**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, DC 20549**

# AMENDMENT NO. 1
# TO
# FORM 10-Q

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

For the quarterly period ended **September 30, 2010**

**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: **000-52337**

**BALQON CORPORATION**
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Nevada** | **33-0989901** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **1420 240th Street, Harbor City, California 90710** | **90710** |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: **(310) 326-3056**

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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes☒ No☐

Indicate by check mark 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes☐ No☐

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

Large Accelerated Filer ☐ Accelerated Filer ☐
Non-Accelerated Filer (do not check if Smaller Reporting Company) ☐ Smaller Reporting Company ☒

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

The number of shares outstanding of the Registrant's common stock, $0.001 par value, as of November 12, 2010, was 25,740,014.

DOCUMENTS INCORPORATED BY REFERENCE

None

## EXPLANATORY NOTE

The purpose of this Amendment No. 1 to Form 10-Q ("Amendment") is to amend our initial filing of a Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2010, filed with the Securities and Exchange Commission ("SEC") on November 15, 2010 (the "Initial Filing"). Defined terms used in this Amendment but not defined herein have the meanings ascribed to them in the Initial Filing.

On March 29, 2011, our management concluded that an accounting error had been made in our historical financial statements in relation to the value of a recorded derivative liability in connection with a private offering of our securities and the recording of the associated offering costs. As a result, our financial statements for the quarterly period ended September 30, 2010 must be restated (the "Restatement"). In light of the Restatement, the financial statements and other financial information included in the Initial Filing are being restated in this Amendment.

Unless specified, the disclosures provided in this document have not been updated for more current information. Therefore, this Amendment should be read in conjunction with our other filings made with the SEC subsequent to the date of the Initial Filing.

## CAUTIONARY STATEMENT

All statements included or incorporated by reference in this Amendment No. 1 to Form 10-Q, other than statements or characterizations of historical fact, are forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements concerning projected net sales, costs and expenses and gross margins; our accounting estimates, assumptions and judgments; the demand for our products; the competitive nature of and anticipated growth in our industries; and our prospective needs for additional capital. These forward-looking statements are based on our current expectations, estimates, approximations and projections about our industries and business, management's beliefs, and certain assumptions made by us, all of which are subject to change. Forward-looking statements can often be identified by words such as "anticipates," "expects," "intends," "plans," "predicts," "believes," "seeks," "estimates," "may," "will," "should," "would," "could," "potential," "continue," "ongoing," similar expressions, and variations or negatives of these words. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors, some of which are listed under "Risk Factors" in Part II, Item 1A of this Report. These forward-looking statements speak only as of the date of this Report. We undertake no obligation to revise or update publicly any forward-looking statement for any reason, except as otherwise required by law.

**BALQON CORPORATION**
**QUARTERLY REPORT ON**
**FORM 10-Q**

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PART I
FINANCIAL INFORMATION

PART I

**ITEM 1. Condensed Financial Statements**

**BALQON CORPORATION**
**CONDENSED BALANCE SHEETS**

| | September 30, 2010 (Unaudited) (As Restated) | December 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 33,373 | $ 118,635 |
| Accounts receivable | 333,404 | 167,925 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 34,224 | — |
| Inventories | 1,084,479 | 1,002,748 |
| Prepaid expenses | 47,993 | 53,382 |
| Total current assets | 1,533,473 | 1,342,690 |
| Property and equipment, net | 70,040 | 122,251 |
| Other assets: | | |
| Deposits | 14,400 | 14,400 |
| Trade secrets, net | 62,324 | 109,063 |
| Goodwill | 166,500 | 166,500 |
| Total assets | $ 1,846,737 | $ 1,754,904 |
| **LIABILITIES AND SHAREHOLDERS' DEFICIENCY** | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | $ 1,533,419 | $ 1,587,388 |
| Customer deposit | 1,159,601 | 1,159,601 |
| Loan payable, Bridge Bank | 219,463 | 128,150 |
| Notes payable to related parties | 25,000 | 25,000 |
| Advances from shareholder | 5,018 | 5,018 |
| Derivative Liability | 713,018 | — |
| Billings in excess of costs and estimated earnings on uncompleted contracts | — | 650 |
| Total current liabilities | 3,655,519 | 2,905,807 |
| Convertible notes payable, net of discount | 852,000 | 209,510 |
| Total Liabilities | 4,507,519 | 3,115,317 |
| **SHAREHOLDERS' DEFICIENCY** | | |
| Common stock, $0.001 par value, 100,000,000 shares authorized, 25,733,348 and 25,518,348 shares issued and outstanding on September 30, 2010 and December 31, 2009, respectively | 25,733 | 25,518 |
| Additional paid in capital | 11,399,676 | 9,650,329 |
| Accumulated deficit | (14,086,191) | (11,036,260) |
| Total shareholders' deficiency | (2,660,782) | (1,360,413) |
| Total liabilities and shareholders' deficiency | $ 1,846,737 | $ 1,754,904 |

The accompanying notes are an integral part of these condensed financial statements.

**BALQON CORPORATION**
**CONDENSED STATEMENTS OF OPERATIONS**
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (Unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 (As Restated) | 2009 | 2010 (As Restated) | 2009 |
| **REVENUES** | $ 122,311 | $ 780,158 | $ 664,729 | $ 3,055,958 |
| **COST OF REVENUES** | 113,275 | 656,088 | 609,876 | 2,849,777 |
| **GROSS PROFIT** | 9,036 | 124,070 | 54,853 | 206,181 |
| **OPERATING EXPENSES:** | | | | |
| General and administrative | 482,008 | 557,166 | 1,646,975 | 1,782,451 |
| Research and development | 63,690 | 34,615 | 187,808 | 132,579 |
| Depreciation and amortization | 30,276 | 23,638 | 105,311 | 70,514 |
| Total operating expenses | 575,974 | 615,419 | 1,940,094 | 1,985,544 |
| Loss from operations | (566,938) | (491,349) | (1,885,241) | (1,779,363) |
| Other expenses: | | | | |
| Private placement costs | (359,904) | — | (359,904) | — |
| Change in fair value of derivative liability | 58,636 | — | 58,636 | — |
| Interest expense | (391,354) | (125,350) | (863,422) | (197,908) |
| **NET LOSS** | $ (1,259,560) | $ (616,699) | $ (3,049,931) | $ (1,977,271) |
| Net loss per share-basic and diluted | $ (0.05) | $ (0.02) | $ (0.12) | $ (0.08) |
| Weighted average shares outstanding, basic and diluted | 25,733,348 | 25,518,348 | 25,703,256 | 25,518,348 |

The accompanying notes are an integral part of these condensed financial statements.

**BALQON CORPORATION**
**CONDENSED STATEMENT OF SHAREHOLDERS' DEFICIENCY**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 (Unaudited) (As Restated)**

| | Common Stock, $0.001 Par Value | | Additional Paid in | Accumulated | |
|---|---|---|---|---|---|
| | Number | Amount | Capital | Deficit | Total |
| Balance, December 31, 2009 | 25,518,348 | $ 25,518 | $ 9,650,329 | $ (11,036,260) | $ (1,360,413) |
| Fair value of shares granted for services | 200,000 | 200 | 207,800 | — | 208,000 |
| Fair value of warrants granted for services | — | — | 26,562 | — | 26,562 |
| Fair value of beneficial conversion feature and warrants issued with convertible notes | — | — | 1,500,000 | — | 1,500,000 |
| Conversion of notes into common shares | 15,000 | 15 | 14,985 | — | 15,000 |
| Net loss | — | — | — | (3,049,931) | (3,049,931) |
| Balance, September 30, 2010 | 25,733,348 | $ 25,733 | $ 11,399,676 | $ (14,086,191) | $ (2,660,782) |

The accompanying notes are an integral part of these condensed financial statements.

**BALQON CORPORATION**
**CONDENSED STATEMENTS OF CASH FLOWS**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (Unaudited)**

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2010 (As Restated) | 2009 |
| **Cash flow from operating activities:** | | |
| Net loss | $ (3,049,931) | $ (1,977,271) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 105,311 | 70,514 |
| Fair value of common stock granted for services | 208,000 | — |
| Fair value of warrants granted for services | 26,562 | — |
| Cost of private placement | 359,904 | — |
| Change in fair value of derivative | (58,636) | — |
| Amortization of note discount | 657,490 | 120,907 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (165,481) | (797,546) |
| Customer advance | — | 1,159,601 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | (34,224) | — |
| Inventories | (81,731) | 111,913 |
| Prepaid expenses | 5,389 | (492) |
| Accounts payable and accrued expenses | (53,968) | (17,359) |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (650) | 650 |
| Net cash used in operating activities | (2,081,965) | (1,329,083) |
| **Cash flows from investing activities:** | | |
| Acquisition of furniture, equipment and software | (6,360) | (18,938) |
| Refund of Deposit | — | 15,368 |
| Net cash used in investing activities | (6,360) | (3,570) |
| **Cash flows from financing activities:** | | |
| Proceeds from loan payable, Bridge Bank | 91,313 | 256,300 |
| Payment of notes payable, related parties | — | (75,875) |
| Proceeds from issuance of convertible notes | 1,911,750 | 1,000,000 |
| Advances from shareholder | — | (27,081) |
| Net cash provided by financing activities | 2,003,063 | 1,153,344 |
| Decrease in cash and cash equivalents | (85,262) | (179,309) |
| Cash and cash equivalents, beginning of period | 118,635 | 355,615 |
| **Cash and cash equivalents, end of period** | $ 33,373 | $ 176,306 |
| **Supplemental cash flow information** | | |
| Interest Paid | $ 223,722 | $ 53,645 |
| Income taxes Paid | $ — | $ — |
| **Supplemental schedule of non cash financing and investing activities** | | |
| Fair value of beneficial conversion feature and warrants issued with convertible notes | $ 1,500,000 | $ 1,000,000 |
| Derivative Liability arising from issuance of convertible notes and warrants | $ 771,654 | $ — |
| Conversion of convertible notes into shares of the Company's common stock | $ 15,000 | $ — |

The accompanying notes are an integral part of these condensed financial statements.

## BALQON CORPORATION
## NOTES TO CONDENSED FINANCIAL STATEMENTS
## FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (Unaudited)

**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

**The Company**

Balqon Corporation, a California corporation ("Balqon California") was incorporated on April 21, 2005 and commenced business operations in 2006. On October 24, 2008, Balqon California completed a merger with BMR Solutions, Inc., a Nevada corporation ("BMR"). Upon the closing, BMR changed its name to Balqon Corporation (the "Company"). The Company develops, assembles and markets heavy-duty electric vehicles, flux vector motor controllers and heavy-duty electric drive systems.

**Going Concern**

For the nine months ended September 30, 2010, the Company recorded a net loss of $3,049,931, utilized cash in operations of $2,081,965, and had a working capital deficit of $2,122,046 and a shareholders' deficiency of $14,086,191 as of September 30, 2010. These matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from this uncertainty. The Company intends to raise funds to finance operations until the Company achieves profitable operations. The Company's capital requirements for the next 12 months, as they relate to the production of its products will continue to be significant. If adequate funds are not available to satisfy either medium or long-term capital requirements, the Company's operations and liquidity could be materially adversely affected and the Company could be forced to cut back its operations. Subsequent to September 30, 2010, the Company raised $225,000 through the sale of units consisting of convertible promissory notes and warrants (see Note 13).

**Basis of Presentation of Unaudited Financial Information**

The unaudited financial statements of the Company for the nine months ended September 30, 2010 and 2009 have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Regulation S-K for scaled disclosures for smaller reporting companies. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in United States of America for complete financial statements. However, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for the fair presentation of the financial position and the results of operations. Results shown for interim periods are not necessarily indicative of the results to be obtained for a full fiscal year.

The balance sheet information as of December 31, 2009 was derived from the audited financial statements included in the Company's financial statements as of and for the years ended December 31, 2009 and 2008 to Form 10-K filed with the Securities and Exchange Commission ("SEC") on September 30, 2010. These financial statements should be read in conjunction with that report.

**Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Material estimates relate to the recognition of contract revenues and estimated costs to complete contracts in- process and recoverability of reported amounts of long-lived assets. Actual results may differ from those estimates.

**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Revenues**

*Sales of Production Units and Parts*

The Company recognizes revenue from the sale of completed production units and parts when there is persuasive evidence that an arrangement exists, delivery of the product has occurred and title has passed, the selling price is both fixed and determinable, and collectability is reasonably assured, all of which generally occurs upon shipment of the Company's product or delivery of the product to the destination specified by the customer.

The Company determines whether delivery has occurred based on when title transfers and the risks and rewards of ownership have transferred to the buyer, which usually occurs when the Company places the products with the buyer's carrier. The Company regularly reviews its customers' financial positions to ensure that collectability is reasonably assured. Except for warranties, the Company has no post-sales obligations.

*Contract Revenue and Cost Recognition on Prototype Vehicles*

The Company recognizes revenues using the percentage-of-completion method of accounting by relating contract costs incurred to date to the total estimated costs at completion. This method is used because management considers costs to be the best available measure of progress on its contracts. Contract losses are provided for in their entirety in the period that they become known, without regard to the percentage-of-completion. The Company also recognizes as revenues costs associated with claims and unapproved change orders to the extent it is probable that such claims and change orders will result in additional contract revenue, and the amount of such additional revenue can be reliably estimated.

Contract costs include all direct material and labor costs. The asset "costs and estimated earnings in excess of billings on uncompleted contracts" represents costs incurred in excess of revenues billed. The liability "billings in excess of costs and estimated earnings on uncompleted contracts" represents billings in excess of revenues earned.

The Company accounted for a grant from the City of Los Angeles ("City of Los Angeles Grant") pursuant to current accounting guidelines, which provide that revenues for cost-reimbursement contract are recorded as costs are incurred and include estimated earned fees in the proportion that costs incurred to date bear to total estimated costs.

**Product Warranties**

The Company provides limited warranties for parts and labor at no cost to its customers within a specified time period after the sale. The Company estimates the actual historical warranty claims coupled with an analysis of unfulfilled claims at the balance sheet date. As of September 30, 2010, the Company had no warranty reserve nor did it incur warranty expenses during the nine month periods ended September 30, 2010 or 2009.

**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Inventories**

Inventories are stated at the lower of cost or market. Cost is determined principally on a first-in-first-out average cost basis. Inventories consist of the following:

| | September 30, 2010 (Unaudited) | December 31, 2009 |
|---|---|---|
| Raw materials | $ 1,084,479 | $ 948,583 |
| In-transit | — | 54,165 |
| Total | $ 1,084,479 | $ 1,002,748 |

**Goodwill and Intangible Assets**

Management performs impairment tests of goodwill and indefinite-lived intangible assets whenever an event occurs or circumstances change that indicate impairment has more likely than not occurred. Also, management performs impairment testing of goodwill and indefinite-lived intangible assets at least annually.

Management tests goodwill for impairment at the reporting unit level. The Company has only one reporting unit. At the time of goodwill impairment testing, management determines fair value through the use of a discounted cash flow valuation model incorporating discount rates commensurate with the risks involved with its reporting unit. If the calculated fair value is less than the current carrying value, impairment of the Company may exist. The use of a discounted cash flow valuation model to determine estimated fair value is common practice in impairment testing in the absence of available domestic and international transactional market evidence to determine the fair value. The key assumptions used in the discounted cash flow valuation model for impairment testing include discount rates, growth rates, cash flow projections and terminal value rates. Discount rates are set by using the Weighted Average Cost of Capital ("WACC") methodology. The WACC methodology considers market and industry data as well as Company-specific risk factors for each reporting unit in determining the appropriate discount rates to be used. The discount rate utilized is indicative of the return an investor would expect to receive for investing in such a business. Operational management, considering industry and Company-specific historical and projected data, develops growth rates and cash flow projections for the Company. Terminal value rate determination follows common methodology of capturing the present value of perpetual cash flow estimates beyond the last projected period assuming a constant WACC and low long-term growth rates. As an indicator that each reporting unit has been valued appropriately through the use of the discounted cash flow valuation model, the aggregate fair value of all reporting units is reconciled to the total market capitalization of the Company. The discounted cash flow valuation methodology and calculations was used in 2009 impairment testing. The Company's first measurement period was in the fourth quarter of 2009 and the Company determined that there were no indicators of impairment of its recorded goodwill or intangibles.

**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Goodwill and Intangible Assets (continued)**

The Company reviews intangible assets subject to amortization at least annually to determine if any adverse conditions exist or a change in circumstances has occurred that would indicate impairment or a change in the remaining useful life. If the carrying value of an asset exceeds its undiscounted cash flows, the Company writes down the carrying value of the intangible asset to its fair value in the period identified. If the carrying value of assets is determined not to be recoverable, the Company records an impairment loss equal to the excess of the carrying value over the fair value of the assets. The Company's estimate of fair value is based on the best information available, in the absence of quoted market prices. The Company generally calculates fair value as the present value of estimated future cash flows that the Company expects to generate from the asset using a discounted cash flow income approach as described above. If the estimate of an intangible asset's remaining useful life is changed, the Company amortizes the remaining carrying value of the intangible asset prospectively over the revised remaining useful life.

**Impairment of Long-Lived Assets**

The Financial Accounting Standards Board ("FASB") has established guidelines regarding when impairment losses on long-lived assets, which include property and equipment, should be recognized and how impairment losses should be measured. This statement also provides a single accounting model for long-lived assets to be disposed of and significantly changes the criteria that would have to be met to classify an asset as held-for-sale. The Company periodically reviews, at least annually, such assets for possible impairment and expected losses. If any losses are determined to exist they are recorded in the period when such impairment is determined. Based upon management's assessment, there are no indicators of impairment of the Company's long lived assets during the years ended December 31, 2009 and 2008. Based upon management's assessment, there were no indicators of impairment of the Company's long-lived assets at September 30, 2010 or December 31, 2009.

**Loss Per Share**

Basic loss per share has been computed using the weighted average number of common shares outstanding and issuable during the period. Diluted loss per share is computed based on the weighted average number of common shares and all common equivalent shares outstanding during the period in which they are dilutive. Common equivalent shares consist of shares issuable upon the exercise of stock options or warrants. As of September 30, 2010, common stock equivalents comprised of options exercisable into 3,041,728 shares of the Company's common stock, warrants exercisable into 6,366,179. shares of the Company's common stock and notes convertible into 3,751,652 shares of the Company's common stock.

**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Loss Per Share (continued)**

For the three and nine month periods ended September 30, 2010 and 2009, common stock equivalent shares have been excluded from the calculation of loss per share as their effect is anti-dilutive.

**Stock-Based Compensation**

The Company periodically issues stock options and warrants to employees and non-employees in non-capital raising transactions for services and for financing costs. The Company accounts for stock option and warrant grants issued and vesting to employees based on the authoritative guidance provided by the Financial Accounting Standards Board (“FASB”). The Company accounts for stock option and warrant grants issued and vesting to non-employees in accordance with the authoritative guidance of the FASB whereas the value of the stock compensation is based upon the measurement date as determined at either (a) the date at which a performance commitment is reached, or (b) at the date at which the necessary performance to earn the equity instruments is complete.

**Financial Assets and Liabilities Measured at Fair Value**

The Company uses various inputs in determining the fair value of its investments and measures these assets on a recurring basis. Financial assets recorded at fair value in the balance sheets are categorized by the level of objectivity associated with the inputs used to measure their fair value. Authoritative guidance provided by the FASB defines the following levels directly related to the amount of subjectivity associated with the inputs to fair valuation of these financial assets:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.

Level 3 Unobservable inputs based on the Company’s assumptions.

The following table presents certain investments and liabilities of the Company’s financial assets measured and recorded at fair value on the Company’s condensed balance sheets on a recurring basis and their level within the fair value hierarchy as of September 30, 2010.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Fair value of Derivative Liability | $ — | $ — | $ 713,018 | $ 713,018 |

**Derivative Financial Instruments**

The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the statements of operations. For stock-based derivative financial instruments, the Company uses Monte Carlo option pricing models to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Concentrations**

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and unsecured accounts receivable.

The Company maintains cash balances at one bank. At times, the amount on deposit exceeds the federally insured limits. Management believes that the financial institution that holds the Company's cash is financially sound and, accordingly, minimal credit risk exists.

For the nine months ended September 30, 2010, 48% of total revenues were from one customer, the City of Los Angeles. For the nine months ended September 30, 2009, 99% of total revenues were from contracts with the City of Los Angeles and the South Coast Air Quality Management District ("AQMD").

For the nine months ended September 30, 2010, 59% of costs of revenue were to one vendor. At September 30, 2010, accounts payable to the largest vendor represented 33% of total accounts payable balances. Accounts payable to other two largest vendors represented 30% and 9%, respectively, of total accounts payable.

At September 30, 2010, accounts receivable from the largest customer represented 96% of the total accounts receivable balance.

**Recent Accounting Pronouncements**

In April 2010, the FASB issued new accounting guidance in applying the milestone method of revenue recognition to research or development arrangements. Under this guidance, management may recognize revenue contingent upon the achievement of a milestone in its entirety, in the period in which the milestone is achieved, only if the milestone meets all the criteria within the guidance to be considered substantive. This standard is effective on a prospective basis for research and development milestones achieved in fiscal years, beginning on or after September 15, 2010. Early adoption is permitted; however, adoption of this guidance as of a date other than January 1, 2011 will require the Company to apply this guidance retrospectively effective as of January 1, 2010 and will require disclosure of the effect of this guidance as applied to all previously reported interim periods in the fiscal year of adoption. As the Company plans to implement this standard on January 1, 2011, the effect of this guidance will be limited transactions consummated after that date. The Company does not expect adoption of this standard to have a material impact on its financial position or results of operations as it has no material research and development arrangements which will be accounted for under the milestone method.

In January 2010, the FASB issued new accounting guidance which requires new disclosures regarding transfers in and out of Level 1 and Level 2 fair value measurements, as well as requiring presentation on a gross basis of information about purchases, sales, issuances and settlements in Level 3 fair value measurements. The guidance also clarifies existing disclosures regarding level of disaggregation, inputs and valuation techniques. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2009. Disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010. As this guidance only requires additional disclosure, it has not had, and will not have, an impact on the financial position or results of operations of the Company.

**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Recent Accounting Pronouncements (continued)**

In October 2009, a new accounting consensus was issued for multiple-deliverable revenue arrangements. This consensus amends existing revenue recognition accounting standards. This consensus provides accounting principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated and the consideration allocated. This guidance eliminates the requirement to establish the fair value of undelivered products and services and instead provides for separate revenue recognition based upon management's estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. Previously the existing accounting consensus required that the fair value of the undelivered item be the price of the item either sold in a separate transaction between unrelated third parties or the price charged for each item when the item is sold separately by the vendor. Under the existing accounting consensus, if the fair value of all of the elements in the arrangement was not determinable, then revenue was deferred until all of the items were delivered or fair value was determined. This new approach is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after September 15, 2010. The Company is in the process of evaluating whether the adoption of this standard will have a material effect on its financial position, results of operations or cash flows.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants ("AICPA"), and the SEC did not or are not believed by management to have a material impact on the Company's present or future financial statements.

**NOTE 2 – RESTATEMENT OF FINANCIAL STATEMENTS**

On March 29, 2011, management of the Company concluded, with the concurrence of the Audit Committee of the Company's Board of Directors (the "Audit Committee"), that the Company's financial statements for the three and nine months ended September 30, 2010 should no longer be relied upon because of accounting errors contained in those financial statements relating to the value of the derivative liability created upon the issuance of the Company's 10% Senior Secured Convertible Debentures (the "Debentures") and accompanying warrants during the quarter ended September 30, 2010 (collectively, the "Financing Transactions") and the recording of associated offering costs. As a result of these errors, the Company's financial statements for the three and nine months ended September 30, 2010 have been restated.

In connection with the Financing Transactions, the Company (i) sold to 20 accredited investors an aggregate of $575,000 of Debentures which were initially convertible into an aggregate of 766,667 shares of the Company's common stock at a conversion price of $0.75 per share, subject to adjustment, (ii) issued warrants to purchase an aggregate of 575,000 shares of the Company's common stock at an exercise price of $0.75 per share, subject to adjustment, to the investors, (iii) paid placement agent and legal fees of $63,250 and $100,000, respectively, and (iv) issued five-year placement agent warrants to purchase an aggregate of 46,000 shares of the Company's common stock at an initial exercise price of $0.75 per share, subject to adjustment.

Each of the Debentures and warrants includes anti-dilution provisions that allow for the automatic reset of the conversion or exercise price upon any future sale of common stock instruments at or below the current conversion or exercise price of the Debentures or warrants, as the case maybe. The Company considered the current Financial Accounting Standards Board guidance of "Determining Whether an Instrument Indexed to an Entity's Own Stock" and determined that the conversion price of the Debentures and the exercise price of the warrants are not a fixed amount because they are subject to fluctuation based on the occurrence of future offerings or events. As a result, the Company concluded that the conversion features of the Debentures and the exercise features of the warrants are not considered indexed to the Company's own stock and characterized the fair value of the warrants as derivative liabilities upon issuance.

**NOTE 2 – RESTATEMENT OF FINANCIAL STATEMENTS (continued)**

In accordance with relevant accounting guidelines, the Company determined that the derivative liability created upon the issuance of the Debentures and the warrants was $2,584,240 in the aggregate ("Initial Aggregate Value"). The Initial Aggregate Value exceeded the $575,000 face value of the Debentures by $2,009,240 ("Excess Amount"), which Excess Amount was considered as a cost of the Financing Transactions. The Company recorded the Initial Aggregate Value of $2,584,240 as a derivative liability. As of September 30, 2010, the Company determined the value of this liability to be $2,594,546. Further, as of September 30, 2010, the Company deferred $163,250 of expenses related to this Financing Transaction (consisting of placement agent fees of $63,250 and legal fees of $100,000).

The Company engaged an independent valuation firm to value the derivative liabilities created upon the issuance of the Debentures and warrants. The independent valuation firm determined different values for certain of the assumptions initially used by the Company. Based on the results from the independent valuation firm, the Company determined that the restated initial aggregate value of the derivative liabilities created upon the issuance of the Debentures and warrants in the Financing Transactions (including the warrants issued to the placement agent) to be $771,654, which amount represents a reduction of $1,812,586 from the initial aggregate value determined by the Company. Additionally, the Company has concluded, after further review of relevant accounting literature and consultation with its independent registered public accounting firm, that the costs of the Financing Transactions should have been expensed rather than amortized to other expense over the lifetime of the Debentures. As such, the Company has restated its financial statements for the three and nine months ended September 30, 2010 to correct this error.

**NOTE 2 – RESTATEMENT OF FINANCIAL STATEMENTS (continued)**

| | September 30, 2010 | | |
|---|---|---|---|
| | (As Initially Reported) | (Adjustment) | (As Restated) (Unaudited) |
| **ASSETS** | | | |
| Current assets | | | |
| Cash and cash equivalents | $ 33,373 | | $ 33,373 |
| Accounts receivable | 333,404 | | 333,404 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 34,224 | | 34,224 |
| Inventories | 1,084,479 | | 1,084,479 |
| Prepaid expenses | 47,993 | | 47,993 |
| Total current assets | 1,533,473 | | 1,533,473 |
| Property and equipment, net | 70,040 | | 70,040 |
| Other assets: | | | |
| Deposits | 14,400 | | 14,400 |
| Financing costs, net of amortization | 145,459 | (145,459) (1) | — |
| Trade secrets, net | 62,324 | | 62,324 |
| Goodwill | 166,500 | | 166,500 |
| Total assets | $ 1,992,196 | (145,459) | $ 1,846,737 |
| **LIABILITIES AND SHAREHOLDERS' DEFICIENCY** | | | |
| Current liabilities | | | |
| Accounts payable and accrued expenses | $ 1,533,419 | | $ 1,533,419 |
| Customer deposit | 1,159,601 | | 1,159,601 |
| Loan payable, Bridge Bank | 219,463 | | 219,463 |
| Notes payable to related parties | 25,000 | | 25,000 |
| Advances from shareholder | 5,018 | | 5,018 |
| Derivative Liability | 2,594,546 | (1,881,528) (2) | 713,018 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | — | | — |
| Total current liabilities | 5,537,047 | (1,881,528) | 3,655,519 |
| Convertible notes payable, net of discount | 852,000 | | 852,000 |
| Total Liabilities | 6,389,047 | (1,881,528) | 4,507,519 |
| **SHAREHOLDERS' DEFICIENCY** | | | |
| Common stock, $0.001 par value, 100,000,000 shares authorized, 25,733,348 and 25,518,348 shares issued and outstanding on September 30, 2010 and December 31, 2009, respectively | 25,733 | | 25,733 |
| Additional paid in capital | 11,399,676 | | 11,399,676 |
| Accumulated deficit | (15,822,260) | 1,736,069 | (14,086,191) |
| Total shareholders' deficiency | (4,396,851) | 1,736,069 | (2,660,782) |
| Total liabilities and shareholders' deficiency | $ 1,992,196 | (145,459) | $ 1,846,737 |

**NOTE 2 – RESTATEMENT OF FINANCIAL STATEMENTS (continued)**

| | For the Nine Months Ended September 30, 2010 | | | |
|---|---|---|---|---|
| | (As Initially Reported) | (Adjustment) | | (As Restated) (Unaudited) |
| **REVENUES** | $ 664,729 | | | $ 664,729 |
| **COST OF REVENUES** | 609,876 | | | 609,876 |
| **GROSS PROFIT** | 54,853 | | | 54,853 |
| **OPERATING EXPENSES:** | | | | |
| General and administrative | 1,646,975 | | | 1,646,975 |
| Research and development | 187,808 | | | 187,808 |
| Depreciation and amortization | 105,311 | | | 105,311 |
| Total operating expenses | 1,940,094 | | | 1,940,094 |
| Loss from operations | (1,885,241) | | | (1,885,241) |
| Other expenses: | | | | |
| Private placement costs | (2,009,240) | 1,649,336 | (1,2) | (359,904) |
| Change in fair value of derivative liability | (10,306) | 68,942 | (3) | 58,636 |
| Interest expense | (881,213) | 17,791 | (1) | (863,422) |
| **NET LOSS** | $ (4,786,000) | $ 1,736,069 | | $ (3,049,931) |
| Net loss per share-basic and diluted | $ (0.19) | $ 0.07 | | $ (0.12) |
| Weighted average shares outstanding, basic and diluted | 25,733,348 | | | 25,733,348 |

**NOTE 2 – RESTATEMENT OF FINANCIAL STATEMENTS (continued)**

| | For the Three Months Ended September 30, 2010 | | | |
|---|---|---|---|---|
| | (As Initially Reported) | (Adjustment) | | (As Restated) (Unaudited) |
| **REVENUES** | $ 122,311 | | | $ 122,311 |
| **COST OF REVENUES** | 113,275 | | | 113,275 |
| **GROSS PROFIT** | 9,036 | | | 9,036 |
| **OPERATING EXPENSES:** | | | | |
| General and administrative | 482,008 | | | 483,008 |
| Research and development | 63,960 | | | 63,960 |
| Depreciation and amortization | 30,276 | | | 30,276 |
| Total operating expenses | 575,974 | | | 575,974 |
| Loss from operations | (566,938) | | | (566,938) |
| Other expenses: | | | | |
| Private placement costs | (2,009,240) | 1,649,336 | (1,2) | (359,904) |
| Change in fair value of derivative liability | (10,306) | 68,942 | (3) | 58,636 |
| Interest expense | (409,145) | 17,791 | (1) | (391,354) |
| **NET LOSS** | $ (2,995,629) | $ 1,736,069 | | $ (1,259,560) |
| Net loss per share-basic and diluted | $ (0.12) | $ 0.07 | | $ (0.05) |
| Weighted average shares outstanding, basic and diluted | 25,733,348 | | | 25,733,348 |

**NOTE 2 – RESTATEMENT OF FINANCIAL STATEMENTS (continued)**

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | (As Initially Reported) | (Adjustment) | (As Restated) (Unaudited) |
| **Cash flow from operating activities:** | | | |
| Net loss | $ (4,786,000) | $ 1,736,069 | $ (3,049,931) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation and amortization | 105,311 | - | 105,311 |
| Fair value of common stock granted for services | 208,000 | - | 208,000 |
| Fair value of warrants granted for services | 26,562 | - | 26,562 |
| Cost of private placement | 2,009,240 | (1,649,336) | 359,904 |
| Change in fair value of derivative liability: | 10,306 | (68,942) | (58,636) |
| Amortization of note discount | 657,490 | - | 657,490 |
| Amortization of finance costs | 17,791 | (17,791) | - |
| Changes in operating assets and liabilities | | | |
| Accounts receivable | (165,481) | - | (165,481) |
| Costs and estimated earnings in excess of billings on uncompleted contracts | | | |
| uncompleted contracts | (34,224) | - | (34,224) |
| Inventory | (81,731) | - | (81,731) |
| Prepaid expenses | 5,389 | - | 5,389 |
| Accounts payable | (53,970) | - | (53,970) |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (650) | - | (650) |
| Net cash used by operating activities | (2,081,965) | - | (2,081,965) |
| **Cash flow from investing activities:** | | | |
| Acquisition of furniture, equipment and software | (6,360) | - | (6,360) |
| Net cash provided by investing activities | (6,360) | - | (6,360) |
| **Cash flow from financing activities:** | | | |
| Proceeds from loan payable, Bridge Bank | 91,313 | | 91,313 |
| Proceeds from issuance of convertible notes, net | 1,911,750 | | 1,911,750 |
| Net cash provided by financing activities | 2,003,063 | - | 2,003,063 |
| **Decrease in cash and cash equivalents** | (85,262) | - | (85,262) |
| **Cash and cash equivalents, beginning of period** | 118,635 | - | 118,635 |
| **Cash and cash equivalents, end of period** | $ 33,373 | $ - | $ 33,373 |
| **Supplemental cash flow information:** | | | |
| Interest paid | $ 223,722 | | $ 223,722 |
| Income taxes paid | $ - | | $ - |
| **Supplemental non-cash financing and investing activities:** | | | |
| Fair value of beneficial conversion feature and warrants issued with convertible notes | $ 1,500,000 | | $ 1,500,000 |
| Derivative liability arising from issuance of convertible notes and warrants | $ 2,584,240 | $ (1,812,586) | $ 771,654 |
| Conversion of convertible notes into shares of Company's common stock | $ 15,000 | | $ 15,000 |

**NOTE 2 – RESTATEMENT OF FINANCIAL STATEMENTS (continued)**

**Explanation of adjustments:**

1) To expense costs of private offering that had previously been capitalized and amortized through September 30, 2010.

2) To adjust Derivative Liability to amount determined by independent valuation.

3) To adjust fair value of derivative liability.

**NOTE 3 – COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS**

In May 2009, the Company received a grant of up to $400,000 from the City of Los Angeles to reimburse the Company for costs incurred in connection with the installation, demonstration and evaluation of lithium powered battery packs in two of the Company's heavy-duty electric vehicles. Reimbursement of up to $360,000 of the costs incurred shall be payable to the Company upon the successful demonstration of the use of lithium batteries in a Nautilus XE30 and a Nautilus XE20, and reimbursement of up to $40,000 of the costs incurred shall be payable to the Company upon completion of testing required under the terms of the grant. This contract is being accounted for under the percentage of completion method. At September 30, 2010 and December 31, 2009, the contract was estimated to be approximately 99% and 90% complete, respectively.

The asset, "costs in excess of billings and estimated earnings on uncompleted contracts" and the liability, "billings in excess of costs and estimated earnings on uncompleted contracts," represents costs incurred or billings in excess of revenue recognized at September 30, 2010 and December 31, 2009 as follows:

| | September 30, 2010 (Unaudited) | December 31, 2009 |
|---|---|---|
| Costs incurred on uncompleted contracts | $ 394,224 | $ 359,350 |
| Estimated earnings | — | — |
| | 394,224 | 359,350 |
| Less, billings to date | 360,000 | 360,000 |
| | $ 34,224 | $ (650) |
| Included in accompanying balance sheets under the following captions: | | |
| Costs and estimated earnings in excess of billings on uncompleted contracts | $ 34,224 | $ — |
| Billings in excess of costs and estimated earnings on uncompleted contracts | $ — | $ 650 |

**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment are comprised as follows:

| | September 30, 2010 (Unaudited) | December 31, 2009 |
|---|---|---|
| Computer equipment and software | $ 103,749 | $ 100,742 |
| Office furniture | 28,484 | 27,704 |
| Equipment | 30,278 | 27,704 |
| Leasehold improvements | 21,711 | 21,711 |
| Total property and equipment, cost | 184,222 | 177,861 |
| Less: accumulated depreciation | (114,182) | (55,610) |
| Property and equipment, net | $ 70,040 | $ 122,251 |

Depreciation and amortization expense on property and equipment for the nine months ended September 30, 2010 and 2009 was $58,572 and $15,715, respectively.

**NOTE 5 – NOTES PAYABLE—RELATED PARTIES, UNSECURED**

Note payable to related parties consists of a note to a shareholder issued in connection with the acquisition of Electric Motorsports, LLC. The note is unsecured, interest bearing at the prime rate per annum, and payable on December 15, 2010, plus accrued interest. The balance outstanding on the note was $25,000 as of September 30, 2010 and December 31, 2009.

**NOTE 6 – LOAN PAYABLE – BRIDGE BANK**

On February 25, 2009, the Company executed a Business Financing Agreement (the “Credit Agreement”) with Bridge Bank, National Association (the “Lender”). The Credit Agreement provides the Company with an accounts receivable based credit facility in the aggregate amount of up to $2,000,000 (the “Credit Facility”). The Credit Facility is formula-based and generally provides that the outstanding borrowings under the Credit Facility may not exceed an aggregate of 80% of eligible accounts receivable. The Company must immediately pay any advance made under the Credit Facility within 90 days of the earlier of (i) the invoice date of the receivable that substantiated the advance or (ii) the date on which the advance was made. The Credit Facility is secured by a continuing first priority security interest in all the Company’s personal property (subject to customary exceptions). Interest on the Credit Facility is payable monthly, at the per annum prime rate as published by the Lender plus two percentage points, subject to a minimum rate of 6.0% per annum (6% at September 30, 2010). The Credit Agreement may be terminated at any time by either party to the Credit Agreement.

At September 30, 2010 there was $219,463 outstanding and $47,262 was available under the terms of the Credit Facility. At December 31, 2009, $128,150 was outstanding and $6,190 was available under the terms of the Credit Facility.

**NOTE 7 –CONVERTIBLE PROMISSORY NOTES**

Convertible notes payable consist of the following as of September 30, 2010 and December 31, 2009 :

| | September 30, 2010 (Unaudited) | December 31, 2009 |
|---|---|---|
| Subordinated unsecured convertible notes payable, interest at 10% per annum payable quarterly, due March 31, 2012 (1) | $ 985,000 | $ 1,000,000 |
| Senior secured convertible notes payable, interest at 10% per annum payable quarterly, due September 1, 2012 (2) | 575,000 | — |
| Subordinated unsecured convertible notes payable, interest at 10% per annum payable quarterly, due September 1, 2012 (3) | 1,500,000 | — |
| Notes payable | 3,060,000 | 1,000,000 |
| Less: note discount | (2,208,000) | (790,490) |
| Total notes payable, net | $ 852,000 | $ 209,510 |

(1) Between March 25, 2009 and June 19, 2009, the Company entered into agreements with 34 accredited investors for the sale by the Company of an aggregate of $1,000,000 of 10% Unsecured Subordinated Convertible Promissory Notes which are convertible into an aggregate of 1,000,000 shares of the Company's common stock at a conversion price of $1.00 per share of common stock, subject to adjustment. Additionally, the Company issued three-year warrants to purchase an aggregate of 1,000,000 shares of the Company's common stock at an exercise price of $1.50 per share. The conversion price of the notes and the exercise price of the warrants are only subject to adjustment based on stock splits, stock dividends, spin-offs, rights offerings, or recapitalization through a large, nonrecurring cash dividend. During the nine months ending on September 30, 2010, $15,000 in principal amount of these notes were converted to 15,000 shares of the company's common stock. On September 30, 2010, $985,000 in principal was outstanding under these notes.

The Company determined that the relative fair value of the warrants was $639,061. The relative fair value was determined using the methodology prescribed by current accounting guidance. The Company determined the initial fair value of the beneficial conversion feature was approximately $360,939. These amounts were calculated under a Black-Scholes option pricing model using as assumptions an expected life of 3 years, an industry volatility of 54.39%, a risk free interest rate of 1.15%, and no expected dividend yield. The relative value of the warrants of $639,061 and the beneficial conversion feature of $360,939 was recorded by the Company as a loan discount of $1,000,000, which the Company is amortizing to interest expense over the life of the notes. As of September 30, 2010, the unamortized balance of the note discount was $524,425.

(2) Between July 29, 2010, and September 10, 2010, the Company entered into agreements with 20 accredited investors for the sale by the Company of an aggregate of $575,000 of Debentures which are convertible into an aggregate of 766,659 shares of the Company's common stock at a conversion price of $0.75 per share of common stock, subject to adjustment. In connection with this offering, the Company also issued to the investors warrants to purchase an aggregate of 575,000 shares of the Company's common stock at an exercise price of $0.75 per share, subject to adjustment. The Company also issued to its placement agent warrants to purchase 46,000 shares of the Company's common stock at exercise price of $0.75 per share, subject to the same adjustments and terms as those warrants issued to investors. The Debentures are due on September 30, 2012, or at the Company's sole discretion, on March 31, 2013 (the "Maturity Date") or such date as this Debenture is required or permitted to be repaid as provided in the agreement. The Debentures are secured under the terms of a Security Agreement by a security interest in all of the Company's personal property.

**NOTE 7 –CONVERTIBLE PROMISSORY NOTES (continued)**

Each of the agreements governing the Debentures and warrant includes an anti-dilution provision that allows for the automatic reset of the conversion or exercise price upon any future sale of common stock instruments at or below the current exercise price. The Company considered the current FASB guidance of "Determining Whether an Instrument Indexed to an Entity's Own Stock" which indicates that any adjustment to the fixed amount (either conversion price or number of shares) of the instrument regardless of the probability or whether or not within the issuers' control, means the instrument is not indexed to the issuers own stock. Accordingly, the Company determined that the conversion price of the Debentures and the exercise price of the warrants are not a fixed amount because they are subject to fluctuation based on the occurrence of future offerings or events. As a result, the Company determined that the conversion features and the warrants are not considered indexed to the Company's own stock and characterized the fair value of these warrants as derivative liabilities upon issuance.

The Company determined the aggregate fair value of the warrants issued to investors and its placement agent to be $379,838 and the initial fair value of the embedded beneficial conversion feature of the Debentures to be $391,816 (an aggregate amount of $771,654). These amounts were determined by Management with the use of an independent valuation specialist using a Monte Carlo simulation model. In accordance with current accounting guidelines, as the amount of Debt discount to be recognized is limited to the amount of proceeds allocated to the Debentures, the excess of $196,654 of derivative liability created over the face amount of the note was considered to be a cost of the private placement. In addition, the Company also incurred another $163,250 of closing costs (consisting of $63,250 of placement agent fees and $100,000 of legal fees directly related to the offering). As such, the Company recorded a $575,000 valuation discount upon issuance, and recognized private placement costs of $359,904 for financial reporting purposes. As of September 30, 2010, the Company has amortized $38,836 of the valuation discount, and the remaining unamortized valuation discount of $536,164 as of September 30, 2010 has been offset against the face amount of the notes for financial statement purposes. The aggregate fair value of the derivative liabilities as of September 30, 2010 was $713,018 (see Note 8).

3) Between February 5, 2010 and April 12, 2010, the Company entered into agreements with seven accredited investors for the sale by the Company of an aggregate of $1,500,000 of 10% Unsecured Subordinated Convertible Promissory Notes which are convertible into an aggregate of 1,999,993 shares of the Company's common stock at a conversion price of $0.75 per share of common stock, subject to adjustment. Additionally, the Company issued three-year warrants to purchase an aggregate of 1,999,993 shares of the Company's common stock at an exercise price of $0.50 per share. In connection with the offering, the Company issued three year warrants to purchase 15,999 shares of its common stock at an exercise price of $0.50 per share to two accredited investors in consideration of finder services rendered.

The Company determined that the relative fair value of the warrants was $711,176. The relative fair value was determined using the methodology prescribed by current accounting guidance. The Company determined the initial fair value of the beneficial conversion feature was approximately $788,824. These amounts were calculated under a Black-Scholes option pricing model using as assumptions an expected life of 3 years, an industry volatility of between 95% and 116%, a risk free interest rate of 1.47%, and no expected dividend yield.

**NOTE 7 –CONVERTIBLE PROMISSORY NOTES (continued)**

The relative value of the warrants of $711,176 and the beneficial conversion feature of $788,824 was recorded by the Company as a loan discount of $1,500,000, which the Company is amortizing to interest expense over the life of the notes. As of September 30, 2010, the unamortized balance of the note discount was $1,147,411.

At September 30, 2010 the total discount of $2,208,000 is offset against the balance of the convertible notes for financial statement presentation. At December 31, 2009 the total discount of $790,490 is offset against the balance of the convertible notes for financial statement presentation. During the nine months ended September 30, 2010 and September 30, 2009, amortization of loan discount was $657,490 and none, respectively.

**NOTE 8 - DERIVATIVE LIABILITY**

In June 2008, the FASB issued authoritative guidance on determining whether an instrument (or embedded feature) is indexed to an entity's own stock. Under the authoritative guidance, effective January 1, 2009, instruments which do not have fixed settlement provisions are deemed to be derivative instruments. The conversion feature of the Company's Debentures (described in Note 7), and the related warrants, do not have fixed settlement provisions because their conversion and exercise prices, respectively, may be lowered if the Company issues securities at lower prices in the future. The Company was required to include the reset provisions in order to protect the holders of the Debentures from the potential dilution associated with future financings. In accordance with the FASB authoritative guidance, the conversion feature of the Debentures was separated from the host contract (i.e., the Debentures) and recognized as a derivative instrument. Both the conversion feature of the Debentures and the related warrants have been characterized as derivative liabilities to be re-measured at the end of every reporting period with the change in value reported in the statement of operations.

The derivative liabilities were valued using Monte Carlo valuation techniques with the following assumptions:

**NOTE 8 –DERIVATIVE LIABILITY (continued)**

| | September 30, 2010 (Unaudited) | July 29, 2010 (date of issuance) (unaudited) |
|---|---|---|
| Conversion feature: | | |
| | | |
| Risk-free interest rate | 0.72% | 0.72% |
| Expected volatility | 100% | 115% |
| Expected life (in years) | 2.00 years | 2.17 years |
| Expected dividend yield | 0 | 0 |
| | | |
| Warrants: | | |
| | | |
| Risk-free interest rate | 1.27% | 1.89% |
| Expected volatility | 95% | 95% |
| Expected life (in years) | 5.00 years | 5.17 years |
| Expected dividend yield | 0 | 0 |
| | | |
| Fair Value: | | |
| Conversion feature | $ 340,448 | 391,816 |
| Warrants | 368,048 | 379,838 |
| | $ 713,018 | $ 771,654 |

The risk-free interest rate was based on rates established by the Federal Reserve Bank. The Company uses the volatility of five comparable guideline companies to estimate volatility for its common stock. The expected life of the conversion feature of the notes was based on the term of the notes and the expected life of the warrants was determined by the expiration date of the warrants. The expected dividend yield was based on the fact that the Company has not paid dividends to common shareholders in the past and does not expect to pay dividends to common shareholders in the future.

As of September 30, 2010, the aggregate derivative liability of the conversion feature and the warrants was $713,048. For the quarterly period ended September 30, 2010, the Company recorded a change in fair value of the derivative liabilities of $58,636. At December 31, 2009, no derivative instruments were recorded.

**NOTE 9 – INCOME TAXES**

At September 30, 2010, the Company had available Federal and state net operating loss carryforwards to reduce future taxable income. The amounts available were approximately $13,500,000 for federal and for state purposes. The Federal carryforward expires in 2028 and the state carryforward expires in 2018.

Given the Company's history of net operating losses, management has determined that it is more likely than not the Company will be able to realize the tax benefit of the carryforwards.

Accordingly, the Company has not recognized a deferred tax asset for this benefit. Upon the attainment of taxable income by the Company, management will assess the likelihood of realizing the tax benefit associated with the use of the carryforwards and will recognize a deferred tax asset at that time.

Current standards require that a valuation allowance be established when it is more likely than not that all or a portion of deferred tax assets will not be realized.

**NOTE 9 – INCOME TAXES (Continued)**

Significant components of the Company's deferred income tax assets are as follows:

| | September 30, 2010 (Unaudited) | December 31, 2009 |
|---|---|---|
| Deferred income tax asset: | | |
| Net operating loss carryforward | $ 4,600,000 | $ 4,374,000 |
| Valuation allowance | (4,600,000) | (4,374,000) |
| Net deferred income tax asset | $ — | $ — |

Reconciliation of the effective income tax rate to the U.S. statutory rate is as follows:

| | September 30, 2010 (Unaudited) | December 31, 2009 |
|---|---|---|
| Tax expense at the U.S. statutory income tax | (34.0)% | (34.0)% |
| State tax net of federal tax benefit | (5.8)% | (5.8)% |
| Increase in the valuation allowance | 39.8% | 39.8% |
| Effective tax rate | —% | —% |

The Company adopted authoritative guidance which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under the current accounting guidelines, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. Current accounting guidelines also provide guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and require increased disclosures. At the date of adoption, and as September 30, 2010 and December 31, 2009, the Company does not have a liability for unrecognized tax benefits.

**NOTE 10 – SHAREHOLDERS' DEFICIENCY**

On February 2, 2010, the Company issued 200,000 shares of its common stock in consideration of consulting services rendered between February 1, 2010 and July 31, 2010. The aggregate fair value of these shares was determined to be $208,000 based on the closing price of the Company's shares on February 2, 2010.

**NOTE 11 – STOCK OPTIONS AND WARRANTS**

**Stock Options**

At September 30, 2010, options shares outstanding were as follows:

| | Shares | Weighted Average Exercise Price |
|---|---|---|
| Balance at January 1, 2010 | 4,562,592 | $ 2.00 |
| Granted | — | — |
| Exercised | — | — |
| Expired | (1,520,864) | 1.50 |
| Balance at September 30, 2010 | 3,041,728 | $ 2.25 |

The following table summarizes information about stock options outstanding and exercisable as of September 30, 2010:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number of Shares Underlying Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in years) | Number of Shares | Weighted Average Exercise Price |
| $ 2.00 | 1,520,864 | $ 2.00 | 1.27 | 1,520,864 | $ 2.00 |
| $ 2.50 | 1,520,864 | $ 2.50 | 2.28 | 1,520,864 | $ 2.50 |
| | 3,041,728 | | | 3,041,728 | |

There was no aggregate intrinsic value of the 3,041,728 options outstanding and exercisable as of September 30, 2010 based on the trading price as of the period then ended. At September 30, 2010, all options were vested and there were no unvested options outstanding.

**Warrants**

At September 30, 2010, warrants shares outstanding were as follows:

| | Shares | Weighted Average Exercise Price |
|---|---|---|
| Balance at January 1, 2010 | 3,947,247 | $ 1.50 |
| Granted | 2,661,992 | $ 0.56 |
| Exercised | — | — |
| Expired | (243,060) | $ 1.50 |
| Balance at September 30, 2010 | 6,366,179 | $ 1.18 |

**NOTE 11 – STOCK OPTIONS AND WARRANTS (continued)**

**Warrants (continued)**

Between February 5, 2010 and April 12, 2010, the Company raised an aggregate of $1,500,000 through the issuance of its 10% Unsecured Subordinated Convertible Promissory Notes which are convertible into an aggregate of 1,999,993 shares of the Company's common stock at a conversion price of $0.75 per share of common stock, subject to adjustment, to 7 accredited investors. In connection with this offering, the Company also issued three-year warrants to purchase an aggregate of 1,999,993 shares of common stock at an exercise price of $0.50 per share. In connection with the sale of certain of the 10% Unsecured Subordinated Convertible Promissory Notes, the Company issued three year warrants to purchase 15,999 shares of its common stock at an exercise price of $0.50 per share to two accredited investors in consideration of finder services rendered.

In May 2010, the Company entered into an agreement for financial public relations services pursuant to which the Company may issue three-year warrants to purchase an indeterminate number of shares of common stock of the Company at an exercise price of $1.00 per share based upon certain performance based benchmarks. At September 30, 2010, the Company had issued warrants valued at $12,529 to purchase 25,000 shares of its common stock pursuant to this agreement.

Between July 29, 2010, and September 10, 2010, the Company raised an aggregate of $575,000 through the issuance of its Debentures which are convertible to an aggregate of which are convertible into an aggregate of 766,659 shares of the Company's common stock at a conversion price of $0.75 per share of common stock, subject to adjustment, to 20 accredited investors. In connection with this offering, the Company also issued to the investors five year warrants to purchase an aggregate of 575,000 shares of the Company's common stock at an exercise price of $0.75 per share, subject to adjustment. The Company also issued five-year placement agent warrants to purchase an aggregate of 46,000 shares of the Company's common stock at an exercise price of $0.75 per share, subject to adjustment, in connection with the offering.

The following table summarizes information about stock warrants outstanding and exercisable as of September 30, 2010:

| | Warrants Outstanding | | | Warrants Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number of Shares Underlying Warrants | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in years) | Number of Shares | Weighted Average Exercise Price |
| $ 0.50 | 2,015,992 | $ 0.50 | 2.5 | 2,015,992 | $ 0.50 |
| $ 0.75 | 621,000 | $ 0.75 | 4.8 | 621,000 | $ 0.70 |
| $ 1.00 | 25,000 | $ 1.00 | 3.0 | 25,000 | $ 1.00 |
| $ 1.50 | 3,095,000 | $ 1.50 | 1.7 | 3,095,000 | $ 1.50 |
| $ 2.00 | 304,592 | $ 2.00 | 1.1 | 304,592 | $ 2.00 |
| $ 2.50 | 304,595 | $ 2.50 | 2.1 | 304,595 | $ 2.50 |
| | 6,366,179 | | | 6,366,179 | |

There was no aggregate intrinsic value of the warrants outstanding and exercisable as of September 30, 2010 based on the trading price as of the period then ended.

## NOTE 12 – COMMITMENTS AND CONTINGENCIES

### City of Los Angeles Agreement

On September 26, 2008, the Company entered into an agreement with the City of Los Angeles to manufacture and deliver 20 electric yard tractors, 5 short-haul electric tractors, and associated equipment including chargers, batteries and controllers for a total of $5,383,750.

As of September 30, 2010, the Company had delivered 14 electric yard tractors and one short-haul electric tractor to the City of Los Angeles. The Company expects to deliver the remaining 6 electric yard tractors, 4 short-haul electric tractors and associated equipment to the City of Los Angeles by March 31, 2011.

Of the Company's backlog of $2,640,429 on September 30, 2010, $1,979,725 was attributable to the 10 electric vehicles and associated parts the Company is required to deliver under its agreement with the City of Los Angeles.

Under its agreement with the City of Los Angeles, the Company agreed to move its research and production facilities to the City of Los Angeles and also agreed to pay the City of Los Angeles a royalty fee of $1,000 per electric vehicle it sells to a purchaser other than the City of Los Angeles or the AQMD.

During 2009, under the terms of the Company's agreement with the City of Los Angeles, the Company requested and was issued an advance payment in the amount of $1,159,601. This advance payment was recorded as a customer deposit. This customer deposit will be applied against the Company's final invoices under its purchase order for 25 electric vehicles.

## NOTE 13 - SUBSEQUENT EVENTS

### Sale of 10% Senior Secured Convertible Debentures

Between October 1, 2010 and November 12, 2010, the Company entered into agreements with 4 accredited investors for the sale by the Company of an aggregate of $225,000 of Debentures which are convertible into an aggregate of 299,998 shares of the Company's common stock at a conversion price of $0.75 per share of common stock, subject to adjustment. In connection with this offering, the Company also issued to the investors warrants to purchase an aggregate of 225,000 shares of the Company's common stock at an exercise price of $0.75 per share, subject to adjustment, to the investors. The Company paid placement agent fees of approximately $24,750, consisting of a cash commission of $18,000 and a non-accountable expense allowance of $6,750, and issued five-year placement agent warrants to purchase an aggregate of 18,000 shares of the Company's common stock at an exercise price of $0.75 per share, subject to adjustment, in connection with the offering. The proceeds of $225,000, less $24,750 paid to the placement agent, less other expenses, are allocated to working capital. The Debentures are secured under the terms of a Security Agreement by a security interest in all of the Company's personal property. The Company is in the process of analyzing the accounting effect of the recording of the convertible notes and warrants.

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

The following discussion and analysis should be read in conjunction with our financial statements and the related notes to financial statements included elsewhere in this report. This report and our financial statements and notes to financial statements contain forward-looking statements, which generally include the plans and objectives of management for future operations, including plans and objectives relating to our future economic performance and our current beliefs regarding revenues we might generate and profits we might earn if we are successful in implementing our business strategies. Our actual results could differ materially from those expressed in these forward-looking statements as a result of any number of factors, including those set forth under the "Risk Factors" section and elsewhere in this report. The forward-looking statements and associated risks may include, relate to or be qualified by other important factors, including, without limitation:

- the projected growth or contraction in the industries within which we operate;
- our business strategy for expanding, maintaining or contracting our presence in these markets;
- anticipated trends in our financial condition and results of operations; and
- our ability to distinguish ourselves from our current and future competitors.

We do not undertake to update, revise or correct any forward-looking statements.

Any of the factors described above, elsewhere in this report or in the "Risk Factors" section of this report could cause our financial results, including our net income or loss or growth in net income or loss to differ materially from prior results, which in turn could, among other things, cause the price of our common stock to fluctuate substantially.

**Overview**

We design, assemble and market zero-emissions heavy-duty electric vehicles for use in the transportation of containers and heavy loads at facilities such as marine terminals, rail yards, industrial warehouses, intermodal facilities, military bases and industrial plants. We currently sell our heavy-duty electric vehicles for use at the Port of Los Angeles and have also sold a heavy-duty electric vehicle for use in a demonstration program to the California South Coast Air Quality Management District, or AQMD. We also design, assemble and market components for electric vehicles including flux vector motor controllers (which control the speed of an electric motor by varying the input frequency and voltage from a vehicle's batteries), electric drive systems (each system includes an electric motor, a flux vector motor controller, a transmission assembly and related propulsion software) and battery modules (which features our proprietary battery management system, or BMS, an electronic device mounted on each battery cell to monitor the state of charge of the battery, including its temperature, voltage and current during charge and discharge cycles) to original equipment manufacturers, or OEMs, of automotive products.

In May 2008, we received a purchase order from the AQMD for one of our Nautilus E20 heavy-duty electric yard tractors. We delivered a Nautilus E20 to the AQMD in March 2009. In June 2008, we received a purchase order from the City of Los Angeles for 20 Nautilus E20 heavy-duty electric yard tractors and five Nautilus E30 short-haul tractors. The purchase order from the City of Los Angeles is pursuant to an agreement with the City of Los Angeles, dated June 26, 2008, or City of Los Angeles Agreement.

In September 2008, we entered into an agreement with Electric Motorsports, LLC, or EMS, and its sole member, Robert Gruenwald, to acquire substantially all of the assets of EMS, including all intellectual property assets used in the development and manufacture of flux vector motor controllers. At the time of the acquisition, EMS had been engaged in developing, designing and manufacturing flux vector motor controllers within the automotive and material handling equipment industries since 1997. As a result of this acquisition, we completed our drive system product line which provided us with the ability to manufacture, market and sell our drive systems to OEMs of heavy duty and medium duty vehicles.

On October 24, 2008, we completed an Agreement and Plan of Merger, or Merger Transaction, with Balqon Corporation, a California corporation, or Balqon California, and changed our name from BMR Solutions, Inc. to Balqon Corporation. Upon completion of the Merger Transaction, we acquired the business of Balqon California.

In May 2009, we received a grant of up to $400,000 from the City of Los Angeles to reimburse us for costs we incur in connection with the installation, demonstration and evaluation of lithium powered battery modules in two of our zero emissions Nautilus vehicles, or Lithium Grant. In 2009, we also upgraded all our heavy-duty electric vehicles from lead acid batteries to lithium batteries. Prior to the incorporation of lithium battery modules into our electric vehicles, our Nautilus product line featured predecessors of the Nautilus XE20 and Nautilus XE30, the Nautilus E20 and Nautilus E30, respectively, which were powered by lead acid battery modules. As of the date of this report, our product portfolio features two products in our Nautilus product line, the Nautilus XE20, a heavy-duty electric yard tractor, and the Nautilus XE30, a heavy-duty electric short-haul tractor. In addition, our product portfolio features a heavy-duty Class 7 and Class 8 electric truck, the Mule M150, which is designed as a zero emissions solution to transport loads of up to 7 tons in short-haul on-highway applications. During the remainder of 2010, we plan to add medium duty electric trucks to our existing product line, and thereby expand our product offerings in domestic and international markets.

In January 2010, we released our lithium battery powered yard tractor, the Nautilus XE20, with a range of 95 miles and maximum speed of 25 miles per hour under unloaded conditions. The Nautilus XE20 incorporates our latest drive system and proprietary BMS on a Autocar Xspotter yard tractor chassis.

In February 2010, we successfully completed eight weeks of cold weather testing on our Nautilus XE20 in automotive plant applications during two eight hour shift operations at temperatures below 10°F under loads exceeding 30 tons.

In March 2010, we completed the design and testing of our proprietary BMS, which monitors battery condition and balances battery cells during charge and discharge cycles. Our proprietary software allows our BMS to be used on any battery cell chemistry. We use our proprietary BMS in all our heavy-duty electric vehicles. In addition, we market our battery modules to other OEMs worldwide. As of the date of this filing, we have received purchase orders for our battery modules and heavy-duty electric drive systems from OEMs of electric and hybrid buses.

In May 2010, we successfully demonstrated use of our Nautilus XE20 in a three shift operation at a warehousing facility utilizing a fast charger facilitated by our proprietary BMS that has the ability to charge our vehicles in less than two hours.

In February 2010, we entered into an agreement with Autoelevadores Yale, a leading distributor of material handling equipment and electric vehicles in Argentina, under which Autoelevadores Yale agreed to distribute our heavy-duty electric vehicles in Argentina. Autoelevadores Yale also provides servicing and parts for our products in the region. In March 2010, we entered into an agreement with Industrias Ivor, a leading distributor of material handling equipment in Colombia. The agreement calls for Industrial Ivor to provide sales and service for our off-highway and on-highway product lines in Colombia.

In June 2010, we entered into an agreement with Electric Cars of Costa Rica S.A., a leading distributor of electric cars, neighborhood electric vehicles (NEV) and light duty on-road trucks in Costa Rica, under which Electric Cars of Costa Rica S.A. agreed to distribute our heavy-duty electric vehicles and drive systems in Costa Rica. Electric Cars of Costa Rica has also agreed to provide servicing and parts for our products in throughout Costa Rica. In July 2010, we entered into an agreement with MOL Transport Solutions, a leading manufacturer of port and material handling equipment in Europe, under which MOL Transportation Solutions agreed to distribute our heavy-duty electric vehicles in Europe. MOL Transportation Solutions also agreed to provide servicing and parts for our products in the Europe. In July 2010, we entered into an agreement with Km Verde, a Grupo Arcano company that is a distributor of electric cars, buses and light duty trucks in Spain, under which Km Verde agreed to distribute our heavy-duty electric vehicles and drive systems to OEMs in Spain.

In August 2010, we entered into an agreement with Dynaprotech a leading composite automotive parts manufactured in China, under which Dynaprotech purchased our electric drive systems to integrate into electric buses, heavy-duty trucks, light commercial vehicles and automobiles for use throughout China.

In September 2010, we entered into an agreement with Beltway International, LLC, Maryland's largest full service domestic and international truck dealer, under which Beltway International, LLC agreed to distribute our Nautilus XE20 yard tractors to ports, warehouses and industrial plants in and around Maryland.

During the six months ended June 30, 2010, we have demonstrated the performance of our Nautilus XE20 to a large automotive company, a marine terminal and several warehouses and we expect these demonstrations to result in an increase in our domestic sales.

In November 2010, T&K Logistics, Inc., a leading provider of logistics services, the provider of logistics services to the Ford Motor Company and the manager of on-site transportation of trailers and containers at the Ford Motor Company's Assembly plant in Wayne, Michigan, agreed to lease ten of our Nautilus XE20s yard tractors for use at the Ford Motor Company's Assembly Plant in Wayne, Michigan, for a period of 36 months.

During the nine months ended September 30, 2010, we delivered one electric vehicle to the Port of Los Angeles pursuant to the City of Los Angeles Agreement. Our sales of electric vehicles during the nine months ended September 30, 2010 was limited to only one electric vehicle due to significant working capital constraints. Previously, we believed that we would deliver the 25 Nautilus tractors ordered under the City of Los Angeles purchase order by December 31, 2009. However, primarily due to working capital constraints, we have revised our initial forecast, and we now believe that will deliver the remaining 6 NautilusXE20s and 4 Nautilus XE30s to the City of Los Angeles by March 31, 2011. During the nine months ended September 30, 2010, we also sold our drive systems to an international OEM of electric buses and trucks for use in inner city hybrid buses and our flux vector motor controllers to a domestic manufacturer of inner city electric buses.

During September 2010, we integrated one of our heavy-duty drive systems into a Class A recreational vehicle, demonstrating the viability of our technology in the recreational vehicle market. Currently, the vehicle is undergoing road testing conducted by a potential international customer.

During the nine months ended September 30, 2010, 48% of our revenues were derived from the sale of an electric vehicle to the Port of Los Angeles under the terms of the City of Los Angeles Agreement, 40% of our sales were derived from shipment of our drive systems to international OEM of hybrid buses and trucks, 7% of revenues were derived from sales of our flux vector motor controllers to an electric bus manufacturer, and the remaining 5% of revenues were derived from progress work on the Lithium Grant. The revenues and costs associated with the Lithium Grant are recorded as contract revenues and costs. As such, the costs associated with the development of our demonstration vehicle are recorded as "contract costs," not as research and development expenses.

While $1,979,725 of our current backlog of $2,640,429 is attributable to our outstanding purchase order from the City of Los Angeles, we anticipate that a majority of future sales of our heavy-duty electric vehicles will be made directly to end users, such as large terminal operators, shipping companies and OEMs, rather than directly to governmental agencies such as the AQMD and the City of Los Angeles. Our expectation that a majority of our future sales of our heavy-duty electric vehicles will be made directly to end users is based, in part, on the results of our initial test of the Nautilus XE30 powered by lithium batteries and our agreement with Autocar LLC, or Autocar, to collaborate on the development, marketing and sale of on-highway Class 7 and Class 8 zero emissions electric vehicles. In addition, we expect to use Autocar's existing authorized dealer network to sell our heavy-duty electric vehicles. Our expectations regarding future customers are also based on our current on-going discussions with potential customers located in Canada, Asia, Latin America and Europe, and additional governmental incentives and funding that we believe will become available for electric vehicles, which, in turn, are expected to improve the competitive advantage of our electric vehicles. During the nine months ended September 30, 2010, we increased our efforts in soliciting and, promoting governmental grants that are applicable to our products and technologies.

**Critical Accounting Policies**

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe that the following critical accounting policies, among others, affect our more significant judgments and estimates used in the preparation of our financial statements:

*Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Material estimates relate to the recognition of contract revenues and estimated costs to complete contracts in process, and recoverability of reported amounts of long-lived assets. Actual results may differ from those estimates.

*Revenues*

Contract Revenue and Cost Recognition on Prototype Vehicles. In accounting for contracts, we recognize revenues using the percentage-of-completion method of accounting by relating contract costs incurred to date to the total estimated costs at completion. This method is used because management considers costs to be the best available measure of progress on its contracts. Contract losses are provided for in their entirety in the period that they become known, without regard to the percentage-of-completion. We also recognize as revenues costs associated with claims and unapproved change orders to the extent it is probable that such claims and change orders will result in additional contract revenue, and the amount of such additional revenue can be reliably estimated.

Contract costs include all direct material and labor costs.  The liability "Billings in excess of costs and estimated earnings on uncompleted contracts" represents billings in excess of revenues earned.

Sales of Production Units and Parts.  We recognize revenue from the sale of completed production units and parts when there is persuasive evidence that an arrangement exists, delivery of the product has occurred and title has passed, the selling price is both fixed and determinable, and collectability is reasonably assured, all of which generally occurs upon shipment of our product or delivery of the product to the destination specified by the customer.

We determine whether delivery has occurred based on when title transfers and the risks and rewards of ownership have transferred to the buyer, which usually occurs when we place the products with the buyer's carrier.  We regularly review our customers' financial positions to ensure that collectability is reasonably assured.  Except for warranties, we have no post-sales obligations.

*Product Warranties*

We provide limited warranties for parts and labor at no cost to our customers within a specified time period after the sale.  We estimate the actual historical warranty claims coupled with an analysis of unfulfilled claims at the balance sheet date. As of September 30, 2010 and December 31, 2009, we had no warranty reserve nor did we incur warranty expenses during the quarterly periods ended September 30, 2010 or 2009.

*Stock-Based Compensation*

We periodically issues stock options and warrants to employees and non-employees in non-capital raising transactions for services and for financing costs. We account for stock option and warrant grants issued and vesting to employees based on the authoritative guidance provided by the Financial Accounting Standards Board, or FASB. We account for stock option and warrant grants issued and vesting to non-employees in accordance with the authoritative guidance of the FASB whereas the value of the stock compensation is based upon the measurement date as determined at either (a) the date at which a performance commitment is reached, or (b) at the date at which the necessary performance to earn the equity instruments is complete.

*Goodwill and Intangible Assets*

Management performs impairment tests of goodwill and indefinite-lived intangible assets whenever an event occurs or circumstances change that indicate impairment has more likely than not occurred.   Management performs impairment testing of goodwill and indefinite-lived intangible assets at least annually.

Management tests goodwill for impairment at the reporting unit level. We only have one reporting unit. At the time of goodwill impairment testing, management determines fair value through the use of a discounted cash flow valuation model incorporating discount rates commensurate with the risks involved with its reporting unit. If the calculated fair value is less than the current carrying value, impairment may exist. The use of a discounted cash flow valuation model to determine estimated fair value is common practice in impairment testing in the absence of available domestic and international transactional market evidence to determine the fair value. The key assumptions used in the discounted cash flow valuation model for impairment testing include discount rates, growth rates, cash flow projections and terminal value rates. Discount rates are set by using the Weighted Average Cost of Capital, or WACC, methodology. The WACC methodology considers market and industry data as well as Balqon-specific risk factors for each reporting unit in determining the appropriate discount rates to be used. The discount rate utilized is indicative of the return an investor would expect to receive for investing in such a business. Operational management, considering industry and Balqon-specific historical and projected data, develops growth rates and cash flow projections for Balqon. Terminal value rate determination follows common methodology of capturing the present value of perpetual cash flow estimates beyond the last projected period assuming a constant WACC and low long-term growth rates. As an indicator that each reporting unit has been valued appropriately through the use of the discounted cash flow valuation model, the aggregate fair value of all reporting units is reconciled to our total market capitalization. The discounted cash flow valuation methodology and calculations will be used in 2009 impairment testing. Our first impairment test of the goodwill and trade secrets we acquired from Electric MotorSports, LLC in September 2008 was conducted during the fourth quarter of 2009. This impairment test did not indicate that the goodwill and trade secrets we acquired from EMS were impaired as of December 31, 2009.

We review intangible assets subject to amortization at least annually to determine if any adverse conditions exist or a change in circumstances has occurred that would indicate impairment or a change in the remaining useful life. If the carrying value of an asset exceeds its undiscounted cash flows, we write-down the carrying value of the intangible asset to its fair value in the period identified. If the carrying value of assets is determined not to be recoverable, we record an impairment loss equal to the excess of the carrying value over the fair value of the assets. Our estimate of fair value is based on the best information available to us, in the absence of quoted market prices. We generally calculate fair value as the present value of estimated future cash flows that we expect to generate from the asset using a discounted cash flow income approach as described above. If the estimate of an intangible asset's remaining useful life is changed, we amortize the remaining carrying value of the intangible asset prospectively over the revised remaining useful life.

*Impairment of Long-Lived Assets*

The FASB has established guidelines regarding when impairment losses on long-lived assets, which include property and equipment, should be recognized and how impairment losses should be measured. Guidance of the FASB also provides a single accounting model for long-lived assets to be disposed of and significantly changes the criteria that would have to be met to classify an asset as held-for-sale. We periodically review, at least annually, such assets for possible impairment and expected losses. If any losses are determined to exist they are recorded in the period when such impairment is determined. Based upon management's assessment, there are no indicators of impairment of our long lived assets at September 30, 2010 or December 31, 2009.

*Income Taxes*

We recognize income taxes for the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets are recognized for the future tax consequences of transactions that have been recognized in our financial statements or tax returns. A valuation allowance is provided when it is more likely than not that some portion or the entire deferred tax asset will not be realized.

**Results of Operations**

We have based our financial statements on the assumption of our operations continuing as a going concern. As of September 30, 2010, we had a working capital deficiency of $2,122,045 an accumulated deficit of $14,086,191 and reported a net loss for the nine months ended September 30, 2010 of $3,049,931 which raise substantial doubt about our ability to continue as a going concern. Our plans for correcting these deficiencies include the future sales of our products and technologies and the raising of capital, which are expected to help provide us with the liquidity necessary to meet operating expenses.

During July, September and October 2008, Balqon California raised approximately $1,885,000 in connection with private placements of convertible promissory notes, common stock and warrants. During December 2008, we raised $210,000 in connection with a private placement of our common stock and warrants. Between March 2009 and June 2009, we raised an aggregate of $1,000,000 in connection with a private placement of convertible notes and warrants.

Between February 5, 2010 and April 12, 2010, we raised $1,500,000 in connection with a private placement of convertible notes and warrants. Between July 29, 2010 and November 12, 2010, we raised $800,000 in connection with a private placement of senior secured convertible debentures and warrants. Over the longer-term, we plan to achieve profitability through our operations from the sale of our heavy-duty electric vehicles and drive systems. Our financial statements do not include any adjustments relating to the recoverability and classification of the recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue our existence.

***Three Months Ended September 30, 2010 Compared to the Three Months Ended September 30, 2009***

The tables presented below, which compare our results of operations for the three months ended September 30, 2010 and 2009, present the results for each period, the change in those results from one period to another in both dollars and percentage change, and the results for each period as a percentage of net revenues. The columns present the following:

- The first two data columns in each table show the absolute results for each period presented.
- The columns entitled "Dollar Variance" and "Percentage Variance" shows the change in results, both in dollars and percentages. These two columns show favorable changes as a positive and unfavorable changes as negative. For example, when our net revenues increase from one period to the next, that change is shown as a positive number in both columns. Conversely, when expenses increase from one period to the next, that change is shown as a negative in both columns.
- The last two columns in each table show the results for each period as a percentage of net revenues.

| | Three Months Ended September 30, | | Dollar Variance | Percentage Variance | Results as a Percentage of Net Revenues for the Three Months Ended September 30, | |
|---|---|---|---|---|---|---|
| | 2010 (Unaudited) | 2009 (Unaudited) | Favorable (Unfavorable) | Favorable (Unfavorable) | 2010 | 2009 |
| Net revenues | $ 122,311 | $ 780,158 | $ (657,847) | (84.3)% | 100% | 100% |
| Cost of revenues | 113,275 | 656,088 | 542,813 | 82.7% | 93% | 84% |
| Gross profit | 9,036 | 124,070 | (115,034) | (92.7)% | 7% | 16% |
| Private placement costs | (359,904) | — | (359,904) | (100)% | 294% | — |
| Change in fair value of derivative liability | 58,636 | — | 58,636 | (100)% | 48% | — |
| Operating and interest expenses | (967,328) | 740,769 | (226,559) | (31)% | 791% | 95% |
| Net loss | $ (1,259,560) | $ (616,699) | $ (760,133) | 123% | (1030)% | (79)% |

*Net Revenues*. The decrease in revenues is a result of our inability to sell any heavy-duty electric systems during the three months ended September 30, 2010 as compared to the sale of four vehicles during the three months ended September 30, 2009. We were unable to sell electric vehicles during the three months ended September 30, 2010 due to significant working capital constraints. Our revenues during the three months ended September 30, 2010 included revenues derived from the sale of parts and electric drive systems. In addition to the revenues derived from the sale of four electric vehicles, our revenues during the three months ended September 30, 2009 included contract revenues earned.

*Gross Profit*. During the three months ended September 30, 2010, costs of revenues decreased by $542,813 largely due to the lack of a significant amount of sales during that period. The gross profit margin of 7% during the three months ended September 30, 2010, is comprised of a 54% gross margin on the sale of parts and electric drive systems, offset by direct labor of 33% and manufacturing overhead costs of 14%. The gross profit of 16% realized during the three months ended September 30, 2009 is comprised of a 12.2% gross profit on the sale of vehicles and parts, offset by 4% direct labor and 4.4% manufacturing overhead costs. We anticipate that our gross profit margin will be approximately 18% of net revenues for 2010 based on current cost data for the remaining 10 electric vehicles that must be delivered under the City of Los Angeles Agreement, and the pricing of orders we expect to receive during the remainder of 2010.

*Private Placement Costs.* The $359,904 increase in private placement costs during the three months ended September 30, 2010, relate to costs of the Senior Secured Convertible debenture offering that was in process between July 12, and September 30, 2010.

*Change in Fair Value of Derivative Liability.* The $58,626 change in the fair value of the derivative liability during the three months ended September 30, 2010, relate to value of the derivatives associated with the Senior Secured Convertible debenture offering that was in process between July 12, and September 30, 2010.

*Operating and Interest Expenses*. The increase in operating and interest expenses was comprised of a $29,075 increase in research and development expenses, a $6,638 increase in depreciation and amortization, and a $266,004 increase in interest expenses, offset by a $75,159 decrease in general and administrative expenses.

The $75,159 decrease in general and administrative expenses is attributable to the following factors, a decrease of $54,021 for legal, accounting, audit and professional fees and other net decreases of $ 81,999, offset by an increase in consulting fees of $49,707 for investor relations and investment banking services and an increase in travel expenses of $11,154 due to increased marketing activities.

Interest expense during the three months ended September 30, 2010 increased by $266,004, due to interest costs associated incurred in connection with our credit facility with Bridge Bank, interest incurred on $2,485,000 in principal of our 10% unsecured subordinated convertible promissory notes and $163,715 of amortization of the beneficial conversion feature interest cost incurred on our issuance of convertible notes and warrants.

While our general and administrative expenses are expected to increase over the near term, these expenses as a percentage of net revenues are expected to decrease as we increase our net revenues. We expect that over the near term, our general and administrative expenses will increase as a result of increased management personnel, opening of new manufacturing facilities, additional operational personnel to manufacture electric vehicles, increased legal and accounting fees associated with increased corporate governance activities in response to the Sarbanes-Oxley Act of 2002 and recently adopted rules and regulations of the Securities and Exchange Commission, or SEC, and the filing of a registration statement with the SEC.

***Nine Months Ended September 30, 2010 Compared to the Nine Months Ended September 30, 2009***

The tables presented below, which compare our results of operations for the nine months ended September 30, 2010 and 2009, present the results for each period, the change in those results from one period to another in both dollars and percentage change, and the results for each period as a percentage of net revenues. The columns present the following:

- The first two data columns in each table show the absolute results for each period presented.
- The columns entitled "Dollar Variance" and "Percentage Variance" show the change in results, both in dollars and percentages. These two columns show favorable changes as a positive and unfavorable changes as negative. For example, when our net revenues increase from one period to the next, that change is shown as a positive number in both columns. Conversely, when expenses increase from one period to the next, that change is shown as a negative in both columns.
- The last two columns in each table show the results for each period as a percentage of net revenues.

| | Nine Months Ended September 30, | | Dollar Variance | Percentage Variance | Results as a Percentage of Net Revenues for the Nine Months Ended September 30, | |
|---|---|---|---|---|---|---|
| | 2010 (Unaudited) | 2009 (Unaudited) | Favorable (Unfavorable) | Favorable (Unfavorable) | 2010 | 2009 |
| Net revenues | $ 664,729 | $ 3,055,958 | $ (2,391,229) | (78.2)% | 100% | 100% |
| Cost of revenues | 609,876 | 2,849,777 | 2,239,901 | 78.6% | 92% | 93% |
| Gross profit | 54,853 | 206,181 | (151,328) | (73.4)% | 8% | 7% |
| Private placement costs | (359,904) | — | (359,904) | (100)% | 294% | — |
| Change in fair value of derivative liability | 58,636 | — | 58,636 | (100)% | 48% | — |
| Operating and interest expenses | (2,803,515) | (2,183,452) | (620,063) | (28.4)% | 2292% | 280% |
| Net loss | $ (3,049,931) | $ (1,977,271) | $ (1,189,932) | 60.2% | (2494)% | (253)% |

*Net Revenues*. The decrease in revenues is a result of the sale of only one electric and electric drive systems during the nine months ended September 30, 2010 as compared to the sales of eleven electric vehicles during the nine months ended September 30, 2009. We were unable to sell more than one electric vehicle during the nine months ended September 30, 2010 due to significant working capital constraints. In addition to the revenues derived from the sale of one electric vehicle, our revenues during the nine months ended September 30, 2010 included revenues derived from the sale of drive systems, flux vector motor controllers, part sales and contract revenues of $34,874 from progress work toward completion of the Lithium Grant. In addition to the revenues derived from the sale of seven electric vehicles, our revenues during the three months ended September 30, 2009 included revenues derived from the sale of a battery charger and contract revenues.

*Gross Profit*. During the nine months ended September 30, 2010, costs of revenues decreased by $2,239,901 largely due to the lack of a significant amount of sales during that period. The gross profit margin of 7% during the nine months ended September 30, 2010, is comprised of a 7% gross margin on the sale of trucks and parts, reduced by a zero gross profit on the Lithium Grant. The gross profit of 7% realized during the nine months ended September 30, 2009 is comprised of a 12.2% gross profit on the sale of vehicles and parts, offset by 4% direct labor and 4.4% manufacturing overhead costs.

*Private Placement Costs.* The $359,904 increase in private placement costs during the nine months ended September 30, 2010, relate to costs of the Senior Secured Convertible debenture offering that was in process between July 12, and September 30, 2010.

*Change in Fair Value of Derivative Liability.* The $58,626 change in the fair value of the derivative liability during the nine months ended September 30, 2010, relate to value of the derivatives associated with the Senior Secured Convertible debenture offering that was in process between July 12, and September 30, 2010.

*Operating and Interest Expenses*. The increase in operating and interest expenses was comprised of a $135,476 decrease in general and administrative expenses, a $55,229 increase in research and development expenses, a $34,797 increase in depreciation and amortization, and a $665,513 increase in interest expenses.

The $135,476 decrease in general and administrative expenses is attributable to the following factors, including a decrease of $719,200 in expenses for legal, accounting, audit and professional fees, offset by an increase in consulting fees of $284,903 for investor relations and investment banking services, an increase in travel expenses of $92,331 due to increased marketing activities and other net increases of $206,490.

Interest expense during the nine months ended September 30, 2010 increased by $665,513, due to interest costs associated incurred in connection with our credit facility with Bridge Bank, interest incurred on the $2,485,000 principal amount of our 10% convertible promissory notes and $639,699 of amortization of the beneficial conversion feature interest cost incurred on our issuance of convertible notes and warrants .

**Liquidity and Capital Resources**

During the nine months ended September 30, 2010, we funded our operations primarily with cash flow from financing activities, which included the issuance of unsecured debt and the issuance of equity securities. As of September 30, 2010, we had a working capital deficiency of $2,122,045 as compared to a working capital deficiency of $1,563,117 at December 31, 2009. At September 30, 2010 and December 31, 2009 we had an accumulated deficit of $14,086,191 and $11,036,260, respectively, and cash and cash equivalents of $33,373 and $118,635, respectively.

During 2009, under the terms of the City of Los Angeles Agreement, we were issued an advance in the amount of $1,159,601 against a purchase order for 25 electric vehicles issued under the City of Los Angeles Agreement.

Our available capital resources at September 30, 2010 consisted primarily of approximately $33,373 in cash and cash equivalents. We expect that our future available capital resources will consist primarily of cash on hand, cash generated from our business, if any, and future debt and/or equity financings, if any.

Cash used in operating activities for the nine months ended September 30, 2010 was $2,081,965 as compared to $1,329,083 of cash used in operating activities for the nine months ended September 30, 2009. Material changes in asset and liabilities at September 30, 2010 as compared to December 31, 2009 that affected these results include:

- an increase in accounts receivable of $165,481;
- an increase in costs and estimated earnings in excess of billings on uncompleted contracts of $34,224;
- an increase in inventory of $81,731; and
- a net decrease in accounts payable and accrued expenses of $53,968.

Cash used in investing activities totaled $6,360 for the nine months ended September 30, 2010 as compared to $3,570 of cash used in investing activities for the nine months ended September 30, 2009.

Cash provided by financing activities totaled $2,003,063 for the nine months ended September 30, 2010 as compared to $1,153,344 for the nine months ended September 30, 2009.

In July 2008, Balqon California raised an aggregate of $500,000 through the issuance of senior secured convertible promissory notes to five accredited investors. The senior secured convertible promissory notes had a conversion price of $1.00 per share. In connection with this offering, Balqon California also issued three-year warrants to acquire up to an aggregate of 500,000 shares of common stock at an exercise price of $1.50 per share. The senior secured convertible promissory notes were converted into an aggregate of 514,582 shares of common stock of Balqon California immediately preceding the closing of the Merger Transaction.

In September 2008, Balqon California raised an aggregate of $810,000 through the issuance of convertible promissory notes to 15 accredited investors. The convertible promissory notes had a conversion price of $1.00 per share. In connection with this offering, Balqon California also issued three-year warrants to acquire up to an aggregate of 810,000 shares of common stock at an exercise price of $1.50 per share. The convertible promissory notes were converted into an aggregate of 818,766 shares of common stock of Balqon California immediately preceding the closing of the Merger Transaction.

In October 2008, Balqon California raised an aggregate of $575,000 through the issuance of an aggregate of 575,000 shares of common stock to six accredited investors. In connection with this offering, Balqon California also issued three-year warrants to purchase an aggregate of 575,000 shares of common stock at an exercise price of $1.50 per share.

In June 2008, Balqon California issued 2,916,725 shares of common stock and warrants to purchase 729,180 shares of common stock to Marlin Financial in consideration of business strategy and financial advisory services rendered to Balqon California. In consideration of such issuance, Marlin Financial Group, Inc. acted as a finder in connection with the private placement offerings completed in September 2008 and October 2008.

In December 2008, we raised an aggregate of $210,000 through the issuance of 210,000 shares of common stock to ten accredited investors. In connection with this offering, we also issued three-year warrants to purchase an aggregate of 210,000 shares of our common stock at an exercise price of $1.50 per share.

Between March 2009 and June 2009, we raised an aggregate of $1,000,000 through the issuance of convertible notes to 34 accredited investors. The convertible notes are convertibles into an aggregate of 1,000,000 shares of our common stock. In connection with this offering, we also issued three-year warrants to purchase an aggregate of 1,000,000 shares of our common stock at an exercise price of $1.50 per share.

Between February 5, 2010 and April 12, 2010, we raised an aggregate of $1,500,000 through the issuance of convertible notes to 11 accredited investors. The convertible notes are convertibles into an aggregate of 1,999,993 shares of our common stock. In connection with this offering, we also issued three-year warrants to purchase an aggregate of 1,999,993 shares of our common stock at an exercise price of $0.50 per share.

Between July 29, 2010 and November 12, 2010, we raised an aggregate of $800,000 through the issuance of senior secured convertible debentures to 24 accredited investors. The senior secured convertible debentures are secured by a security interest in all of our person property (subject to customary exceptions) and are convertible into an aggregate of 1,066,657 shares of our common stock. In connection with this offering, we also issued five-year warrants to purchase an aggregate of 800,000 shares of our common stock at an exercise price of $0.75 per share.

We are obligated under registration rights agreements related to above described private placement to file a registration statement with the SEC, registering for resale the shares of common stock underlying the convertible notes and warrants issued in the private placement transactions consummated between March 2009 and July 2010.

Effective February 18, 2009, we entered into a Business Financing Agreement with Bridge Bank, National Association, or the Bridge Bank Agreement. The Bridge Bank Agreement, as amended to date, provides us with an accounts receivable based credit facility in the aggregate amount of up to $2,000,000.

The credit facility is formula-based and generally provides that the outstanding borrowings under the credit facility may not exceed an aggregate of 80% of eligible accounts receivable. We must immediately pay any advance made under the credit facility within 90 days of the earlier of (i) the invoice date of the receivable that substantiated the advance or (ii) the date on which the advance was made. Interest on the credit facility is payable monthly. As of September 30, 2010, there was $219,463 outstanding and $47,262 available under the terms of the credit facility. As of December 31, 2009, eligible accounts receivable was $167,925 and availability under the credit facility was $6,190.

The interest rate on our credit facility is variable and is adjusted monthly based on the per annum prime rate as published by Bridge Bank plus two percentage points, subject to a minimum rate of 6.0% per annum. In the event of a default and continuation of a default, Bridge Bank may accelerate the payment of the principal balance requiring us to pay the entire indebtedness outstanding on that date. Upon the occurrence and during the continuation of an event of default, the interest rate applicable to the outstanding balance borrowed under the credit facility will be increased by five percentage points above the per annum interest rate that would otherwise be applicable. The credit facility is secured by a continuing first priority security interest in all of our personal property (subject to customary exceptions). The credit facility may be terminated at any time by either party.

Our plan of operations for the next 12 months includes completion and delivery of the remaining heavy-duty electric vehicles under the City of Los Angeles Agreement, together with associated equipment including batteries and chargers, by March 31, 2011. We also expect to receive additional orders for our products over the next 12 months. We expect that the anticipated gross margin from the sales of these products will provide additional liquidity and capital resources. Our ability to increase the number of orders for our products and/or to achieve sufficient gross margin through the sale of products to provide us with meaningful additional liquidity and capital resources is subject to, among other things, the effect of the current global economic crisis and our ability to raise additional capital.

During 2010, we expect to incur approximately $200,000 in research and development expenses. We believe that we presently have sufficient plant and production equipment to meet our current operational plan and we do not intend to dispose of any plant and equipment.

We presently have 13 employees and expect to hire additional personnel to meet production demands of increased product sales. Until these new sales materialize, our present staff is sufficient to meet our current operational plan.

Our continued operations are dependent on securing additional sources of liquidity through debt and/or equity financing. As indicated above, our financial statements as of September 30, 2010 and December 31, 2009 and for the year ended December 31, 2009 have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. As discussed in this report and in notes to our financial statements included in this report, we have suffered recurring losses from operations and at September 30, 2010 we had an accumulated deficit of $14,086,191. These factors, among others, raised substantial doubt about our ability to continue as a going concern and, with respect to our financial position on December 31, 2009, led our independent registered public accounting firm to include in their report an explanatory paragraph related to our ability to continue as a going concern. The financial statements included in this report do not include any adjustments that might result from the outcome of this uncertainty.

We have been, and currently are, working toward identifying and obtaining new sources of financing. No assurances can be given that we will be successful in obtaining additional financing in the future. Any future financing that we may obtain may cause significant dilution to existing stockholders. Any debt financing or other financing of securities senior to common stock that we are able to obtain will likely include financial and other covenants that will restrict our flexibility. At a minimum, we expect these covenants to include restrictions on our ability to pay dividends on our common stock. Any failure to comply with these covenants would have a material adverse effect on our business, prospects, financial condition, results of operations and cash flows.

If adequate funds are not available, we may be required to delay, scale back or eliminate portions of our operations and product and service development efforts or to obtain funds through arrangements with strategic partners or others that may require us to relinquish rights to certain of our technologies or potential products or other assets. Accordingly, the inability to obtain such financing could result in a significant loss of ownership and/or control of our proprietary technology and other important assets and could also adversely affect our ability to fund our continued operations and our product and service development efforts.

**Backlog**

As of November 12, 2010, we had a backlog of approximately $2,640,429. Our backlog includes $1,979,725 attributable to the City of Los Angeles Agreement under which we are required to produce and deliver six Nautilus XE20s and four Nautilus XE30s (and associated equipment). Our backlog also includes orders from a manufacturer of buses and another customer to purchase flux vector motor controllers. We believe that products in our backlog will be shipped by March 31, 2011.

**Effects of Inflation**

The impact of inflation and changing prices has not been significant on the financial condition or results of operations of our company.

**Impacts of New Accounting Pronouncements**

In April 2010, the Financial Accounting Standards Board, or FASB, issued new accounting guidance in applying the milestone method of revenue recognition to research or development arrangements. Under this guidance, management may recognize revenue contingent upon the achievement of a milestone in its entirety, in the period in which the milestone is achieved, only if the milestone meets all the criteria within the guidance to be considered substantive. This standard is effective on a prospective basis for research and development milestones achieved in fiscal years, beginning on or after September 15, 2010. Early adoption is permitted; however, adoption of this guidance as of a date other than January 1, 2011 will require us to apply this guidance retrospectively effective as of January 1, 2010 and will require disclosure of the effect of this guidance as applied to all previously reported interim periods in the fiscal year of adoption. As we plan to implement this standard on January 1, 2011, the effect of this guidance will be limited transactions consummated after that date. We do not expect adoption of this standard to have a material impact on our financial position or results of operations as it has no material research and development arrangements which will be accounted for under the milestone method.

In January 2010, the FASB issued new accounting guidance which requires new disclosures regarding transfers in and out of Level 1 and Level 2 fair value measurements, as well as requiring presentation on a gross basis of information about purchases, sales, issuances and settlements in Level 3 fair value measurements. The guidance also clarifies existing disclosures regarding level of disaggregation, inputs and valuation techniques. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2009. Disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010. As this guidance only requires additional disclosure, it has not had, and will not have, an impact on our financial position or results of operations.

In October 2009, a new accounting consensus was issued for multiple-deliverable revenue arrangements. This consensus amends existing revenue recognition accounting standards. This consensus provides accounting principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated and the consideration allocated. This guidance eliminates the requirement to establish the fair value of undelivered products and services and instead provides for separate revenue recognition based upon management's estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. Previously the existing accounting consensus required that the fair value of the undelivered item be the price of the item either sold in a separate transaction between unrelated third parties or the price charged for each item when the item is sold separately by the vendor. Under the existing accounting consensus, if the fair value of all of the elements in the arrangement was not determinable, then revenue was deferred until all of the items were delivered or fair value was determined. This new approach is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after September 15, 2010. We are in the process of evaluating whether the adoption of this standard will have a material effect on our financial position, results of operations or cash flows.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants, and the SEC did not or are not believed by management to have a material impact on the Company's present or future financial statements.

## ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

## ITEM 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

We conducted an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, our principal accounting officer, of the effectiveness of the design and operation of our disclosure controls and procedures. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures also include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded as of September 30, 2010 that our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weakness described below.

In light of the material weakness described below, we performed additional analysis and other post-closing procedures to ensure that our financial statements were prepared in accordance with generally accepted accounting principles. Accordingly, we believe that the financial statements included in this report fairly present, in all material respects, our financial condition, results of operations, changes in shareholder's equity and cash flows for the periods presented.

**Material Weakness**

As of September 30, 2010, we had a material weakness in our internal control over financial reporting with respect to our failure to accurately record the value of a derivative liability and the associated offering costs in connection with a private offering of our securities during the three months ended September 30, 2010. On March 29, 2011, our management concluded that we failed to accurately record the value of a derivative liability in connection with the private offering of our securities and the associated offering costs. Based on this conclusion, our Audit Committee and senior management decided, on March 29, 2011, to restate our financial statements as of and for the three and nine months ended September 30, 2010.

**Remediation of Material Weaknesses**

We have implemented appropriate controls to remediate the material weakness described above. We engaged an independent valuation consultant to conduct a valuation of the initial aggregate cost of the derivative liability and to update the valuation of the derivative liability as of September 30, 2010. We have implemented a policy whereby for all future securities transactions that involve derivative instruments, we will engage an independent valuation consultant to determine the values of any derivative instruments. This new policy was implemented during the quarterly period ended December 31, 2010. Accordingly, management believes that the remediation described above has remediated the material weakness described above as of December 31, 2010.

**Inherent Limitations on the Effectiveness of Controls**

Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, no evaluation of internal control over financial reporting can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been or will be detected.

These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

**Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II – OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

We are not party to any legal proceedings.

**ITEM 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed below and under "Risk Factors" in our Annual Report on Form 10-K for December 31, 2009 filed with the SEC on September 30, 2010, which could materially affect our business, financial condition and results of operations. The risks described below and in our Annual Report on Form 10-K for December 31, 2009 filed with the SEC on September 30, 2010, are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and results of operations.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On each of July 17, 2010, August 17, 2010, September 17, 2010 and October 17, 2010 we issued warrants to purchase 5,000 shares of our common stock at an exercise price of $1.00 per share to an accredited investor in consideration of investor relations rendered between each such date of issuance and the one month anniversary of such date, respectively.

Between July 29, 2010 and November 12, 2010, we entered into agreements with 24 accredited investors under which we sold an aggregate of $800,000 of 10% Senior Secured Convertible Debentures which are convertible into an aggregate of 1,066,657 shares of our common stock at a conversion price of $0.75 per share, subject to adjustment. The 10% Senior Secured Convertible Debentures are secured by a security interest in all of our personal property (subject to customary exceptions), which security interest is subject to and subordinate to the security interest under secured credit facilities with one or more financial institution, now existing or hereafter arising, in an amount of up to $2,500,000 in the aggregate, provided that we do not issue any of our equity securities in connection with the creation of any additional senior debt. Additionally, we issued to these investors five-year warrants to purchase an aggregate of 800,000 shares of our common stock at an exercise price of $0.75 per share, subject to adjustment. In connection with the offering, we paid placement agent fees of approximately $88,000, consisting of a cash commission of $64,000 and a non-accountable expense allowance of $24,000. We also issued five-year warrants to purchase an aggregate of 64 ,000 shares of our common stock at an exercise price of $0.75 per share to the placement agent and its designees. The aggregate gross proceeds of $800,000 of the offering, less $88,000 paid to the placement agent, less other offering expenses, are allocated to working capital.

The issuances of our securities described above were made in reliance upon the exemption from registration available under Section 4(2) of the Securities Act, among others, as transactions not involving a public offering. This exemption was claimed on the basis that these transactions did not involve any public offering and the purchasers in each offering were accredited or sophisticated and had sufficient access to the kind of information registration would provide. In each case, appropriate investment representations were obtained and certificates representing the securities were issued with restrictive legends. Each investor was given adequate access to sufficient information about us to make an informed investment decision. Except as set forth above, there were no commissions paid on the sale or issuance of the securities described above.

**ITEM 3. Defaults Upon Senior Securities**

None.

**ITEM 4. (Removed and Reserved)**

**ITEM 5. Other Information**

None.

**ITEM 6. Exhibits**

| Exhibit Number | Description |
|---|---|
| 4.1 | Form of 10% Senior Secured Subordinated Convertible Debenture issued by the Registrant to certain security holders in the aggregate principal amount of $800,000, which are convertible into an aggregate of 1,066,657 shares of common stock (subject to adjustment). (1) |
| 4.2 | Form of Warrants to purchase an aggregate of 800,000 shares of common stock (subject to adjustment) issued by the Registrant to certain security holders. (1) |
| 4.3 | Form of Common Stock Placement Warrants to purchase 64,000 shares of common stock issued by the Registrant. (1) |
| 4.4 | Security Agreement, dated July 29, 2010, between the Registrant, the holders of the Registrant's 10% Senior Secured Subordinated Convertible Debenture and Citizens Trust , as collateral agent. (1) |
| 31.1 | Certification required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 31.2 | Certification required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 32.1 | Certification of President Chief Financial Officer Pursuant to 18 U.S.C. Section 350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* |

___________________________

(*) Filed herewith.

(1) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 16, 2010.

## Signatures

Pursuant to the requirements of Section 13 or 15(d) 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 on this 15th day of April, 2011.

**BALQON CORPORATION**

By: /s/ BALWINDER SAMRA

Balwinder Samra
Chairman of the Board, President and
Chief Executive Officer (principal executive officer)

**BALQON CORPORATION**
**EXHIBITS FILED WITH THIS REPORT**

| Exhibit Number | Description |
|---|---|
| 31.1 | Certification required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 31.2 | Certification required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 32.1 | Certification of President Chief Financial Officer Pursuant to 18 U.S.C. Section 350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* |

**EXHIBIT 31.1**

## CERTIFICATION

I, Balwinder Samra, certify that:

1. I have reviewed this Amendment No. 1 to Quarterly Report on Form 10-Q of Balqon Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 15, 2011

/S/ BALWINDER SAMRA
Balwinder Samra,
Chief Executive Officer (principal executive officer)

**EXHIBIT 31.2**

**CERTIFICATION**

I, Robert J. Miranda, certify that:

1. I have reviewed this Amendment No. 1 to Quarterly Report on Form 10-Q of Balqon;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 15, 2011

/S/ ROBERT J. MIRANDA
Robert J. Miranda,
Chief Financial Officer (principal financial and accounting officer)

**EXHIBIT 32.1**

**CERTIFICATION OF**
**CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER**
**PURSUANT TO 18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Amendment No. 1 to Quarterly Report on Form 10-Q of Balqon Corporation (the "Company") for the period ended September 30, 2010 (the "Report"), the undersigned hereby certify in their capacities as Chief Executive Officer and Chief Financial Officer of the Company, respectively, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to their knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 15, 2011

By: /s/ BALWINDER SAMRA
Balwinder Samra
President and Chief Executive Officer
(principal executive officer)

Dated: April 15, 2011

By: /s/ ROBERT J. MIRANDA
Robert J. Miranda
Chief Financial Officer
(principal financial and accounting officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.