ENOVA SYSTEMS INC
Form 10-K
April 15, 2015

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

Form 10-K

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

For the fiscal year ended December 31, 2014

Or

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

For the transition period from to __________ to __________

Commission file number 1-33001

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

California (State or Other Jurisdiction of Incorporation or Organization)	95-3056150 (I.R.S. Employer Identification Number)

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

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, no par value	None.

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act: Yes [ ] No [X]

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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) 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 or any amendment to this Form 10-K. [ ]

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

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

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

As of June 30, 2014, the approximate aggregate market value of common stock held by non-affiliates of the Registrant was $1,099,000 (based upon the closing price for shares of the Registrant's common stock as reported by the OTCQB). As of March 31, 2015, there were 64,520,195 shares of common stock, no par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
None.

ENOVA SYSTEMS, INC.
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	EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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PART I

ITEM1. BUSINESS

General

In July 2000, we changed our name to Enova Systems, Inc. (“Enova” or “the Company”). Our company, previously known as U.S. Electricar, Inc., a California corporation, was incorporated on July 30, 1976.

THE FOLLOWING BUSINESS DISCUSSION SET FORTH BELOW AND ELSEWHERE IN THIS 10-K IS QUALIFIED IN ITS ENTIRETY BY THE FOLLOWING: ENOVA REMAINS INSOLVENT AND OWES IN EXCESS OF $4.6 MILLION IN THE AGGREGATE TO ITS TWO PRINCIPAL CREDITORS, THE CREDIT MANAGERS ASSOCIATION AND ARENS CONTROLS COMPANY, L.L.C. ('ARENS"). WITHOUT IMMEDIATE ADDITIONAL FINANCING OR COLLECTION OF RECEIVABLES, THE COMPANY WILL NEED TO CEASE OPERATIONS. THE COMPANY CURRENTLY HAS NO VISIBILITY AS TO EITHER ADDITIONAL FINANCING OR THE COLLECTION OF RECEIVABLES. SPECIFICALLY, WITHOUT A MUTUALLY ACCEPTABLE SETTLEMENT OF THE ARENS JUDGMENT ARISING OUT OF ARENS CONTROLS COMPANY, L.L.C. v. ENOVA SYSTEMS, INC., CASE NO. 13-1102 (7TH CIRCUIT) IN THE AMOUNT OF $2.0 MILLION, THE COMPANY DOES NOT CURRENTLY BELIEVE IT HAS ANY ALTERNATIVE OTHER THAN TO CEASE OPERATIONS. THE COMPANY CURRENTLY EMPLOYS ONLY TWO PERSONNEL, JOHN MICEK, THE COMPANY'S CEO, CFO AND SECRETARY, AND ONE ADDITIONAL CONTRACTOR IN THE FINANCE DEPARTMENT.

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

Enova believes it has been a leader in the development, design and production of proprietary, power train systems and related components for electric and hybrid electric buses and medium and heavy duty commercial vehicles. Electric drive systems are comprised of an electric motor, electronics control unit and a gear unit which power a vehicle. Hybrid electric systems, which are similar to pure electric drive systems, contain an internal combustion engine in addition to the electric motor, and may eliminate external recharging of the battery system. A hydrogen fuel cell based system is similar to a hybrid system, except that instead of an internal combustion engine, a fuel cell is utilized as the power source. A fuel cell is a system which combines hydrogen and oxygen in a chemical process to produce electricity.

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

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

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

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

Due to the reduction in our operations in June 2012, our ability to produce electric and hybrid electric drive systems and components was severely restricted. In 2013, we had limited sales for systems and components to First Auto Works of China ("FAW") and Smith Electric Vehicles ("Smith") as well as other domestic and international vehicle and bus manufacturers. We recorded no sales in 2014.

Please refer to the Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 below and our financial statements in Item 8 below for further analysis of our results.

Climate Change Initiatives and Environmental Legislation

Because vehicles powered by internal combustion engines cause pollution (greenhouse gasses), there has been significant public pressure in throughout the world to reduce these emissions. Thus, the US (federal and state levels) and countries in Europe and Asia have enacted legislation to promote the use of zero or low emission vehicles. We believe legislation requiring or promoting zero or low emission vehicles is necessary to create a significant market for both hybrid electric ("HEV") and electric vehicles ("EV").

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

Strategic Alliances, Partnering and Technology Developments

Our strategy has been to adapt ourselves to the ever-changing environment of alternative fuel markets for mobile applications. Originally focusing on pure electric drive systems, we have the potential to be positioned as a global supplier of drive systems for electric, hybrid and fuel cell applications.

We believe the medium and heavy-duty hybrid market’s best chances of significant growth lie in identifying and pooling the largest possible numbers of early adopters in high-volume applications. We seek to utilize our competitive advantages, including customer alliances, to gain greater market share. By aligning ourselves with key customers in our target market(s), we believe that the alliance will result in the latest technology being implemented and customer requirements being met, with a minimal level of additional time or expense.

Through the first half of 2012, we continued development of our next generation Omni-series 200kVA-capable power inverter for hybrid-electric and all-electric vehicles power management and drive system component. The inverter has undergone a series of rigorous tests, based on specifications from FCCC, Navistar, Ford and Enova’s own internal requirements. We also progressed in the design of a next generation on-board 10kW charger, which is designed to be compatible with a wide range of vehicle drive systems and motors, and can be configured for HEV, PHEV and EV applications. Our various electric and hybrid-electric drive systems, power management and power conversion systems continue to be used in applications including Class 3-6 trucks, transit buses and heavy industrial vehicles.

Research and development programs included our advanced power management systems for fuel cells and upgrades and improvements to our current power conversion and management components. Provided we can obtain additional resources, we intend to continue to research and develop new technologies and products, both internally and in conjunction with alliance partners and other manufacturers.

Electric and Hybrid-Electric Drive Products

Enova’s hybrid and electric drive systems provide all the functionality one would find under the hood of an internal combustion engine powered vehicle. The hybrid and electric power system consists of an enhanced electric motor and the electronic controls that regulate the flow of electricity to and from the batteries at various voltages and power to propel the vehicle. In addition to the motor and controller, the system includes a gear reduction/differential unit which ensures the desired propulsion and performance. The system is designed to be installed as a “drop in,” fully integrated turnkey fashion, or on a modular, “as-needed” basis. Regardless of power source (battery, fuel cell, diesel generator or turbine) the hybrid and electric power system is designed to meet the customer’s drive cycle requirements. Enova’s all electric drive systems use largely the same designs as the hybrid systems, except that there is no internal combustion engine in the vehicle.

Hybrid vehicles are those that utilize an electric motor and batteries in conjunction with an internal combustion engine (“ICE”), whether piston or turbine. With a hybrid system, a small piston or turbine engine — fueled by gasoline or diesel, CNG, methane, etc., in a tank — supplements the electric motor and battery. These systems are self-charging, in that the operating ICE recharges the battery.

There are two types of hybrid systems: series and parallel. In a series hybrid system, only the electric motor connects to the drive shaft and in a parallel hybrid system, both the internal combustion engine and the electric motor connect to the drive shaft. In a series hybrid system, the ICE turns the generator, which charges the battery, which — through a control unit — powers the electric motor that turns the wheels. In a parallel hybrid system, both the electric motor and the ICE can operate simultaneously to drive the wheels (see diagrams below). In both hybrid systems and in pure electric systems, regenerative braking occurs which assists in the charging of the batteries.

The parallel hybrid system is ideally suited for conditions where most of the driving is done at constant speed cruising, with a smaller amount of the driving involving random acceleration, such as “uphill” or with “stop and go” conditions. For acceleration, the controller causes the electric motor to assist the ICE, both running simultaneously. When speed is steady or the ground is flat, only the ICE runs. Additionally, when the batteries are low, the controller causes the ICE and motor to charge the batteries. As a result, the series hybrid system is best suited for starts and stops, and is ideal for applications such as urban transit buses and urban garbage trucks. The design of the series hybrid system is based on a driving cycle with a high percentage of random acceleration conditions.

Manufacturing Strategy

We have developed a multi-tiered manufacturing strategy that allows us to meet the market’s demand for high quality production goods while optimizing cost of goods sold across the spectrum of low to high volumes. At the core of this strategy is a strong reliance on pre-selected highly qualified outside manufacturing houses that specialize in various aspects of the manufacturing process. This outsourcing strategy helps Enova control product costs while also minimizing fixed costs within the organization.

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Competitive Conditions

The development of hybrid-electric and alternative fuel vehicles, such as compressed natural gas, fuel cells and hybrid cars poses a competitive threat to our markets for low emission vehicles or LEVs but not in markets where government mandates call for zero emission vehicles or ZEVs. Enova is involved in the development of hybrid vehicles and fuel cell systems in order to meet future government requirements and applications.

Various providers of electric vehicles have proposed products or offer products for sale in this emerging market. These products encompass a wide variety of technologies aimed at both consumer and commercial markets. As the industry matures, key technologies and capabilities are expected to play critical competitive roles. Our goal is to position ourselves as a long term competitor in this industry by focusing on all-electric, hybrid and fuel cell powered drive systems and related sub systems, component integration, technology application and strategic alliances.

We believe the hybrid and electric vehicle market is poised for growth over the medium and long term and that Enova's products are positioned to capitalize on demands being placed on the market by offering solutions. Enova believes that our competitive advantages include:

- Providing a full product line of power management and power conversion, and supporting system integration
- Providing products that allow the hardware to be software programmable and configurable
- Offering a product line designed for the most advanced new fuel systems: electric, hybrid, fuel cell and solar power applications
- Providing fully integrated, "drop-in" energy management and conversion system in "one box"
- Offering systems with reduced footprint and weight, high functionality and low cost — characteristics essential for all market applications
- Meeting changing and sophisticated requirements of emerging alternative power markets and applications.
- Positioning ourselves as a strategic ally with our global customer base, manufacturers and our R&D partners.

By building a business based on relationships with clients such as Freightliner Custom Chassis Corporation, Smith Electric Vehicles, First Auto Works and Optare, we believe we were building defense against competition by securing customers with global reach and OEM status. Teaming with recognized global manufacturers allows Enova to avoid devoting resources to manufacturing infrastructure and allowed us access to production capacity at relatively low costs.

Research and Development

Enova's strategy has been one of continual enhancement of its product line and development of more efficient and reliable products for alternative energy sectors. Subject to available resources, management believes R&D must be continued in order to be remain competitive, minimize production costs and meet customer specifications. We seek to provide internal funding where technology development is critical to our future.

For the years ended December 31, 2014, and 2013, we spent $0 on internal research and development activities. In June 2012, our engineering staff was eliminated due to the Company's lack of financial resources. As a result, the Company's development of its next generation Omni-series motor control unit and 10kW charger was put on hold at the end of the second quarter of 2012.

Intellectual Property

Enova relies on unpatented trade secrets and know-how and proprietary technological innovation and expertise which are protected in part by confidentiality and invention assignment agreements with its employees, advisors and consultants and non-disclosure agreements with certain of its suppliers and distributors. If these agreements are breached, Enova may not have adequate remedies for any breach and Enova's unpatented proprietary intellectual property may otherwise become known or independently discovered by competitors.

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The Omni system contains many areas where Enova may have unique advantages in comparison to existing technologies and the company intends to fully protect these areas. This process involves complex legal and factual questions, and the breadth of claims allowed is uncertain. Accordingly, there can be no assurance that patent applications filed by us will result in patents being issued. Moreover, there can be no assurance that third parties will not assert claims against us with respect to existing and future products. Although we intend to vigorously protect our rights, there can be no assurance that these measures will be successful. In the event of litigation to determine the validity of any third party claims, such litigation could result in significant expense to Enova.

Employees

As of December 31, 2014, we had 1 part-time employees and 1 part-time contractor.

Available and Additional Information

Included in Item 8 of this 10K are audited financial statements which include revenues, a measure of profit or loss and total assets.

We file electronically with the SEC our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. We make available free of charge on or through our website copies of these reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding our filings at www.sec.gov. You may also read and copy any of our materials filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information regarding the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. Our website address is www.enovasystems.com. Information found on, or that can be accessed through, our website is not incorporated by reference into this annual report.

ITEM 1A. RISK FACTORS

The statements in this Section describe the major risks to our business and should be considered carefully. In addition, these statements constitute our cautionary statements under the Private Securities Litigation Reform Act of 1995 and apply to all sections of this Form 10-K.

This annual report on Form 10-K, including the documents that we incorporate by reference, contains statements indicating expectations about future performance and other forward-looking statements that involve risks and uncertainties. We usually use words such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "future," "intend," "potential," or "continue" or the negative of these terms or similar expressions to identify forward-looking statements. These statements appear throughout the Form 10-K and are statements regarding our current intent, belief, or expectation, primarily with respect to our operations and related industry developments. Examples of these statements include, but are not limited to, statements regarding the following: our expansion plans, our future operating expenses, our future losses, our future expenditures for research and development and the sufficiency of our cash resources. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this annual report. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the risks faced by us and described in this "Risk Factors" section and elsewhere in this annual report.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind as you consider forward-looking statements.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our 10-Q and 8-K reports to the SEC. Also note that we provide the following cautionary discussion of risks, uncertainties and possibly inaccurate assumptions relevant to our businesses. These are factors that, individually or in the aggregate, we think could cause our actual results to differ materially from expected and historical results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider the following to be a complete discussion of all potential risks or uncertainties.

We may be forced into bankruptcy if we cannot reach a settlement with our two major creditors

Enova owes approximately $4.6 million in aggregate to its two principal creditors, Arens Controls Company, L.L.C. (“Arens”) and the Credit Managers Association. Without immediate additional financing or collection of receivables, the Company will need to cease operations. The Company currently has no visibility as to either additional financing or the collection of receivables. Specifically, without a mutually acceptable settlement of the Arens Judgment arising out of Arens Controls Company, L.L.C. v. Enova Systems, Inc., Case No. 13-1102 (7th Circuit) in the amount of $2,014,169, the Company does not currently believe it has any alternative other than to cease operations.

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

Raising additional funds by issuing securities, engaging in debt financings or through licensing arrangements may cause substantial dilution to existing stockholders, restrict our operations or require us to relinquish proprietary rights.

To the extent that we raise additional capital by issuing equity securities as we did in 2011, April 2012, May 2012 and February 2014, our existing stockholders' ownership may be substantially diluted. Any debt financing we enter into may involve covenants that restrict our operations or our ability to enter into other funding arrangements. These restrictive covenants may include limitations on additional borrowing and specific restrictions on the use of our assets, as well as prohibitions on our ability to create liens, pay dividends, redeem our stock or make investments. In addition, if we raise additional funds through licensing arrangements, it may be necessary to relinquish potentially valuable rights to our potential products or proprietary technologies, or grant licenses on terms that are not favorable to us.

Our history of operating losses and our expectation of continuing losses may hurt our ability to reach profitability or continue operations.

We have experienced significant operating losses since our inception. Our net loss was $619,000 for the year ended December 31, 2014 and our accumulated deficit was $162,870,000 as of December 31, 2014. It is likely that we will continue to incur substantial net operating losses for the foreseeable future, which may adversely affect our ability to continue operations. To achieve profitable operations, we must successfully develop and market our products at higher margins. We may not be able to generate sufficient product revenue to become profitable. Even if we do achieve profitability, we may not be able to sustain or increase our profitability on a quarterly or yearly basis.

We are dependent on access to capital markets in order to fund continued operations of the Company.

We do not currently have adequate internal liquidity to fund the Company's operations on an ongoing basis. We will need to continue to look for partnering opportunities and other external sources of liquidity, including the public and private financial markets and strategic partners. We may not be able to obtain financing arrangements in amounts or on terms acceptable to us in the future. In the event we are unable to obtain additional financing when needed, and without substantial reductions in development programs and strategic initiatives, we do not expect that our cash and cash equivalents and short-term investments will be sufficient to fund our operating and capital needs for the twelve months following December 31, 2014.

Because we depend upon sales to a limited number of customers, our revenues will be reduced if we lose a major customer

Our revenue is dependent on significant orders from a limited number of customers. We had no revenues in the fiscal year ended December 31, 2014. In the fiscal year ended December 31, 2013, our two largest customers comprised 95% of revenues. We believe that revenues from major customers will continue to represent a significant portion of our revenues. This customer concentration increases the risk of quarterly fluctuations in our revenues and operating results. The loss or reduction of business from one or a combination of our significant customers will adversely affect our revenues, financial condition and results of operations. Moreover, our success will depend in part upon our ability to obtain orders from new customers, as well as the financial condition and success of our customers and general economic conditions.

Our future growth depends on consumers' willingness to accept hybrid and electric vehicles

Our growth is highly dependent upon the acceptance by consumers of, and we are subject to an elevated risk of any reduced demand for, alternative fuel vehicles in general and electric vehicles in particular. If the market for electric vehicles does not develop as we expect or develops more slowly than we expect, our business, prospects, financial condition and operating results will be materially and adversely affected. The market for alternative fuel vehicles is relatively new, rapidly evolving, characterized by rapidly evolving and changing technologies, price competition, additional competitors and changing consumer demands or behaviors. Factors that may influence the acceptance of alternative fuel vehicles include:

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- perceptions about alternative fuel vehicles safety (in particular with respect to lithium-ion battery packs), design, performance and cost, especially if adverse events or accidents occur that are linked to the quality or safety of alternative fuel vehicles;

- volatility in the cost of oil and gasoline;

- consumer's perceptions of the dependency of the United States on oil from unstable or hostile countries;

- improvements in fuel of the internal combustion engine;

- the environmental consciousness of consumers;

- government regulation

- Macroeconomics

We extend credit to our customers, which exposes us to credit risk

Most of our outstanding accounts receivable are from a limited number of large customers. At December 31, 2014, the two highest outstanding accounts receivable balances totaled approximately $404,000 which represents 100% of our gross accounts receivable. We have fully reserved our accounts receivable at December 31, 2014. If we fail to monitor and manage effectively the resulting credit risk and a material portion of our accounts receivable is not paid in a timely manner or becomes uncollectible, our business would be significantly harmed, and we could incur a significant loss associated with any outstanding accounts receivable.

Our business is affected by current economic and financial market conditions in the markets we serve

Current global economic and financial markets conditions, including severe disruptions in the credit markets and the significant and potentially prolonged global economic recession, may materially and adversely affect our results of operations and financial condition. We are particularly impacted by any global automotive slowdown and its effects on OEM inventory levels, production schedules, support for our products and decreased ability to accurately forecast future product demand.

The nature of our industry is dependent on technological advancement and is highly competitive

The mobile power market, including electric vehicle and hybrid electric vehicles, continue to be subject to rapid technological changes. Most of the major domestic and foreign automobile manufacturers: (1) have already produced electric and hybrid vehicles, (2) have developed improved electric storage, propulsion and control systems, and/or (3) are now entering or have entered into production, while continuing to improve technology or incorporate newer technology. Various companies are also developing improved electric storage, propulsion and control systems.

Our industry is affected by political and legislative changes

In recent years there has been significant legislation enacted in the United States and abroad to reduce or eliminate automobile pollution, promote or mandate the use of vehicles with no tailpipe emissions ("zero emission vehicles") or reduced tailpipe emissions ("low emission vehicles"). Although states such as California have enacted such legislation, we cannot assure you that there will not be further legislation enacted changing current requirements or that current legislation or state mandates will not be repealed or amended, or that a different form of zero emission or low emission vehicle will not be invented, developed and produced, and achieve greater market acceptance than electric or hybrid electric vehicles.

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

Many of our competitors, in the automotive, electronic, and other industries, have substantially greater financial, personnel, and other resources than we do. Because of their greater resources, some of our competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the promotion and sales of their products than we can.

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

A malfunction or the inadequate design of our products could result in product liability or other tort claims. Any liability for damages resulting from malfunctions could be substantial and could materially adversely affect our business and results of operations. In addition, a well-publicized actual or perceived problem could adversely affect the market's perception of our products.

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

Our ability to continue in business is dependent on the performance of key management and technical personnel, the loss of whom could severely affect our business. Additionally, in order to successfully implement any future growth, we will be dependent on our ability to generate resources necessary to hire qualified personnel. There can be no assurance that we will be able to retain or hire necessary personnel. We do not maintain key man life insurance on any of our key personnel. We believe that our future success will depend in part upon our ability to attract, retain, and motivate highly skilled personnel in an increasingly competitive market.

We are highly dependent on a few vendors for key system components made to our engineering specifications and disruption of vendor supply could adversely impact our results of operations.

Our product specifications often involve upfront investment in tooling and machinery, which result in our commitment to a limited number of high quality vendors that can meet our manufacturing standards. Any disruption to our supply of key components from the suppliers would have an adverse impact on our business and results of operations.

There are minimal barriers to entry in our market

We own only certain limited proprietary technology and therefore have created little or no barrier to entry for competitors other than the time and significant expense required to assemble and develop similar production and design capabilities.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our corporate offices are located at a manufacturing and warehouse facility at 2945 Columbia Street, Torrance, California which we are sub-leasing on a month-to-month basis. We believe our facilities are adequate for our current needs. The lease on our former corporate offices ended on January 31, 2013.

LEGAL PROCEEDINGS

ITEM
3.

Given the nature of our business, we are subject from time to time to lawsuits, investigations and disputes (some of which involve substantial amounts claimed) arising out of the conduct of our business, including matters relating to commercial transactions. Other than the Arens matter outlined below, we are not aware of any other pending legal matters. We recognize a liability for any contingency that is probable of occurrence and reasonably estimable. We continually assess the likelihood of adverse outcomes in these matters, as well as potential ranges of probable losses (taking into consideration any insurance recoveries), based on a careful analysis of each matter with the assistance of outside legal counsel and, if applicable, other experts.

Most contingencies are resolved over long periods of time, potential liabilities are subject to change due to new developments, changes in settlement strategy or the impact of evidentiary requirements, which could cause us to pay damage awards or settlements (or become subject to equitable remedies) that could have a material adverse effect on our results of operations or operating cash flows in the periods recognized or paid.

The Company reported in a 8-K filed January 20, 2011 that we entered into a Partial Settlement Agreement, as amended on January 14, 2011, with Arens Controls Company, L.L.C. ("Arens") to resolve certain claims made by Arens in connection with its action captioned Arens Controls Company, L.L.C. v. Enova Systems, Inc., filed in 2008 with the Northern District of Illinois of the U.S. District Court (the "Legal Action"). In the Legal Action, Arens asserted eight counts against Enova, including certain claims regarding inventory asserted by Arens to be valued at $1,671,000 (the "Inventory Claim"), a claim for payment under certain invoices, and claims for certain other monetary obligations of Enova to Arens.

Under the terms of the Settlement Agreement, we paid $327,000 directly to Arens and Arens dismissed with prejudice all but two of the counts under the Legal Action. Additionally, under the Settlement Agreement (as amended), on January 14, 2011, we acquired the inventory that was the subject of the Inventory Claim (the “Inventory”) for payment of $1,498,000, net of an agreed upon reduction of $173,000 for the acquisition price of such Inventory. In return, Arens was deemed to have released us from any further liability on the Inventory Claim. However, per the terms of the Settlement Agreement (as amended), Arens preserved it claims under two of the counts in the Legal Action.

The two remaining counts concerned i) anticipatory breach of contract by Enova for certain purchase orders that resulted in lost profit to Arens and ii) reimbursement for engineering and capital equipment costs incurred by Arens exclusively for the fulfillment of certain purchase orders received from Enova. On December 12, 2012, a judgment was entered under the two remaining counts by the United States District Court Northern District of Illinois in favor of Arens Controls Company, L.L.C. in the amount of $2,014,169. The Company filed an appeal of the judgment in the 7th Circuit Court of Appeals on January 15, 2013. The Company believes the court committed errors leading to the verdict and judgment. However, there can be no assurance that the appeal will be successful, a negotiated settlement can be attained, or that Arens will enforce its claim in the state of California and thereby cause the Company to go into bankruptcy.

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Shares of our common stock now trade on the OTCQB Exchange under the trading symbols of "ENVA". Our common stock was listed on the London Stock Exchange up until November 2014 when we were delisted due to the resignation of our nominated advisor. The following table sets forth the high and low sales closing prices of our Common Stock as reflected on the OTCBB.

	Common Stock	
	High Price	Low Price
Calendar 2014		
Fourth Quarter	$ 0.02	$ 0.01
Third Quarter	$ 0.04	$ 0.02
Second Quarter	$ 0.05	$ 0.01
First Quarter	$ 0.06	$ 0.01
Calendar 2013		
Fourth Quarter	$ 0.01	$ 0.01
Third Quarter	$ 0.02	$ 0.01
Second Quarter	$ 0.02	$ 0.01
First Quarter	$ 0.09	$ 0.01

As of March 31, 2015, there were approximately 1,000 holders of record of our Common Stock. As of March 31, 2015, approximately 100 shareholders held our common stock to be issued and approximately 32 shareholders held our Series B Preferred Stock. The number of holders of record excludes beneficial holders whose shares are held in the name of nominees or trustees.

Dividend Policy

To date, we have neither declared nor paid any cash dividends on shares of our Common Stock or Series B Preferred Stock. We presently intend to retain all future earnings for our business and do not anticipate paying cash dividends on our Common Stock or Series B Preferred Stock in the foreseeable future. We are required to pay dividends on our Series B Preferred Stock before dividends may be paid on any shares of Common Stock. At December 31, 2014, Enova had an accumulated deficit of approximately $162,870,000 and, until this deficit is eliminated, will be prohibited from paying dividends on any class of stock except out of retained earnings, unless it meets certain asset and other tests under Section 500 et. seq. of the California Corporations Code.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data tables set forth selected financial data for the years ended December 31, 2014, 2013 and 2012. The statement of operations data and balance sheet data for and as of the years ended December 31, 2014, 2013, and 2012 are derived from the audited financial statements of Enova. The following selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements, including the notes thereto, appearing elsewhere in this Form 10-K.

	For and as of the Years Ended December 31,		
	2014	2013	2012
	(In thousands, except per share data)		
Statement of Operations Data			
Net revenues	$ -	$ 426	$ 1,103
Cost of revenues	60	2,078	2,407
Gross profit (loss)	(60)	(1,652)	(1,304)
Operating expenses			
Research and development	-	-	805
Selling, general and administrative	404	1,081	3,915
Total operating expenses	404	1,081	4,720
Other income and (expense)			
Loss on litigation	-	-	(2,014)
Interest and other income (expense), net	(155)	(171)	(197)
Total other income and (expense)	(155)	(171)	(2,211)
Net loss	$ (619)	$ (2,904)	$ (8,235)
Per common share:			
Basic and diluted loss per share	$ (0.01)	$ (0.07)	$ (0.19)
Weighted average number of common shares outstanding	64,520	44,520	43,952
Balance Sheet Data			
Total assets	$ 375	$ 550	$ 3,055
Long-term debt	$ 1,238	$ 1,238	$ 1,262
Shareholders' equity (deficit)	$ (5,869)	$ (5,522)	$ (2,634)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this Management's Discussion and Analysis of Financial Condition and Results of Operations in conjunction with our 2014 Financial Statements and accompanying Notes. The matters addressed in this Management's Discussion and Analysis of Financial Condition and Results of Operations may contain certain forward-looking statements involving risks and uncertainties.

Overview

Enova Systems has been a developer and manufacturer of proprietary hybrid and electric drive systems propelling the alternative energy industry. Our core competencies were focused on the development and commercialization of power management and conversion systems for mobile applications. Enova applies unique 'enabling technologies' in the areas of alternative energy propulsion systems for medium and heavy-duty vehicles as well as power conditioning and management systems for distributed generation systems.

Enova’s product focus has been on digital power management and power conversion systems. Its software and hardware manage and control the power that drives a vehicle, converting the power into the appropriate forms required by the vehicle or device and manage the flow of this energy to optimize efficiency and provide protection for both the system and its users. Our products and systems are the enabling technologies for power systems.

Hybrid and electric vehicles and fuel cell systems all require some type of power management and conversion mechanism. Enova Systems has supplied these essential components. Enova drive systems are ‘fuel-neutral,’ meaning that they have the ability to utilize any type of fuel, including diesel, liquid natural gas or bio-diesel fuels. Enova has performed significant research and development to augment and support others’ and our internal product development efforts.

Our products are production-engineered so they can be commercially produced (i.e., all formats and files are designed with manufacturability in mind, from the start). For the automotive market, Enova products are designed to ISO 9001 manufacturing and quality standards. We believe Enova’s redundancy of systems and quality standards result in high performance and reduced risk. For every component and piece of hardware, there are detailed performance specifications. Each piece is tested and evaluated against these specifications, which enhances and confirms the value of the systems to OEM customers.

The Company acknowledges the principal barrier to commercialization of our drive systems is cost. The cost of engineering proprietary software and hardware for our drive systems is high because economies of production in specialized hybrid drive system component parts, batteries, and vehicle integration have not been achieved. We also believe maturation into commercialization of our drive systems will result in decreases to our long run average costs of materials and services as volume increases over time.

Critical Accounting Policies

The preparation of financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to product returns, bad debts, inventories, intangible assets, income taxes, stock-based compensation, warranty obligations, contingencies, and litigation. We base our estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances, including current and anticipated worldwide economic conditions, both in general and specifically in relation to the hybrid and electric vehicle markets, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Our significant accounting policies are described in Note 2 to the financial statements included in Item 8 of this Form 10-K. We believe the following critical accounting policies necessitated that significant judgments and estimates be used in the preparation of its financial statements. We have reviewed these policies with our Audit Committee.

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

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

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

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

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

Allowance for doubtful accounts — The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable; however, changes in circumstances relating to accounts receivable may result in a requirement for additional allowances in the future. Past due balances over 90 days and other higher risk amounts are reviewed individually for collectability. If the financial condition of the Company's customers were to deteriorate resulting in an impairment of their ability to make payment, additional allowances may be required. In addition, the Company maintains a general reserve for all invoices by applying a percentage based on the age category. Account balances are charged against the allowance after all collection efforts have been exhausted and the potential for recovery is considered remote.

Inventory — Inventories include material, labor, and manufacturing overhead are priced at the lower of cost or market utilizing the first-in, first-out (FIFO) cost flow assumption. We maintain a perpetual inventory system and continuously record the quantity on-hand and standard cost for each product, including purchased components, subassemblies and finished goods. We maintain the integrity of perpetual inventory records through periodic physical counts of quantities on hand (i.e., cycle counts). Finished goods are reported as inventories until the point of transfer to the customer. Generally, title transfer is documented in the terms of sale.

Inventory reserve — We maintain an allowance against inventory for the potential future obsolescence or excess inventory. A substantial decrease in expected demand for our products, or decreases in our selling prices could lead to excess or overvalued inventories and could require us to substantially increase our allowance for excess inventory. If future customer demand or market conditions are less favorable than our projections, additional inventory write-downs may be required and would be reflected in cost of revenues in the period the revision is made.

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Property and Equipment — Property and equipment are stated at cost and depreciated over the estimated useful lives of the related assets, which range from three to seven years using the straight-line method for financial statement purposes. The Company uses other depreciation methods (generally, accelerated depreciation methods) for tax purposes where appropriate. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements.

Repairs and maintenance are expensed as incurred. Expenditures that increase the value or productive capacity of assets are capitalized. When property and equipment are retired, sold, or otherwise disposed of, the asset's cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations.

Impairment of Long-Lived Assets — The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends, and prospects, as well as the effects of obsolescence, demand, competition, and other economic factors. 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.

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

The Company's determination of estimated fair value of share-based awards utilizes the Black-Scholes option-pricing model. The Black-Scholes model is affected by the Company's stock price as well as assumptions regarding certain highly complex and subjective variables. These variables include, but are not limited to; the Company's expected stock price volatility over the term of the awards as well as actual and projected employee stock option exercise behaviors.

Deferred Income Taxes — We evaluate the need for a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. We determined that we may not be able to realize all or part of its net deferred tax asset in the future, thus a full valuation allowance was recorded against our deferred tax assets.

These accounting policies were applied consistently for all periods presented. Our operating results would be affected if other alternatives were used. Information about the impact on our operating results is included in the footnotes to our financial statements.

Research and Development — Research, development, and engineering costs are expensed in the period incurred. Costs of significantly altering existing technology are expensed as incurred.

ln August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" ("ASU 2014-15"). ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Specifically, ASU 2014-15 provides a definition of the term substantial doubt and requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). lt also requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans and requires an express statement and other disclosures when substantial doubt is not alleviated. The new standard will be effective for reporting periods beginning after December 15, 2016, with early adoption permitted. Management is currently evaluating the impact of the adoption of ASU 2014-14 on our financial statement disclosures.

On June 19, 2014, the FASB issued ASU No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period, which clarifies that entities should treat performance targets that can be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. Under the ASU, an entity would not record compensation expense related to an award for which transfer to the employee is contingent on the entity's satisfaction of a performance target until it becomes probable that the performance target will be met. The adoption of this ASU will be required, either on a retrospective basis or prospective basis, beginning with our Quarterly Report on Form 10-Q for the quarter ending March 31, 2016. The adoption of this ASU is not expected to have a material impact on our consolidated financial statements

Recent Accounting Pronouncements

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

Results of Operations

Years Ended December 31, 2014 and 2013

Net Revenues. Net revenues were $0 for the year ended December 31, 2014, representing a decrease of $426,000 or 100% from net revenues of $426,000 during the same period in 2013. The Company did not have operations in the current year due to uncertainty over the Company’s ability to continue operations after our restructuring in June 2012 that reduced our capacity to pursue new business. The decrease in revenue for the twelve months ended December 31, 2014 compared to the same period in 2013 was mainly due to a decrease in deliveries to customers in the United States. Revenues in 2013 were mainly attributable to shipments to First Auto Works in China and Smith Electric Vehicles, N.A. We will have fluctuations in revenue from quarter to quarter and there can be no assurance there will be continuing demand for our products and services.

Cost of Revenues. Cost of revenues were $60,000 for the year ended December 31, 2014, compared to $2,078,000 for the year ended December 31, 2013, representing a decrease of $2,018,000, or 97%. Cost of revenues decreased in 2013 compared to the same period in the prior year primarily due to the decrease in revenue. We recorded a charge of approximately $60,000 and $1,660,000 during 2014 and 2013, respectively, increasing our inventory obsolescence reserve after management updated its estimate of the realizable value of inventory. Cost of revenues consists of component and material costs, direct labor costs, integration costs and overhead related to manufacturing our products as well as warranty accruals and inventory valuation reserve amounts. Product development costs incurred in the performance of engineering development contracts for the U.S. Government and private companies are charged to cost of sales.

Gross Margin. The gross margin for the year ended December 31, 2014 was negative 100% compared to a negative 387.8% in the prior year. The increase in gross margin is primarily attributable to lower charges to the inventory reserve associated with certain obsolete parts in 2014 as compared to 2013.

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Selling, General and Administrative Expenses. Selling, general and administrative expenses consist primarily of sales and marketing costs, including consulting fees and expenses for travel, promotional activities and personnel and related costs for the quality and field service functions and general corporate functions, including finance, strategic and business development, human resources, IT, accounting reserves and legal costs. Selling, general and administrative expenses decreased by $677,000, or 63%, during the year ended December 31, 2014 to $404,000 from $1,081,000 in the prior year, which decrease is attributable the Company's reduction of operational capacity, the termination of employment with the Company by approximately 90% of the Company's workforce in June 2012 and other cost savings measures. We continually monitor S, G & A in light of our business outlook and are taking proactive steps to control these costs.

Interest and Other Income (Expense). For the year ended December 31, 2014, interest and other expense was $155,000, a decrease of $16,000 or 9%, from an expense of $171,000 in 2013. The primary reason for the decrease is due to reduced impairment charges on the write-down of fixed assets.

Liquidity and Capital Resources

We have historically experienced losses primarily attributable to research, development, marketing and other costs associated with our strategic plan as an international developer and supplier of electric drive and power management systems and components. Historically, cash flows from operations have not been sufficient to meet our obligations and we have had to raise funds through several financing transactions. At least until we reach breakeven volume in sales and develop and/or acquire the capability to manufacture and sell our products profitably, we will need to continue to rely on cash from external financing sources. Our operations during the year ended December 31, 2014 were financed by working capital reserves and an equity offering in March 2014 that resulted in net proceeds of $223,000. As of December 31, 2014, the Company had $0 of cash and cash equivalents.

Net cash used in operating activities was $268,000 for the year ended December 31, 2014, a decrease of $158,000 compared to $110,000 for the year ended December 31, 2013. Operating cash used decreased in 2014 compared to the prior year primarily due to decreases in our operating expenses that resulted from the reduction of our operational capacity from June 2012 and a decrease in operational assets. Non-cash items include expense for stock-based compensation, depreciation and amortization, inventory reserve and other losses. These non-cash items decreased by $1,985,000 for the year ended December 31, 2014 as compared to the same period in the prior year primarily due to the decrease in reserve charges to write down the value of our inventory. The decrease in net loss was primarily due the decrease in gross loss from production of $1,592,000 and a decrease operating expenses of $677,000 as compared to 2013. As of December 31, 2014, the Company had $0 of cash and cash equivalents compared to $1,000 as of December 31, 2013.

Net cash from investing activities was $0 for the year ended December 31, 2014, compared $29,000 for the year ended December 31, 2013. In 2013, proceeds from the sale of fixed assets were $29,000.

Net cash from financing activities totaled $267,000 for the year ended December 31, 2014, an increase of $242,000 compared to net cash provided by financing activities of $25,000 for the year ended December 31, 2013. Financing activities in 2013 for payments on vehicle notes were $11,000. In 2014, we received proceeds of $223,000 from the issuance of Common Stock during first quarter of 2014 as explained in Note 10 – Stockholders' Equity to the financial statements included in this Form 10-K..

Net accounts receivable were $0 as of December 31, 2014 and 2013. As of December 31, 2014 and December 31, 2013, the Company maintained a reserve for doubtful accounts receivable of $404,000, primarily related to financial instability at a major customer and concern over the Company's capacity to collect on overdue receivables.

Inventory decreased by $59,000, or 14%, from $427,000 as of December 31, 2013 to $368,000 as of December 31, 2014. The decrease resulted from a net inventory reserve charge of $59,000.

Prepaid expenses and other current assets decreased by $35,000, or 83%, to $7,000 at December 31, 2014 compared to a balance of $42,000 at December 31, 2013. The decrease was primarily due to an impairment charge on a deposit with a vendor that management determined may not be recoverable.

Property and equipment, net of depreciation, decreased by $80,000, or 100%, to $0 at December 31, 2014 compared to a balance of $80,000 at December 31, 2013. The decrease is primarily due to depreciation expense of $38,000 and a loss on impaired assets of $42,000.

Accounts payable decreased by $82,000, or 13%, to $560,000 at December 31, 2014 compared to a balance of $642,000 at December 31, 2013. The decrease was primarily due to vendor payments made in the second quarter of 2014 subsequent to the receipt of cash from the equity issuance in March 2014.

Loans from employees increased by $19,000, or 53%, to $55,000 at December 31, 2014 compared to a balance of $36,000 at December 31, 2013. Due the financial condition of the company, employees loaned funds to the Company to pay for certain necessary administrative costs.

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Deferred revenues were $213,000 at December 31, 2014 and 2013. The Company received prepayments on purchase orders from certain customers. The Company's management does not anticipate that funding can be obtained to complete the order in 2015.

Accrued payroll and related expenses increased by $17,000, or 9%, to $211,000 at December 31, 2014 compared to a balance of $194,000 at December 31, 2013. The increase was primarily due to an increase in unpaid compensation resulting from the financial condition of the Company.

Accrued loss for litigation settlement was unchanged at December 31, 2014 compared to the balance at December 31, 2013. As disclosed in Item 3. Legal Proceedings of Part I of this Form 10-K, on December 12, 2012, a judgment was entered in favor of Arens Controls Company, L.L.C. by the United States District Court Northern District of Illinois in the amount of $2,014,169 in the case of Arens Controls Company, L.L.C. v. Enova Systems, Inc.

Other accrued liabilities increased by $137,000, or 47%, to $431,000 at December 31, 2014 compared to a balance of $294,000 at December 31, 2013. The increase was primarily due to an increase in accruals for professional fees and stock exchange listing expenses.

Accrued interest increased by $81,000, or 6%, to $1,482,000 at December 31, 2014 from $1,401,000 at December 31, 2013. The majority of the increase is associated with the interest accrued on the $1.2 million note due the Credit Managers Association of California.

Going concern

To date, the Company has incurred recurring net losses and negative cash flows from operations. At December 31, 2014, the Company had an accumulated deficit of approximately $162.9 million, working capital of approximately negative $3.1 million and shareholders' equity deficit of approximately $5.9 million. Until the Company can generate significant cash from its operations, the Company expects to continue to fund its operations with existing cash resources, proceeds from one or more private placement agreements, as well as potentially through debt financing or the sale of equity securities. However, the Company may not be successful in obtaining additional funding. In addition, the Company cannot be sure that its existing cash and investment resources will be adequate or that additional financing will be available when needed or that, if available, financing will be obtained on terms favorable to the Company or its shareholders.

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

As of December 31, 2014, the Company had no cash and cash equivalents and received loans from an employee in order to maintain minimal operations. We do not anticipate that our existing cash and anticipated receivables collections will be sufficient to meet projected operating requirements through the end of 2015 to continue operations and market trading.

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

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

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Judgment entered in Arens Controls Litigation

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

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

Off-Balance Sheet Arrangements

Other than contractual obligations incurred in the normal course of business, we do not have any off-balance sheet financing arrangements or liabilities.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

ENOVA SYSTEMS, INC.
CONTENTS

December 31, 2014 and 2013

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying balance sheets of Enova Systems, Inc. (the "Company") as of December 31, 2014 and 2013, and the related statements of operations, stockholders' deficit), and cash flows for the years then ended. The Company's management is responsible for these financial statements. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 provide 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, 2014 and 2013, and the results of its operations and its cash flows for the years then ended, 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 going concern. As discussed in Note 1 to the financial statements, the Company's significant recurring losses and lack of working capital raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are disclosed are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ PMB Helin Donovan, LLP
PMB Helin Donovan, LLP
Austin, Texas
April 15, 2015

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ENOVA SYSTEMS, INC.
BALANCE SHEETS

	December 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ -	$ 1,000
Accounts receivable, net	-	-
Inventories and supplies, net	368,000	427,000
Prepaid expenses and other current assets	7,000	42,000
Total current assets	375,000	470,000
Property and equipment, net	-	80,000
Total assets	$ 375,000	$ 550,000
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 560,000	$ 642,000
Loans from employees	55,000	36,000
Deferred revenues	213,000	213,000
Accrued payroll and related expenses	211,000	194,000
Accrued loss for litigation settlement	2,014,000	2,014,000
Other accrued liabilities	431,000	294,000
Current portion of notes payable	40,000	40,000
Total current liabilities	3,524,000	3,433,000
Accrued interest payable	1,482,000	1,401,000
Notes payable, net of current portion	1,238,000	1,238,000
Total liabilities	6,244,000	6,072,000
Stockholders' deficit:		
Series A convertible preferred stock — no par value, 30,000,000 shares authorized; 0 shares issued and outstanding; liquidating preference at $0.60 per share as of December 31, 2014 and December 31, 2013	-	-
Series B convertible preferred stock — no par value, 5,000,000 shares authorized; 546,000 shares issued and outstanding; liquidating preference at $2 per share as of December 31, 2014 and December 31, 2013	1,094,000	1,094,000
Common Stock to be issued	553,000	528,000
Common Stock — no par value, 750,000,000 shares authorized; 64,520,000 and 44,520,000 shares issued and outstanding as of December 31, 2014 and December 31, 2013, respectively	145,735,000	145,512,000
Additional paid-in capital	9,619,000	9,595,000
Accumulated deficit	(162,870,000)	(162,251,000)
Total stockholders' deficit	(5,869,000)	(5,522,000)
Total liabilities and stockholders' deficit	$ 375,000	$