UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

AMENDMENT NO. 1
TO
FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2012**

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 S 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 S 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 S

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

The number of shares outstanding of the Registrant's common stock, $0.001 par value, as of November 15, 2012, was 36,891,530.

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, 2012, filed with the Securities and Exchange Commission on November 19, 2012 (the "Initial Filing"), to reclassify $1,345,111 previously categorized as an Impairment Loss to a Write Down of Non-Recoverable Inventories under Cost of Revenues section in the Condensed Statements of Operations for the Three and Nine Months ended September 30, 2012 and 2011 (Unaudited) and to segregate $1,417,150 of accounts payable to related parties on the unaudited balance sheet at September 30, 2012. Except with respect to the changes in the financial statements described above, and corresponding changes to the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this report, the Initial Filing has not been amended, updated or otherwise modified.

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

CAUTIONARY STATEMENT

All statements included or incorporated by reference in this Quarterly Report on Form 10-Q /A, 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 profit 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 our Annual Report on Form 10-K for the year ended December 31, 2011 and in Item 1A of Part II 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
AMENMENT NO. 1
TO
FORM 10-Q

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PART I – FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS.

BALQON CORPORATION
CONDENSED BALANCE SHEETS

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,581	$ 32,663
Accounts receivable, trade, net of allowance for doubtful accounts of $1,233 and $1,233, respectively	133,427	507,246
Accounts receivable, related entities, net of allowance for doubtful accounts of $198,067 and $178,484, respectively	–	302,082
Inventories	346,502	1,065,595
Prepaid expenses	55,447	55,010
Total current assets	540,957	1,962,596
Inventory held by customer pending lease	–	739,000
Property, plant & equipment, net	34,458	58,929
Other assets:		
Deposits	14,400	14,400
Goodwill and Trade secrets, net of accumulated amortization of $186,965 and $186,965, respectively	166,500	166,500
Total assets	**$ 756,315**	**$ 2,941,425**
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities:		
Bank overdraft	$ –	$ 11,785
Payroll taxes payable	253,738	–
Accounts payable and accrued expenses	2,265,156	1,546,059
Accounts payable to related parties	1,417,150	330,840
Customer deposits	755,098	1,417,388
Loan payable, Bridge Bank	–	233,231
Advances from shareholders	5,018	505,018
Derivative liability	2,716,835	676,284
Convertible promissory notes, net of discount	2,795,381	1,483,168
Total current liabilities	10,208,376	6,203,773
Convertible notes payable, net of discount	–	813,492
Shareholders' Deficiency		
Common stock, $0.001 par value, 100,000,000 shares authorized, 36,891,530 and 35,641,530 shares issued and outstanding on September 30, 2012 and December 31, 2011, respectively	36,891	35,641
Additional paid in capital	19,596,423	18,283,624
Accumulated deficit	(29,085,375)	(22,395,105)
Total shareholders' deficiency	(9,452,061)	(4,075,840)
Total liabilities and shareholders' deficiency	**$ 756,315**	**$ 2,941,425**

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, 2012 AND 2011(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
REVENUES				
Related Parties	$ –	$ 348,118	$ –	$ 651,072
Commercial customers	712,324	486,825	1,860,522	799,477
Total Revenues	712,324	834,943	1,860,522	1,450,549
COST OF REVENUES	939,026	729,430	1,795,769	1,138,370
WRITE-DOWN OF NON-RECOVERABLE INVENTORIES	1,345,111	–	1,345,111	–
Total Cost of Revenues	2,284,137	729,430	3,140,880	1,138,370
GROSS PROFIT (LOSS)	(1,571,813)	105,513	(1,280,358)	312,179
OPERATING EXPENSES				
General and administrative	615,460	709,827	1,966,205	2,886,272
Research and development	46,890	130,820	191,159	424,544
Depreciation and amortization	8,157	146,490	24,471	460,534
Total operating expenses	670,507	987,137	2,181,835	3,771,350
LOSS FROM OPERATIONS	(2,242,320)	(881,624)	(3,462,193)	(3,459,171)
Change in fair value of derivative liabilities	(1,458,609)	263,199	(1,074,272)	164,941
Costs to induce exercise of warrants	–	–	(671,809)	–
Interest expense	(490,228)	(393,958)	(1,481,996)	(1,390,265)
NET LOSS	$ (4,191,157)	$ (1,012,383)	$ (6,690,270)	$ (4,684,495)
Net loss per share – basic and diluted	$ (0.11)	$ (0.03)	(0.18)	$ (0.13)
Weighted average shares outstanding, basic and diluted	36,891,531	35,628,762	36,266,530	35,486,984

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

BALQON CORPORATION
CONDENSED STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIENCY)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 (Unaudited)

	Common Stock, $0.001 Par Value		Additional Paid in	Accumulated	
	Number	Amount	Capital	Deficit	Total
Balances, December 31, 2011	35,641,530	$ 35,641	$ 18,283,624	$ (22,395,105)	$ (4,075,840)
Costs to induce exercise of warrants	–	–	671,809	–	671,809
Common stock issued upon conversion of shareholder loan	1,250,000	1,250	498,750	–	500,000
Fair value of warrants issued with convertible notes	–	–	109,140	–	109,140
Fair value of common stock transferred by shareholder to settle company debts	–		33,100	–	33,100
Net loss	–	–	–	(6,690,270)	(6,690,270)
Balances, September 30, 2012	36,891,530	$ 36,891	$ 19,596,423	$ (29,085,375)	$ (9,452,061)

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, 2012 AND 2011 (Unaudited)

	Nine Months Ended September 30,			
		2012		**2011**
Cash flows from operating activities:				
Net loss	$	(6,690,270)	$	(4,684,495)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization		24,471		460,534
Fair value of common stock issued for services		–		23,250
Cost to induce conversion of warrants		671,809		–
Change in fair value of derivative liability		1,074,272		(164,941)
Write-down of non-recoverable inventories		1,345,111		–
Amortization of debt discount		1,234,140		1,133,738
Fair value of common stock contributed by shareholder to settle company debts		33,100		–
Changes in operating assets and liabilities:				
Accounts receivable		675,901		(765,475)
Inventories		112,982		(972,250)
Prepaid expenses		(437)		(125,075)
Payroll Taxes payable		253,738		–
Accounts payable and accrued expenses		1,805,407		416,678
Customer advances		(662,290)		66,652
Net cash used in operating activities		(122,066)		(4,611,384)
Cash flows from investing activities:				
Acquisition of property and equipment		–		(30,410)
Net cash used in investing activities		–		(30,410)
Cash flows from financing activities:				
Bank overdraft		(11,785)		–
Proceeds from issuance of common stock upon exercise of warrants		–		148,665
Net proceeds from bank loan		–		299,941
Payment of loan payable to bank		(233,231)		–
Proceeds from issuance of convertible notes		340,000		–
Net cash provided by financing activities		94,984		448,606
Decrease in cash and cash equivalents		(27,082)		(4,193,188)
Cash and Cash equivalents, beginning of period		32,663		4,407,273
Cash and Cash equivalents, end of period	$	5,581	$	214,085
Supplemental Cash Flow Information:				
Income taxes paid			$	–
Interest paid	$	47,913	$	253,938
Supplemental non cash financing and investing activities:				
Conversion of notes payable to common stock	$	500,000	$	297,250
Fair value of warrants issued with convertible notes payable	$	109,140	$	–
Fair value of derivative liability related to conversion feature and warrants issued in connection with exchange of notes payable	$	829,429	$	–
Fair value of derivative related to conversion feature in connection with secured notes payable	$	136,850	$	–

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

BALQON CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 (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"), with BMR being the survivor of the merger. Upon the closing, BMR changed its name to Balqon Corporation (the "Company"). The Company develops and manufactures electric drive systems, charging systems and lithium battery systems for electric vehicles, industrial equipment and renewable energy storage devices. The Company also designs and assembles electric powered yard tractors, short haul drayage tractors and inner city Class 7 and 8 delivery trucks utilizing its proprietary drive system technologies.

Basis of Presentation of Unaudited Financial Information

The unaudited financial statements of the Company for the three and nine months ended September 30, 2012 and 2011 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 GAAP 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 Company's financial position and 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, 2011 was derived from the audited financial statements included in the Company's financial statements as of and for the years ended December 31, 2011 and 2010 contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on April 16, 2012. These financial statements should be read in conjunction with that report.

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, 2012, filed with the Securities and Exchange Commission on November 19, 2012 (the "Initial Filing"), to reclassify $1,345,111 previously categorized as an Impairment Loss to a Write Down of Non-Recoverable Inventories under Cost of Revenues section in the Condensed Statements of Operations for the Three and Nine Months ended September 30, 2012 and 2011 (Unaudited) and to segregate $1,417,150 of accounts payable to related parties on the unaudited balance sheet at September 30, 2012. Except with respect to the changes in the financial statements described above, and corresponding changes to the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this report, the Initial Filing has not been amended, updated or otherwise modified.

Going Concern

The accompanying condensed financial statements have been prepared under the assumption that the Company will continue as a going concern. Such assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business. For the nine months ended September 30, 2012, the Company recorded a net loss of $6,690,270. As of September 30, 2012, the Company had a working capital deficit of $9,667,419 and a shareholders' deficiency of $9,452,061. In addition, the Company has not paid $253,738 in payroll taxes and $242,987 of interest due on convertible notes payable. Pursuant to the terms of the notes, the non-payment of interest by the Company constitutes an event of default and, as a result, the holders of the notes may accelerate payment of all amounts outstanding under the notes by giving written notice to the Company and thereby requiring that the Company immediately pay up to an aggregate of $3,361,500 in principal plus all accrued and unpaid interest. If the holders of the notes were to declare the notes due and payable, the Company presently does not have the ability to pay these notes. In addition, as of September 2012, $2,006,500 of the notes are secured under the terms of a security agreement granting the holders of the notes a security interest in all of the Company's personal property subject to the interests of the holders of senior indebtedness (as that term is defined in the notes).

These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. As a result, the Company's independent registered public accounting firm, in its report on the Company's 2011 financial statements, has raised substantial doubt about the Company's ability to continue as a going concern. The condensed financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern. The Company has been, and currently is, working towards identifying and obtaining new sources of financing. No assurances can be given that the Company will be successful in obtaining additional financing in the future.

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

Going Concern (continued)

Any future financing that the Company may obtain may cause significant dilution to existing stockholders. Any debt financing or other financing of securities senior to common stock that the Company is able to obtain will likely include financial and other covenants that will restrict the Company's flexibility. At a minimum, the Company expects these covenants to include restrictions on its ability to pay dividends on its common stock. Any failure to comply with these covenants would have a material adverse effect on the Company's business, prospects, financial condition, results of operations and cash flows.

In addition, the Company's senior secured convertible debentures issued between July and December 2010 contain covenants that include restrictions on its ability to pay dividends on its common stock.

If adequate funds are not available, the Company may be required to further delay, scale back or eliminate portions of its operations and product and service development efforts or to obtain funds through arrangements with strategic partners or others that may require the Company to relinquish rights to certain of its 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 the Company's proprietary technology and other important assets and could also adversely affect its ability to fund the Company's continued operations and its product and service development efforts.

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, write-down of non-recoverable inventories, recoverability of reported amounts of long-lived assets, and assumptions made in valuing derivative instruments and equity instruments issued for compensation. Actual results may differ from those estimates.

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.

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

Inventories

Inventories consist mainly of raw materials and are stated at the lower of cost or market. Cost is determined principally on a first-in-first-out average cost basis. Recorded inventories at September 30, 2012 do not include approximately $574,900 of batteries and other items held on consignment from Seven One Battery Company, an affiliate of the Company's Chairman of the Board. (See Note 9.)

At September 30, 2012, the Company conducted an assessment and determined that approximately $606,111 of its inventory and $739,000 of the value of the electric vehicles inventory held for lease by customer were non-recoverable inventories. (See Note 10.) Accordingly, the Company recorded a write-down of $1,345,111 of non-recoverable inventories.

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.

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.

During the years ended December 31, 2011 and December 31, 2010, the Company determined that there were no indicators of impairment of its recorded goodwill. During the year ended December 31, 2011, the Company determined that the value of its intangible asset related to the Distribution Agreement was impaired (See Note 9 for a description of the Distribution Agreement). Accordingly, the Company recorded an impairment loss of $935,583 that for the unamortized value of the Distribution Agreement as of December 31, 2011. During the nine months ended September 30, 2012 and September 30, 2011, the Company determined that there were no indicators of impairment of its recorded goodwill.

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, warrants or other convertible securities such as convertible notes. For the nine months ended September 30, 2012 and year ended December 31, 2011, common stock equivalent shares have been excluded from the calculation of loss per share as their effect is anti-dilutive.

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

Loss Per Share (continued)

The following table summarizes the weighted average shares and common stock equivalents outstanding as of September 30, 2012 and December 31, 2011:

	September 30, 2012	December 31, 2011
Weighted average shares outstanding	36,266,530	35,525,621
Common stock equivalents:		
Options exercisable into common shares	–	1,416,695
Warrants exercisable into common shares	10,295,500	13,256,220
Notes payable convertible into common shares	6,814,583	3,900,758
Total, common stock equivalents	17,110,083	18,573,673

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 condensed balance sheets are categorized by the level of objectivity associated with the inputs used to measure their fair value.

Authoritative guidance provided by the Financial Accounting Standards Board ("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 is 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, 2012.

	Level 1	Level 2	Level 3	Total
Fair value of Derivative Liability	$ –	$ –	$ 2,716,835	$ 2,716,835

Derivative Financial Instruments

The Company evaluates 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 the Monte Carlo simulation model using the Black Scholes Merton option pricing model to value the derivative instruments at inception and on subsequent valuation dates through the June 30, 2012 reporting date. The Company used the probability weighted average Black-Scholes-Merton models to value the derivative instruments as of September 30, 2012. 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, 2012, 34% of total revenues were from one customer. For the three months ended September 30, 2012, 49 % of total revenues were from one customer. For the nine months ended September 30, 2011, 24% of total revenues were from one customer. For the three months ended September 30, 2011, 37% of total revenues were from one customer. At September 30, 2012, 40% of accounts receivable were from one customer while 11% of accounts receivable were from another customer. At December 31, 2011, 30% of accounts receivable were from one trade customer.

For the nine months ended September 30, 2012, 86% of costs of revenue were to one vendor. For the nine months ended September 30, 2011, 20% of costs of revenue were to one vendor. For the three months ended September 30, 2012, 97% of costs of revenue were to one vendor. For the three months ended September 30, 2011, 29% of costs of revenue were to one vendor.

At September 30, 2012, accounts payable to the largest vendor represented 52% of total accounts payable balances. Accounts payable to other two largest vendors represented 15% and 7% respectively, of total accounts payable at September 30, 2012. At December 31, 2011, accounts payable to the largest vendor represented 30% of total accounts payable balances. Accounts payable to other two largest vendors represented 26% and 9%, respectively, of total accounts payable at December 31, 2011.

Recent Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs". ASU No. 2011-4 does not require additional fair value measurements and is not intended to establish valuation standards or affect valuation practices outside of financial reporting. The ASU is effective for interim and annual periods beginning after December 15, 2011. The Company adopted ASU No. 2011-04 effective January 1, 2012. The updated guidance affects the Company's fair value disclosures, but will not affect the Company's results of operations, financial condition or liquidity.

In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income". The ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity, and instead requires consecutive presentation of the statement of net income and other comprehensive income either in a continuous statement of comprehensive income or in two separate but consecutive statements. ASU No. 2011-5 is effective for interim and annual periods beginning after December 15, 2011. The Company adopted ASU 2011-05 effective January 1, 2012 and it did not affect the Company's results of operations, financial condition or liquidity.

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

Recent Accounting Pronouncements (continued)

In September 2011, the FASB issued ASU 2011-08, "Testing Goodwill for Impairment", an update to existing guidance on the assessment of goodwill impairment. This update simplifies the assessment of goodwill for impairment by allowing companies to consider qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before performing the two step impairment review process. It also amends the examples of events or circumstances that would be considered in a goodwill impairment evaluation. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company adopted ASU 2011-08 effective January 1, 2012. The adoption of this new accounting guidance will not have a significant effect on the Company's goodwill impairment assessments in the future.

In December 2011, the FASB issued ASU No. 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities." This ASU requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. ASU No. 2011-11 will be applied retrospectively and is effective for annual and interim reporting periods beginning on or after January 1, 2013. The Company does not expect adoption of this standard to have a material impact on its results of operations, financial condition, or liquidity.

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.

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	September 30, 2012 (Unaudited)	December 31, 2011
Computer equipment and software	$ 121,680	$ 121,680
Office furniture	35,300	35,300
Equipment	35,941	35,941
Leasehold improvements	21,711	21,711
Total property and equipment, cost	214,632	214,632
Less: accumulated depreciation and amortization	(180,174)	(155,703)
Property and equipment, net	$ 34,458	$ 58,929

Depreciation and amortization expense on property and equipment for the nine months ended September 30, 2012 and 2011 was $24,471 and $460,534, respectively.

NOTE 3 – LOAN PAYABLE – BRIDGE BANK

On February 25, 2009, the Company executed a Business Financing Agreement, dated February 18, 2009, with Bridge Bank, National Association (the "Lender") (the "Initial Agreement"). The Initial Agreement has been amended by Business Financing Modification Agreements dated effective February 26, 2009 and August 4, 2009, respectively (the "Modification Agreements," and together with the Initial Agreement the "Credit Agreement"). 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"). At September 30, 2012, there was no balance due under the terms of the Credit Agreement and $38,385 was available. At December 31, 2011, $233,231 was outstanding and $66,601 was available under the terms of the Credit Agreement.

The Credit Agreement is formula-based and generally provides that the outstanding borrowings may not exceed an aggregate of 80% of eligible accounts receivable. The Company must immediately pay any advance made under the Credit Agreement 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 Agreement is secured by a continuing first priority security interest in all the Company's personal property (subject to customary exceptions). Interest on the Credit Agreement 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, 2012). The Credit Agreement may be terminated at any time by either party to the Credit Agreement.

NOTE 4 – ADVANCES FROM SHAREHOLDERS

As of September 30, 2012 and December 31, 2011, $5,018 of advances from shareholders was advanced to the Company by its President, Mr. Balwinder Samra, and is payable to Mr. Samra. This amount due to Mr. Samra, a related party, is unsecured, non-interest bearing, and does not have defined terms of repayment.

As of December 31, 2011, Mr. Winston Chung, the Company's Chairman of the Board, had advanced $500,000 to the Company. The advance received were non-interest bearing, and with no other defined terms. As of December 31, 2011, Mr. Chung also held warrants to acquire 7,812,500 shares of the Company's common stock at an exercise price of $0.64 per share. The Warrants were vested and have a 5-year term or an expiration date on December 30, 2015. Effective March 31, 2012, the Company, Mr. Chung and by Seven One Limited ("SOL"), a company related to the Chairman by common ownership, entered into an agreement whereby the exercise price of certain warrants held by SOL were reduced to $0.40 per share. SOL then elected to exercise warrants to acquire 1,250,000 shares of common stock at a price of $0.40 and the Company issued 1,250,000 shares of its common stock to SOL, in consideration of the exercise of warrants at an exercise price of $0.40 upon the conversion of $500,000 of the cancelation of the amount owed to Mr. Chung as an advance in 2011. Due to the modification of the exercise price, the Company recognized a cost to induce conversion of $225,000 relating to the additional 468,750 shares that would have been issued under the original $0.64 per share conversion feature.

BALQON CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 (Unaudited)

NOTE 5 – CONVERTIBLE PROMISSORY NOTES

Convertible notes payable consist of the following as of September 30, 2012 and December 31, 2011:

	September 30, 2012 (Unaudited)	December 31, 2011
Subordinated unsecured convertible notes payable, interest at 10% per annum payable quarterly, due March 31, 2012, and currently in default (1)	$ 25,000	916,500
Subordinated secured convertible notes payable, interest at 10% per annum payable quarterly, due March 31, 2013 (2)	891,500	–
Subordinated secured convertible notes payable, interest at 10% per annum payable quarterly, due March 31, 2013 (3)	340,000	–
Subordinated unsecured convertible notes payable, interest at 10% per annum payable quarterly, due September 1, 2012, and currently in default (4)	1,330,000	1,330,000
Senior secured convertible notes payable, interest at 10% per annum payable quarterly, due March 31, 2013 (5)	775,000	775,000
Convertible notes payable	3,361,500	3,021,500
Less: note discount	(566,119)	(724,840)
Convertible notes payable, net of note discount	2,795,381	2,296,660
Less: current portion of subordinated unsecured notes	(2,795,381)	(1,483,168)
Convertible notes payable, net of note discount and current portion	$ –	$ 813,492

(1) A holder of $25,000 in principal of the Company's 10% Unsecured Convertible Promissory Notes issued between March 25, 2009 and June 19, 2009 did not accept the Company's offer under the Amendment and Exchange Agreements (see footnote 2 below) to exchange this note for an Amended Note that matures on March 31, 2013. As such, this 10% Unsecured Convertible Promissory Note matured on March 31, 2012 and is in default due to non-payment of the note by the Company.

(2) 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. The notes were due on March 31, 2012 and are subordinated to the right to the prior payment of all Senior Indebtedness (as defined in the notes). 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 year ended December 31, 2011, $68,500 in principal amount of these notes was converted to 68,500 shares of the Company's common stock. As of December 31, 2011, $916,500 in principal was outstanding under these notes.

NOTE 5 – CONVERTIBLE PROMISSORY NOTES (continued)

During the three months ended March 31, 2012, the Company negotiated Amendment and Exchange Agreements with holders of $891,500 of its $916,500 of 10% unsecured notes payable that matured on March 31, 2012. The terms of the Amendment and Exchange Agreements provide that the maturity date of these notes (the "Amended Notes") is extended until March 31, 2013, the Amended Notes continue to pay quarterly interest at the rate of 10% and are subject to a security agreement. The Amendment and Exchange Agreements also provide that the Amended Notes are convertible into common stock of the Company at a price of $0.40 per share, subject to adjustment for a weighted average anti-dilution provision. In connection with the issuance of the Amended Notes, the Company issued three-year warrants to purchase up to 975,000 shares of common stock at an exercise price per share of $0.40.

The Amended Notes are due on March 31, 2013 (the "Maturity Date"). The Amended Notes are secured under the terms of a security agreement granting the holders of the Amended Notes a security interest in all of the Company's personal property subject to the interests of the holders of Senior Indebtedness (as defined in the Amended Notes). The security interest granted is subordinate to existing bank financing and the 10% Senior Secured Convertible Debentures that currently have a principal balance due of $775,000.

Each of the agreements governing the Amended Notes and warrants includes an anti-dilution provision that allows for the automatic reset of the conversion or exercise price upon any future sale of the Company's common stock, warrants, options, convertible debt or any other equity-linked securities at an issuance, exercise or conversion price below the current conversion price of the Amended Notes or exercise price of the warrants issued with the Amended Notes. 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 Amended Notes 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 initial fair value of these warrants as derivative liabilities upon issuance. The Company determined the aggregate initial fair value of the warrants issued to investors to be $316,876 and the initial fair value of the embedded beneficial conversion feature of the Amended Notes to be $512,613 (an aggregate amount of $829,489). These amounts were determined by management with the use of an independent valuation specialist using a Monte Carlo simulation model using the Black-Scholes Merton option pricing model. As such, the Company recorded an $829,489 valuation discount upon issuance of the notes and warrants. The Company is amortizing this valuation discount to interest expense over the life of the notes. As of September 30, 2012, the unamortized balance of the note discount was $414,715.

(3) On May 18, 2012, the Company entered into Agreements with 3 accredited investors for a sale by the Company of an aggregate of $340,000 10% Secured Subordinated Convertible Promissory Notes (the "May 2012 Notes") which are convertible into an aggregate of 850,000 shares of the Company's common stock at a conversion price of $0.40 per share of common stock, subject to adjustment.

NOTE 5 –CONVERTIBLE PROMISSORY NOTES (continued)

The notes are due on March 31, 2013 and are subordinated to the right to the prior payment of all Senior Indebtedness (as defined in the notes). The notes pay quarterly interest at the rate of 10% and are subject to a security agreement that secures the Notes by the Company's assets. The security agreement is subordinate to existing bank financing and the Debentures (as defined below) that currently have a principle balance due of $775,000 and the Amended Notes that currently have a balance due of $891,500. Additionally, the Company issued three-year warrants to purchase an aggregate of 340,000 shares of the Company's common stock at an exercise price of $0.40 per share, subject to adjustment.

The conversion price of the May 2012 Notes are subject to full ratchet anti-dilution provisions and also subject to adjustment based on stock splits, stock dividends, spin-offs, rights offerings, or recapitalization through a large, nonrecurring cash dividend. Each of the agreements governing the May 2012 Notes include an anti-dilution provision that allows for the automatic reset of the conversion price upon any future sale of the Company's common stock, warrants, options, convertible debt or any other equity-linked securities at an issuance, exercise or conversion price below the current conversion price of the May 2012 Notes. 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 May 2012 Notes 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 are not considered indexed to the Company's own stock and characterized the fair value of the conversion feature of the notes as derivative liabilities upon issuance.

The Company determined the aggregate fair value of the warrants issued to investors to be $109,140 and the initial fair value of the embedded beneficial conversion feature of the May 2012 Notes to be $136,850 (an aggregate amount of $245,990). These amounts were determined by management with the use of an independent valuation specialist using a Monte Carlo simulation model using the Black-Scholes Merton option pricing model. As such, the Company recorded a $245,990 valuation discount upon issuance of the notes and warrants. The Company is amortizing this valuation discount to interest expense over the life of the notes. As of September 30, 2012, the unamortized balance of the note discount was $113,398.

(4) 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.

NOTE 5 – CONVERTIBLE PROMISSORY NOTES (continued)

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 year ended December 31, 2011, $153,750 of the principal of the notes was converted into 204,998 shares of the Company's common stock. As of September 30, 2012 and December 31, 2011, $1,330,000 in principal was outstanding under these notes. The notes matured on September 1, 2012 and are presently in default. The Company is negotiating with the note holders to convert these notes into secured status and extend the maturity date to March 31, 2013.

The Company determined that the relative fair value of the warrants upon issuance was $731,710. The relative fair value was determined using the methodology prescribed by current accounting guidance. The Company determined the fair value of the beneficial conversion feature was approximately $768,290. 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. The relative value of the warrants of $731,710 and the beneficial conversion feature of $768,290 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, 2012 and December 31, 2011, the unamortized balance of the note discount was $38,006 and $362,645, respectively.

(5) Between July 2010 and December 2010, the Company entered into agreements with 26 accredited investors for the sale by the Company of an aggregate of $850,000 of 10% Senior Secured Convertible Debentures (the "Debentures") which are convertible into an aggregate of 1,133,333 shares of the Company's common stock at a conversion price of $0.75 per share, subject to adjustment. In connection with this offering, the Company also issued to the investors warrants to purchase an aggregate of 850,000 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 68,000 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.

During the year ended December 31, 2011, $75,000 of the principal of the Debentures was converted into 117,186 shares of the Company's common stock. As of September 30, 2012 and December 31, 2011, $775,000 in principal was outstanding under these Debentures. Under the adjustment provisions of the Debentures and warrants, the conversion price of the Debentures and the exercise price of the warrants has been reduced to $0.56 in connection with various dilutive issuances made during 2010 and 2011.

The Debentures were 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 Company extended the maturity date of the Debentures to March 31, 2013. The Debentures are secured under the terms of a security agreement granting the holders of the Debentures a security interest in all of the Company's personal property. Each of the agreements governing the Debentures and warrants 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 conversion price or 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.

NOTE 5 –CONVERTIBLE PROMISSORY NOTES (continued)

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 $511,399 and the initial fair value of the embedded beneficial conversion feature of the Debentures to be $504,440 (an aggregate amount of $1,015,839). These amounts were determined by management with the use of an independent valuation specialist using a Monte Carlo simulation model using the Black-Scholes Merton option pricing model. In accordance with current accounting guidelines, the excess of $165,839 of derivative liability created over the face amount of the Debentures was considered to be a cost of the private placement. In addition, the Company also incurred another $193,500 of closing costs (consisting of $93,500 of placement agent fees and $100,000 of legal fees directly related to the offering). As such, the Company recorded an $850,000 valuation discount upon issuance, and in 2010, recognized private placement costs of $358,339 for financial reporting purposes. As of September 30, 2012, the Company has fully amortized $850,000 of the valuation discount.

As of September 30, 2012, the total discount of $566,119 is offset against the balance of the notes and Debentures for financial statement presentation. During the nine months ended September 30, 2012, amortization of loan discount was $1,234,140.

The aggregate fair value of the derivative liabilities as of September 30, 2012 and December 31, 2011 was $2,716,835 and $676,284, respectively, (See Note 6).

As of September 30, 2012, the Company has not paid $242,989 of the quarterly interest due on its convertible promissory notes in the following amounts:

Interest payments due on January 1, 2012	$	19,375
Interest payments due on April 1, 2012	$	73,538
Interest payments due on July 1, 2012	$	75,038
Interest payments due on October 1, 2012		75,038

Pursuant to the terms of the notes, the non-payment of interest by the Company constitutes an event of default and, as a result, the holders of the notes may accelerate payment of all amounts outstanding under the notes by giving written notice to the Company and thereby requiring that the Company immediately pay up to an aggregate of $3,361,500 in principal plus all accrued and unpaid interest. If the holders of the notes were to declare the notes due and payable, the Company presently does not have the ability to pay these notes.

NOTE 6 – 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. As of September 30, 2012 the Company has two securities offerings that are subject to these provisions as follows:

NOTE 6 – DERIVATIVE LIABILITY (continued)

The conversion feature of the Company's Debentures, Amended Notes, related warrants, and May 2012 Notes (described in Note 5), do not have fixed settlement provisions because their conversion and exercise prices, respectively, will 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, Amended Notes, and May 2012 Notes from the potential dilution associated with future financings.

In accordance with the FASB authoritative guidance, the conversion feature of the Debentures, the Amended Notes and the May 2012 Notes was separated from the host contract (i.e., the Debentures, Amended Notes and May 2012 Notes) and recognized as a derivative instrument. Both the conversion feature of the Debentures, the Amended Notes, related warrants, and the May 2012 Notes 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.

At the date of issuance and as of December 31, 2011, the derivative liabilities were valued using Monte Carlo simulation model. As of September 30, 2012, the derivative liabilities were valued using a probability weighted average Black-Scholes pricing model with the following assumptions:

	September 30, 2012	At Date of Issuance	December 31, 2011
Conversion feature:			
Risk-free interest rate	0.13%	0.19%	0.09%
Expected volatility	223.51%	98.14%	98.40%
Expected life (in years)	0. 5 years	1.0 year	.75 years
Expected dividend yield	0	0	0
Warrants:			
Risk-free interest rate	0.31%	0.51%	0.54%
Expected volatility	223.51%	98.14%	105.30%
Expected life (in years)	2. 5 – 3.0 years	3.0 years	3.75 years
Expected dividend yield	0	0	0
Fair Value:			
Conversion feature	1,885,926	649,463	263,984
Warrants	830,809	316,816	412,300
	$ 2,716,835	$ 966,279	$ 676,284

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 Debentures was based on the term of the Debentures 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 its common stockholders in the past and does not expect to pay dividends to its common stockholders in the future.

NOTE 6 – DERIVATIVE LIABILITY (continued)

As of September 30, 2012 and December 31, 2011, the aggregate derivative liability of the conversion feature and the warrants was $2,716,835 and $676,284, respectively. For the nine months ended September 30, 2012, the Company recorded a change in fair value of the derivative liabilities of $1,074,272.

NOTE 7 – INCOME TAXES

At September 30, 2012, the Company had available federal and state net operating loss carryforwards to reduce future taxable income. The amounts available were approximately $23,000,000 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.

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

	September 30, 2012 (Unaudited)	December 31, 2011
Deferred income tax asset:		
Net operating loss carryforward	$ 10,400,000	$ 8,000,000
Valuation allowance	(10,400,000)	(8,000,000)
Net deferred income tax asset	$ –	$ –

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

	September 30, 2012 (Unaudited)	December 31, 2011
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% 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 of September 30, 2012 and December 31, 2011, the Company does not have a liability for unrecognized tax benefits.

NOTE 8 – SHAREHOLDERS' EQUITY

Shares Issued Upon Exercise of Warrants

On March 31, 2012, the Company issued 1,250,000 shares of its common stock to SOL, an affiliate of the Company's Chairman, in consideration of the exercise of warrants at an exercise price of $0.40 upon the conversion of $500,000 of an unsecured loan made by the Chairman to the Company during October 2011.

Stock Options

At September 30, 2012, options shares outstanding were as follows:	Shares		Weighted Average Exercise Price
Balance at January 1, 2012	1,416,695	$	2.50
Granted	–		–
Exercised	–		–
Expired	(1,416,695)	$	2.50
Balance at September 30, 2012	–		–

Warrants

At September 30, 2012, warrants shares outstanding were as follows:	Shares		Weighted Average Exercise Price
Balance at January 1, 2012	13,256,220	$	0.82
Granted and Exchanged	9,127,500	$	0.40
Exercised	(1,250,000)	$	0.40
Exchanged	(7,812,500)	$	.64
Expired	(3,025,720)	$	0.74
Balance at September 30, 2012	10,295,500	$	0.45

During the three months ended March 31, 2012, the Company negotiated Amendment and Exchange Agreements with holders of $891,500 of the Company's 10% Unsecured Convertible Notes that matured on March 31, 2012. In connection with these Amendment and Exchange Agreements, the Company is issuing new warrants that will enable the warrant holders to purchase up to 975,000 shares of the Company's common stock at an exercise price per share of $0.40. These warrants will have a contractual life of three years and expire on March 31, 2015.

Effective March 31, 2012, the Company's Chairman exercised 1,250,000 underlying a warrant to purchase 7,812,500 shares held by Seven One Limited ("SOL"), a company related to the Chairman by common ownership. These warrants were previously exercisable at $0.64 per share, however, in consideration of the Chairman converting $500,000 of an outstanding unsecured loan into common stock, the Company agreed to re-price these warrants at an exercise price of $0.40. The warrant representing the remaining shares will expire on the original expiration date of December 14, 2015. The total value of the adjustment of the exercise price of these warrants was $446,809 and was reflected as a cost to induce conversion during the six month period ended June 30, 2012.

On May 18, 2012, the Company entered into agreements with 3 accredited investors for a sale by the Company of an aggregate of $340,000 of the May 2012 Notes. In connection with these Notes, the Company is issuing new warrants that will enable the warrant holders to purchase up to 340,000 shares of the Company's common stock at an exercise price per share of $0.40. These warrants will have a contractual life of three years and expire on March 31, 2015.

NOTE 8 – SHAREHOLDERS' EQUITY (continued)

The following table summarizes information about stock warrants outstanding and exercisable as of September 30, 2012:

	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
$0.40	8,745,500	$0.40	2.3	8,745,500	$0.40
$0.64	1,500,000	$0.64	3.2	1,500,000	$0.64
$1.00	50,000	$1.00	1.3	50,000	$1.00
	10,295,500			10,295,500	

As of September 30, 2012, the aggregate intrinsic value of the warrants outstanding and exercisable was $699,640.

NOTE 9 – RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2012, the Company had no sales to related parties. As of September 30, 2012, the Company had accounts receivable of $198,067 from related parties which is fully reserved.

As of September 30, 2012 and December 31, 2011, the Company had trade accounts payable to related parties of $1,417,150 and $330,840, respectively. The related parties are suppliers of the Company related by common ownership to the Company's Chairman.

On December 14, 2010, the Company entered into a Distribution Agreement with SOL (the "Distribution Agreement"). Under the Distribution Agreement, SOL has granted the Company the right to distribute lithium iron phosphate batteries and high voltage charging systems manufactured by Seven One Battery Company on an exclusive basis in the United States. The Company's Chairman of the Board, Winston Chung, is the chief executive officer of SOL. In January 2011, based on the terms of the Distribution Agreement, the Company received battery units valued at $2,629,800 on a consignment basis. As of September 30, 2012 and December 31, 2011, the Company held battery units valued at $574,900 and $1,915,200 respectively held on a consignment basis, which amounts are not included in recorded inventories.

During the nine month periods ended September 30, 2012 and December 31, 2011, battery costs were $1,340,300 and $714,600, respectively.

NOTE 10 – INVENTORY HELD BY CUSTOMER

In November 2010, T&K Logistics, the provider of logistics services to Ford Motor Company and the manager of on-site transportation of trailers and containers at Ford Motor Company's assembly plant in Wayne, Michigan, agreed to lease 10 of the Company's Nautilus yard tractors for use at the assembly plant for a period of 36 months. Although the Company shipped five of its Nautilus XR E20s to T&K Logistics during the first six months of 2011, T&K Logistics has failed to accept delivery of these units and, as a result, has failed to make any payments owed to the Company under the lease. The Nautilus XR E20s that the Company shipped to T&K Logistics featured battery systems with double the battery energy and, therefore, double the range of the Company's Nautilus XE20s. Although the Company experienced certain delays during the installation of charging systems into the tractors at T&K Logistics' facility, the Company believes that five units under current conditions operate satisfactorily and have incurred significant hours of use. The Company has delayed shipment of the remaining units to T&K Logistics until the previously delivered five units are accepted by T&K Logistics.

On September 21, 2012, T&K Logistics, Inc. filed a complaint (the "Complaint") in the Superior Court of California, County of Los Angeles (Case No.: BC492619) against the Company. The Complaint relates to the lease agreement between the Company and T&K Logistics regarding the Company's yard tractors. The Complaint purports to state the following three counts against the Company: (i) breach of contract, (ii) specific performance, and (iii) negligent misrepresentation and seeks compensatory damages of not less than $453,897. The Company intends to vigorously defend against T&K Logistics' claims. On November 19, 2012, the Company filed an answer to the Complaint denying all allegations in the Complaint. On that same date, the Company filed a cross-complaint against T&K Logistics for breach of contract and common count—goods and services rendered and seeking damages in the amount of $300,000.

At September 30, 2012, the Company conducted an assessment and determined that approximately $739,000 of the value of the electric vehicles inventory held for lease by customer were non-recoverable inventory and this is included in the write-down of $1,345,111 of non-recoverable inventories on the accompanying condensed statement of operations (see Note 1).

NOTE 11 – PURCHASE AND REPRESENTATION AGREEMENT

On July 9, 2012, the Company entered into a Purchase and Representation Agreement (the "Lego Agreement") with Lego Battery Sales, LLC ("Lego"). The terms of the Lego Agreement call for the sale by the Company to Lego of 1,000 batteries for an aggregate sales price of $350,000.

The Lego Agreement further requires that the Company serve as Lego's exclusive sales agent and representative to market and resell the batteries on behalf of Lego. The sales prices of the batteries must be at a minimum sales price of $490 per battery. In consideration for its services as sales agent and representative, the Company shall earn a sales commission equal to the excess of the sales price of each battery above the minimum sale price The Lego Agreement is secured by a pledge of 2,450,000 shares of common stock owned individually by the Company's president; Mr. Balwinder Samra. If Lego does not sell the minimum consideration of $490,000 for the sale of the 1,000 batteries by January 9, 2013, Lego may foreclose on these pledged shares. The term of the Lego Agreement is for six months and may be extended by mutual consent of the parties.

ITEM 2. 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 or elsewhere in this report, including in the "Risk Factors" section of this report, or referenced from time to time in our filings with the Securities Exchange Commission, or SEC, 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.

Business Overview

We are a developer and manufacturer of electric drive systems, charging systems and lithium battery systems for trucks, tractors, buses, industrial equipment and renewable energy storage devices. We also design and assemble electric powered yard tractors, short haul drayage tractors and inner city trucks utilizing our proprietary drive systems, battery systems and charging systems.

Each of our electric drive systems is comprised of an electric motor, transmission, our proprietary flux vector motor controller (which controls the speed of an electric motor by varying the input frequency and voltage from a vehicle's batteries), power electronic components and proprietary software configured to specific application needs. Our lithium battery systems feature our proprietary battery management system, or BMS, an electronic device connected to each lithium battery cell to monitor and balance the state of charge of the battery, including its temperature, voltage and current during charge and discharge cycles. Our proprietary software allows our BMS to be used on any battery cell chemistry. Our charging systems, introduced in the third quarter of 2011, vary in capacity ranging from 8 kilo Watt, or kW, to 120 kW in power and 200 Volts to 700 Volts in charge voltage.

A key element of our marketing strategy is to provide fully integrated propulsion and energy storage systems to vehicle manufacturer's worldwide, allowing original equipment manufacturers, or OEMs, of commercial vehicles, such as trucks, tractors, and buses, to rapidly integrate our proprietary technologies into diversified vehicle platforms to address a growing global demand for commercial electric vehicles. We also market energy storage systems comprised of lithium batteries, battery management and chargers to renewable energy storage system manufacturers that market completed systems to solar and industries. We are also engaged in the research and development of battery systems, charging systems and power inverters (which converts direct current voltage into a alternating current voltage) for use in energy storage devices to reduce peak loads in commercial applications such as in the telecommunications industry and in large commercial and industrial buildings.

We sell our electric drive systems, charging systems and battery systems to global OEMs of commercial vehicles and industrial equipment. A key element of our sales strategy is to develop strategic partnerships with global OEM's to jointly develop commercial electric vehicles incorporating our drive systems, charging systems and battery systems into localized chassis platforms that meet regional customer needs. We believe that this strategy allows us to market our proprietary technologies to global customers while reducing product development and integration time for our OEM partners.

We also develop, design, assemble, market and sell zero-emissions heavy-duty electric yard tractors, heavy-duty short haul drayage tractors, and inner city Class 7 and Class 8 trucks and medium-duty trucks that feature our proprietary electric drive systems, charging systems and lithium battery systems. Our heavy-duty electric tractors are suitable for use in the transportation of containers and heavy loads in off-highway applications at facilities such as marine terminals, rail yards, industrial warehouses, intermodal facilities (facilities where freight is transferred from one mode of transportation to another without actual handling of the freight itself when changing modes), military bases and industrial plants. Our medium-duty electric trucks can be configured by our customers for various uses in inner city on-highway applications. For example our customers can configure our medium-duty electric trucks as box trucks or shuttle busses for use in inner city applications.

As of the date of this report, our electric tractor product portfolio features three products in our Nautilus product line, the Nautilus XE20, a heavy-duty on-road electric tractor, the MX30, a heavy-duty electric short-haul tractor, and the Nautilus XR E20, a longer-range version of the Nautilus XE20. We also offer a heavy-duty Class 7 and Class 8 electric truck, the Mule M100, a medium-duty electric truck. The Mule M100 is designed as zero emissions solutions to transport loads of 4 tons, and, depending on battery selection, can be configured to have a range of up to 150 miles on a single charge under unloaded conditions.

Recent Developments

Overview

The Company's obligations on convertible debt and delinquent payroll taxes raises substantial doubt about the Company's ability to continue as a going concern The Company has been, and currently is, working towards identifying and obtaining new sources of financing. No assurances can be given that the Company will be successful in obtaining additional financing in the future. Any future financing that the Company may obtain may cause significant dilution to the existing stockholders and may require the Company to relinquish rights and/or control of the ownership of Company's proprietary technology and other important assets. The Company may be required to further delay, scale back or eliminate portions of its operations and product and service development efforts.

During the year ended December 31, 2011 and through November 15, 2012, a significant portion of our research and development efforts, have been focused on the development of electric drive systems, charging systems, lithium battery storage systems and the next generation of our flux vector motor controllers to address the light and medium-duty vehicle markets. During 2011, we developed our proprietary charging systems, high frequency fast chargers that have a capacity of up to 160 kW that will provide our customers with the capability to charge our vehicles in less than two hours. During 2011, we also completed the development of our next generation flux vector motor controllers, which incorporate the latest transistor technology that is commercially available and provide higher efficiency and more power than our existing flux vector motor controllers. Our next generation flux vector motor controllers are designed to work seamlessly with induction motor or permanent magnet motor designs, allowing us the ability to develop drive systems for light-duty vehicles such as automobiles, pickup trucks and light-duty delivery vehicles. Our efforts during 2011 also led to the development of power inverters, charging systems and battery systems capable of providing up to one Mega Watt, or MW, of power in peak load sharing applications in energy storage devices. During 2011, we also developed and sold battery systems to address applications such as forklifts and pallet jacks in the telecommunication energy storage and material handling markets.

A significant portion of our production efforts in 2011 and through November 15, 2012, have been focused on developing the MX30, a heavy duty on-road short-haul electric tractor. MX30 is currently being tested by Port of Los Angeles for use in short-haul applications. Testing of MX30 during the past three months under fully loaded conditions indicate 80 mile range under full load conditions transporting 20 ton containers between a marine terminal and a local rail yard. In addition the Company has received approval from Department of Energy for a grant to build three more MX30 vehicles for use in Port applications.

During 2012, we have developed lithium battery storage systems for the solar, wind and telecommunications industries. In 2012, we also developed 12-48 volt high energy storage capacity battery packs to address telecommunications energy storage needs. Our battery systems replace current lead acid batteries with no maintenance required and double the cycle life of current equivalent lead acid batteries. In 2012, we developed lithium battery solutions for ground support equipment industry, which includes lithium batteries for airport baggage tractors and aircraft tractors.

In 2012, we received a purchase order from Terberg Benschop, a leading manufacturer of Yard tractors located in Europe to jointly develop an electric yard tractor configuration for their current line of yard tractors. As of the date of this report, we have delivered three drive systems, battery systems and chargers to our customer and currently three units are undergoing testing and demonstration in Europe. We currently have two manufacturers, Terberg and MOL Industries demonstrating electric yard in Europe, we anticipate successful demonstrations will lead to additional orders for our drive systems.

Significant Highlights

During 2012, we developed an on-road Class 8 short-haul electric tractor, our MX30, for port applications. In June 2012 we successfully completed dynamometer testing on the MX30 with a maximum load of 30 tons on a 10% grade. In August 2012, we began on-road testing the MX30 for short-haul applications at the Port of Los Angeles. We anticipate that testing on the MX30 will continue for six months to demonstrate the viability of our MX30 as a full electric zero emissions heavy-duty on-road tractor in short haul marine applications.

In June 2012, we launched our website to market our complete line of lithium batteries and energy storage systems. Over 10% of our revenue during second quarter of 2012 was a result of online sales of batteries through our website. We anticipate increased revenues from online sales during rest of the year.

During 2011, we introduced our charging systems, which vary in capacity, ranging from 8 kW to 120 kW in power and 200 Volts to 700 Volts in charge voltage. Our charging systems feature 8 kW modules that are connected in series to achieve a maximum charge rate of 120 kW, and they are equipped with our proprietary software that conforms to Society of Automotive Engineers J1772 communication and protocol requirements.

In October 2011, we sold five units of our next generation flux vector motor controllers to a customer engaged in the manufacturing of monorail systems. Our new generation of motor controllers are equipped with current transistor technology and are able to work seamlessly with induction or permanent magnet motor designs. We expect to market these flux vector motor controllers to automobile manufacturers worldwide for use in light-duty passenger vehicle and cargo vehicle applications.

In November 2011, we completed the assembly of and delivered a one MW battery storage system, featuring our battery system, charging systems and battery management systems, to a local university for use as a peak load sharing device. In May 2012, the system was placed in operation and delivers power around the clock to a building at a local university. In December 2011, we completed and delivered two additional drive and battery systems to Ashok Leyland, for use in the development of inner city electric buses. We also received additional orders for the development and shipment of four drive and battery systems for medium duty electric trucks for use in inner city applications.

During 2011, one of our electric drive systems was integrated into a heavy-duty tow tractor jointly developed by us and Mol Industries, an OEM located in Europe. As of the date of this report, the completed vehicle has successfully completed testing at a customer site. During the second quarter of 2012, the heavy-duty tow tractors that feature our electric drive systems have been demonstrated to commercial and marine port terminals. We expect the demonstrations of the Mol Industries tractor featuring our electric drive system to result in additional orders for our electric drive systems from OEMs in Europe during the remainder of 2012 and 2013.

During 2011, we sold two Nautilus XR E20 yard tractors, one to a steel manufacturer and one to a military base. We expect these Nautilus XR E20s to be used to transport trailers and containers at these facilities. In addition to our Nautilus XR E20s, we also shipped our new charging systems to these customers, enabling our customers to use the Nautilus XR E20s during three shift operations.

During 2011, we developed, tested and sold a Mule M100, a heavy-duty truck, configured for use as an electric 32 passenger inner city shuttle bus. During this period, we also delivered and sold one 40 foot passenger electric drive chassis and a charging system to a customer engaged in the development of next generation electric buses and passenger vehicles. The chassis incorporates our drive system and battery system and will be configured by our customer for use as a 40 foot passenger bus. During the second quarter of 2012, our customer completed the 40 passenger bus and has demonstrated the bus to customers in transit and federal government agencies. We expect demonstrations of the electric bus by our customer will result in additional orders during 2012 and 2013.

During 2011, we also sold six battery storage systems to a customer in the telecommunications industry to demonstrate the fuel savings that result from the use of battery power on remote wireless towers. As of the date of this report, the battery storage systems are operational and have demonstrated a significant reduction in fuel costs resulting from use of battery power during off-peak hours of operation of the wireless towers. During 2012 we have provided over 10 additional battery systems to telecommunication customers. Over 80% of the new sales were to customers that had previously purchased and tested our battery systems in telecommunications applications. Our telecommunications battery systems were delivered to global customers in Australia, South Africa, Nigeria, India and Bangladesh. We anticipate successful demonstration of our lithium battery storage systems will result in additional sales during the remainder of 2012 and in 2013.

Significant Customers and Strategic Partnerships

In January 2011, we entered into an agreement with WGE, an affiliate of our Chairman of the Board headquartered in Shenzhen China, under which WGE agreed to purchase 300 of our electric drive systems at an aggregate purchase price of approximately $15.9 million. In 2011, we delivered one drive system to be integrate our electric drive system into a localized 16 passenger bus chassis. As of the date of this report, our customer has been unable to successfully integrate and test our drive system, thereby delaying our ability to ship additional drive systems. In order to remedy the delay in product development, we have signed a Memorandum of Understanding with a large Bus manufacturer in China to expedite development of small to mid-size transit buses for the China market.

Under an agreement with the City of Los Angeles, or City of Los Angeles Agreement, we agreed to sell 20 Nautilus E20 heavy-duty electric yard tractors (the predecessor to our Nautilus XE20) and five Nautilus E30 short-haul tractors (the predecessor to our Nautilus XE30) to the City of Los Angeles for use at the Port of Los Angeles. As of the date of this report, we have delivered 14 Nautilus E20s (including four Nautilus XE20s two of which have been retrofitted with extended range lithium batteries and are referred to as our Nautilus XR E20s) and one Nautilus XE30 to the Port of Los Angeles under the terms of the City of Los Angeles Agreement. Initial use of the electric vehicles at the Port of Los Angeles evidenced that the vehicles had a range of between five and six hours. Upon the request of the City of Los Angeles to increase the range of the vehicles to meet two shift operations, we retrofitted two of the vehicles already delivered under the City of Los Angeles Agreement with extended range lithium battery systems, hydraulic systems and idle stop software in order to extend the range of the resultant vehicle, the Nautilus XR E20. The two retrofitted Nautilus XR E20s have completed seven months of testing at a local marine facility. Further, as of the date of this report, two additional E20s are being tested at a local recycling facility under heavy loads exceeding 40 tons. We believe that the performance of the Nautilus XR E20s are meeting expectations, and the City of Los Angeles has requested that we retrofit two additional vehicles with extended range lithium battery systems for testing at an alternate facility. The City of Los Angeles Agreement terminated on June 26, 2011, and, consequently, we do not have an obligation to sell, and the City of Los Angeles does not have an obligation to buy, the remaining 10 vehicles. We expect to negotiate a new agreement with the City of Los Angeles to upgrade six existing units with extended range batteries to increase the range of the vehicles delivered under the previous agreement. We are also in negotiations with the City of Los Angeles to deliver an on-road Class 8 truck for use in drayage applications that will allow us to deliver the remaining 6 electric yard tractors, 4 short-haul electric tractors. While we are confident that such an agreement with the City of Los Angeles will be reached, no assurance can be given that we will in fact enter into such an agreement.

During the year ended December 31, 2010, we delivered electric drive systems and lithium battery systems to Ashok Leyland, a large manufacturer of trucks and buses based in India, to be installed into intercity hybrid buses to be used for demonstration purposes. The intercity hybrid buses incorporating our electric drive systems and lithium battery systems underwent field tests for one year. As a result of the successful demonstration and testing of these intercity hybrid buses, in April 2011 we entered into a Joint Development Agreement with Ashok Leyland under which we will work with Ashok Leyland to jointly develop and test six electric vehicles (comprised of buses and trucks) using Ashok Leyland's glider chassis and our electric drive systems and lithium battery systems. As of the date of this report, we have sold two electric drive systems to Ashok Leyland for integration into prototype inner city buses. In addition we have also delivered two electric drive systems and battery systems for integration into an inner city delivery truck. Subject to the six prototypes being delivered and meeting established performance and cost targets and/or Ashok Leyland obtaining firm requirements from its customers, Ashok Leyland has agreed to purchase a minimum of 14 additional drive systems from us for sale to its customers. As of the date of this report, we have delivered four of the six prototypes.

In January 2012, we received a purchase order from Terberg Benschop, a leading manufacturer of yard tractors and heavy duty trucks with facilities in Netherlands and Malaysia. Under the terms of the purchase order, we jointly developed an electric drive system for the current line of yard tractors manufactured by Terberg. In the third quarter of 2012, we delivered three sets of drive systems and jointly completed the integration of our proprietary drive system and battery system. As of the date of this report, Terberg is demonstrating the electric yard tractor to local customers and showcasing the completed product at local trade shows.

In May 2011, we received a purchase order for an electric drive system and battery system from MOL Industries, a leading manufacturer of yard tractors and heavy duty refuse trucks with facilities in Belgium. In September 2011, MOL began demonstration of the completed electric yard tractors to local warehouse and marine terminals.

Distribution Agreement

In December 2010, we entered into a three year distribution agreement, or Distribution Agreement, with Seven One Limited, or SOL, under which we were appointed as the exclusive authorized distributor in the United States for the promotion, marketing and sale of lithium iron phosphate batteries and high voltage charging systems manufactured by Seven One Battery Company. On December 31, 2011, batteries with a value of $1,915,200 were held on consignment. As of September 30, 2012, batteries with a value of $574,900 were held on consignment.

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, recoverability of inventories, and recoverability of reported amounts of long-lived assets. Actual results may differ from those estimates.

Revenues

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.

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.

Stock-Based Compensation

We periodically issue stock instruments, including shares of our common stock, stock options, and warrants to purchase shares of our common stock to employees and non-employees in non-capital raising transactions for services and for financing costs. We account for stock option awards issued and vesting to employees in accordance with authorization guidance of the Financial Accounting Standards Board, or FASB, where the value of stock-based compensation is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite service period. Options to purchase shares of our common stock vest and expire according to the terms established at the grant date.

We account for stock options 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.

We estimate the fair value of stock options and warrants using the Black-Scholes Merton option-pricing model, which was developed for use in estimating the fair value of options that have no vesting restrictions and are fully transferable. This model requires the input of subjective assumptions, including the expected price volatility of the underlying stock and the expected life of stock options. Projected data related to the expected volatility of stock options is based on the average volatility of the trading prices of comparable companies and the expected life of stock options is based upon the average term and vesting schedules of the options. Changes in these subjective assumptions can materially affect the fair value of the estimate, and therefore the existing valuation models do not provide a precise measure of the fair value of our employee stock options.

We estimate the fair value of shares of common stock issued for services based on the closing price of our common stock on the date shares are granted.

Derivative Financial Instruments

We evaluate all of our 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, through June 30, 2012 we used the Monte Carlo simulation model to value the derivative instruments at inception and on subsequent valuation dates as of September 30, 2012, the derivative liabilities were valued using a probability weighted average Black Scholes pricing model. 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.

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 were no indicators of impairment of our long lived assets at September 30, 2012 or December 31, 2011.

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.

Financial Condition and Results of Operations

Our total revenues decreased by $122,619, or 15%, to $712,324 for the three months ended September 30, 2012 as compared to $834,943 for the three months ended September 30, 2011. The decrease in revenues was as a result of lower sales of electric yard tractors when compared to previous period. Gross profit (loss) during the nine months ended September 30, 2012 was a loss of $1,280,358 as compared to a gross profit of $312,179 during the same period in 2011, representing a decrease of $1,592,537, or 510%. The gross loss is primarily due to a $350,000 sale of batteries to a wholesale customer at a loss and the markdown of $1,345,111 of non-recoverable inventories. Our decision to sell a particular configuration of batteries to a wholesale customer was prompted by our desire to reduce inventory and generate cash for operations.

We reported a net loss of $4,191,157 for the three months ended September 30, 2012 as compared to a net loss of $1,012,383 for the three months ended September 30, 2011. Net loss as a percentage of sales during the nine months ended September 30, 2012 was 588%, as compared to net loss as a percentage of sales of 121% during the three months ended September 30, 2011. The increase in losses during the three months ended September 30, 2012, is primarily attributable to the decrease in revenues, a negative gross margin resulting from sales of $350,000 in batteries to wholesale customer, the markdown of $1,345,111 of non-recoverable inventories ,offset by decreases in general and administrative expenses, research and development costs, and depreciation. These are further offset by an increase in interest expense of $96,271. During the three months ended September 30, 2012, a $1,458,609 loss in the fair value of the derivative liability was realized while a $263,199 gain in the fair value of the derivative liability was realized during the three months ended September 30, 2011.

Our product mix during the first nine months of 2012 varied from our product mix during the first nine months of 2011. During the first nine months of 2012, vehicle sales accounted for 34% of our revenues, sales of batteries and battery systems were 42% of revenues, and sales of our electric drive systems accounted for 21% of revenues. During the first nine months of 2011, sales of drive systems represented 55% of total sales, sales battery systems accounted for 7% of our sales, sales of vehicles accounted for 29% of our sales and consulting revenues represented 3% of total sales and revenues.

In December 2010, we raised $5,000,000 in connection with a private placement of common stock and warrants. On May 18, 2012, we raised $340,000 in connection with a private placement of 10% secured subordinated convertible notes and warrants.

Our lack of significant revenues during the first nine months of 2012 is a direct result of a lack of capital, lack of new sales, and the length and complexity of our product development process. Typically, we experience a significant time lag between receiving an order for our electric drive systems or battery systems and recognizing revenue in connection with the order due to the development time required to integrate our technologies into new vehicle platforms specified by our customers. For example, while our electric drive systems and battery systems can be integrated into a multitude of product platforms, often times a substantial amount of time is needed to make design modifications to our product to ensure its integration into each new vehicle platform. In most cases new designs require sourcing of raw materials contributing further to the already lengthy production time. In the case of a new customer or a new product platform, it is customary in our business to complete and deliver a single unit prior to producing the entire order. Once the initial product is delivered, installed and accepted by our customer, we begin production on the remaining order based on production delivery dates agreed upon with our customer.

While 34% of our revenues during the first nine months of 2012 were derived as a result of our production efforts that were focused on the upgrade of six trucks previously delivered to the City of Los Angeles for use at the Port of Los Angeles from lead acid batteries to lithium ion batteries, 34% of our revenues during the period were derived from the delivery of battery systems and electric drive systems to our OEM customers in the United States, Asia and Europe. The drive systems were customized for vehicle configurations to be used in both on-road and off-road applications. We anticipate that the delivery of these drive systems will result in additional orders from our OEM partners in the future. In the short term, the Company is focused on continuing to sell battery systems to decrease the consigned inventory of batteries it holds and generate immediate cash.

As of September 30, 2012, we had a working capital deficiency of $9,667,419; an accumulated deficit of $9,452,061 and reported a net loss for the nine months ended September 30, 2012 of $6,690,270. Our plans for correcting these deficiencies include the future sales of our products and the raising of capital, which we expect would help provide us with the liquidity necessary to meet operating expenses. Over the longer-term, we plan to achieve profitability through the sale of our drive systems, electric vehicles, battery systems and other products.

As of November 15, 2012, we had a backlog of $1,005,538. The amount of backlog orders represents revenue that we anticipate recognizing in the future, as evidenced by purchase orders and other purchase commitments received from customers, but on which work has not yet been initiated or with respect to which work is currently in progress. As of the date of this report, 28% of our backlog consists of a battery system, 26% consists of a drive system and remainder consists of vehicles and accessories. Our backlog does not reflect a $975,000 Department of Energy grant awarded to us, which we are awaiting contract documents. Due to the delay in testing and approval of our drive system, we have removed $15.9 million in drive systems from our backlog until such time we have assurances on production timelines from our customer, WGE, an affiliate of our Chairman of the Board. We believe that the majority of our current backlog will be shipped within the next 12 months. However, there can be no assurance that we will be successful in fulfilling such orders and commitments in a timely manner or that we will ultimately recognize as revenue the amounts reflected as backlog.

We anticipate that a majority of future sales of our electric vehicles will be made directly to domestic and international OEMs. We are optimistic that the demonstration of our extended range Nautilus XR E20 and MX30 to existing and potential customers will result in additional sales of our electric vehicles.

The tables presented below, which compare our results of operations from one period to another, 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.

Third Quarter of 2012 Compared to the Third Quarter of 2011

	Three Months Ended September 30, 2012 (Unaudited)	Three Months Ended September 30, 2011 (Unaudited)	Dollar Variance Favorable (Unfavorable)	Percentage Variance Favorable (Unfavorable)	Results as a Percentage of Net Revenues for the Three Months Ended September 30, 2012	Results as a Percentage of Net Revenues for the Three Months Ended September 30, 2011
Net revenues	$ 712,324	$ 834,943	$ (122,619)	$ (15)%	100%	100%
Cost of revenues	939,026	729,430	(209,596)	(29)%	132%	87%
Write-down of non-recoverable inventories	1,345,111	–	(1,345,111)	(100)%	189%	–
Gross profit (loss)	(1,571,813)	105,513	(1,677,326)	(1,590)%	(221)%	13%
General and administrative expenses	615,460	709,827	94,367	13%	86%	85%
Research and development	46,890	130,820	83,930	64%	7%	16%
Depreciation and amortization	8,157	146,490	138,333	94%	1%	18%
Change in derivative liability	(1,458,609)	263,199	(1,721,808)	(654)%	(205)%	32%
Interest expense	(490,229)	(393,958)	(96,271)	(24)%	(69)%	47%
Net loss	$ (4,191,157)	$ (1,012,383)	$ (3,178,774)	$ (973)%	(588)%	(121)%

Net Revenues. The decrease in our revenues during the third quarter of 2012 is due to reduced sales of electric yard tractors when compared to same period in 2011. The percentage of our revenues generated from the shipment of battery systems was 74% during the third quarter of 2012 as compared to a 8% during the third quarter of 2011. Our current backlog consists of drive systems and battery systems for energy storage markets. We expect our battery sales to continue to increase at a modest growth levels during the next six months. Due to grant funding from Department of Energy for on-road electric trucks, we anticipate an increase in vehicle sales in the short term.

Write-down of non-recoverable inventories. The write-down of non-recoverable inventories of $1,345,111 during the third quarter of 2012 is attributable to the write-down charges of $606,111 attributable to inventory and $739,000 attributable to the equipment inventory held for lease by customer under an agreement with T&K Logistics. During the third quarter of 2012, the Company determined these assets were non-recoverable and recorded the corresponding write-down of non-recoverable inventories.

Gross Profit (Loss) . During the third quarter of 2012, we generated a gross loss as a percentage of net revenues of 1,590% as compared to a gross profit as a percentage of net revenues of 13% for the third quarter of 2011. This decrease in gross profit margin is due to the sale of $350,000 in batteries at wholesale, at a loss, during the third quarter of 2012 and the write-down of $1,345,111 of non-recoverable inventories during the same period.

General and Administrative Expenses. The 13% decrease in general and administrative expenses is comprised of an increase in unapplied overhead of $79,435, a decrease in marketing expenses of $89,030, a decrease in legal, consulting and professional fees of $123,869, a decrease in salaries and wages of $16,209, and a net increase of $55,306 of other general and administrative expenses.

Research and Development Expenses. The 64% decrease in research and development expenses is comprised largely of decreases in salaries and wages of personnel employed in the research and development group. We expect our research and development expenses to remain constant for the remainder of the year as we strive to manage expenses to achieve profitability.

Depreciation and Amortization. The decrease in depreciation and amortization is due largely to the amortization of the battery distribution agreement that occurred during the second quarter of 2011. Since the battery distribution agreement was impaired during the year ended December 31, 2011, no comparable amortization expense was incurred in 2012.

Change in Fair Value of Derivative Liability. At September 30, 2012, the fair value of our derivatives increased by $1,074,272 resulting in a loss on the change in fair value of the derivative liability. During the quarter ended September 30, 2011, the fair value of our derivatives increased to $2,716,835. These amounts were determined by management with the use of a probability weighted average Black-Scholes simulation model.

Interest Expense. The $96,271 increase in interest expense is attributable to interest on convertible notes and the amortization of the related beneficial conversion feature of the convertible notes.

Nine Months Ended September 30, 2012 Compared to the Nine Months Ended September 30, 2011

	Nine Months Ended September 30,		Dollar Variance	Percentage Variance	Results as a Percentage of Net Revenues for the Nine Months Ended September 30,	
	2012 (Unaudited)	**2011 (Unaudited)**	**Favorable (Unfavorable)**	**Favorable (Unfavorable)**	**2012**	**2011**
Net revenues	$ 1,860,522	$ 1,450,549	$ 409,973	28%	100%	100%
Cost of revenues	1,795,769	1,138,370	657,399	58%	97%	78%
Write-down of non-recoverable inventories	$ 1,345,111	–	1,345,111	100%	189%	–
Gross profit (loss)	(1,280,358)	312,179	(1,592,537)	(510)%	69%	22%
General and administrative expenses	1,966,206	2,886,272	(920,066)	(32)%	106%	199%
Research and development	191,159	424,544	(233,385)	(55)%	10%	29%
Depreciation and amortization	24,471	460,534	(436,063)	(95)%	1%	32%
Change in derivative liability	(1,074,272)	(164,941)	(1,239,213)	(751)%	(58)%	11%
Cost to induce exercise of warrants	(671,809)	–	(671,809)	(100)%	(36)%	0%
Interest expense	(1,481,996)	(1,390,265)	(91,731)	(7)%	(80)%	96%
Net loss	$ (6,690,270)	$ (4,684,495)	$ (2,005,775)	(973)%	(360)%	(323)%

Net Revenues. During the first nine months of 2012, approximately 34% of our revenues were generated as a result of the upgrade of six electric trucks previously delivered to the City of Los Angeles from lead acid batteries to lithium ion batteries while sales of battery systems accounted for approximately 28% of our revenues. During the nine months ended September 30, 2011, 55% of our revenues were generated from the shipment of drive systems for integration into medium sized buses and a heavy-duty tractor, 29% of our sales were comprised of sales of our electric vehicles and related battery charging equipment, 13% of our sales were from batteries and battery systems, and 3% of our revenues were from consulting services.

Write-down of non-recoverable inventories. The write-down of non-recoverable inventories of $1,345,111 during the first nine months of 2012 is attributable to the write-down charges of $606,111 attributable to inventory and $739,000 attributable to the equipment inventory held for lease by a customer under an agreement with T&K Logistics. During the third quarter of 2012, the Company determined these assets were non-recoverable and recorded the corresponding write-down of non-recoverable inventories.

Gross Profit (Loss) . During the first nine months of 2012, our gross loss as a percentage of net revenues of 69% was mainly attributable to the sale of $350,000 of batteries to a wholesale customer at a loss and the write-down of $1,345,111 of non-recoverable inventories. During the first nine months of 2011, our gross profit as a percentage of net sales of 22% was attributable to the higher margins on the sales of drive systems attributed to improved manufacturing utilization and the lower material costs.

General and Administrative Expenses. The decrease in general and administrative expenses is comprised of an decrease in unapplied overhead of $180,449, a decrease in marketing expenses of $434,531 an decrease in legal, consulting and professional fees of $375,589, an increase in salaries and wages of $84,132, and a net decrease of $26,221 of other general and administrative expenses.

Research and Development Expenses. The decrease of 55% in research and development expenses is comprised largely of decreases in salaries and wages of personnel employed in the research and development group.

Depreciation and Amortization. The decrease in depreciation and amortization is due largely to the amortization of the battery distribution agreement that occurred during the quarter ended September 30, 2011. Since the battery distribution agreement was impaired during the year ended December 31, 2011, there is no comparable amortization expense in 2012.

Change in Fair Value of Derivative Liability. At September 30, 2012, the fair value of our derivatives increased by $1,074,272 resulting in a loss on the change in fair value of the derivative liability. During the quarter ended September 30, 2011, the fair value of our derivatives increased to $2,716,835. These amounts were determined by management with the use of a probability weighted average Black-Scholes simulation model.

Cost to Induce Exercise of Warrants. Effective March 31, 2012, the Company's Chairman applied $500,000 of an unsecured loan as the exercise price to exercise a warrant to purchase 1,250,000 shares of our common stock held by Seven One Limited. In consideration of the Chairman's agreement to use the amount loaned to exercise the warrant held by Seven One Limited, we agreed to adjust the exercise price of certain of the warrants held by Seven One Limited from $0.64 per share to $0.40 per share. The total value of the adjustment of the exercise price of these warrants was $671,809.

Interest Expense. The $91,731 increase in interest expense is attributable to interest on convertible notes and the amortization of the related beneficial conversion feature of the convertible notes. During the first nine months of 2012, amortization of the beneficial conversion feature on the convertible notes payable was $1,234,140 while during the nine months ended September 30, 2011, amortization of the beneficial conversion feature on the convertible notes payable was $822,739.

Liquidity and Capital Resources

The accompanying condensed financial statements have been prepared under the assumption that we will continue as a going concern. This assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business. For the nine months ended September 30, 2012, we recorded a net loss of $6,690,270. As of September 30, 2012, we had a working capital deficit of $9,667,419 and a shareholders' deficiency of $9,452,061. In addition, we are delinquent in payroll taxes of $253,738 and interest payments on our notes of $242,989. Further, $1,330,000 of our convertible notes came due on September 1, 2012 and unless we can renegotiate these debt obligations, we are unable to pay the obligations and these notes are now in default. Pursuant to the terms of the notes, the non-payment of interest by us constitutes an event of default and, as a result, the holders of the notes may accelerate payment of all amounts outstanding under the notes by giving written notice to us and thereby requiring that we immediately pay up to an aggregate of $3,361,500 in principal plus all accrued and unpaid interest. If the holders of the notes were to declare the notes due and payable, we presently do not have the ability to pay these notes.

These factors, among others, raise substantial doubt about our ability to continue as a going concern. As a result, our independent registered public accounting firm, in its report on our 2011 financial statements, has raised substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern.   We have been, and currently are, working towards 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 the our flexibility. At a minimum, we expect these covenants to include restrictions on its ability to pay dividends on its 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.   In addition, our senior secured convertible debentures issued between July and December 2010 contain covenants that include restrictions on our ability to pay dividends on our common stock.

If adequate funds are not available, we may be required to further 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 its 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 its ability to fund our continued operations and its product and service development efforts.

During the nine months ended September 30, 2012, we funded our operations from the proceeds from the exercise of a warrant by our Chairman, issuance of convertible debt and proceeds from sales of consigned batteries. In order to fund our operations, we also deferred payment of our accounts payable, payroll taxes, and interest on secured and unsecured convertible notes payable.

As of September 30, 2012, we had a working capital deficiency of $9,667,419 as compared to working capital deficiency of $4,241,177 at December 31, 2011. At September 30, 2012 and December 31, 2011 we had an accumulated deficiency of $29,085,376 and $22,395,105, respectively, and cash and cash equivalents of $5,581 and $32,663, respectively. The decrease in our cash position is a result of a net decrease of $122,066 in cash flow from operations and $245,016 of cash used to pay down the Bridge Bank loan and bank overdraft, offset by $340,000 of proceeds from the issuance of our secured subordinated convertible notes in May of 2012.

During 2009, under the terms of the agreement with the City of Los Angeles, we requested and were issued an advance payment in the amount of $1,159,601 from the City of Los Angeles. Our agreement with the City of Los Angeles terminated prior to delivery of all of the vehicles we were required to deliver under the agreement. To the extent we cannot successfully negotiate an agreement with the City of Los Angeles that gives us additional time to deliver the remaining 10 vehicles and associated equipment to the City of Los Angeles under the same terms as the original agreement, we may have to return up to the entire $1,159,601 to the City of Los Angeles. During June 2012, we billed $630,000 to the City of Los Angeles to upgrade six of the electric trucks previously delivered to from lead acid batteries to lithium ion batteries. This billed amount was applied as a reduction of the advance payment leaving an unpaid balance of $529,601 on this advance. The Company anticipates to sell additional products and services during the next 12 months to reduce the unpaid balance, however the Company presently does not have the funds to pay this advance if payment is requested by the City of Los Angeles.

Our available capital resources at September 30, 2012 consisted primarily of approximately $5,581 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 by operating activities for the first nine months of 2012 was $122,066 as compared to $4,611,384 of cash used in operating activities for first nine months of 2011. During the first nine months of 2012, cash used by operating activities included a net loss of $6,690,270, depreciation and amortization of $24,471, amortization of note discount of $1,234,140, cost to induce conversion of warrants of $671,809, fair value of common shares transferred by a shareholder to settle debt of $33,100, write-down of $1,345,111 of non-recoverable inventories, change in fair value of derivative liability of $1,074,272, and net cash flows from operating assets and liabilities of $2,185,301. Material changes in asset and liabilities at September 30, 2012 as compared to December 31, 2011 that affected these results include:

- a decrease in accounts receivable of $675,901;
- a decrease in inventory of $112,982;
- an increase in prepaid expenses of $437;
- an increase in payroll taxes payable of $253,738;
- an increase in accounts payable of $1,805,407; and
- a decrease in customer advances of $662,290.

Cash used in investing activities totaled none for the first nine months of 2012 as compared to $30,410 of cash used in investing activities for the first nine months of 2011.

Cash provided by financing activities totaled $94,984 for the first nine months of 2012 as compared to $448,606 of cash provided by financing activities for the first nine months of 2011.

Between February 2010 and April 2010, we raised an aggregate of $1,500,000 through the issuance of convertible notes to 11 accredited investors. The convertible notes are convertible 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 common stock at an exercise price of $0.50 per share.

Between July 2010 and December 2010, we raised an aggregate of $850,000 through the issuance of senior secured convertible debentures to 26 accredited investors. The senior secured convertible debentures are secured by a security interest in all of our personal property (subject to customary exceptions) and were initially convertible into shares of our common stock at an initial conversion price of $0.75 per share (subject to adjustment). In connection with this offering, we also issued five-year warrants to purchase an aggregate of 850,000 shares of our common stock at an initial exercise price of $0.75 per share (subject to adjustment). Under the adjustment provisions of the senior secured convertible debentures and warrants, the conversion price of the senior secured convertible debentures and the exercise price of the warrants were reduced to $0.56 in connection with us issuing securities to raise capital during 2010 and 2011. The terms of the senior secured convertible debentures include a restriction on our ability to pay dividends on our common stock.

In December 2010, we raised $5,000,000 through the issuance of 7,812,500 shares of our common stock and a five-year warrant to purchase up to 7,812,500 shares of our common stock at an exercise price of $0.64 per share.

During the year ended December 31, 2011, we raised $148,666 in connection with the issuance of 283,332 shares of our common stock upon the exercise of warrants.

Effective March 31, 2012, we converted $500,000 of an unsecured loan from our Chairman into the exercise price for the exercise of 1,250,000 warrants held by Seven One Limited at an exercise price of $0.40 per share.

Effective March 31, 2012, we entered into Amendment and Exchange Agreements with holders of $891,500 of our $916,500 of 10% unsecured notes payable that matured on March 31, 2012. The terms of the Amendment and Exchange Agreements provide that the maturity date of these notes, or the Amended Notes, be extended until March 31, 2013, that the Amended Notes be secured under the terms of a security agreement and that the Amended Notes be convertible into shares of our common stock at an exercise price of $0.40 per share, subject to adjustment for a full ratchet anti-dilution. In connection with the issuance of the Amended Notes, we also issued three-year warrants to purchase up to 975,000 shares of common stock at an exercise price of $0.40. per share, subject to full-ratchet anti-dilution protection.

On May 18, 2012, we raised an aggregate of $340,000 through the issuance of 10% secured subordinated convertible notes and warrants to 3 accredited investors. The secured subordinated convertible notes are secured by a security interest in all of our personal property (subject to customary exceptions and subordinated to certain senior indebtedness) and are convertible into shares of our common stock at an initial conversion price of $0.40 per share (subject to full ratchet anti dilution adjustment). In connection with this offering, we also issued five-year warrants to purchase an aggregate of 340,000 shares of our common stock at an initial exercise price of $0.40 per share (subject to full ratchet anti dilution adjustment).

Effective February 18, 2009, we entered into a Business Financing Agreement with Bridge Bank, National Association, or 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 and (ii) the date on which the advance was made. Interest on the credit facility is payable monthly. As of September 30, 2012, there was no outstanding balance under the credit facility and $38,385 was available. The interest rate 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.

During 2012, 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 18 employees and expect to hire additional personnel to meet production demands of increased product sales. Our present staff is sufficient to meet our current operational plan for the remainder of 2012.

We believe that we will need additional liquidity and capital resources through debt and/or equity financing to complete our entire existing and anticipated future product backlog. 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, 2012, we had an accumulated deficit of $9,452,061, and a working capital deficiency of $9,667,419.

During the three months ended March 31, 2012, we negotiated Amendment and Exchange Agreements with holders of $891,500 of our 10% unsecured convertible notes that matured on March 31, 2012. In connection with these Amendment and Exchange Agreements, we issued new warrants that enable the warrant holders to purchase up to 975,000 shares of our common stock at an exercise price per share of $0.40. These warrants will have a contractual life of three years and expire on March 31, 2015.

As of September 30, 2012, we are delinquent on $253,738 of payroll taxes which may cause the Internal Revenue Service and California State employment tax agencies to assess penalties or institute collection actions against us. We are also in default on secured and unsecured convertible notes which have an aggregate outstanding principal amount of $3,361,500 as a result of our inability to pay $242,988 of accrued interest on these notes. As a result, the holders of the convertible notes have the right to accelerate up to $3,529,350 of the outstanding principal and accrued and unpaid interest on these notes. We are also in default on a unsecured convertible note in the principal amount of $25,000 that matured on March 31, 2012. In addition, we have an aggregate of $1,330,000 of 10% unsecured convertible notes payable that matured on September 1, 2012 and are in default. While we are attempting to renegotiate these debt obligations we cannot assure you that we will be successful at renegotiating some or all of these obligations. We are presently unable to pay our outstanding obligations due to our limited cash resources and cannot assure you that will have sufficient cash resources to pay our past due obligations.

Backlog

As of November 15, 2012, we had a backlog of $1,005,538. The amount of backlog orders represents revenue that we anticipate recognizing in the future, as evidenced by purchase orders and other purchase commitments received from customers, but on which work has not yet been initiated or with respect to which work is currently in progress. As of the date of this report 28% of our backlog consists of a battery system, 26% consists of a drive system and the remainder consists of vehicles and accessories. Our backlog does not reflect a $975,000 Department of Energy grant awarded to us, which we are awaiting contract documents. Due to the delay in testing and approval of our drive system, we have removed $15.9 million in drive systems from our backlog, until such time we have assurances on production timelines from our customer, WGE, an affiliate of our Chairman of the Board. We believe that the majority of our current backlog will be shipped within the next 12 months. However, there can be no assurance that we will be successful in fulfilling such orders and commitments in a timely manner or that we will ultimately recognize as revenue the amounts reflected as backlog.

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 May 2011, the FASB issued Accounting Standards Update, or ASU, No. 2011-04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs”. ASU No. 2011-4 does not require additional fair value measurements and is not intended to establish valuation standards or affect valuation practices outside of financial reporting. The ASU is effective for interim and annual periods beginning after December 15, 2011. We adopted ASU No. 2011-04 effective January 1, 2012. The updated guidance affects our fair value disclosures, but will not affect our results of operations, financial condition or liquidity.

In June 2011, the FASB issued ASU No. 2011-05, “Presentation of Comprehensive Income”. The ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders’ equity, and instead requires consecutive presentation of the statement of net income and other comprehensive income either in a continuous statement of comprehensive income or in two separate but consecutive statements. ASU No. 2011-5 is effective for interim and annual periods beginning after December 15, 2011. We adopted ASU 2011-05 effective January 1, 2012 and it did not affect our results of operations, financial condition or liquidity.

In September 2011, the FASB issued ASU 2011-08, “Testing Goodwill for Impairment”, an update to existing guidance on the assessment of goodwill impairment. This update simplifies the assessment of goodwill for impairment by allowing companies to consider qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before performing the two step impairment review process. It also amends the examples of events or circumstances that would be considered in a goodwill impairment evaluation. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We adopted ASU 2011-08 effective January 1, 2012. The adoption of this new accounting guidance will not have a significant effect on our goodwill impairment assessments in the future.

In December 2011, the FASB issued ASU No. 2011-11, “Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities.” This ASU requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. ASU No. 2011-11 will be applied retrospectively and is effective for annual and interim reporting periods beginning on or after January 1, 2013. We do not expect adoption of this standard to have a material impact on our results of operations, financial condition, or liquidity.

We do not believe that the adoption of the above recent pronouncements will have a material effect on our results of operations, financial position or cash flow. 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 our 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, 2012 that our disclosure controls and procedures were effective at the reasonable assurance level.

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, 2012 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.

On September 21, 2012, T&K Logistics, Inc. filed a complaint, or Complaint, against us in the Superior Court of California, County of Los Angeles (Case No.: BC492619). The Complaint relates to the lease agreement between us and T&K Logistics regarding our yard tractors. (See Note 10). The Complaint purports to state the following three counts against us: (i) breach of contract, (ii) specific performance, and (iii) negligent misrepresentation and seeks compensatory damages of not less than $453,896.75. We intend to vigorously defend against T&K Logistics' claims. On October 19, 2012, we filed an answer to the Complaint denying all allegations in the Complaint. On that same date, we filed a cross-complaint against T&K Logistics for breach of contract and common count—goods and services rendered and seeking damages in the amount of $300,000.

ITEM 1A. RISK FACTORS.

In addition to the other information set forth in this report, you should carefully consider the risk factor below and the factors discussed under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC on April 16, 2012, 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 the year ended December 31, 2011 filed with the SEC on April 16, 2012, 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.

Without substantial additional financing, we may be unable to achieve the objectives of our current business strategy, which could force us to delay, curtail or eliminate our product and service development programs thereby adversely affecting our operations and the price of our common stock.

For the nine months ended September 30, 2012, we recorded a net loss of $6,690,270. As of that date, we had a working capital deficit of $9,667,419 and a shareholders' deficiency of $9,452,061. In addition, we are delinquent in payroll taxes of $253,738 and interest payments of $242,989 on our secured and unsecured notes. Our capital requirements for the next 12 months will continue to be significant. 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. In addition, our senior secured convertible debentures contain covenants that include restrictions on our ability to pay dividends on our common stock.

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 and adversely affect the price of our common stock.

Our significantly high debt levels will negatively impact our business, operating results and financial condition.

We have an aggregate of $1,330,000 of 10% unsecured convertible notes payable that matured on September 1, 2012. While we intend on renegotiating these debt obligations but cannot assure you that we will be successful at renegotiating some or all of these obligations. We are presently unable to pay our outstanding obligations due to our limited cash resources and cannot assure you that will have sufficient cash resources to pay our past due obligations, any obligations that we will be subject to if the holders of our notes accelerate the notes or our obligations that came due on September 1, 2012.

We are in default on secured and unsecured convertible notes which have an aggregate outstanding principal amount of $3,361,500 as a result of our inability to pay $242,989 of accrued interest on these notes. As a result, the holders of the convertible notes have the right to accelerate the outstanding principal and accrued and unpaid interest on these notes. We are also in default on an unsecured convertible note in the principal amount of $25,000 that matured on March 31, 2012.

Our debt obligations may affect our business, operating results and financial condition in number of ways, including limiting our ability to obtain any future debt for financing working capital needs, capital expenditures, debt services; limiting our flexibility in implementing our business strategy and in planning for, or reacting to market changes in our business; placing us at a competitive disadvantage relative to any of our competitors who have lower levels of debt; subjecting us to the risk of being forced to refinance at higher interests; and requiring us to use substantial portion of our working capital to pay principal and interest on our debt obligations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

We are in default on certain of our secured and unsecured convertible notes having an aggregate outstanding principal amount of $3,361,500 as a result of our inability to pay $242,988 of accrued interest on these notes. As a result, the holders of the convertible notes have the right to accelerate up to $3,604,488, representing the outstanding principal and accrued and unpaid interest on these notes.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS

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 Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(*)
101.INS	XBRL Instance Document. (*)
101.SCH	XBRL Schema Document. (*)
101.CAL	XBRL Calculation Linkbase Document. (*)
101.DEF	XBRL Definition Linkbase Document. (*)
101.LAB	XBRL Label Linkbase Document. (*)
101.PRE	XBRL Presentation Linkbase Document. (*)

(*) Filed herewith.

SIGNATURES

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

Date: December 10, 2012

BALQON CORPORATION

By: /S/ BALWINDER SAMRA
Balwinder Samra,
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.
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101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

EXHIBIT 31.1

CERTIFICATION

I, Balwinder Samra, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q/A 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: December 10, 2012

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

EXHIBIT 31.2

CERTIFICATION

I, Balwinder Samra, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q/A 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: December 10, 2012

/S/ BALWINDER SAMRA
Balwinder Samra,
Interim 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 Quarterly Report on Form 10-Q/A of Balqon Corporation (the "Company") for the period ended September 30, 2012 (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: December 10, 2012

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

Dated: December 10, 2012

By: /s/ BALWINDER SAMRA
Balwinder Samra
Interim 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.