and the period from June 11, 2003 (Inception) to December 31, 2004 and have been included in the Company's Form 10-K/A for the year ended December 31, 2004. The following is the condensed financial position and results of operations of ITC (audited), as of and for the year ended December 31, 2004 and the period from June 11, 2003 (Inception) to December 31, 2003:

	Year ended December 31, 2004	Period fr 2003 (In Decembe
	-----	-----
Financial position		
Current assets	\$ 4,406,000	\$
Property and equipment, net	13,000	
Liabilities	(3,000)	
	-----	-----
Equity	\$ 4,419,000	\$
	=====	=
Operations		
Expenses	(481,000)	

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Net loss	\$ (481,000)	\$
	=====	=
Company's proportionate share of net loss	\$ (192,000)	\$
	=====	=

NOTE 5 - OTHER ASSETS

During the year ended December 31, 2002, the Company incurred legal costs of \$78,000 associated with two patents. These patents have been capitalized and are being amortized over their estimated useful lives.

In June 2001, a strategic relationship with Ford Motor Company was entered into to develop and manufacture a high power, high voltage conversion module for Ford's fuel cell vehicle. Warrants were issued to Ford Motor Company in exchange for Ford's commitment to enter into a five-year agreement. The issuance of the warrants was recorded as a non-current asset (Value Participation Agreement) at its fair market

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ENOVA SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE 5 - OTHER ASSETS (continued)

value of \$577,000, which was determined using the Black-Scholes option pricing model, and is being amortized on a straight-line basis over the life of the contract.

	2004	2003
	-----	-----
Patents	\$ 92,000	\$ 92,000
Valuation Participation Agreement	577,000	577,000
	-----	-----
	669,000	669,000
Less accumulated amortization	373,000	265,000
	-----	-----
Total	\$296,000	\$404,000
	=====	=====

NOTE 6 - LINE OF CREDIT

The Company has available \$250,000 revolving line of credit from a bank with interest payable monthly at 3.25%. The line of credit is secured by \$250,000 Certificate of Deposit and its maturity has been extended until April 2005.

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NOTE 7- DEFERRED REVENUES - Tomoe LTA Long-Term Contract

The Company has entered into a development and production contract with Tomoe Electro-Mechanical Engineering and Manufacturing, Inc. for eight battery-electric locomotives for the Singapore Land Transport Authority for service vehicles for the Singapore Mass Rapid Transit Circle Line system for maintenance, repair, shunting and recovery of passenger trains. The contract commenced in August 2004 and completion of the contract will take approximately 15-18 months and is valued at approximately \$3,100,000. The Company is recording revenues for this long-term, fixed price contract on the basis of the percentage-of-completion method. The contract contains several deliverables over its life and therefore the Company will divide these deliverables into separate units of accounting based on relative fair values. Revenue recognition criteria will be assessed separately for each separate unit of accounting. As of December 31, 2004, the Company recorded revenues of \$68,000 related to the development portion of this contract.

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ENOVA SYSTEMS, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2004

NOTE 8- NOTES PAYABLE

Notes payable at December 31, consisted of the following:

	2004
	-----
Secured note payable to Credit Managers Association of California, bearing interest at 6% per annum during 2003 and at prime plus 3% per annum in 2004 and through maturity. Principal and unpaid interest due in April 2016. A sinking fund escrow is required to be funded with 10% of future equity financing, as defined in the agreement.	\$ 3,332,000
Unsecured note payable, bearing interest at 10% per annum. This note payable is in default.	120,000
Secured note payable to a Coca Cola Enterprises in the original amount of \$40,000, bearing interest at 5% per annum. Principal and unpaid interest due in July 2005.	40,000
Secured note payable to a financial institution in the original amount of \$33,000, bearing interest at 8% per annum, payable in 36 equal monthly installments.	15,000
	-----
	3,507,000
Less current portion	166,000
	-----
Long-term portion	\$ 3,341,000
	=====

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Future minimum principal payments of notes payable at December 31, 2004 consisted of the following:

Year Ending December 31, -----		
2005	\$	166,000
2006		9,000
2007		--
2008		--
2009		--
Thereafter		3,332,000
		-----
Total	\$	3,507,000
		=====

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ENOVA SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

-----  
NOTE 9- COMMITMENTS AND CONTINGENCIES

Leases

-----

The Company leases its facilities under an operating lease agreement, which requires monthly payments of \$13,250 and expires in February 2008. At March 2005, the monthly payments will increase to \$13,700 per the terms of the lease agreement. In addition, the Company rents manufacturing and office equipment under various capital lease agreements.

Future minimum lease payments under these non-cancelable operating and capital lease obligations at December 31, 2004 were as follows:

Year Ending December 31, -----	Operating Leases -----
2005	\$164,000
2006	155,000
2007	166,000
2008	28,000
	-----
	\$513,000
	=====
Less amount representing interest	
Less current portion	

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Long-term portion

Rent expense was \$140,000, \$150,000, and \$206,000 for the years ended December 31, 2004, 2003, and 2002, respectively.

NOTE 10 - STOCKHOLDERS' EQUITY (DEFICIT)

Common Stock  
-----

During the year ended December 31, 2004, the Company issued 27,585,000 shares of common stock for cash totaling \$3,450,000. In addition, the Company issued 481,000 shares of common stock to directors as compensation totaling \$47,000.

Common Stock Subscribed  
-----

At December 31, 2004, the Company was committed to issue 1,196,000 shares of common stock totaling \$165,000 as compensation and as finder's fees to its directors.

In the prior year, the Company incorrectly reported the number of subscribed common stock. The actual shares subscribed as of December 31, 2003 totaling 367,000 shares differed from the previously reported number of shares by 760,000 shares, totaling \$29,000. The effect of this error was not material to the reported results. This difference has been corrected in the current year's financial statements.

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ENOVA SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

-----  
NOTE 10 - STOCKHOLDERS' EQUITY (DEFICIT) (Continued)

Series A Preferred Stock  
-----

Series A preferred stock is currently unregistered and convertible into common stock on a one-to-one basis at the election of the holder or automatically upon the occurrence of certain events including: sale of stock in an underwritten public offering; registration of the underlying conversion stock; or the merger, consolidation, or sale of more than 50% of the Company. Holders of Series A preferred stock have the same voting rights as common stockholders. The stock has a liquidation preference of \$0.60 per share plus any accrued and unpaid dividends in the event of voluntary or involuntary liquidation of the Company. Dividends are non-cumulative and payable at the annual rate of \$0.036 per share if, when, and as declared by, the Board of Directors. No dividends have been declared on the Series A preferred stock.

Substantially all of the stock notes receivable stem from a Board of Directors plan for the sale of shares of Series A preferred stock in 1993 to certain officers and directors (Participants). In general, the Participants could purchase the preferred stock for a combination of

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cash, promissory notes payable to the Company, and conversion of debt and deferred compensation due to the Participants. All shares issued under this plan were pledged to the Company as security for the notes. The notes provided for interest at 8% per annum payable annually, with the full principal amount and any unpaid interest due on January 31, 1997. The notes remain outstanding. The likelihood of collecting the interest on these notes is remote; therefore, accrued interest has not been recorded since the fiscal year ended July 31, 1997.

Series B Preferred Stock  
-----

Series B preferred stock is currently unregistered and each share is convertible into shares of common stock on a two-for-one basis at the election of the holder or automatically upon the occurrence of certain events including: sale of stock in an underwritten public offering, if the offering results in net proceeds of \$10,000,000, and the per share price of common stock is at least \$2.00; and the merger, consolidation, or sale of common stock or sale of substantially all of the Company's assets in which gross proceeds received are at least \$10,000,000.

The Series B preferred stock has certain liquidation and dividend rights prior and in preference to the rights of the common stock and Series A preferred stock. The stock has a liquidation preference of \$2.00 per share together with an amount equal to, generally, \$0.14 per share compounded annually at 7% per year from the filing date, less any dividends paid. Dividends on the Series B preferred stock are non-cumulative and payable at the annual rate of \$0.14 per share if, when, and as declared by, the Board of Directors. No dividends have been declared on the Series B preferred stock.

-----  
NOTE 10 - STOCKHOLDERS' EQUITY (DEFICIT) (Continued)

Stock Options and Warrants  
-----

During the year ended December 31, 2004, the Company issued 8,464,000 shares of common stock from the exercise of options by certain employees in exchange for cash totaling \$783,000.

During 2004, the stockholders of the Company approved an increase of 20,000,000 shares for the 1996 Stock Option Plan for incentive and non-statutory stock options during the period of the Plan, which expires in 2006. The Plan now reserves 65,000,000 shares under the plan. Options under the 1996 Plan expire over a period not to exceed ten years. The following summarizes common stock option activity:

1996 Plan	1993 Plan
-----	-----
Weighted- Average Exercise	Weighted- Average Exercise



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	Shares	Price	Shares	Price	Shares
	-----	-----	-----	-----	-----
Outstanding, December 31, 2001	20,866,000	\$ 0.10	9,654,000	\$ 0.52	1,495,000
Granted	900,000	\$ 0.10	--	\$ --	
Exercised	--	\$ --	(35,000)	\$ 0.10	
Forfeited	(439,000)	\$ 0.10	(2,565,000)	\$ 0.52	
	-----		-----		-----
Outstanding, December 31, 2002	21,327,000	\$ 0.11	7,054,000	\$ 0.52	1,495,000
Granted	9,998,000	\$ 0.05	--	\$ --	
Exercised	(8,638,000)	\$ 0.05	--	\$ --	
Forfeited	(1,556,000)	\$ 0.11	(7,054,000)	\$ 0.52	(1,495,000)
	-----		-----		-----
Outstanding, December 31, 2003	21,131,000	\$ 0.12	--	\$ --	
Granted	2,000,000	\$ 0.12	--	\$ --	
Exercised	(10,981,000)	\$ 0.10	--	\$ --	
Forfeited	(4,795,000)	\$ 0.12	--	\$ --	
	-----		-----		-----
Outstanding, December 31, 2004	7,355,000	\$ 0.12	--	\$ --	
	=====		=====		=====
Exercisable, December 31, 2004	6,418,000	\$ 0.12	--	\$ --	
	=====		=====		=====

The weighted-average remaining contractual life of the options outstanding at December 31 2004 was 1.2 years. The exercise prices of the options outstanding at December 31, 2004 ranged from \$0.11 to \$0.30. Options exercisable were 6,418,000, 20,898,000, 28,304,228 at December 31, 2004, 2003 and 2002.

-----  
NOTE 10 - STOCKHOLDERS' EQUITY (DEFICIT) (Continued)

Stock Options and Warrants (Continued)  
-----

The agreement with Ford Motor Company (see Note 5) included issuing warrants to Ford to purchase 4.6% of the fully diluted common stock of

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the Company over a 66 month period. The number of shares to be acquired will be adjusted from time to time for increases in the Company's fully diluted common stock. The vesting of these warrants is dependent upon Ford meeting specific purchase requirements.

The fair value of warrants granted were estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0%, expected volatility of 102%, risk-free interest rate of 4.76% and an expected life of the warrants of 66 months. Warrants issued and vested under this agreement totaled 2,500,000 at an exercise price of \$0.29 per share during the year ended December 31, 2001. No warrants were vested under this program during 2004 and 2003. As of June 30, 2004, Ford is no longer eligible for further vesting of its warrants per the terms of the Value Participation Agreement.

### NOTE 11 - INCOME TAXES

Significant components of the Company's deferred tax assets and liabilities for federal and state income taxes as of December 31, 2004 and 2003 consisted of the following:

	2004
Deferred tax assets	-----
Federal tax loss carry-forward	\$ 31,542,000
State tax loss carry-forward	893,000
Basis difference	1,610,000
Other, net	(96,000)
	-----
	33,949,000
Less valuation allowance	(33,949,000)
	-----
Net deferred tax assets	\$ --
	=====

As of December 31, 2004, the Company had net operating loss carry forwards for federal and state income tax purposes of approximately \$95,571,000 and \$9,393,000, respectively. The net operating loss carry forwards began expiring in 2003.

### NOTE 12 - RELATED PARTY TRANSACTIONS

During 2004, the Company purchased approximately \$246,000 in components, materials and services from HHI. The outstanding balance owed to HHI at December 31, 2004 was approximately \$2,000.

-----  
NOTE 12 - RELATED PARTY TRANSACTIONS (continued)

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During 2004, the Company paid a total of \$101,000 to two of its directors in consulting fees.

During 2004, pursuant to a written agreement approved by the Board of Directors and its Audit Committee, a finder's fee of \$92,500 was accrued to be paid, through the issuance of restricted shares of common stock in Enova, totaling 608,553 shares at a price of \$0.15 per share, in conjunction with a private placement funding in the first quarter of 2004 to The Global Value Investment Portfolio Management Pte Ltd, a Singapore Company which is substantially owned by two affiliated parties: Anthony Rawlinson, Chairman of the Board of our Company and Borl partnership, owned by Boris Liberman Family Trusts, which is also affiliated with Jagen Pty Ltd., a large affiliate shareholder in Enova. Said shares were subsequently issued in the first quarter of 2005.

### NOTE 13 - EMPLOYEE BENEFIT PLAN

The Company has a 401(k) profit sharing plan covering substantially all employees. Eligible employees may elect to contribute a percentage of their annual compensation, as defined, to the plan. The Company may also elect to make discretionary contributions. For the years ended December 31, 2004, 2003, and 2002 the Company did not make any contributions to the plan.

### NOTE 14 - GEOGRAPHIC AREA DATA

The Company operates as a single reportable segment and attributes revenues to countries based upon the location of the entity originating the sale. Revenues by geographic area are as follows:

	2004	2003
United States	\$ 1,465,000	\$ 2,672,000
Italy	30,000	213,000
Korea	258,000	297,000
Japan	176,000	146,000
China	256,000	-
Malaysia	-	184,000
Ireland	166,000	-
Canada	-	738,000
England	203,000	60,000
	\$ 2,554,000	\$ 4,310,000
Total		

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SUPPLEMENTAL INFORMATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
 Enova Systems, Inc.  
 Torrance, California

Our audits were conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule II is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SINGER LEWAK GREENBAUM & GOLDSTEIN LLP

Los Angeles, California  
 March 10, 2005

VALUATION AN

	Balance, Beginning of Year	Additions Charged to Operations
	-----	-----
Allowance for doubtful accounts		
December 31, 2004	\$ 595,000	\$ --
	=====	=====
December 31, 2003	\$ --	\$ 595,000
	=====	=====
December 31, 2002	\$ --	\$ --
	=====	=====
Reserve for obsolete inventories		
December 31, 2004	\$ 80,000	\$ --

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	=====	=====
December 31, 2003	\$ 80,000	\$ --
	=====	=====
December 31, 2002	\$ 80,000	\$ --
	=====	=====

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HYUNDAI-ENOVA INNOVATIVE TECHNOLOGY CENTER, INC.  
 (A DEVELOPMENT STAGE COMPANY)  
 FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2004 AND  
 FOR THE PERIOD FROM JUNE 11, 2003 (INCEPTION) TO DECEMBER 31, 2003 AND  
 FOR THE PERIOD FROM JUNE 11, 2003 (INCEPTION) TO DECEMBER 31, 2004

HYUNDAI-ENOVA INNOVATIVE TECHNOLOGY CENTER, INC.  
 (A DEVELOPMENT STAGE COMPANY)  
 CONTENTS  
 December 31, 2004

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Balance Sheets	2
Statements of Operations	3
Statements of Stockholders' Equity	4
Statements of Cash Flows	5
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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Board of Directors and Stockholders  
Hyundai-Enova Innovative Technology Center, Inc.  
Torrance, California

We have audited the balance sheets of Hyundai-Enova Innovative Technology Center, Inc. (a development stage company) as of December 31, 2004 and 2003, and the related statements of operations, stockholders' equity, and cash flows for the year ended December 31, 2004, the period from June 11, 2003 (inception) to December 31, 2003, and the period from June 11, 2003 (inception) to December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provided a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hyundai-Enova Innovative Technology Center, Inc. as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the year ended December 31, 2004, the period from June 11, 2003 (inception) to December 31, 2003, and the period from June 11, 2003 (inception) to December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

SINGER LEWAK GREENBAUM & GOLDSTEIN LLP

Los Angeles, California  
July 1, 2005

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HYUNDAI-ENOVA

-----  
ASSETS

Current assets  
    Cash and cash equivalents  
  
    Total current assets  
  
Property and equipment, net

---  
\$  
---

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Total assets

\$  
==

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities

Accounts payable

\$

Credit cards payable

Accrued payroll and related expenses

---

Total current liabilities

---

Commitments and contingencies

Stockholders' equity

Common Stock, no par value

5,000,000 shares authorized

5,000,000 and 2,500,000 shares issued and  
outstanding, respectively

Deficit accumulated during the development stage

---

Total stockholders' equity

---

Total liabilities and stockholders' equity

\$  
==

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HYUNDAI-ENOVA

For t  
For the Period from June 11, 2003 ( )  
For the Period from June 11, 20

	For the Year Ended December 31, 2004	Period From June 11, 20 (Inception) December 3 2003
Operating expenses		
Research & development	\$ 32,796	\$
Selling, general & administrative	501,676	9
Total operating expenses	534,472	10
Loss from operations	534,472	10

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Other income	-----	-----
Interest income	(52,618)	(
Total other income	(52,618)	(
Net loss	===== \$ (481,854)	===== \$ (10
Basic and diluted loss per share	===== \$ (0.17)	===== \$
Basic and diluted weighted-average number of shares outstanding	===== 2,916,667	===== 1,42

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HYUNDAI-ENOVA

For t  
For the Period from June 11, 2003 ( )  
For the Period from June 11, 20

	Common Stock		Ac D De
	Shares	Amount	
	-----	-----	-----
Balance, June 11, 2003 (Inception)	--	\$ --	\$
Issuance of common stock for cash	2,500,000	2,500,000	
Net loss	--	--	
Balance, December 31, 2003	===== 2,500,000	===== \$ 2,500,000	===== \$
Issuance of common stock for cash	2,500,000	2,500,000	
Net loss	--	--	
Balance, December 31, 2004	===== 5,000,000	===== \$ 5,000,000	===== \$



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HYUNDAI-ENOVA

For t  
For the Period from June 11, 2003 ( )  
For the Period from June 11, 20

	For the Year Ended December 31, 2004	( )
	-----	-----
Cash flows from operating activities		
Net loss	\$ (481,854)	\$
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation and amortization	4,111	
Increase (decrease) in		
Accounts payable	(25,912)	
Accrued expenses	1,952	
	-----	
Net cash used by operating activities	(501,703)	
	-----	
Cash flows from investing activities		
Purchases of property and equipment	(5,651)	
	-----	
Net cash used in investing activities	(5,651)	
	-----	
Cash flows from financing activities		
Proceeds from sales of common stock	2,500,000	
	-----	
Net cash provided by financing activities	2,500,000	
	-----	
Net increase (decrease) in cash and cash equivalents	1,992,646	
Cash and cash equivalents, beginning of year	2,412,977	
	-----	
Cash and cash equivalents, end of year	\$ 4,405,623	\$
	=====	=====

Supplemental disclosure of cash  
flow information

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Interest paid	\$	--	\$
	=====		
Income taxes paid	\$	--	\$
	=====		

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HYUNDAI-ENOVA INNOVATIVE TECHNOLOGY CENTER, INC.  
 (A DEVELOPMENT STAGE COMPANY)  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2004

NOTE 1 - ORGANIZATION AND LINE OF BUSINESS

General

-----

Hyundai-Enova Innovative Technology Center, Inc. (the "Company") is a development stage, California corporation that develops technologies and components for electric, hybrid electric, and fuel cell systems for mobile and stationary applications. The Company retains development and manufacturing rights to many of the technologies created. The Company develops technologies primarily for its two shareholders, Hyundai Heavy Industries Co., Ltd. and Enova Systems, Inc. For the years ended December 31, 2004 and 2003, the Company did not have any revenues.

Liquidity

-----

At December 31, 2004, the Company had a net working capital of \$4,402,839 as compared to \$2,386,233 at December 31, 2003, representing an increase of \$2,016,606. This increase is due primarily to capital raised during the year ended December 31, 2004 offset by losses from operations. Operating and investing activities used \$501,703 and \$5,651, respectively, while financing activities provided \$2,500,000 for the year ended December 31, 2004.

During the year ended December 31, 2004, the Company increased its headcount to five employees as it commenced development on new programs in power management systems.

Management's Plans Related to Liquidity and Capital Needs

-----

The Company has incurred losses from operations since inception. During the year ended December 31, 2004, the Company incurred a net loss of \$481,854, and it had negative cash flows from operations of \$501,703. At December 31, 2004 the Company had an accumulated deficit of \$583,443. Such losses have resulted principally from research and development costs, sales and marketing costs, and general and administrative costs associated with the development of the Company's technologies and products and expanding its level of operations.

The Company is subject to all of the many risks inherent in growing a new enterprise, and the development and commercialization of new products, including changing technologies, competition from companies offering the same or similar products, managing growth and lack of financial resources. As with any growing enterprise, there can be no

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assurance that the Company will achieve or sustain profitability or positive cash flow from operations.

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HYUNDAI-ENOVA INNOVATIVE TECHNOLOGY CENTER, INC.  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Development Stage Enterprise

-----  
The Company is a development stage company as defined in Statement of Financial Accounting Standards ("SFAS") No. 7, "Accounting and Reporting by Development Stage Enterprises." The Company is devoting all of its present efforts to its formation and to fundraising, and its planned principal operations have not yet commenced. All losses accumulated since inception have been considered as part of the Company's development stage activities.

#### Comprehensive Income

-----  
The Company utilizes Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income." This statement establishes standards for reporting comprehensive income and its components in a financial statement. Comprehensive income as defined includes all changes in equity (net assets) during a period from non-owner sources. Examples of items to be included in comprehensive income, which are excluded from net income, include foreign currency translation adjustments, minimum pension liability adjustments, and unrealized gains and losses on available-for-sale securities. Comprehensive income is not presented in the Company's financial statements since the Company did not have any items of comprehensive income in any period presented.

#### Cash and Cash Equivalents

-----  
Highly liquid investments with an original maturity of three months or less are considered cash equivalents.

#### Property and Equipment

-----  
Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the related assets, which range from three to seven years. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the sum of expected cash flows from use of the asset is less than its carrying value. Long-lived assets that management commits to sell or abandon are reported at the lower of carrying amount or fair value less cost to sell.

#### Fair Value of Financial Instruments

-----  
The carrying amount of financial instruments, including cash and cash equivalents, accounts payable and accrued expenses, approximate fair value due to the short maturity of these instruments. The carrying value of all other financial instruments is representative of their fair values.

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### Research and Development

Costs of researching and developing new technology or significantly altering existing technology are expensed as incurred.

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HYUNDAI-ENOVA INNOVATIVE TECHNOLOGY CENTER, INC.  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Income Taxes

The Company utilizes SFAS No. 109, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

#### Loss Per Share

The Company utilizes SFAS No. 128, "Earnings per Share." Basic loss per share is computed by dividing loss available to common stockholders by the weighted-average number of common shares outstanding. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Common equivalent shares are excluded from the computation if their effect is anti-dilutive. The Company does not have common share equivalents.

#### Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents. The Company places its cash and cash equivalents with high credit, quality financial institutions. At times, such cash and cash equivalents may be in excess of the Federal Deposit Insurance Corporation insurance limit of \$100,000. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk

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on cash and cash equivalents.

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HYUNDAI-ENOVA INNOVATIVE TECHNOLOGY CENTER, INC.  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Recently Issued Pronouncements

-----  
In November 2004, the FASB issued SFAS No. 151, "Inventory Costs". SFAS No. 151 amends the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) under the guidance in ARB No. 43, Chapter 4, "Inventory Pricing". Paragraph 5 of ARB No. 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. . . ." This statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management does not expect adoption of SFAS No. 151 to have a material impact, if any, on the Company's financial position or results of operations.

In December 2004, the FASB issued SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions". The FASB issued this statement as a result of the guidance provided in AICPA Statement of Position (SOP) 04-2, "Accounting for Real Estate Time-Sharing Transactions". SOP 04-2 applies to all real estate time-sharing transactions. Among other items, the SOP provides guidance on the recording of credit losses and the treatment of selling costs, but does not change the revenue recognition guidance in SFAS No. 66, "Accounting for Sales of Real Estate", for real estate time-sharing transactions. SFAS No. 152 amends Statement No. 66 to reference the guidance provided in SOP 04-2. SFAS No. 152 also amends SFAS No. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects", to state that SOP 04-2 provides the relevant guidance on accounting for incidental operations and costs related to the sale of real estate time-sharing transactions. SFAS No. 152 is effective for years beginning after June 15, 2005, with restatements of previously issued financial statements prohibited. Management does not expect adoption of SFAS No. 152 to have a material impact, if any, on the Company's financial position or results of operations.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets," an amendment to Opinion No. 29, "Accounting for Nonmonetary Transactions". SFAS No. 153 eliminates certain differences in the guidance in Opinion No. 29 as compared to the guidance contained in standards issued by the International Accounting Standards Board. The amendment to Opinion No. 29 eliminates the fair value exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Such an exchange has commercial substance if the future cash flows of the entity are expected to change

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significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in periods beginning after December 16, 2004. Management does not expect adoption of SFAS No. 153 to have a material impact, if any, on the Company's financial position or results of operations.

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HYUNDAI-ENOVA INNOVATIVE TECHNOLOGY CENTER, INC.  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Recently Issued Pronouncements (continued)

-----  
In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment". SFAS 123(R) amends SFAS No. 123, "Accounting for Stock-Based Compensation", and APB Opinion No. 25, "Accounting for Stock Issued to Employees". SFAS No.123(R) requires that the cost of share-based payment transactions (including those with employees and non-employees) be recognized in the financial statements. SFAS No. 123(R) applies to all share-based payment transactions in which an entity acquires goods or services by issuing (or offering to issue) its shares, share options, or other equity instruments (except for those held by an ESOP) or by incurring liabilities (1) in amounts based (even in part) on the price of the company's shares or other equity instruments, or (2) that require (or may require) settlement by the issuance of a company's shares or other equity instruments. This statement is effective (1) for public companies qualifying as SEC small business issuers, as of the first interim period or fiscal year beginning after December 15, 2005, or (2) for all other public companies, as of the first interim period or fiscal year beginning after June 15, 2005, or (3) for all nonpublic entities, as of the first fiscal year beginning after December 15, 2005. Management is currently assessing the impact of this statement on its financial position and results of operations.

In May 2005, the FASB issued Statement of Accounting Standards (SFAS) No. 154, "Accounting Changes and Error Corrections" an amendment to Accounting Principles Bulletin (APB) Opinion No. 20, "Accounting Changes", and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements" though SFAS No. 154 carries forward the guidance in APB No. 20 and SFAS No. 3 with respect to accounting for changes in estimates, changes in reporting entity, and the correction of errors. SFAS No. 154 establishes new standards on accounting for changes in accounting principles, whereby all such changes must be accounted for by retrospective application to the financial statements of prior periods unless it is impracticable to do so. SFAS No. 154 is effective for accounting changes and error corrections made in fiscal years beginning after December 15, 2005, with early adoption permitted for changes and corrections made in years beginning after May 2005. The adoption of this interpretation did not have any impact on our financial statements

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HYUNDAI-ENOVA INNOVATIVE TECHNOLOGY CENTER, INC.  
 (A DEVELOPMENT STAGE COMPANY)  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2004

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2004 and 2003 consisted of the following:

	2004
	-----
Computers	\$ 15,087
Tooling	1,405
Furniture and office equipment	1,337
	-----
	17,829
Less accumulated depreciation and amortization	4,111
	-----
Total	\$ 13,718
	=====

Depreciation and amortization expense was \$4,111, \$0 and \$4,111 for the year ended December 31, 2004, the period from June 11, 2003 (inception) to December 31, 2003, and the period from June 11, 2003 (inception) to December 31, 2004, respectively.

NOTE 4 - STOCKHOLDERS' EQUITY

Common Stock

-----  
 During the year ended December 31, 2004, the Company issued 2,500,000 shares of common stock for cash totaling \$2,500,000. During the period from June 18, 2003 (inception) to December 31, 2003, the Company also issued 2,500,000 shares of common stock for cash totaling \$2,500,000.

HYUNDAI-ENOVA INNOVATIVE TECHNOLOGY CENTER, INC.  
 (A DEVELOPMENT STAGE COMPANY)  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2004

NOTE 5 - INCOME TAXES

Significant components of the Company's deferred tax assets for federal and state income taxes as of December 31, 2004 and 2003 consisted of the following:

2004

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Deferred tax assets		
Federal tax loss carry-forward	\$	482,000
State tax loss carry-forward		482,000
		-----
		964,000
Less valuation allowance		964,000
		-----
Net deferred tax assets	\$	--
		=====

As of December 31, 2004, the Company had net operating loss carry forwards for federal and state income tax purposes of approximately \$584,000 and \$533,000, respectively. During the period from June 11, 2003 (inception) to December 31, 2003, the Company had net operating loss carry forwards for federal and state income tax purposes of approximately \$102,000 and \$51,000, respectively. The net operating loss carry forwards begin expiring in 2024.

NOTE 6 - RELATED PARTY TRANSACTIONS

During 2004, the Company purchased \$85,420 in services from and paid rent expense of \$6,577 to Enova Systems, Inc. During the period from June 11, 2003 (inception) to December 31, 2003, the Company purchased \$36,945 in services from and paid rent expense of \$1,210 to Enova Systems, Inc. During the period from June 11, 2003 (inception) to December 31, 2004, the Company purchased \$122,365 in services from and paid rent expense of \$7,787 to Enova Systems, Inc. The outstanding balances owed to Enova Systems, Inc. at December 31, 2004 and December 31, 2003 were \$0.