ENOVA SYSTEMS INC
Form 10-Q
November 14, 2007

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ending September 30, 2007

or

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

For the transition period from __________ to __________

Commission file no. 1-33001

ENOVA SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

California	**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)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

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

As of November 14, 2007, there were 17,115,000 shares of common stock outstanding.

ENOVA SYSTEMS, INC.
INDEX

PART I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)	3
Balance Sheets as of September 30, 2007 and December 31, 2006	3
Statements of Operations for the Three and Nine Months Ended September 30, 2007 and 2006	4
Statements of Cash Flows for the Nine Months Ended September 2007 and 2006	5
Notes to Financial Statements	6
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3. Quantitative and Qualitative Disclosure about Market Risk	22
Item 4. Control and Procedures	22

PART II OTHER INFORMATION

Item 1. Legal Proceedings	24
Item 1A. Risk Factors	24
Item 2. Unregistered Sales of Equity and Use of Proceeds	24
Item 3. Defaults upon Senior Securities	25
Item 4. Submission of Matters to a Vote of Security Holders	25
Item 5. Other Information	25
Item 6. Exhibits	25

Signatures
EXHIBIT 31.1
EXHIBIT 31.2
EXHIBIT 32

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ENOVA SYSTEMS, INC.
BALANCE SHEETS
(Unaudited)

	September 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,685,000	$ 5,612,000
Short term investment		5,000,000
Accounts receivable, net of allowance for doubtful accounts of $261,000 and $261,000 as of September 30, 2007 and December 31, 2006, respectively	2,763,000	358,000
Inventories and supplies, net	4,327,000	1,704,000
Prepaid expenses and other current assets	300,000	708,000
Total current assets	21,075,000	13,382,000
Property and equipment, net	646,000	627,000
Ownership interest in joint venture company	1,517,000	1,647,000
Intangible assets	71,000	74,000
Total assets	$ 23,309,000	$ 15,730,000
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,630,000	$ 382,000
Deferred revenues	67,000	399,000
Accrued payroll and related expense	332,000	220,000
Other accrued expenses	1,770,000	664,000
Current portion of notes payable	85,000	71,000
Total current liabilities	3,884,000	1,736,000
Accrued interest payable	837,000	735,000
Notes payable, net of current portion	1,291,000	1,295,000
Total liabilities	$ 6,012,000	$ 3,766,000
Stockholders equity:		
Series A convertible preferred stock no par value 30,000,000 shares authorized 2,652,000 shares issued and outstanding Liquidating preference at $0.60 per share, aggregating $1,591,000	1,679,000	1,679,000
Series B convertible preferred stock no par value 5,000,000 shares authorized 1,185,000 shares issued and outstanding Liquidating preference at $2 per share, aggregating $2,370,000	2,432,000	2,432,000
Common Stock, no par value 750,000,000 shares authorized 17,115,000 and 14,816,000 shares issued and outstanding, respectively	121,508,000	109,460,000

Common stock issuable		36,000		36,000
Stock notes receivable		(1,149,000)		(1,176,000)
Additional paid-in capital		6,082,000		6,955,000
Accumulated deficit		(113,291,000)		(107,422,000)
Total stockholders equity		17,297,000		11,964,000
Total liabilities and stockholders equity	$	23,309,000	$	15,730,000

See accompanying notes to these financial statements.

3

Table of Contents

ENOVA SYSTEMS, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Net revenues				
Research and development contracts	$	$ 19,000	$	$ 439,000
Production	2,541,000	293,000	5,143,000	634,000
Total net revenues	2,541,000	312,000	5,143,000	1,073,000
Cost of revenues				
Research and development contracts		211,000		767,000
Production	2,708,000	409,000	5,728,000	1,228,000
Total cost of revenues	2,708,000	620,000	5,728,000	1,995,000
Gross profit (loss)	(167,000)	(308,000)	(585,000)	(922,000)
Operating expenses				
Research and development	203,000	297,000	815,000	929,000
Selling, general & administrative	1,702,000	1,154,000	4,573,000	3,113,000
Total operating expenses	1,905,000	1,451,000	5,388,000	4,042,000
Loss from operations	(2,072,000)	(1,759,000)	(5,973,000)	(4,964,000)
Other income and (expense)				
Interest and financing fees, net	59,000	118,000	235,000	447,000
Equity loss share of joint venture company losses	(60,000)		(130,000)	(42,000)
Debt extinguishment				920,000
Interest extinguishment				472,000
Total other income and (expense)	(1,000)	118,000	105,000	1,797,000
Net Income (loss)	$ (2,073,000)	$ (1,641,000)	$ (5,868,000)	$ (3,167,000)
Basic and diluted earnings (loss) per share	$ (.13)	$ (.11)	$ (.38)	$ (.21)
Weighted-average number of shares outstanding/basic and diluted	**16,333,000**	**14,800,000**	**15,340,000**	**14,800,000**

See accompanying notes to these financial statements.

Table of Contents

ENOVA SYSTEMS, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Cash flows from operating activities		
Net loss	$ (5,868,000)	$ (3,167,000)
Adjustments to reconcile net loss to net cash used in operating activities		
Debt extinguishment		(920,000)
Interest extinguishment		(472,000)
Depreciation and amortization	224,000	322,000
Loss (gain) on asset disposal	40,000	
Equity in losses of equity method investee	130,000	42,000
Issuance of common stock for services	158,000	105,000
Stock option expense	60,000	42,000
(Increase) decrease in:		
Accounts receivable	(2,405,000)	1,990,000
Inventory and supplies	(2,623,000)	(184,000)
Prepaid expenses and other current assets	408,000	(247,000)
Increase (decrease) in:		
Accounts payable	1,248,000	(1,308,000)
Accrued expenses	1,218,000	299,000
Deferred revenues	(332,000)	
Accrued interest payable	102,000	59,000
Net cash used in operating activities	(7,640,000)	(3,439,000)
Cash flows from investing activities		
Purchases of short-term securities	$	$ (5,000,000)
Sales of short-term securities	5,000,000	
Purchases of property and equipment	(246,000)	(243,000)
Net cash provided (used in) investing activities	4,754,000	(5,243,000)
Cash flows from financing activities		
Payment on notes payable and capital lease obligations	$ (25,000)	$
Net Proceeds from sales of common stock	10,957,000	
Proceeds from stock notes receivable	27,000	
Payment to extinguish debt		(165,000)
Net cash provided by (used in) financing activities	10,959,000	(165,000)
Net increase (decrease) in cash and cash equivalents	8,073,000	(8,847,000)
Cash and cash equivalents, beginning of period	5,612,000	16,187,000

Cash and cash equivalents, end of period	$ 13,685,000	$ 7,340,000
Supplemental disclosure of cash flow information		
Interest paid	$ 5,000	$
Income taxes paid	$	$
Supplemental schedule of non-cash investing and financing activities		
Assets acquired through financing arrangement	$ 35,000	$ 95,000

See accompanying notes to these financial statements.

ENOVA SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
Nine months ended September 30, 2007 and 2006

1. Description of the Company and its Business

Enova Systems, Inc. (Enova or the Company) changed its name in July 2000. The Company was previously known as U.S. Electricar, Inc., a California corporation, which was incorporated on July 30, 1976. The Company is a globally recognized leader as a supplier of efficient, environmentally-friendly digital power components and systems products, in conjunction with associated engineering services. The Company s core competencies are focused on the development and commercialization of power management and conversion systems for mobile and stationary applications.

2. Summary of Significant Accounting Policies

Interim Financial Information

The financial information as of and for the three months ended September 30, 2007 and 2006 is unaudited but includes all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair statement of its financial position at such dates and the operating results and cash flows for those periods. The year-end balance sheet data was derived from audited financial statements, and certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to SEC rules or regulations; however, the Company believes the disclosures made are adequate to make the information presented not misleading.

The results of operations for the interim periods presented are not necessarily indicative of the results of operations to be expected for the fiscal year. These condensed interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2006, which are included in the Company s Annual Report on Form 10-K for the year then ended.

Revenue Recognition

The Company manufactures proprietary products and other products based on design specifications provided by its customers. The Company recognizes revenue in accordance with the Securities and Exchange (SEC) Commission s Staff Accounting Bulletin No. 104 (SAB 104) as noted in the criteria below:

Persuasive evidence of an arrangement exists;

Delivery has occurred or services have been rendered;

The fee for the arrangement is fixed or determinable; and

Collectibility is reasonably assured.

Persuasive Evidence of an Arrangement The Company retains all terms of an arrangement in a written contract signed by the customer prior to recognizing revenue.

Delivery Has Occurred or Services Have Been Performed The Company performs all services or delivers all products prior to recognizing revenue. Professional consulting and engineering services are considered to be performed when the services are complete. Equipment is considered delivered upon delivery to a customer s designated location.

The Fee for the Arrangement is Fixed or Determinable Prior to recognizing revenue, a customer s fee is either fixed or determinable under the terms of the written contract. Fees for professional consulting services, engineering services and equipment sales are fixed under the terms of the written contract. The customer s fee is negotiated at the outset of the arrangement and is not subject to refund or adjustment during the initial term of the arrangement.

Table of Contents

Collectibility is Reasonably Assured The Company determines collectibility is reasonably assured prior to recognizing revenue. Collectibility is assessed on a customer-by-customer basis based on criteria outlined by management. New customers are subject to a credit review process, which evaluates the customer s financial position and ultimately its ability to pay. The Company does not enter into arrangements unless collectibility is reasonably assured at the outset. Existing customers are subject to ongoing credit evaluations based on payment history and other factors. If it is determined during the arrangement that collectibility is not reasonably assured, revenue is recognized on a cash basis. Additionally, in accordance with SAB 104, amounts received upfront for engineering or development fees under multiple-element arrangements are deferred and recognized over the period of committed services or performance, if such arrangements require the Company to provide on-going services or performance. All amounts received under collaborative research agreements or research and development contracts are nonrefundable, regardless of the success of the underlying research.

Revenues from milestone payments are recognized when earned, as evidenced by written acknowledgment from the customer, provided that (i) the milestone event is substantive and its achievement was not reasonably assured at the inception of the agreement, and (ii) our performance obligations after the milestone achievement will continue to be funded by our collaborator at a comparable level to that before the milestone achievement. If both of these criteria are not met, the milestone payment is recognized over the remaining minimum period of our performance obligations under the agreement. Pursuant to Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board Issue 00-21. EITF Issue 00-21 addressed the accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. Specifically, Issue 00-21 requires the recognition of revenue from milestone payments over the remaining minimum period of performance obligations. As required, we apply the principles of EITF 00-21 to multiple element agreements.

The Company 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 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 under advance billings on contracts. In addition, 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.

Stock Based Compensation

On January 1, 2006, the Company adopted SFAS 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)), which requires the measurement and recognition of compensation expense for all share-based awards made to employees and directors, including employee stock options and shares issued through its employee stock purchase plan, based on estimated fair values. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin 107 (SAB 107) relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R). The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of the beginning in 2006. The Company s financial statements as of and for the year ended December 31, 2006 reflect the impact of SFAS 123(R).

Stock compensation expense recognized during the period is based on the value of share-based awards that are expected to vest during the period. Stock compensation expense recognized in the Company statement of operations for 2006 includes compensation expense related to share-based awards granted prior to January 1, 2006 that vested during the current period based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123. Stock compensation expense in 2006 also includes compensation expense for the share-based awards granted subsequent to January 1, 2006 based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). The Company determination of estimated fair value of share-based awards utilizes the

Black-Scholes valuation model. The Black-Scholes valuation model is affected by the Company stock price as well as assumptions regarding certain highly complex and subjective variables. These variables include, but are not limited to, the Company expected stock price volatility over the term of the awards and actual and projected employee stock option exercise behaviors.

See Note 8 *Stock Based Compensation Plans* for further information on stock-based compensation expense.

Table of Contents

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although management believes these estimates and assumptions are adequate, actual results could differ from the estimates and assumptions used.

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

Notes payable and long-term debt is comprised of the following:

	Nine Months Ended September 30,	
	2007	**2006**
Secured note payable to Credit Managers Association of California, bearing interest at prime plus 3% per annum in 2005 and through maturity. Principal and unpaid interest due in April 2016. A sinking fund escrow is required to be funded with 10% of future	1,238,000	1,238,000
Secured notes payable to a financial institution in the original amounts totaling $130,000, bearing interest at 6.21% and 10.45%, payable in monthly installments	98,000	88,000
Secured note payable to Coca Cola Enterprises in the original amount of $40,000, bearing interest at 10% per annum. Principal and unpaid interest due now	40,000	40,000
Less current maturities	(85,000)	(71,000)
Long-term portion	1,291,000	1,295,000

During the quarter ended March, 31, 2006, the Company settled $1,083,000 of principal and $472,000 accrued interest under the secured note payable to the Credit Managers Association of California (CMAC). In consideration for the settlement, the Company paid the beneficiaries $165,000. The Company evaluated this transaction under the guidance set forth in SFAS 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities and noted the extinguishment of these liabilities was consistent with the guidance.

4. Shareholders Equity

During the quarter ended September 30, 2007, the Company recorded 7,656 shares of restricted common stock as common stock subscribed, valued at $36,000, to the Board of Directors at an average price of $4.70 per share for board meetings and committee meetings during the first quarter of 2007.

During the three months ended September 30, 2007, the Company issued 5,000 shares of restricted common stock to the Board of Directors from common stock subscribed.

During the three months ended September 30, 2007, the Company issued 11,000 shares of commons stock to the Chief Financial Officer and Chief Executive Officer valued at $50,000, at an price of $4.53 per share as part of their executive compensation.

In August 2007, the Company completed the sale of 2,218,000 shares of its common stock at a price of $5.35 per share to certain foreign investors for net proceeds of approximately $11 million. The shares were sold pursuant to Regulation S under the Securities Act. Each investor purchasing the shares of common stock represented that they were not a United States person as defined in Regulation S. In Addition, neither the Company nor the placement agent conducted any selling efforts directed in the United States.

All shares of common stock sold under this offering included a restrictive legend, that results in the purchasers of these shares not being able to resell these share unless they are in accordance with Regulation S.

Prior to September, 2005, for each meeting attended in person, each outside Director received $2,000 in cash and $4,000 of stock valued on the date of the meeting at the average of the closing ask and bid prices; for each telephonic Board meeting, each outside director received $500 in cash and $500 of stock valued on the date of the meeting at the average of the closing ask and bid prices; and for each meeting of a Board committee attended in person, a committee member received $1,000 in cash and $1,000 of stock valued on the date of the meeting at the average of the closing ask and bid prices. In September, 2005, the compensation structure for Directors was changed. Effective in the fourth quarter of 2005 and the first quarter of 2006, Directors receive quarterly compensation at a flat rate of $4,000 in cash and $6,000 in stock valued on the last business day of the quarter at the average of the closing ask and bid prices. The flat rate is not dependent on the amount or type of services performed by the Directors. Compensation for the chairman of the audit committee is $2,500 per quarter. The two audit committee members each receive $1,250 per quarter, effective March 31, 2006. All Directors are also reimbursed for out-of-pocket expenses incurred in connection with attending Board and committee meetings.

5. Related Party Transactions

During the three months ended September 30, 2007, the Company purchased approximately $749,000 in components, materials, and services from Hyundai Heavy Industries (HHI), a related party. The outstanding payable balance owed to HHI on September 30, 2007 was approximately $622,000. A relative of the Company s CEO is a majority owner of a website consulting firm, which provides services (branding) to the Company. During the three months ended September 30, 2007, the Company paid consulting fees and expenses to this firm in the amount of approximately $29,000.

6. Material Commitments

None

7. Subsequent Events

In October 2007, the Company entered into a Lease agreement with another company with respect to the Lease of an approximately 43,000 square foot facility located at 1560 W 190th Street, Torrance (the lease). The Lease term commences on November 1, 2007, and expires January 1, 2013. The total basic monthly rent will be approximately $37,000 and will be incrementally increased each year, based on the increase in the consumer price index. Under the lease, the Company will pay the Landlord certain commercially reasonable and customary common area maintenance costs of approximately $5,000 per month, increasing ratably as these costs are increased to the Landlord. The Lease is secured by an irrevocable standby letter of credit in the amount of $200,000 and naming the Landlord as beneficiary.

8. Stock Based Compensations Plans

Stock Based Compensation Issued to Third Parties

The Company accounts for stock based compensation issued to third parties, including customers, in accordance with the provisions of the Emerging Issues Task Force (EITF) Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services* , and EITF 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor s Products).* Under the provisions of EITF 96-18, if none of the Company s agreements have a disincentive for nonperformance, the Company records a charge for the fair value of the stock and the portion of the warrants earned from the point in time when vesting of the stock or warrants becomes probable. EITF 01-9 requires that the fair value of certain types of warrants issued to customers be recorded as a reduction of revenue to the extent of cumulative revenue recorded from that customer. The Company has not given any stock based consideration to a customer.

Table of Contents

Stock Option Program Description

For the year ended December 31, 2006, the Company had two equity compensation plans, the 1996 Stock Option Plan (the 1996 Plan) and the 2006 equity compensation plan (the 2006 Plan). The 1996 Plan has expired for the purposes of issuing new grants. However, the 1996 Plan will continue to govern awards previously granted under that plan. The 2006 Plan has been approved by the Company s Shareholders. Equity compensation grants are designed to reward employees and executives for their long term contributions to the Company and to provide incentives for them to remain with the Company. The number and frequency of equity compensation grants are based on competitive practices, operating results of the company, and government regulations.

The maximum number of shares issuable over the term of the 1996 Plan was limited to 65 million shares. Options granted under the 1996 Plan typically have had an exercise price of 100% of the fair market value of the underlying stock on the grant date and expired no later than ten years from the grant date. The 2006 Plan has a total of 3,000,000 shares reserved for issuance, none of which have been granted. Stock options for the 1996 Stock Option Plan, and the 2006 Stock Option Plan were approved by the stockholders. All stock options have terms of 10 years, except for options issued to employees which have a term of 5 years, and generally vest and become fully exercisable four years from the date of grant. The vesting schedule for stock option grants are generally as follows: 25% of the grant vests upon one year from date of grant with the remainder of the grant vesting in 36 equal monthly installments thereafter.

Quarter ended September 30, 2007

In conjunction with the adoption of SFAS 123(R), the Company elected to attribute the value of share-based compensation to expense using the straight-line method, which was previously used for its pro forma information required under SFAS 123. Share-based compensation expense related to stock options and employee stock purchases was $20,000 for the three months ended September 30, 2007, and was recorded in the financial statements as a component of selling, general and administrative expense.

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

	Three Months ended 9-30-2007	**Three Months ended 9-30-2006**
Income from continuing operations before income taxes	$20,000	$14,000
Income from continuing operations after income taxes	$20,000	$14,000
Cash flows from operations	$20,000	$14,000
Cash flows from financing activities	$	$
Basic and Diluted EPS	$	$

	Nine Months ended 9-30-2007	**Nine Months ended 9-30-2006**
Income from continuing operations before income taxes	$60,000	$23,000
Income from continuing operations after income taxes	$60,000	$23,000
Cash flows from operations	$60,000	$23,000
Cash flows from financing activities	$	$
Basic and Diluted EPS	$	$

During the quarters ended September 30, 2007, and 2006 the Company did not grant any stock options.

As of September 30, 2007, the total compensation cost related to non-vested awards not yet recognized is $61,000. The weighted average period over which the future compensation cost is expected to be recognized is 24 months. The aggregate intrinsic value represents the total pretax intrinsic value, which is the difference between the Company s closing stock price on the last trading day of the third quarter of fiscal 2007 and the exercise price times the

number of shares that would have been received by the option holders if they had exercised their options on September 30, 2007. This amount will change based on the fair market value of the Company s stock.

General Option Information

	1996 Plan Shares		Weighted Average Exericse Price	Weighted Average Contractual Term		Aggregate Instrinsive Value
Outstanding at December 31, 2006	162,000	$	4.43	7.96	$	44,000
Granted		$			$	
Exercised	(44,000)	$	4.36	7.85	$	15,000
Forfeited	(4,000)	$	4.35	8.25	$	
Outstanding at September 30, 2007	114,000	$	4.46	7.34	$	27,000
Vested Expected to Vest	112,000	$	4.46	7.35	$	27,000
Exercisable at September 30, 2007	93,000	$	4.48	7.34	$	20,000

The weighted-average remaining contractual life of the options outstanding at September 30, 2007 was 7.34 years. The exercise prices of the options outstanding at September 30, 2007 ranged from $4.35 to $4.95. The weighted-average remaining contractual life of the options outstanding at December 31, 2006 was 7.96 years. The exercise prices of the options outstanding at December 31, 2006 ranged from $4.35 to $4.95. Options exercisable were 93,000 and 119,000 at September 30, 2007 and December 31, 2006, respectively. The Company s policy is to issue shares from its authorized shares upon the exercise of stock options.

9. Recent Accounting Pronouncements

In June 2007, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards.* EITF 06-11 provides for the recognition and classification of deferred taxes associated with dividends or dividend equivalents on nonvested equity shares or nonvested equity share units (including restricted stock units (RSUs)) that are paid to employees and charged to retained earnings. This issue is effective for annual periods beginning after September 15, 2007. Also in June 2007, the EITF ratified EITF Issue No. 07-3*, Accounting for Advance Payments for Goods or Services to Be Used in Future Research and Development Activities.* EITF 07-3 provides that nonrefundable advance payments made for goods or services to be used in future research and development activities should be deferred and capitalized until such time as the related goods or services are delivered or are performed, at which point the amounts would be recognized as an expense. This issue is effective for fiscal years beginning after December 15, 2007 We have evaluated the potential impact of these issues and anticipate that they will have no material impact on our financial position and results of operations.

Also in June 2007, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) No. 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies.* This SOP provides guidance for determining whether an entity is an investment company and also addresses when the specialized industry accounting principles of an investment company should be used by a parent company in consolidation or by an investor that applies the equity method of accounting to its investment in the entity. This SOP is effective for fiscal years beginning on or after December 15, 2007. We have evaluated the potential impact of this standard and anticipate it will have no material impact on our financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 clarifies that fair value is the amount that would be exchanged to sell an asset or transfer a liability in an orderly transaction between market participants. Further, the standard establishes a framework for measuring fair value in generally accepted accounting principles and expands certain disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS 157 to have a material impact on its financial statements.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities including an Amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value which are not currently required to be measured at fair value, with unrealized gains and losses related to these financial instruments reported in earnings at each subsequent reporting date. SFAS 159 will be effective for financial statements issued for fiscal years beginning after November 15, 2007, and will be adopted by the Company January 1, 2008. The Company does not expect the adoption of SFAS 159 to result in a significant impact on its financial position, cash flows and results of operations.

Accounting Pronouncements Adopted In The Current Year

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. This interpretation is effective for fiscal years beginning after December 15, 2006. Enova adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company had no changes in the carrying value of its tax assets or liabilities for any unrecognized tax benefits.

The Company files federal income tax returns in the United States (U.S. or US). The Company is no longer subject to U.S. state, or non-U.S. income tax examinations by tax authorities for years before 2003. Certain U.S. Federal returns for years 2006 and following are not closed by relevant statutes of limitation due to unused net operating losses reported on those returns.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q contains statements indicating expectations about future performance and other forward-looking statements that involve risks and uncertainties. We usually use words such as may, will, should, expect, plan, anticipate, believe, estimate, predict, future, intend, potential, or continue or the ne or similar expressions to identify forward-looking statements. These statements appear throughout this Quarterly Report on Form 10-Q and are statements regarding our current intent, belief or expectation, primarily with respect to our operations and related industry developm