GREENHILL & CO INC
Form 10-K/A
April 30, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K/A
(Amendment No. 1)
(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017.
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission file number 001-32147

GREENHILL & CO., INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	51-0500737
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
300 Park Avenue New York, New York (Address of Principal Executive Offices)	10022 (ZIP Code)

Registrant's telephone number, including area code: (212) 389-1500
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.01 per share	New York Stock Exchange

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 þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No þ
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 þ 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 þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of 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. þ

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

Large accelerated filer ¨	Accelerated filer þ	Non-accelerated filer ¨	Smaller reporting company ¨
		(Do not check if a smaller reporting company)	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

The aggregate market value of the common stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant’s most recently completed second fiscal quarter, June 30, 2017, was approximately $526 million. The registrant has no non-voting stock. As of April 15, 2018, there were 25,466,560 shares of the registrant’s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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EXPLANATORY NOTE

This Amendment No. 1 to Form 10-K (this "Amendment") amends the Annual Report on Form 10-K for the fiscal year ended December 31, 2017 ("fiscal 2017") of Greenhill & Co., Inc., as originally filed with the Securities and Exchange Commission ("SEC") on February 28, 2018 (the"Original Form 10-K"). We are filing this Amendment to present the information required by Part III of Form 10-K that was previously omitted from the Original Form 10-K in reliance on General Instruction G(3) to Form 10-K.

In addition, Item 15 of Part IV has been amended to include new certifications by our principal executive officer and principal financial officer as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The certifications of our principal executive officer and principal financial officer are filed with this Amendment as Exhibits 31.3 and 31.4 hereto.

Except as described above, no other changes have been made to the Original Form 10-K. This Amendment does not otherwise update information in the Original Form 10-K to reflect facts or events occurring subsequent to the filing date of the Original Form 10-K. This Amendment should be read in conjunction with the Original Form 10-K and with any of our filings made with the SEC subsequent to filing of the Original Form 10-K.

Unless the context requires otherwise, when we use the terms "Greenhill", "we", "us", "our", "the Company", and "the Firm", mean Greenhill & Co., Inc., a Delaware corporation, and its consolidated subsidiaries.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding our Board of Directors and executive officers is included in Part I of the Original Form 10-K under the caption "Executive Officers and Directors." Additional information regarding members of the Board of Directors and Greenhill's Corporate Governance is set forth below.

INFORMATION REGARDING THE BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

The Board of Directors conducts its business through meetings of the Board of Directors and the following standing committees: Audit, Compensation, and Nominating and Governance. Each of the standing committees has adopted and operates under a written charter. Our Corporate Governance Guidelines also provide for a Lead Independent Director. All of our corporate governance documents, including our written committee charters, our Corporate Governance Guidelines, our Code of Business Conduct and Ethics and our Related Person Transaction Policy, are available on our website at www.greenhill.com. The written charters, the Guidelines, the Code and the Related Person Transaction Policy are also available in print to any stockholder who requests them.

Meetings of the Independent Directors

In addition to the committees of the Board of Directors described below, our non-employee directors meet regularly in executive sessions in which our employee directors (Messrs. Greenhill and Bok) and other members of management do not participate. The Lead Independent Director serves as the presiding director of these executive sessions.

Committees of the Board

Audit Committee

Members:
Stephen L. Key (Chair)
John D. Liu
Karen P. Robards

The Audit Committee is a separate committee established in accordance with Rule 10A-3 under the Securities Exchange Act of 1934. The Board of Directors has determined that all members of the Audit Committee are "independent" as that term is defined in the applicable New York Stock Exchange listing standards and regulations of the Securities and Exchange Commission and that all members are financially literate as required by the applicable New York Stock Exchange listing standards. The Board of Directors also has determined that Mr. Key is an "audit committee financial expert" as defined by applicable regulations of the Securities and Exchange Commission.

The Audit Committee's purpose is to oversee the independent auditor's qualifications, independence and performance, the integrity of our financial statements, the performance of our internal audit function and independent auditors and compliance with legal and regulatory requirements. The Audit Committee has sole authority to retain and terminate the independent auditors and is directly responsible for the compensation and oversight of the work of the independent auditors. The Audit Committee reviews and discusses with management and the independent auditors the annual audited and quarterly financial statements, reviews the integrity of the financial reporting processes, both internal and external, and prepares the Audit Committee Report included in this Amendment and in the proxy statement in accordance with the rules and regulations of the Securities and Exchange Commission. The Audit Committee met five times during 2017. In addition, the SEC Subcommittee of the Audit Committee, which is responsible for reviewing periodic reports of Greenhill filed with the SEC, met three times during 2017. Mr. Key is the sole member of the SEC Subcommittee, although other Audit Committee members participate in SEC Subcommittee meetings from time to time.

Compensation Committee

Members:
Steven F. Goldstone (Chair)

Stephen L. Key
John D. Liu

The Compensation Committee, comprised entirely of independent, non-employee directors, is responsible for establishing and administering our policies involving the compensation of our executive officers. The Board of Directors has determined that all members of the Compensation Committee are "independent" as that term is defined in applicable New York Stock Exchange listing standards. The Compensation Committee oversees our compensation and benefits policies generally, evaluates senior executive performance, oversees and sets compensation for our senior executives and reviews management's succession plan. The

Compensation Committee evaluates our compensation philosophy, goals and objectives generally, and it approves corporate goals related to the compensation of our senior executives (including the Chief Executive Officer), and approves compensation and compensatory arrangements applicable to our other executive officers based on our compensation goals and objectives. See “Executive Compensation—Compensation Discussion and Analysis” for more information on the Compensation Committee’s role in determining compensation. In addition, the Compensation Committee is responsible for reviewing and recommending the establishment of broad-based incentive compensation, equity-based, retirement or other material employee benefit plans, and for discharging any duties under the terms of our equity incentive plan. The Compensation Committee met three times during 2017.

Compensation Committee Interlocks and Insider Participation

No employee of Greenhill serves on the Compensation Committee. The Compensation Committee members have no interlocking relationships as defined by the Securities and Exchange Commission.

Nominating and Governance Committee

Members:

Karen P. Robards (Chair)
Steven F. Goldstone
Stephen L. Key
John D. Liu

The Nominating and Governance Committee identifies and recommends individuals qualified to become members of the Board of Directors and recommends to the Board sound corporate governance principles and practices for Greenhill. In particular, the Committee assesses the independence of all Board members, identifies and evaluates candidates for nomination as directors, recommends the slate of director nominees for election at the annual meeting of stockholders and to fill vacancies between annual meetings, recommends qualified members of the Board for membership on committees, oversees the director orientation and continuing education programs, reviews the Board’s committee structure, reviews and assesses the adequacy of our Corporate Governance Guidelines, evaluates the annual evaluation process for the Board and Board committees and is charged with overseeing our Related Person Transaction Policy. The Board of Directors has determined that all members of the Nominating and Governance Committee are “independent” as that term is defined in applicable New York Stock Exchange listing standards. The Nominating and Governance Committee met three times during 2017.

Meeting Attendance

Our Corporate Governance Guidelines provide that our directors are expected to attend meetings of the Board and of the committees on which they serve. We do not have a policy requiring directors to attend our annual meeting of stockholders. The Board met eight times during 2017. All of our directors attended the annual meeting of stockholders in 2017, and all of our directors attended at least 75% of the Board and committee meetings on which the directors served.

Procedures for Contacting the Board of Directors

The Board has established a process for stockholders and other interested parties to send written communications to the Board, the independent directors, or to individual directors. Such communications may be made anonymously. Such communications should be sent by U.S. mail to the Board of Directors, c/o Greenhill, 300 Park Avenue, New York, New York, 10022 (attention: Secretary). The communications will be collected by the Secretary and delivered, in the form received and if so addressed, to a specified director, the independent directors, the Lead Independent Director or the Audit Committee or its Chairman. Items that are unrelated to a director’s duties and responsibilities as a Board member may be excluded by the Secretary, including solicitations and advertisements, junk mail and resumes.

Procedures for Selecting and Nominating Director Candidates

In evaluating the appropriate characteristics of candidates for service as a director, the Nominating and Governance Committee takes into account many factors. At a minimum, director candidates must demonstrate high standards of ethics, integrity and professionalism, independence, sound judgment, community leadership and meaningful experience in business, law or finance or other appropriate endeavor. In addition, the candidates must be committed to representing the long-term interests of our stockholders. In addition to these minimum qualifications, the Committee also considers other factors it deems appropriate based on the current needs of the Board, including specific business and financial expertise currently desired on the Board, experience as a director of a public company and diversity. The Committee does not have any formal diversity policy. With these factors and characteristics in mind, the Committee will generally begin its search by discussing potential candidates with existing members of the Board and management. The Committee will also reassess the qualifications of a director, including the director's past contributions to the Board and the director's attendance and contributions at Board and committee meetings, prior to recommending a director for reelection to another term.

Our Board of Directors has adopted procedures by which stockholders may recommend nominees to the Board. The Nominating and Governance Committee will consider any director candidate recommended by stockholders in accordance with the procedures set out in our bylaws and applicable law on the same basis as it considers other director candidates. Stockholders may also submit a letter and relevant information about the candidate to the Secretary at Greenhill & Co., Inc., 300 Park Avenue, New York, New York 10022.

Board Leadership Structure and Role in Risk Oversight

The Chairman of our Board of Directors, Robert F. Greenhill, is the founder of Greenhill and has previously served as its Chief Executive Officer. In 2007, Mr. Greenhill relinquished the position as Chief Executive Officer. At that time, the Board of Directors determined that it was in the best interests of our stockholders for Mr. Greenhill to continue to serve as Chairman of the Board, given the depth of his experience with our firm and our industry. In January 2016, our Board of Directors amended our Corporate Governance Guidelines to provide for a "Lead Independent Director" and appointed Steven F. Goldstone to this role. The Lead Independent Director's responsibilities include:

(1) Chair any meeting of the Board at which the Chairman is not present, including executive sessions of non-management or independent directors;

(2) Have the authority to call meetings of the non-management or independent directors;

(3) Meet with any director who is not adequately performing his or her duties as a member of the Board or any committee;

(4) Facilitate communications between other members of the Board and the Chairman of the Board and/or the Chief Executive Officer by serving as the principal liaison; however, each director is free to communicate directly with the Chairman of the Board and with the Chief Executive Officer;

(5) Monitor, with the assistance of the Company's Chief Executive Officer, Chief Financial Officer and General Counsel, communications from stockholders and other interested parties, report on such communications to the other directors as he or she considers appropriate, and be available, when appropriate, for consultation and direct communication with stockholders;

(6) Work with the Chairman of the Board and the CEO in the preparation of the agenda for each Board meeting and approve the agendas to be sent to the Board; and be available to review information to be sent to the Board when appropriate;

(7) Work with the Chairman of the Board in determining the need for special meetings of the Board, and approve the number and frequency of Board meetings and meeting schedules, assuring there is sufficient time for discussion of all agenda items; and

(8) Otherwise consult with the Chairman of the Board and/or the Chief Executive Officer on matters relating to corporate governance and Board performance.

Our Board of Directors, under the guidance of the Nominating and Governance Committee, reviews the structure of our Board of Directors and its committees each year as a part of its annual self-evaluation process, and in that context considers, among other things, issues of structure and leadership, including whether the offices of Chairman of the Board and Chief Executive Officer should be combined or separate, whether the Company should have a "Lead Independent Director" in the event that the Chairman of the Board is not an independent director, and whether the Board's leadership structure is appropriate given the characteristics or circumstances of the Company. The Board of Directors is satisfied that its current structure and processes are well suited for the Company, given its simple business model, employee stock ownership and size.

The Board of Directors has delegated risk management and oversight to the Audit Committee. The Audit Committee receives regular reports on risk matters, including financial, legal and regulatory risks, at its quarterly meetings. The Audit Committee also receives an annual report on legal, regulatory and compliance matters from the Greenhill Global Compliance Committee. The Audit Committee oversees the Company's periodic risk assessments and risk-based internal audits. In addition, the Audit Committee meets regularly with the Chief Compliance Officer, Chief Financial Officer and General Counsel of Greenhill as well as its external and internal auditors, to discuss issues related to risk management. The Audit Committee, in turn, reports any material risk issues which may arise to the full Board of Directors. The Board of Directors' administration of risk oversight has no impact on its leadership structure.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics applicable to all of our directors and employees, including our principal executive officers, principal financial officer, principal accounting officer, controller and other employees performing similar functions. A copy of this Code of Business Conduct and Ethics is available on our website at www.greenhill.com.

We intend to post on our website any amendment to, or waiver from, a provision of our Code of Business Conduct and Ethics that applies to our principal executive officers, principal financial officer, principal accounting officer, controller and other persons performing similar functions within four business days following the date of such amendment or waiver.

Item 11. Executive Compensation

Compensation Discussion and Analysis

This Compensation Discussion and Analysis, or CD&A, describes our compensation objectives and programs for our "named executive officers" or "NEOs." The CD&A also describes the specific decisions, and the process supporting those decisions, which were made with respect to 2017 for the NEOs.

For 2017, our NEOs were:

- Scott L. Bok, Chief Executive Officer ("CEO");
- Kevin M. Costantino, President;
- David A. Wyles, President; and
- Harold J. Rodriguez, Jr., Chief Financial Officer and Chief Operating Officer.

CD&A Table of Contents

To assist in finding important information, we call your attention to the following sections of our CD&A:

Executive Summary

Greenhill's Business and Strategy. Greenhill is a leading independent investment bank that provides financial and strategic advice on significant domestic and cross-border mergers and acquisitions, divestitures, restructurings, financings, capital raising and other transactions to a diverse client base, including corporations, partnerships, institutions and governments globally. We serve as a trusted advisor to our clients throughout the world on a collaborative, globally integrated basis from our offices in the United States, Australia, Brazil, Canada, Germany, Hong Kong, Japan, Spain, Sweden and the United Kingdom.

Greenhill is a unique global investment banking firm, not only in relation to the large integrated, or "bulge bracket", institutions which engage in commercial lending, underwriting, research, sales and trading and other businesses, but also in relation to other so called "independent" investment banks, many of which engage in investment management, research and capital markets businesses, all of which can create conflicts with clients' interests. Our business strategy is to (i) operate as a pure advisory firm, which minimizes conflicts and emphasizes our focus on client service, (ii) operate globally, with a presence in all major markets, (iii) emphasize larger transactions, which enhances fee opportunities, and (iv) continue to expand our business organically and through recruiting and strategic acquisitions.

Greenhill's Compensation Program and Strategy. Our compensation program is designed to attract, retain and motivate our professionals, reward the achievement of business results through the delivery of competitive pay and align the aggregate compensation of our employees through incentive programs with both individual and company performance. As part of our compensation program we have developed Key Compensation Practices, as detailed below, to promote alignment with the interests of our stockholders. On an annual basis we determine the incentive amounts awarded to our employees based on their individual performance and the performance of the Company. For purposes of determining the annual incentive compensation of our CEO and other Named Executive Officers, our Compensation Committee evaluates the Company's annual financial results and stockholder return, which it weighs most important, but also considers other factors, including their management responsibilities, leadership role, and where applicable, the development of client relationships and execution of client engagements.

Executive Pay Program Updates and 2017 Say on Pay Vote. At our 2017 Annual Stockholders Meeting, approximately 71% of votes cast supported Greenhill's executive compensation program. This included the support of 7 of our 10 largest stockholders (excluding management). Stockholder support for our executive compensation program has increased in each of the last two years. During the past two years, the Chair of our Compensation Committee and members of management have initiated discussions, which were specific to executive compensation, with institutional stockholders and their corporate governance groups. The objective of the outreach was to understand factors our stockholders consider to be most important when evaluating our executive compensation program. Major stockholders were not prescriptive about incentive plan design. Instead, they were more interested to see that the results and outcomes delivered by the plans were appropriately aligned with Firm-wide and individual performance.

2017 CEO Incentive Compensation. 2017 was a difficult year for the Company as reflected in our financial results. Our Compensation Committee believes in pay for performance notwithstanding other contributions to the business that our CEO may have provided. As more fully described below, after considering 2017 financial performance, our CEO requested, and the Compensation Committee determined, that our CEO would not be awarded any incentive compensation - cash or equity - for 2017.

2017 Performance and Other Matters. Our 2017 financial results reflected an unusually difficult year for us, particularly in comparison to a strong performance in 2016 and relative to our long history of generating strong revenue and high profit margins. The primary driver in that was a much weaker than typical contribution from our historically strong European corporate advisory franchise, which more than offset the benefit of a record performance by our capital advisory group.

- Total annual revenues of $239.2 million in 2017, reflecting a 29% decrease from 2016 due to the generation of fewer larger merger and acquisition fees.
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Capital advisory revenues of $70.9 million in 2017, reflecting a 38% increase from 2017 primarily due to increased secondary placement revenues.

- Operating margin decline and compensation ratio increase were largely driven by lower generated revenues and by other non-recurring charges.

- Compensation ratio was higher than our historic range because we sought to compensate our employees competitively in a year when our revenues were lower than our historic norm.

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- Entered into a recapitalization plan designed to enhance long-term stockholder value.
- Recruited nine corporate advisory focused managing directors, who joined our teams in the United States, Australia, Canada and Europe, including two who extend our reach into the Spanish market.

Plan for Long Term Value Creation. Our consistent goal, over time, has been to provide our stockholders with prudent growth, robust profitability and strong return of capital, and we expect to accomplish these objectives in future years. In September 2017, we announced plans for a leveraged recapitalization to put in place a capital structure designed to enhance long term shareholder value in the context of our then current equity valuation, existing tax rates and existing opportunities in the credit market. Under that plan, net proceeds from the borrowing of $350.0 million of term loans, which closed in early October 2017, were used to repay in full the existing bank indebtedness outstanding at the time. The remaining term loan proceeds, in addition to the proceeds from the purchase of $10.0 million of our common stock by each of our Chairman and Chief Executive Officer, which closed in early November 2017, were intended to be used to repurchase up to $285.0 million of our common stock (together, the term loan borrowing, common stock purchases, bank debt repayment and the plan for the repurchase of common stock constitute the "Recapitalization"). The Recapitalization plan is intended to reduce taxes, increase earnings per share and increase employee alignment with shareholders, while offering those wishing to monetize their shares a significant opportunity for liquidity.
To demonstrate his alignment with creating long term value for our stockholders, in addition to his investment of $10.0 million in our common stock in conjunction with the Recapitalization, our CEO requested, and the Compensation Committee determined, to reduce his base salary by more than 90%, or $2,750,000 in aggregate over 5 years, and provide him in exchange an equivalent value of performance-contingent restricted stock units that are linked to the successful repayment of the borrowing used to fund the Recapitalization. All of those units will vest after 5 years, subject to the Firm achieving the performance criteria and the CEO remaining an employee.
As of March 31, 2018, we have repurchased under that plan 5,174,258 shares of our common stock at an average price of $18.14 per share for a total cost of $93.9 million and had $191.1 million remaining and authorized under our repurchase program, which we intend to implement through various means, which could include one or more of the following: open market purchases (including pursuant to 10b5-1 plans), tender offers, privately negotiated transactions and/or accelerated share repurchases. The price and timing of share repurchases, as well as the total funds ultimately expended, will be subject to market conditions and other factors, such as our results of operations, financial position and capital requirements, general business conditions, legal, tax and regulatory constraints or restrictions, any contractual restrictions and other factors deemed relevant.

The market reacted favorably to the Recapitalization, with our stock appreciating 28.5% from just prior to announcing the plan through March 31, 2018.

Key Compensation Practices. Key executive compensation practices are summarized below. We believe these practices promote alignment with the interests of our stockholders.

What We Do

Have granted PRSUs as part of CEO's compensation, with prospective disclosure of multi- year, Firm-wide performance goals.	We have historically offset the dilutive impact of equity compensation awards by repurchasing shares of our common stock.
Retain an independent compensation consultant to assist the Compensation Committee.	Exercise discretion to be responsive to the cyclical nature of our business and advance our goal of operating as a meritocracy.
Review and consider stockholder feedback in structuring executive compensation.	Apply double-trigger vesting for equity awards under a change in control scenario.
Broad ability of Compensation Committee to clawback deferred retention compensation, which is the largest component of NEO compensation.	Design incentive compensation plans that allow us to maximize tax deductibility.
Apply multi-year vesting requirements to equity awards, generally 3-5 years.	Maintain stock ownership guidelines for all NEOs.
Award equity compensation to new senior hires and as part of annual incentive compensation for alignment of interests with stockholders.	Modify amount of incentive award compensation to be commensurate with financial performance of the Company.

What We Don't Do

No guaranteed bonus arrangements.	No perquisites.
No tax gross-ups.	No severance agreements.
No single trigger vesting on change in control.	No pension benefits.
No hedging or pledging permitted.	No repricing of underwater stock options without stockholder approval.

Process for Reviewing Executive Performance and Determining Executive Compensation

Compensation Philosophy. Our compensation program is designed to attract, retain and motivate our professionals, reward the achievement of business results through the delivery of competitive pay and align the aggregate compensation of our employees through incentive programs with both individual and company performance.

The principles behind our approach to compensation include:

Principles of Compensation Policy	
Alignment	Align interests between all our senior professionals (including our named executive officers) and our stockholders
Simplicity	Our senior professionals and our stockholders can readily calculate the costs and benefits of the compensation we provide
Meritocracy (within the Firm)	Our compensation methodology is seen by our senior professionals as fair and, as a result, those professionals can work together effectively in teams to better advise clients
Effectiveness	Can attract, retain and incent talent in a highly competitive industry

Compensation Track Record. For the years ended December 31, 2017 and 2016 our compensation expense was \$160.2 million and \$182.5 million, respectively. During 2017 and 2016, we incurred similar amounts of base salary compensation and amortization of long term incentive compensation and the decrease of \$22.3 million, or 12%, was principally attributable to a lower year-end bonus accrual for our Managing Director group, reflecting their respective individual performances and our overall financial performance. The ratio of compensation to revenues increased to 67% in 2017, as compared to 54% in 2016 as a result of the spreading of lower compensation and benefits expenses over significantly lower revenues in 2017. Our compensation ratio in 2017 was higher than our historic range because our Compensation Committee sought to compensate our employees competitively in a year when our revenues were lower than our historic norm due to the generation of fewer larger merger and acquisition fees. It is our goal to reduce the compensation ratio over time toward our historic range. Such a reduction will be dependent upon our revenue generation, changes in headcount and other factors. We will balance this goal with our objective of retaining our core personnel and compensating them competitively in order to maintain our strong franchise, and continuing to recruit new senior bankers.

Compensation Process. The Compensation Committee, which consists entirely of independent outside directors, has the overall responsibility for evaluating and approving our executive officer base salaries, annual and long-term incentive compensation, and other compensation plans, policies and programs. The Compensation Committee maintains a dialogue with our management and its independent consultant regarding compensation, industry practices and the contributions of individual executives, all of which are taken into account in determining compensation. Scott Bok, our Chief Executive Officer, after consulting with other key executives, makes recommendations to the Compensation Committee regarding both the form and amount of base salary and annual and long-term incentive compensation for each named executive officer and other senior professionals each year. In making awards to any individual, the Compensation Committee focuses on performance, not his or her gains, or failure to achieve gains, on prior stock-based awards.

Incentive compensation awards are generally granted once at the beginning of each calendar year in respect of performance for the preceding year; on a limited basis, additional awards may be provided at other times of the year for recognition or to support retention. The purpose of incentive compensation awards is to reward our professionals for their contribution to our business in the preceding year and to encourage the long-term retention of our valued professionals.

In making its final determinations, our Compensation Committee initially evaluates the Firm’s financial results and strategic development, as measured by revenue growth, pre-tax profit margin, and return of capital to stockholders, and implications of its decisions on total compensation expense as a percent of total revenue in any given year (i.e., the compensation ratio).

In determining NEO compensation with respect to 2017, our Compensation Committee considered a variety of factors, including the abnormal results in revenue generation outside the United States and the Firm's Recapitalization plan. The Compensation Committee also took note, with respect to those named executive officers who are actively involved in advising clients and generating revenue (our Chief Executive Officer and our Presidents), of their individual contributions to building client relationships, winning assignments, executing transactions and generating revenue for the Firm.

With respect to our Chief Executive Officer, after considering firm-wide 2017 financial performance and notwithstanding the successful implementation of the Recapitalization, the recruiting results achieved during the year and the significan;15, 2008, and interim periods within those years. The adoption of FSP 142-3 did not have a significant impact on the Company s financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. The statement is intended to improve financial reporting by identifying a consistent hierarchy for selecting accounting principles to be used in preparing financial statements that are prepared in conformance with generally accepted accounting principles. Unlike Statement on Auditing Standards (SAS) No. 69, The Meaning of Present Fairly in Conformity With GAAP, FAS No. 162 is directed to the entity rather than the auditor. The statement is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, The Meaning of Present Fairly in Conformity with GAAP, and is not expected to have any impact on the Company s results of operations, financial condition or liquidity.

Guidance on Fair Value Measurements and Impairments

In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly , which the Company intends to adopt from the second quarter of 2009. This FSP provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. It reaffirms the objectives of SFAS 157 that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (i.e. not a forced liquidation or distressed sale) between market participants at the date of the financial statements under current market conditions.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, Disclosures about Fair Value of Financial Instruments , which the Company intends to adopt from the second quarter of 2009. This FSP amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments* to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2 Recognition and Presentation of Other-Than-Temporary Impairments , which the Company intends to adopt from the second quarter of 2009. This FSP establishes a new method of recognizing and reporting other-than-temporary impairments of debt securities and requires additional disclosures related to debt and equity securities. This FSP does not change existing recognition and measurement guidance related to other-than-temporary impairments of equity securities.

The adoption of these three FASB Staff Positions concerning fair value measurements and impairments is not expected to have a significant impact on the Company s consolidated financial position, results of operations or cash flows.

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

This Quarterly Report on Form 10-Q contains statements indicating expectations about future performance and other forward-looking statements that involve risks and uncertainties. We usually use words such as may, will, should, expect, plan, anticipate, believe, estimate, predict, future, intend, potential, or continue or the negative of these terms or similar expressions to identify forward-looking statements. These statements appear throughout this Quarterly Report on Form 10-Q and are statements regarding our current intent, belief or expectation, primarily with respect to our operations and related industry developments. Examples of these statements include, but are not limited to, statements regarding the following: our future operating expenses, our future losses, our future expenditures for research and development and the sufficiency of our cash resources. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the risks faced by us and described in our Annual Report on Form 10-K for the year ended December 31, 2008.

The following discussion and analysis should be read in conjunction with the unaudited interim financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and with the financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2008.

Overview

Enova believes it is a leader in the development and production of proprietary, commercial digital power management systems for transportation vehicles and stationary power generation systems. Power management systems control and monitor electric power in an automotive or commercial application such as an automobile or a stand-alone power generator. Electric drive systems are comprised of an electric motor, an electronics control unit, a gear unit and batteries which power an electric vehicle. Hybrid systems, which are similar to pure electric drive systems, contain an internal combustion engine in addition to the electric motor, eliminating external recharging of the battery system. Our hybrid systems can alternatively utilize a hydrogen fuel cell or a microturbine as a power source to recharge the battery system. Stationary power systems utilize similar components to those which are in a mobile drive system in addition to other elements.

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

Specifically, we develop, design and produce drive systems and related components for electric, hybrid-electric, fuel cell and microturbine-powered vehicles. We also develop, design and produce power management and power conversion components for stationary distributed power generation systems. Additionally, we perform research and development (R&D) to augment and support others and our own related product development efforts.

Our product development strategy is to design and introduce to market successively advanced products, each based on our core technical competencies. In each of our product/market segments, we provide products and services to leverage our core competencies in digital power management, power conversion and system integration. We believe that the underlying technical requirements shared among the market segments will allow us to more quickly transition from one emerging market to the next, with the goal of capturing early market share.

Enova s primary market focus centers on both electric series and parallel hybrid medium and heavy-duty drive systems for multiple vehicle and marine applications. A series hybrid system is one where only the electric motor connects to the drive shaft; a parallel hybrid system is one where both the internal combustion engine and the electric motor are connected to the drive shaft. We believe series-hybrid and parallel hybrid medium and heavy-duty drive system sales offer Enova the greatest return on investment in both the short and long term. We believe the medium and heavy-duty hybrid market s best chances of significant growth lie in identifying and pooling the largest possible numbers of early adopters in high-volume applications. By aligning ourselves with key customers in our target markets, we believe that alliances will result in the latest technology being implemented and customer requirements being met, with an optimized level of additional time or expense. As we penetrate more market areas, we are continually refining both our market strategy and our product line to maintain our leading edge in power management and conversion systems for mobile applications.

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

Recent Developments

In April 2009, Enova submitted a loan and grant application to the U.S. Department of Energy Advanced Technology Vehicles Manufacturing (ATVM) Loan Program under Section 136 of the Energy Independence and Security Act of 2007. Enova is applying for the funding of a light duty drive system with the goal of commercialization of the associated components. The ATVM Loan Program provides loans to automobile and automobile part manufacturers for the cost of equipping, expanding, or establishing manufacturing facilities in the United States to produce light-duty vehicles and components for such vehicles which provide targeted improvements in fuel economy performance beyond certain specified levels. Section 136 also provides that grants and loans may cover engineering integration costs associated with such projects.

As part of the American Recovery and Reinvestment Act of 2009, the U.S. Department of Energy also announced funding opportunities in the form of cost-share grants for supporting the construction of U.S. based manufacturing plants to produce batteries, electric drive components, and to establish development, demonstration, evaluation, and education projects to accelerate the market introduction and penetration of advanced electric drive vehicles. These grants carry potential awards ranging from $20 million through $100 million for each winning grant. Enova is currently exploring opportunities opened up by the issuance of these grants with vehicle original equipment manufacturers (OEMs).

The California Air Resources Board (CARB) through AB 118, recently highlighted in a meeting notice that a $25 million voucher incentive program would be implemented to accelerate the deployment of about 1,000 hybrid trucks and buses in California. CARB also announced an advanced technology demonstration project of $3 million for transit and school buses. Enova believes these programs will lower the acquisition cost of a hybrid school bus for our California customers and create another funding opportunity for our current initiatives in the hybrid school bus market.

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

Throughout the first quarter of 2009, we continued to host and visit potential as well as existing customers from the Pick Up and Delivery, Medium Duty and Heavy Duty markets. We continue to mature these relationships, as we believe they will eventually lead to viable business relationships.

Enova has incurred significant operating losses in the past. As of March 31, 2009, we had an accumulated deficit of approximately $131.3 million. We expect to incur additional operating losses until we achieve a level of product sales sufficient to cover our operating and other expenses. However, the Company believes that its business outlook will continue to improve, especially in light of government policies being implemented in the United States, the United Kingdom and China regarding the curbing of green house gas emissions in the future as well as intentions to provide government incentives that may induce consumption of our products and services.

We continue to receive greater recognition from both governmental and private industry with regards to both commercial and military application of our hybrid drive systems and fuel cell power management technologies. Although we believe that current negotiations with various parties may result in production contracts during 2009 and beyond, there are no assurances that such additional agreements will be realized.

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During the first quarter of 2009, we continued to develop and produce electric and hybrid electric drive systems and components for First Auto Works of China, Navistar, the US Military, United Kingdom bus manufacturers including Tanfield Engineering Systems, Optare UK Limited and Wright Bus, as well as several other domestic and international vehicle and bus manufacturers. We also were successful in introducing our technology to Canadian manufacturer REV Technologies, Inc. Our various electric and hybrid-electric drive systems, power management and power conversion systems are being used in applications including several light, medium and heavy duty trucks, train locomotives, transit buses and industrial vehicles.

On March 4, 2009, the Company achieved its certification for ISO 9001:2000 for Quality and ISO 14001 for Environmental Management over its operational and manufacturing processes. In order to receive ISO certifications for quality and environmental management systems, an organization must demonstrate operating systems and procedures for managing its processes to consistently turn out products and services that meet customer and regulatory requirements, as well as identify and control the environmental impact of its activities, products or services.

Critical Accounting Policies

In the ordinary course of business, the Company has made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of its financial statements in conformity with accounting principles generally accepted in the United States of America. The Company constantly re-evaluates these significant factors and makes adjustments where facts and circumstances dictate. Estimates and assumptions include, but are not limited to, customer receivables, inventories, equity investments, fixed asset lives, contingencies and litigation. There have been no material changes in estimates or assumptions compared to our most recent Annual Report for the fiscal year ended December 31, 2008.

The following represents a summary of our critical accounting policies, defined as those policies that we believe: (a) are the most important to the portrayal of our financial condition and results of operations and (b) involve inherently uncertain issues which require management s most difficult, subjective or complex judgments.

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

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

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

Allowance for doubtful accounts We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The assessment of the ultimate realization of accounts receivable including the current credit-worthiness of each customer is subject to a considerable degree to the judgment of our management. If the financial condition of the Company s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Stock-based Compensation The Company calculates stock-based compensation expense in accordance with SFAS No. 123 revised, Share-Based Payment (SFAS 123 (R)). This pronouncement requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including employee stock options to be based on estimated fair values. The Company adopted SFAS 123 (R) using the modified prospective method, which requires the application of the accounting standard as of January 1, 2006, the beginning of the Company s 2006 fiscal year. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) related to SFAS 123 (R). The Company applied the provisions of SAB 107 in adopting SFAS 123 (R).

Revenue recognition The Company is required to make judgments based on historical experience and future expectations, as to the reliability of shipments made to its customers. These judgments are required to assess the propriety of the recognition of revenue based on Staff Accounting Bulletin (SAB) No. 101 and 104, Revenue Recognition, and related guidance. The Company makes these assessments based on the following factors: i) customer-specific information, ii) return policies, and iii) historical experience for issues not yet identified. Under FAS Concepts No. 5, revenues are not recognized until earned.

The Company manufactures proprietary products and other products based on design specifications provided by its customers. Revenue from sales of products are generally recognized at the time title to the goods and the benefits and risks of ownership passes to the customer which is typically when products are shipped based on the terms of the customer purchase agreement. Revenue relating to long-term fixed price contracts is recognized using the percentage of completion method. Under the percentage of completion method, contract revenues and related costs are recognized based on the percentage that costs incurred to date bear to total estimated costs. Changes in job performance, estimated profitability and final contract settlements may result in revisions to cost and revenue, and are recognized in the period in which the revisions are determined. Contract costs include all direct materials, subcontract and labor costs and other indirect costs. General and administrative costs are charged to expense as incurred. At the time a loss on a contract becomes known, the entire amount of the estimated loss is accrued. The aggregate of costs incurred and estimated earnings recognized on uncompleted contracts in excess of related billings is shown as a current asset, and billings on uncompleted contracts in excess of costs incurred and estimated earnings is shown as a current liability.

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

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

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RESULTS OF OPERATIONS

First Quarter of Fiscal 2009 vs. First Quarter of Fiscal 2008

	For the Three Months Ended March 31,			As a % of Revenues March 31,	
	2009	2008	% Change	2009	2008
Revenues	$ 688,000	$ 2,278,000	-70%	100%	100%
Cost of revenues	579,000	2,442,000	-76%	84%	107%
Gross profit (loss)	109,000	(164,000)	+166%	16%	-7%
Operating expenses					
Research and development	254,000	628,000	-60%	37%	28%
Selling, general & administrative	1,495,000	1,914,000	-22%	217%	84%
Total operating expenses	1,749,000	2,542,000	-31%	254%	112%
Operating loss	(1,640,000)	(2,706,000)	+39%	-238%	-119%
Other income and (expense)					
Interest and other income (expense)	(6,000)	85,000	-107%	-1%	4%
Equity in losses of non-consolidated joint venture	(10,000)	(52,000)	+81%	-1%	-2%
Total other income (expense)	(16,000)	33,000	-148%	-2%	1%
Net loss	$ (1,656,000)	$ (2,673,000)	+38%	-241%	-117%

The sum of the amounts and percentages may not equal the totals for the period due to the effects of rounding.

Computations of percentage change period over period are based upon our results, as rounded and presented herein.

Revenue. Net revenues decreased by $1,590,000 or 70% for the three months ended March 31, 2009 to $688,000 as compared to $2,278,000 for the corresponding period in 2008. Revenues in the current year were derived primarily from fulfillment of orders from FAW, Navistar, HCATT and Tanfield. The prior year period benefited from large volume sales of our hybrid systems to Tanfield. We continue to improve the awareness of our product and service offerings with customers in part because of our past research and development results as well as our production efforts. Although we have seen indications for future production growth, there can be no assurance there will be continuing demand for our products and services.

Cost of Revenues. Cost of revenues, which consists of component and material costs, direct labor costs, integration costs and overhead related to manufacturing our products, decreased by $1,863,000, or 76%, from $2,442,000 for the three months ended March 31, 2008 to $579,000 for the three months ended March 31, 2009. Cost of revenues for the three months ended March 31, 2009 and the same period in 2008 were solely attributed to the production cost of revenues. The decrease in production costs is primarily attributable to lower sales, but we have also improved manufacturing and inventory processes that resulted in tighter control over production costs.

Gross Margin. Gross margin improved to a profit of $109,000 for the three months ended March 31, 2009 from a loss of $164,000 in the same period in 2008. As a percentage of total net revenues, gross margins increased for the three months ended March 31, 2009 to a positive 16% from a negative 7% for the same period in 2008. The improvement in gross margin is attributable to our focus on key customer production contracts, maturity of our supply chain, and manufacturing efficiencies gained through reorganizing our production line in our new facility. We expect to take continued benefit from these initiatives in the future although we may continue to experience variability in our gross margin.

Research and Development (R&D). Internal research, development and engineering expenses decreased $374,000 or 60% in the three months ended March 31, 2009 to $254,000 from $628,000 for the same period in 2008. Compared to 2009, R&D costs were higher in the first three months of 2008 due to expenditures to complete the development of our wireless tracking module, a one-time costs incurred for a dynamometer testing of our hybrid system and a higher level of development resources expended for non-core projects. In the first three months of 2009, development efforts for upgrades to our motor control unit, post transmission parallel hybrid drive system and engine off capability, as well as testing of new battery technologies, accounted for a significant portion of our internal research and development costs. We also continued to allocate necessary resources to the development of upgraded proprietary control software, enhanced DC-DC converters and digital inverters as well as other power management firmware.

Selling, General, and Administrative Expenses (S, G & A). Selling, general and administrative expenses decreased $419,000 or 22% for the three months ended March 31, 2009 to $1,494,000 from $1,914,000 for the same period in 2008. The Company implemented a series of cost savings measures in response to the severe sales environment, including reducing employee headcount by over 50% from the 2008 peak, eliminating outside IT and marketing consultants and placing restrictions on purchasing. In addition, the Company incurred approximately $300,000 from internal labor and other costs in the first three months of 2008 due to the move to our new manufacturing facility.

Interest and Other Income (Expense). Interest and Other Income (Expense) decreased $49,000, or -148% in the three months ended March 31, 2009 to minus $16,000 from $33,000 for the same period in 2008. Interest income decreased as a result of the Company having a smaller average cash balance and lower interest rates for the comparable periods in 2009 and 2008. In addition, we incurred miscellaneous losses of approximately $30,000.

Net Loss. Net loss decreased by $1,017,000 or 38% for the three months ended March 31, 2009 to $1,656,000 from $2,673,000 for the same period in 2008. The decrease was due to improved profitability on sales and reduction in both S, G & A and internal research and development expenses in response to the current severe operating environment.

Comparability of Quarterly Results. Our quarterly results have fluctuated in the past and we believe they will continue to do so in the future. Certain factors that could affect our quarterly operating results are described in Part I, Item 1A-Risk Factors contained in our Form 10K for 2008. Due to these and other factors, we believe that quarter-to-quarter comparisons of our results of operations are not meaningful indicators of future performance.

LIQUIDITY AND CAPITAL RESOURCES

We have experienced cash flow shortages due to operating losses primarily attributable to S, G, & A, research and development, marketing and other costs associated with our strategic plan as an international developer and supplier of electric propulsion and power management systems and components. Cash flows from operations have not been sufficient to meet our obligations. Therefore, we have had to raise funds through several financing transactions. The extent of our capital needs will phase out once we reach a breakeven volume in sales or develop and/or acquire the capability to manufacture and sell our products profitably. Our operations during the year ended December 31, 2008 and three months ended March 31, 2009 were financed by product sales and equity issuances as well as from working capital reserves.

The Company has a secured revolving credit facility with a financial institution (the Credit Agreement) for $2,000,000. The Credit Agreement is secured by a $2,000,000 certificate of deposit. The interest rate is the certificate of deposit rate plus 1.25% with interest payable monthly and the principal due at maturity. The Credit Agreement expires on June 30, 2009. As of March 31, 2009, the Company had $1,800,000 million available under the terms of the Credit Agreement as the financial institution has issued a $200,000 irrevocable letter of credit in favor of Sunshine Distribution LP (Landlord), with respect to the lease of the Company s new corporate headquarters at 1560 West 190th Street, Torrance, California. We anticipate that the credit facility will be renewed with similar terms as the existing facility.

Net cash used in operating activities was $1,212,000 for the first three months ended March 31, 2009 compared to $2,592,000 for the three months ended March 31, 2008. Cash used in operations in the first three months of 2009 compared to 2008 decreased due to lower personnel and administrative costs. Non-cash items include expense for stock-based compensation, depreciation and amortization, and issuance of common stock for director and employee services. We continued to conserve cash resources through reductions in employee headcount and restrictions on administration and operating expenditures. As of March 31, 2009, the Company had $4,090,000 of cash and cash equivalents.

Net cash used in investing activities was $6,000 for the first three months of 2009 compared to net cash used of $1,250,000 in the first three months of 2008. Cash used in investing activities in the first three months of 2008 was solely attributed to leasehold improvements and fixed asset purchases associated with our move into a new facility.

Net cash used in financing activities totaled $16,000 for the first three months of 2009, compared to net cash used of $14,000 for the first three months of 2008. The changes between periods were considered nominal.

As of March 31, 2009, accounts receivable was $719,000, an 11% decrease from the balance at December 31, 2008 (net of write-offs) of $808,000. The decrease reflects normal collections of sales from the fourth quarter of 2008 and outstanding balances from sales in the first quarter of 2009.

Inventory decreased by $299,000 when comparing the balances at March 31, 2009 and December 31, 2008, which represents a 4% decrease in the inventory balance between the two periods. The decrease resulted from inventory usage due to sales and research activities during the first quarter of 2009 and an increase in the inventory reserve in the amount of $61,000.

Prepaid expenses and other current assets decreased by net $42,000, or 20%, at March 31, 2009 from the December 31, 2008 balance of $215,000. The changes between periods were considered nominal.

Property and equipment decreased by $115,000, net of depreciation and write-offs, at March 31, 2009, when compared to the December 31, 2008 balance of $1,829,000. In the first quarter of 2009, the Company recognized depreciation expense of $157,000 and recorded purchases of fixed assets totaling $44,000, which included the purchase of one test vehicle.

Investment in a non-consolidated joint venture decreased by $10,000 in the first three months of 2009 from a balance of $1,352,000 at December 31, 2008, reflecting the pro-rata share of losses attributable to our forty percent investment interest in the Hyundai-Enova Innovative Technology Center (ITC). Hyundai Heavy Industries, Enova and ITC mutually agreed to the dissolution of ITC, which was completed on April 6, 2009.

Accounts payable decreased in the first quarter of 2009 by $30,000 to $562,000 from $592,000 at December 31, 2008. The changes between periods were considered nominal.

Deferred revenues increased at March 31, 2009 to $51,000 from a zero balance at the December 31, 2008. This balance is expected to be realized into revenue in the second quarter of 2009 and is predominantly associated with a prepayment on a purchase order from Tanfield.

Accrued payroll and related expense decreased by $22,000, or 7%, to $273,000 at March 31, 2009 compared to a balance of $295,000 at December 31, 2008. The changes between periods were considered nominal.

Other accrued liabilities decreased by $425,000, or 23%, to $1,434,000 at March 31, 2009 from the balance of $1,859,000 at December 31, 2008, primarily due to payments for accrued professional and vendor services, as well as accruals for un-invoiced inventory purchases.

Accrued interest payable was $1,013,000 at March 31, 2009, an increase of 2% from a balance of $992,000 at December 31, 2008. The increase is due to interest related to our debt instruments, primarily the secured note payable to the Credit Managers Association of California of $1,238,000.

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

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures which are designed to provide reasonable assurance that information required to be disclosed in the Company s periodic Securities and Exchange Commission (SEC) reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(b) under the Securities and Exchange Act of 1934, as amended, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures for the period covered by this report. Based on that evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded that the Company s internal control over disclosure controls and procedures was effective as of March 31, 2009.

Management s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) promulgated under the Exchange Act. We maintain internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to a number of lawsuits, investigations and disputes (some of which involve substantial amounts claimed) arising out of the conduct of our business, including matters relating to commercial transactions. We recognize a liability for any contingency that is probable of occurrence and reasonably estimable. We continually assess the likelihood of adverse outcomes in these matters, as well as potential ranges of probable losses (taking into consideration any insurance recoveries), based on a careful analysis of each matter with the assistance of outside legal counsel and, if applicable, other experts.

Given the uncertainty inherent in litigation, we do not believe it is possible to develop estimates of the range of reasonably possible loss in excess of current accruals for these matters. Considering our past experience and existing accruals, we do not expect the outcome of these matters, either individually or in the aggregate, to have a material adverse effect on our consolidated financial position. Because most contingencies are resolved over long periods of time, potential liabilities are subject to change due to new developments, changes in settlement strategy or the impact of evidentiary requirements, which could cause us to pay damage awards or settlements (or become subject to equitable remedies) that could have a material adverse effect on our results of operations or operating cash flows in the periods recognized or paid.

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Item 1A. Risk Factors

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

Item 2. Unregistered Sales of Equity and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

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Item 6. Exhibits

a) Exhibits

10.1	Stock Purchase Agreement entered into April 6, 2009 between Enova and Hyundai-Enova Innovative Technology Center (incorporated by reference to Exhibit 99.1 of our Current Report on Form 8-K filed April 10, 2009)
10.2	Joint Venture Dissolution and Termination Agreement entered into April 6, 2009 between Enova, Hyundai Heavy Industries and Hyundai-Enova Innovative Technology Center (incorporated by reference to Exhibit 99.2 of our Current Report on Form 8-K filed April 10, 2009)
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act Of 2002.*
31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* - Filed herewith

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 13, 2009

ENOVA SYSTEMS, INC. (Registrant)

/s/ Jarett Fenton
By: Jarett Fenton, Chief Financial Officer