

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

FORM 8-K/A  
(Amendment No. 1)

CURRENT REPORT  
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): (June 14, 2012)

**FLUX POWER HOLDINGS, INC.**  
(Exact name of registrant as specified in its charter)

**Nevada**  
(State or Other Jurisdiction of  
Incorporation)

**000-25909**  
(Commission File Number)

**86-0931332**  
(IRS Employer  
Identification No.)

**2240 Auto Park Way, Escondido, California**  
(Address of Principal Executive Offices)

**92029**  
(Zip Code)

**877-505-3589**  
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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#### EXPLANATORY NOTE

On June 18, 2012, Flux Power Holdings, Inc., a Nevada corporation (the “Company”), filed a Current Report on Form 8-K (the “Original Filing”) reporting the closing of a share exchange transaction with Flux Power, Inc., a California corporation (“Flux Power”) and its shareholders that resulted in Flux Power becoming a wholly owned subsidiary and new operating business of the Company (the “Reverse Acquisition”). This Amendment No. 1 to Original Filing is being made to respond to certain comments received from the Staff of the Securities and Exchange Commission. For convenience and ease of reference, the Company is filing this Form 8-K/A in its entirety with applicable changes. Unless otherwise stated, all information contained in this Form 8-K/A is as of June 18, 2012, the filing date of the Original Filing. Except as stated herein, this Form 8-K/A does not reflect events or transactions occurring after such filing date or modify or update those disclosures in the Original Filing that may have been affected by events or transactions occurring subsequent to such filing date.

## SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This report contains forward-looking statements. The forward-looking statements are contained principally in the sections entitled “Description of Business,” “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. These risks and uncertainties include, but are not limited to, the factors described in the section captioned “Risk Factors” below. In some cases, you can identify forward-looking statements by terms such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “should,” “would,” and similar expressions intended to identify forward-looking statements. Forward-looking statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. These forward-looking statements include, among other things, statements relating to:

- our anticipated growth strategies and our ability to manage the expansion of our business operations effectively;
- our ability to maintain or increase our market share in the competitive markets in which we do business;
- our ability to keep up with rapidly changing technologies and evolving industry standards, including our ability to achieve technological advances;
- our dependence on the growth in demand for our products;
- our ability to diversify our product offerings and capture new market opportunities;
- our ability to source our needs for skilled labor, machinery, parts, and raw materials economically; and
- the loss of key members of our senior management.

Also, forward-looking statements represent our estimates and assumptions only as of the date of this report. You should read this report and the documents that we reference and file as exhibits to this report completely and with the understanding that our actual future results may be materially different from what we expect. Except as required by law, we assume no obligation to update any forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available in the future.

### Use of Certain Defined Terms

Except where the context otherwise requires and for the purposes of this report only:

- the “Company,” “FPH,” “we,” “us,” and “our” refer to the combined business of Flux Power Holdings, Inc., formerly Lone Pine Holdings, Inc., a Nevada corporation and its subsidiary, Flux Power, Inc. (“Flux Power”), a California corporation;
- “Exchange Act” refers the Securities Exchange Act of 1934, as amended;
- “SEC” refers to the Securities and Exchange Commission; and
- “Securities Act” refers to the Securities Act of 1933, as amended.

**Item 1.01 Entry Into A Definitive Agreement.*****Amendment No. 1 to the Securities Exchange Agreement***

On June 13, 2012, we entered into a certain Amendment No. 1 to the Securities Exchange Agreement (“Amendment”) by and among Flux Power Holdings, Inc., formerly Lone Pine Holdings, Inc., a Nevada corporation (the “Company”), Flux Power, Inc., a California corporation (“Flux Power”) and its shareholders, Mr. Chris Anthony, Esenjay Investments LLC, and Mr. James Gevargis (collectively the “Flux Shareholders”), pursuant to which the parties amended Section 2.3 of that certain Securities Exchange Agreement dated as of May 18, 2012 by and among the Company, Flux Power and the Flux Shareholders, to change the closing date to June 14, 2012 and amend the reference to the closing conditions

***Advisory Agreement***

On June 14, 2012, we entered into an Advisory Agreement (“Advisory Agreement”) with Baytree Capital Associates, LLP (“Baytree Capital”) pursuant to which Baytree Capital agreed to provide us with business and consulting services for 24 months in exchange for 100,000 restricted shares of our newly issued common stock at the commencement of each six month period in return for its services, which shares will have piggy-back registration rights, and a warrant to purchase 1,837,777 restricted shares of our common stock for a period of 5 years at an exercise price of \$.41 per share.

***Indemnification Agreement***

On June 14, 2012, in connection with the appointment of Mr. Chris Anthony as our director, Chief Executive Officer and President, and Mr. Steve Jackson as our Chief Financial Officer, and Mr. Craig Miller as our Secretary, we executed a standard form of indemnification agreement (“Indemnification Agreement”) with each of them (the “Indemnitee”).

Pursuant to and subject to the terms, conditions and limitations set forth in the Indemnification Agreement, we agreed to indemnify each Indemnitee, against any and all expenses incurred in connection with the Indemnitee’s service as our officer, director and or agent, or is or was serving at our request as a director, officer, employee, agent or advisor of another corporation, partnership, joint venture, trust, limited liability company, or other entity or enterprise but only if the Indemnitee acted in good faith and in a manner he reasonably believed to be in or not opposed to our best interest, and in the case of a criminal proceeding, had no reasonable cause to believe that his conduct was unlawful. In addition, the indemnification provided in the indemnification agreement is applicable whether or not negligence or gross negligence of the Indemnitee is alleged or proven. Additionally, the Indemnification Agreement establishes processes and procedures for indemnification claims, advancement of expenses and costs and contribution obligations.

The foregoing description of the terms of the Amendment, Advisory Agreement and the Indemnification Agreement, is not complete and is qualified in its entirety by reference to the full text of the respective agreements filed as Exhibit 2.2, Exhibit 10.11 and Exhibit 10. 12 to this report, and incorporated herein by reference thereto.

## Item 2.01 Completion of Acquisition or Disposition of Assets

On June 14, 2012, we completed the acquisition of Flux Power, Inc., a California corporation (the “Reverse Acquisition”) pursuant to that certain Securities Exchange Agreement dated May 18, 2012 (“Exchange Agreement”) by and among Flux Power, Inc., a California corporation (the “Flux Power”) and its shareholders, Mr. Chris Anthony, Esenjay Investments, LLC, and Mr. James Gevarges (collectively the “Flux Shareholders”). In connection with the Reverse Acquisition, we purchased 100% of the issued and outstanding shares of common stock of Flux Power from the Flux Shareholders in exchange for 37,714,514 newly issued shares of our common stock (“Exchange Shares”) based on an exchange ratio of 2.9547039 (“Share Exchange Ratio”). As a result of the Reverse Acquisition, the Flux Shareholders collectively own approximately 91% of the issued and outstanding shares of our common stock, and Flux Power became our wholly-owned operating subsidiary.

Upon the closing of the Reverse Acquisition (the “Closing”), Mr. Gianluca Cicogna Mozzoni, our Chief Executive Officer, President, Chief Financial Officer, Treasurer, Secretary and sole director, submitted a resignation letter pursuant to which he resigned from all offices that he held effective immediately; and from his position as our director that will become effective on the tenth day following the mailing by us of an information statement to our stockholders that complies with the requirements of Section 14(f) of the Exchange Act. In addition, our Board of Directors on June 14, 2012, increased the size of our Board of Directors to three directors and appointed Mr. Chris Anthony (Chairman) to fill the vacancy created by the increase in board size, effective as of the date of the Closing of the reverse acquisition. In addition, Messrs. Michael Johnson and James Gevarges were appointed to fill the vacancies created upon the effective resignation of Mr. Mozzoni and the increase in the size of the board, with such appointments and resignation to be effective in compliance with Section 14(f) of the Exchange Act.

In connection with the Reverse Acquisition, (a) we adopted amended and restated Bylaws, (b) changed our name to “Flux Power Holdings, Inc.” (c) we have assumed the Flux Power 2010 Option Plan (“Plan”) and all of the stock options of Flux Power outstanding as of the closing of the Reverse Acquisition, (d) each of the Flux Shareholders agreed not to offer, sell, assign, transfer, pledge, contract to sell, or otherwise dispose of any shares of Exchange Shares for a period of 18 months from the Closing except during the period after the first anniversary of the Closing and a period of 6 months thereafter, in such an amount which constitutes less than 3% in the aggregate of such Flux Shareholder’s beneficial ownership of our common stock per month, and (e) we agreed to use our best efforts to conduct a private placement of our securities in a private placement to accredited investors to purchase up to 8 Units, at a price of \$500,000 per Unit, with each Unit consisting of 1,207,185 shares of our common stock and 241,437 5 year warrants to purchase one share of our common stock at an exercise price of \$0.41 per share (the “Private Placement”), of which Baytree Capital, its designees or assignees, has committed to investing at least \$1,000,000 in the Private Placement. The securities offered and sold in the Private Placement will not be or have not been registered under the Securities Act of 1933, as amended (“Securities Act”), and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act.

The acquisition was accounted for as a recapitalization effected by a share exchange, wherein Flux Power is considered the acquirer for accounting and financial reporting purposes. The assets and liabilities of the acquired entity have been brought forward at their book value and no goodwill has been recognized.

### Form 10 Disclosure

As disclosed elsewhere in this report, on June 14, 2012, we acquired Flux Power in a reverse acquisition transaction. Item 2.01(f) of Form 8-K states that if the registrant was a shell company, as we were immediately before the reverse acquisition transaction disclosed under Item 2.01, then the registrant must disclose the information that would be required if the registrant were filing a general form registration of securities on Form 10.

Accordingly, we are providing information that would be included in a Form 10 had we been required to file such form. Please note that the information provided below relates to the combined entity after the acquisition of Flux Power, except that information relating to periods prior to the date of the Exchange Agreement only relate to Flux Power unless otherwise specifically noted.

#### **OVERVIEW OF FLUX POWER, INC., OUR WHOLLY-OWNED SUBSIDIARY**

Flux Power, Inc., a California corporation, was founded in 2009 to design, develop and sell rechargeable advanced energy storage systems. We have developed an innovative high power battery cell management systems (“BMS”) and have structured our business around this core technology. Our proprietary BMS provides three critical functions to our battery systems:

- **Cell Balancing:** This is performed by adjusting the capacity of each cell in a storage system according to temperature, voltage, and internal impedance metrics. This cell balancing management assures longevity of the overall system.
- **Monitoring:** This is performed by way of a physical connection to individual cells for monitoring voltage and performing calculations from basic metrics to determine remaining capacity and internal impedance. This monitoring assures accurate measurements to best manage the system and assure longevity.
- **Error reporting:** This is performed by analyzing data from system monitoring and making decisions on whether the system is operating out of normal specifications. This error reporting is crucial to system management as it ensures ancillary devices are not damaging the storage system and will give the operator an opportunity to take corrective action to maintain long overall system life.

Using our proprietary battery management system technology, we are able to offer completely integrated energy storage solutions or custom modular standalone systems to our clients. In addition, we have also developed a suite of complementary technologies and products that accompany and enhance the abilities of our core BMS products to meet the needs of the growing advanced energy storage market.

We sold our first product in the second quarter of 2010 and have since delivered over 14 mega watt-hours of advanced energy storage to clients such as Crown Equipment Corp., Damascus Corp., Columbia Parcar Corp., Wheego Electric Cars Inc., Epic Electric Vehicles, and TALHO. We also sell our Advanced Energy Storage products through distributors such as Dukes Garage, Small Car Performance, Electric Motor Sports, MCElectric, Jungle Motors and EV America.

#### **HISTORY OF FLUX POWER HOLDINGS, INC.**

Flux Power Holdings, Inc., formerly Lone Pine Holdings, Inc. (“FPH”), through its former wholly owned subsidiary Integrated Forest Products Pty Ltd (“Integrated”), previously operated a saw mill in Australia which cut pine timber into building products to supply the commercial and residential industry along the eastern coast of Australia. In July 2007, Integrated’s wholly owned subsidiary in Australia was put into receivership and has formally discontinued its operations. In connection with the receivership, the receiver formed a new Australian wholly owned subsidiary, Australian Forest Industries, Ltd., and exchanged all of the shares of Integrated for Australian Forest Industries, Ltd. shares. On October 15, 2008, our Board of Directors approved the transfer of all the outstanding shares of Australian Forest Industries, Ltd., its operating subsidiary that had been placed in receivership, to the principal shareholders and directors, personally. Subsequent to the spin out, we became a non-operating shell company engaged in the business of seeking a suitable candidate for acquisition or merger.

In connection with the Reverse Acquisition, we changed our name from "Lone Pine Holdings, Inc." to "Flux Power Holdings, Inc." The name change was effective under Nevada corporate law on May 23, 2012 pursuant to Articles of Merger that was filed with the Nevada Secretary of State. Pursuant to such Articles of Merger, we merged with our wholly-owned subsidiary, Flux Power Holdings, Inc. In accordance with Section 92A.180 of the Nevada Revised Statutes, shareholder approval of the merger/name change was not required. The Articles of Merger provided that, upon the effective date of the merger effective, our Articles of Incorporation would be amended as of such date to change our name to "Flux Power Holdings, Inc."

## **REVERSE ACQUISITION OF FLUX POWER**

On June 14, 2012, we completed the acquisition of Flux Power, Inc., a California corporation (the "Reverse Acquisition") pursuant to that certain Securities Exchange Agreement dated May 18, 2012 ("Exchange Agreement") by and among Flux Power, Inc., a California corporation (the "Flux Power") and its shareholders, Mr. Chris Anthony, Esenjay Investments, LLC, and Mr. James Gevargis (collectively the "Flux Shareholders"). In connection with the Reverse Acquisition, we purchased 100% of the issued and outstanding shares of common stock of Flux Power from the Flux Shareholders in exchange for 37,714,514 newly issued shares of our common stock ("Exchange Shares") based on an exchange ratio of 2.9547039 ("Share Exchange Ratio"). As a result of the Reverse Acquisition, the Flux Shareholders collectively own approximately 91% of the issued and outstanding shares of our common stock, and Flux Power is our wholly-owned operating subsidiary.

Upon the closing of the Reverse Acquisition (the "Closing"), Mr. Gianluca Cicogna Mozzoni, our Chief Executive Officer, President, Chief Financial Officer, Treasurer, Secretary and a director, submitted a resignation letter pursuant to which he resigned from all offices that he held effective immediately; and from his position as our director that will become effective on the tenth day following the mailing by us of an information statement to our stockholders that complies with the requirements of Section 14(f) of the Exchange Act. In addition, our Board of Directors on June 14, 2012, increased the size of our Board of Directors to three directors and appointed Mr. Chris Anthony (Chairman) to fill the vacancy created by the increase in board size, effective as of the date of the Closing of the reverse acquisition. In addition, Messrs. Michael Johnson and James Gevargis were appointed to fill the vacancies created upon the effective resignation of Mr. Mozzoni and the increase in the size of the board, with such appointments and resignation to be effective in compliance with Section 14(f) of the Exchange Act.

In connection with the Reverse Acquisition, (a) we adopted amended and restated Bylaws, (b) changed our name to "Flux Power Holdings, Inc." (c) we have assumed the Flux Power 2010 Option Plan ("Plan") and all of the stock options of Flux Power outstanding as of the closing of the Reverse Acquisition, (d) each of the Flux Shareholders agreed not to offer, sell, assign, transfer, pledge, contract to sell, or otherwise dispose of any shares of Exchange Shares or securities convertible into or exercisable or exchangeable into our common stock for a period of 18 months from the Closing except during the period after the first anniversary of the Closing and a period of 6 months thereafter, in such an amount which constitutes less than 3% in the aggregate of such Flux Shareholder's beneficial ownership of our common stock per month, and (e) we will use our best efforts to conduct a private placement of our securities in an unregistered offering to accredited investors to purchase up to 8 Units, at a price of \$500,000 per Unit, with each Unit consisting of 1,207,185 shares of our common stock and 241,437 5 year warrants to purchase one share of our common stock at an exercise price of \$0.41 per share (the "Private Placement"), of which Baytree Capital, its designees or assignees, has committed to investing at least \$1,000,000 in the Private Placement, and with the anticipation that the closing of the Private Placement will occur in the amount of at least \$3,000,000 on or before June 15, 2012, with any remaining unsold portions of the Private Placement to close on or before June 30, 2012. The securities offered and sold in the Private Placement will not be or have not been registered under the Securities Act of 1933, as amended ("Securities Act"), and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act.



The acquisition was accounted for as a recapitalization effected by a share exchange, wherein Flux Power is considered the acquirer for accounting and financial reporting purposes. The assets and liabilities of the acquired entity have been brought forward at their book value and no goodwill has been recognized.

## **OUR CORPORATE STRUCTURE**

We were organized by the filing of articles of incorporation with the Nevada Secretary of State on September 21, 1998 under the name Oleramma, Inc. The articles of incorporation authorized the issuance of 105,000,000 shares, consisting of 100,000,000 shares of common stock, par value \$0.001 per share, and 5,000,000 shares of preferred stock, par value \$0.001 per share.

On April 28, 1999, we changed our name to BuckTV.Com, Inc. on the basis that we would market consumer products through an interactive website. We again changed our name in November 2002 to Multi-Tech International, Corp. to pursue another venture.

On September 1, 2004, we entered into a share exchange agreement with Timbermans Group Pty Ltd, an Australian corporation and its wholly-owned subsidiary, Integrated Forest Products Pty Ltd, an Australian corporation. Pursuant to the share exchange agreement, we:

- completed a 200-1 reverse stock split of our outstanding shares of common stock,
- increased our authorized number of shares of common stock from 100,000,000 to 300,000,000 shares,
- changed our name from Multi-Tech International, Inc. to Australian Forest Industries,
- appointed five new directors to our Board of Directors, and
- we issued 257,000,000 shares of our common stock to Timbermans pursuant to the terms of the share exchange agreement.

As a result, upon completion of the share exchange, Integrated became our wholly-owned subsidiary.

On July 31, 2007, PricewaterhouseCoopers Australia was appointed receiver and manager of both Integrated and Timbermans. On the same date, Deloitte was appointed liquidator of Timbermans. Romanis Cant was appointed liquidator of Integrated on October 18, 2007.

Business operations of Integrated were continued until November 30, 2007, when all the assets of Integrated were offered for sale as a going concern. No offers capable of acceptance by the receiver were submitted. As a result, the receiver entered into contracts to sell the land, plant and equipment of Integrated as individual assets.

Timbermans owned two major assets, a rural property and shares of our common stock. The rural property was sold by auction on March 14, 2008. Timbermans entered into a contract to sell its land and buildings for \$9,556,357 and all of its manufacturing equipment for \$964,403.

On July 31, 2007, both Timbermans and Integrated were put into administration, the Australian equivalent of receivership, and PricewaterhouseCoopers Australia was appointed each of their receiver and manager. In connection with the administration, the receiver formed a new Australian wholly-owned subsidiary, Australian Forest Industries, Ltd., and exchanged all of the shares of Integrated for Australian Forest Industries, Ltd. shares. On October 15, 2008, the Board of Directors of Australian Forest Industries approved the transfer of all the outstanding shares of Australian Forest Industries, Ltd. to the principal shareholders and directors, who were also the shareholders of Timbermans. As a result, the loan to Timbermans was removed from our books and there is currently no principal or interest due from us to Timbermans or any other related party.

In November 2008, Baytree Capital LLC (“Baytree”) obtained a controlling interest in the Company’s common shares pursuant to a Stock Purchase Agreement dated November 26, 2008 (the “Stock Purchase Agreement”). Under the Stock Purchase Agreement, Baytree purchased 2,385,000 shares of the Company’s common stock in exchange for \$448,125. As a condition to the sale under the Stock Purchase Agreement, the Company’s directors and officers needed to resign, and Baytree arranged with those directors and officers to have William S. Rosenstadt appointed as sole director and executive officer. Subsequently, effective as of December 20, 2011, the Board of Directors of Lone Pine Holdings, Inc. accepted the voluntary resignation of William S. Rosenstadt as director and officer of the company. Concurrently with Mr. Rosenstadt's resignation, the Board of Directors appointed Gianluca Cicogna Mozzoni as its sole director, president, chief executive officer, chief financial officer, treasurer and secretary of the Company effective as of December 20, 2011.

Since early 2010, we have been looking for a merger candidate. Effective January 29, 2010, we:

- amended our articles of incorporation to change our name from “Australian Forest Industries” to “Lone Pine Holdings, Inc.” Our management believes that the name change will disassociate us with our former business of operating a saw mill in Australia.
- amended our articles of incorporation to decrease the number of authorized shares of capital stock from 305,000,000 to 150,000,000 shares. Prior to the amendment, the articles of incorporation authorized 300,000,000 shares of common stock and, after the amendment, the articles of incorporation authorize 145,000,000 shares of common stock. The articles of incorporation prior to the amendment and after the amendment both authorize 5,000,000 shares of preferred stock.
- enacted a reverse stock split so that for every 100 shares of our common stock outstanding on the record date, shareholders received one share of common stock. Any fractional share of our common stock that would have existed as a result of the reverse stock split was rounded up to a whole share. Every 100 shares of common stock issued and outstanding immediately prior to the record date were reclassified as, and changed into, one share of common stock. Coupled with the decrease in our authorized share capital, the reverse stock split increased the number of authorized and unissued shares of common stock from 14.1% of our authorized shares prior to the amendment to 98.2% after the amendment.

In connection with the Reverse Acquisition, on May 23, 2012, we effected a merger with our wholly-owned subsidiary pursuant to which we changed our name from “Lone Pine Holdings, Inc.” to “Flux Power Holdings, Inc.” As a result of the Reverse Acquisition, all of our business operations are conducted through our wholly-owned subsidiary, Flux Power, Inc., a California corporation.

Flux Power was conceived in 2008 to develop technologies for the advanced energy storage market. We were incorporated in the second quarter of fiscal year 2010 and began shipping prototype product in the second quarter of 2010 while continuing to develop our intellectual property portfolio. In 2011, our customer, Wheego, obtained a Federal Motor Vehicle Safety Standards validation for their electric vehicle which incorporated our batteries. In addition, we started shipping ancillary products to enhance our overall product line.

Our principal executive office is located at 2240 Autopark Way, Escondido, CA 92029. The telephone number at our principal executive office is (877)-505-3589 (FLUX).

## **DESCRIPTION OF BUSINESS OF FLUX POWER, OUR WHOLLY-OWNED SUBSIDIARY**

### **Our Business**

Flux Power, Inc. (“Flux Power”), a California corporation and our wholly-owned subsidiary, is in the business of energy storage and battery management. Flux Power was incorporated in October 2009 to develop technologies for the advanced energy storage market and began shipping prototype product in the second quarter of 2010 while continuing to develop our intellectual property portfolio. In 2011, we began shipping Federal Motor Vehicle Safety Standards validated products and then started shipping ancillary products to enhance our overall product line.

### **Industry Background for the Energy Storage Market**

The energy storage market has grown over recent years from one mostly reliant on lead acid technologies created in the 1800s to one leveraging advanced chemistries and the corresponding ability to store more energy in less space. Back-up power has increasingly grown to depend on telematics to accurately gauge system health. Electric vehicles have adopted lighter weight energy storage to increase range and payload abilities and grid management applications have sought to increase the cycle life of their systems to assure better returns on their investments over the long term. We believe that all of these needs will cause the advanced energy storage market to grow exponentially over the next 5 to 10 years.

### ***Electric Vehicles***

Electric vehicles are displacing traditional combustion vehicles for utility and passenger vehicle needs at an ever-growing rate as electric vehicle technology becomes more advanced and costs come down. Utility vehicles like lift trucks and service vehicles are a natural fit for electric power as they are often operated in confined or congested spaces where excess emissions from combustion vehicles is difficult to manage. Moreover, lowering these combustion motor emissions is a goal of many Federal and state agencies, which has also spurred adoption of electric technologies in this space. This adoption is further assisted by increased environmental consciousness on the part of consumers, which has increased sales of both hybrid electric and all electric vehicles. With the decreased costs per mile of electric vehicles and greatly reduced emissions we believe that this market segment will see fast growth.

## ***Grid Management Solutions***

Grid management ranges from simple back-up power to devices that assure the performance and reliability of electric transmission and distribution grids. In simple back-up power systems, the longevity of the system is crucial to maintaining up times and decreasing maintenance costs. Typical lead acid battery back-up power systems need cell replacement every two years, whereas advanced energy storage systems can last as long as ten years. Advanced energy storage has seen gains in storage for peak-shaving to lower electricity costs and in shifting load demands in solar and wind power applications. Grid management systems in transmission networks at every level need frequency regulation to adjust for minute-to-minute frequency fluctuations in the grid due to demand and supply changes. Buffering with advanced energy storage systems provide services that are more cost effective and efficient versus running power plants at sub-optimal operating levels to meet demand. This practice also frees up power plant capacity normally reserved for frequency regulation and standby to produce more electricity and correlated revenues.

### **Battery Types**

The most common battery technologies currently available to address the electric vehicle and grid management markets include the following:

***Lead Acid Batteries:*** Lead acid is one of the most developed battery technologies as it has been in use since the 1800s. It is relatively easy to manufacture and is an inexpensive and ubiquitous energy storage medium. Automobile manufacturers use lead acid for starter batteries and lead acid has been used widely in electric vehicle and grid management solutions. Unfortunately, lead-acid batteries weigh more per unit of stored energy and have less power output per unit mass versus advanced energy storage system technologies and thus are not well suited for advanced applications such as grid management devices and electric vehicles. In addition, lead can be hazardous to the environment and there are efforts in many countries to phase this legacy technology out over time.

***Nickel Batteries:*** Nickel batteries, NiCd (nickel cadmium) or NiMH (nickel metal hydride) are durable and inexpensive technologies with relatively high power. Unfortunately, cadmium is not a safe material and exposure can result in health hazard to humans and damage to the environment. An alternative to the toxic NiCd battery is NiMH, which has greater energy versus lead-acid batteries and is more suitable to a wider range of applications. These NiMH were used in early electric vehicles and some other bulk storage applications. Unfortunately, these chemistries are not as energy dense as advanced lithium batteries and thus are now being leveraged out of the advanced energy storage system market by more energy dense chemistries.

***Legacy Lithium Chemistries:*** Lithium batteries are more energy dense versus lead-acid, NiCd or NiMH batteries and are more volumetrically and weight efficient. Introduced in the 1990s, lithium batteries made their way into portable electronics devices like laptop computers and cell phones. Unfortunately, early lithium cobalt was prone to heat issues when arranged in large groups and if a battery cell were compromised a fire or explosion could result. This attribute made early lithium batteries unsuitable for large grid management devices and electric vehicles. The cobalt in these early cells was also a more expensive metal versus the compounds used in modern lithium batteries.

***Advanced Energy Storage Lithium Batteries:*** The current generation of advanced energy storage lithium batteries was developed in the late 1990s. These new chemistries improve upon energy density, volumetrics and weight metrics. There have also been great enhancements to the safety of these modern lithium batteries and heat and catastrophic failure issues do not plague advanced energy storage systems today. There has also been a significant increase in modern lithium batteries' cycle life. This makes today's advanced energy storage systems the most conducive to electric vehicle and grid management use.

**Other Technologies:** Ultra capacitors and fuel cells have been proposed as potential replacements to lithium batteries. Ultra capacitors deliver high power and have an extended cycle life but suffer from poor energy density. This makes them suitable for small burst power needs but not for grid storage and electric vehicle devices. Fuel cells generate energy converting a fuel, typically hydrogen to energy. Fuel cell systems offer good energy density but are poor performers in terms of power and cycle life. Fuel cell systems are suitable for devices with small power needs and short life spans but are generally not suitable for use in electric vehicles and grid management devices.

### **Current Advanced Energy Storage Application Needs**

There are a number of features required of advanced energy storage applications today, such as:

**Target application power needs:** An advanced energy storage system must be able to deliver the electrical power required. Electrical power, measured in watts, is the rate at which electrical energy is delivered. Electric vehicles, in particular, need enough power to assure smooth acceleration through a systems discharge curve and grid management systems need enough power to meet load demands.

**Duration of charge:** An advanced energy storage system must be able to provide a certain total amount of electrical energy. Total electrical energy is measured in watt hours and is the product of power and time. Advanced energy storage systems with greater energy can perform for a longer duration when compared to legacy technologies. The total electrical energy of an advanced energy storage system determines an electric vehicle's range per charge and a grid management device's total power.

**High power needs:** The energy that an advanced energy storage system can provide in total depends on the power requirements of the device in which it is installed. When an advanced energy storage system delivers higher power, the available energy of the advanced energy storage system is less than if it was delivering lower power. Advanced energy storage systems are better suited to deliver high power versus legacy lead acid. For example, the higher power required to push a vehicle like an electrically propelled boat through the water would be detrimental to legacy power technologies because their lack of ability to operate as efficiently in high power applications. Advanced energy storage systems are able to supply a high power required without detriment to the energy storage system.

**Safe Operation:** For almost all electric vehicle and grid management solutions the safety of an advanced energy storage system is of utmost importance. Legacy lead acid batteries tend to get hot with heavy operation and the toxic nature of these legacy chemistries can be troublesome in the event of a cell breach. Advanced energy storage systems focus on chemistries that do not violently react with oxygen so a cell breach is less likely to result in an explosion or fire.

**Extended Life:** The cycle life of an advanced energy storage system is the total number of times the system can be charged and discharged while still performing to specification in the device installed. Legacy lead acid technologies often do not perform to specification past a few hundred cycles in electric vehicle or grid management devices. In comparison, an advanced energy storage system can last five to ten times as long in the same device.

**Volumetrics and weight:** The weight and size of advanced energy storage systems are of crucial importance to both electric vehicle and grid management devices. In electric vehicles, where packaging space is precious, a lightweight system can greatly enhance range. In grid management devices that seek to extend current back-up power time benefit from better volumetrics and devices that shift load or peak-shave for improved average energy costs benefit from small advanced energy storage systems that keep connections between cells at a minimum.

**Lowest Cost:** Advanced energy storage systems provide power dense solutions with extended cycle life which, together, equate to very cost conscious solutions for most applications in the electric vehicle and grid management market segments. We believe that, in our products, advanced energy storage systems can cost much less than legacy lead acid technologies over the course of device operation.

## Our Products and Services

We seek to gain market share in the advanced energy storage segment with our system technologies that extend life, add much needed safety mechanisms, and communication and cycle life memory tools. We are focused on cell and system management tools. From our modular 12v energy storage solutions to stackable charging, we provide the building blocks to create custom systems designed for a diverse set of applications. Whether it is vehicle or grid storage systems, we provide capable systems that meet cost and performance targets which we believe, in many cases and based on the life cycle data of the lead acid batteries provided by the manufacturers, outperform traditional lead acid technologies on both metrics. Our systems use lithium-ion cells that are denser in energy than traditional lead acid batteries, which allows our batteries to hold more charge over the same weight. In addition, our Battery Management System protects the lithium-ion batteries enabling the lithium-ion batteries to reach their full life and cycle potential and outlasting lead acid based batteries which would have to be replaced and thereby adding additional costs over the same time period. Our systems manage individual cells and their charge cycles, which generally allows for more consistent discharge capability and ease of maintenance over an unmanaged battery. Through our Battery Management System, we have enhanced battery systems overall to provide safer, more reliable and extended life rechargeable energy storage systems for applications including motive, marine, industrial, military, stationary, and grid management markets. We believe that the benefits of our advanced BMS and cell technologies, and our worldwide intellectual property portfolio along with our experienced and seasoned management team and staff will allow us to become a global leader in advanced energy storage.

Based on our experience, we believe that, compared to our competitors, our expertise in the large format energy storage market segment is paving the way for lower cost and higher performance solutions.



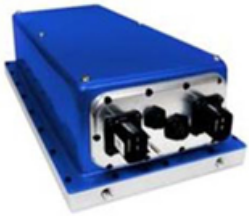
**Battery Management System (BMS).** Our proprietary Battery Management System (BMS) product provides three critical functions for battery systems: cell balancing, monitoring parameters and reporting errors to the system. Our BMS monitors parameters and reports errors to other devices, which can then determine the best action to take to prevent failure. Another BMS function is system cell balancing. The BMS will analyze each battery cell in the system during charge and discharge to determine which cells to balance to prevent overcharging and allow the other batteries to catching up and equalize capacity throughout the system.



**Battery Modules.** We supply high-power, energy-dense advanced energy storage modules for the electrical vehicles, industrial, governmental and grid storage applications. Our primary product consists of the Flux Power 12 V lithium module and individual 3.2 volt cells in various sizes from 40ah to 300ah. We offer varying chemistries and configurations based on the applications. Our battery modules are designed for our BMS.



**Diagnostic.** Our Handheld Diagnostic Units (HDU) is a handheld instrument that displays critical system information allowing the user to access necessary information and monitor overall system health. The HDU is also capable of programming system parameters, features and offsets. The HDU can be useful in the field for system programming or troubleshooting as well as day-to-day monitoring.



**Chargers.** Our smart charging solutions are designed to interface with our battery management system. Our smart chargers consist of both air-cooled and liquid-cooled chargers. These modular chargers can be stacked from 3KW – 300KW.

Below is a summary of revenues derived from each of our products and end markets in which the sales were made during the period reference below:

| <i>Product</i> | <i>Revenues for Nine<br/>Month Ended March<br/>31, 2012</i> | <i>Revenue for Fiscal Year<br/>Ended June 30, 2011</i> | <i>Revenues for year<br/>ended June 30, 2010</i> | <i>End Market</i> |
|----------------|---|--|--|-------------------|
| BMS and Access | 15%   | 30%  | 11%  | Electric Vehicle  |
| Battery        | 84%   | 67%  | 89%  | Electric Vehicle  |
| Handheld       | 0%  | 0%   | 0%   | Electric Vehicle  |
| Chargers       | 1%  | 3%   | 0%   | Electric Vehicle  |
| Total          | 100%  | 100%   | 100%   |                   |

## Technology

We believe our cell management and communication tools extend battery system life and improve system performance by managing individual cells in a system, communicating individual cell conditions to ancillary devices, and communicating individual cell conditions to other devices which either require or supply power. Whether it is vehicle or grid storage systems, we provide capable systems that meet cost and performance targets which we believe, in many cases and based on the life cycle data of the lead acid batteries provided by the manufacturers, outperform traditional lead acid technologies on both metrics. Our systems use lithium-ion cells that are denser in energy than traditional lead acid batteries, which allows our batteries to hold more charge over the same weight. In addition, our Battery Management System protects the lithium-ion batteries enabling the lithium-ion batteries to reach their full life and cycle potential and outlasting lead acid based batteries which would have to be replaced and thereby adding additional costs over the same time period. Our systems manage individual cells and their charge cycles, which generally allows for more consistent discharge capability and ease of maintenance over an unmanaged battery by:

- Managing individual cells within a system to maximize
  - Life Cycles
  - Discharge Rate
  - Depth of Discharge Per Cycle
- Allowing Cells to Communicate their State of Health to
  - Ensure Proper Charging
  - Protect the Cells from Over Discharge
  - Adjust System Parameters During Varying Temperature
- Enabling other system components to adjust their functions to
  - Protect Drive Components from Damage
  - Tie Properly to Grid Power Systems
  - Optimize Charge Efficiency

## Marketing and Sales

We currently sell products direct or through one of several retail distributors in North America. Our direct customers are mostly large companies while our distributors primarily distribute to smaller retail customers.

During the nine month period ended March 31, 2012, we had four major customers that represented more than 10% of our revenues on an individual basis, and combined represented 87% or \$2,616,000 of our total revenues. The four major customers were Artisan Vehicle Systems, Epic Boats (a company founded and controlled by Chris Anthony, our chairman and president), Greentech Automotive, and Wheego Electric Cars, each representing more than 10% of our revenues. During the nine month period ended March 31, 2011 we had two major customers that accounted for 37% or \$216,000 of our total revenues. The two major customers were Boulder Electric Vehicles, Inc. and Epic Boats (a related party), each representing more than 10% of our revenues.

For the year ended June 30, 2011, Wheego Electric Cars, Inc. and Epic Boats (a related party) accounted for 47% of total revenues, or \$463,000. For the eight month period ended June 30, 2010, we had four customers that combined accounted for 79% of total revenues, or \$164,000. The four major customers were APT Propulsion Systems, Inc., Dukes Garage, Epic Boats (a related party), and Wheego Electric Cars, Inc., each representing more than 10% of our revenues.



## Production process

Except for some of the charger components, we design all of our own products in-house and outsource manufacturing and assembly when possible. We have established strategic partner relationships with contract manufacturers and continue to leverage their engineering and production resources. As further described below, LHV Power Corporation. (“LHV Power”) is our strategic partner and we have entered into the following agreements:

During 2009, the Flux Power entered into a cancelable Term Sheet agreement (the “Term Sheet Agreement”) with a LHV Power, an entity owned by James Gevargis, one of our major shareholders. Mr. Gevargis is also the Chief Executive Officer and President of LHV Power. Pursuant to the Term Sheet Agreement, Flux Power was appointed as a distributor of LHV Power battery charging products allowing Flux Power to sell the products either separately or as part of an energy storage solution. Additionally, Flux Power was required to develop a microprocessor control board, and the associated software to enable communication between the parties’ respective products (“MCB”) which entitles Flux Power to royalties for any such units sold by the related entity. Pursuant to the Term Sheet Agreement Flux Power may purchase the products at the then current price list for distributors. Further, under the Term Sheet Agreement, if LHV Power sells its products to a different distributor Flux Power is entitled to a distribution fee equal to 20% of the gross profits on such sale. This distribution fee and royalties are capped at a total of \$200,000. The products defined in the Term Sheet were assigned to Current Ways, Inc., a different company that is owned by Mr. Gevargis. Mr. Gevargis is also the Chief Executive Officer and President of Current Ways, Inc. Under the Term Sheet Agreement, it was agreed that upon completion of the MCB, and LHV Power’s sale of the MCB as part of its product offerings, LHV Power will pay Flux Power a royalty fee of \$20 per MCB sold, with such royalty fees capped at \$200,000. Under the Term Sheet Agreement, LHV Power has ownership of all intellectual property concerning the software developed under the Term Sheet Agreement. The Term Sheet Agreement provides for automatic one-year renewals and remains in effect.

On August 1, 2009, Flux Power entered into a Manufacturing Implementation Agreement (the “Manufacturing Agreement”) with LHV Power. Pursuant to the Manufacturing Agreement Flux Power granted LHV Power a right of first refusal to manufacture our battery management systems. Further, under the Manufacturing Agreement, Flux Power agreed to pay for any specialized tooling LHV Power may require to manufacture Flux Power’s battery management systems. Under the Manufacturing Agreement, Flux Power will retain ownership of all intellectual property developed under the Manufacturing Agreement. The Manufacturing Agreement expires on August 1, 2014. During the nine month periods ended March 31, 2012 and 2011, Flux Power paid approximately \$258,000 and \$130,000, respectively, to LHV Power pursuant to the Manufacturing Agreement.

## In-House Product Assembly:

**BMS units, Chargers and CAN Current Sensors:** Units are outsourced and programmed and tested at our facility before shipping.

**12v Modules:** We receive completed 12v module cases and lids. Cells are packed in the module cases, connected to BMS, and secured in place. Lids with BMS installed are programmed and calibrated. Each full unit is sealed and tested before shipping.

**Hand Held Diagnostic Units:** We receive cases and build these HDUs in small batches. HDUs are programmed and tested before shipping.

**Strategic Relationship with LHV Power:** LHV Power is one of our early business supporters. LHV Power's Chief Executive Officer, President and owner, James Gevarges, sits on our Board of Directors and is one of our major shareholders. LHV Power has an advanced engineering team that has produced products for Hewlett Packard, Dell, Black and Decker, Train, and Carrier. LHV has several contracts with manufacturing facilities in China and Taiwan. Currently our BMS units, chargers and CAN Current Sensor Builds are outsourced to LHV Power where they are built to industry standards. In addition, LHV assists us with manufacturing assessments of our other products. Our relationship with LHV gives us an enhanced ability to produce validated volume manufacturing designs and the ability to scale quickly to meet our customers' volume and cost targets. Our relationship with LHV Power is governed by the Term Sheet Agreement and Manufacturing Agreement with LHV Power as described above under section titled "Production Process."

**Volume sales will enable cost reductions by:**

**Manufacturability Optimization:** We are currently building products to be as robust and full-featured as possible to meet prototype and small quantity needs that are not cost-sensitive. With investment in design, these premium components hopefully can be value-engineered with the goal to continue to offer full-featured devices at less than 50% of the cost.

**Low Cost Version Designs:** We will have a growing number of clients that do not need full-featured devices to make their products perform well. With working capital, we believe that we can design low cost options for customers which can be marketed at a deeper discount to our current full-featured products.

**Advanced Manufacturing Capabilities:** We currently leverage our relationship with LHV Power for manufacturing resources. We intend to seek out other advanced manufacturing relationships to further enhance our abilities.

**Suppliers**

For the nine month period ended March 31, 2012, and 2011, we had one supplier who accounted for more than 10% of our total purchases. Global Fluid Power Solutions, LLC accounted for 53% and 79%, respectively, of our total purchases. For the year ended June 30, 2011, and for the eight month period ended June 30, 2010, we had one supplier who accounted for more than 10% of our total purchases. Global Fluid Power Solutions, LLC accounted for 67% and 70%, respectively, of total purchases. We entered into a four year supply agreement with Global Fluid Power Solutions Inc. and Mahomann Corp. (collectively "Global") on January 15, 2010. Under the supply agreement, we are not obligated to purchase any minimum number of products nor are we required to purchase its batteries exclusively from Global. We can negotiate and purchase our batteries from other vendors at any time. Accordingly, we are not dependent on Global for the products. The supply agreement terminates upon the earlier occurrence of a breach by Global, insolvency, or upon mutual agreement.

**Research and Development**

Research and development expenses for the nine months ended March 31, 2012 and 2011 were approximately \$400,000 and \$316,000, respectively. Such expenses consist primarily of materials, supplies, salaries and personnel related expenses, consulting costs and other expenses. For the years ended June 30, 2011, and for the eight month period ended June 30, 2010, we incurred \$382,064 and \$197,478, respectively, on research and development.

On October 29, 2010, we entered into an Agreement for Services with the California Center for Sustainable Energy (CCSE) in connection with a grant awarded by the Plug-In Hybrid Electric Vehicle Research Center, a division of the Institute of Transportation Studies at the University of California, Davis, for a study researching the repurposing of advanced energy storage systems from electric vehicles to household energy storage. For the year ended June 30, 2011, we completed the grant work and received approximately \$52,606 under the contract. Under the terms of the contract, CCSE retain the ownership of the studies and we retained all intellectual property rights developed under the contract. We will continue to seek out grant work that is compelling and aligns with our growth efforts.

We currently perform our research and development at our facility in Escondido, California. We seek to develop innovative new and improved products for cell and system management along with associated communication, display, current sensing and charging tools.

**Cell and System Management Tools:** We will continue to innovate with lower cost, less power consuming and more capable devices. Some of these devices will be specialized for certain market segments.

**Communication:** We will continue to innovate tools for remote and local communication with our energy storage and ancillary components. These devices and software components will be applicable in both motive and stationary storage markets.

**Display:** We will continue to innovate new and more user friendly tools to accurately and quickly display information on our energy storage metrics.

**Current Sensing:** We will continue to innovate with more accurate and detailed current data capability with our sensing modules. These devices will become ever more important to an industry that depends on accurate state of charge calculations to make decisions on power use and creation.

**Charging:** Together with our suppliers, we will continue to innovate with new charging solutions for both AC voltage for electric vehicles and DC to DC power conversion for grid, solar, wind, and back-up power solutions.

### **Competition**

Our competitors are major domestic and international companies such as LG Chem, Matsushita Industrial Co., Ltd. (Panasonic), Sony, Toshiba and SAFT, A123 Systems, Valence, Dow - Kokam, Thundersky, Winston Battery, Altair Nanotechnologies, and Ener1. A123 Systems and Ener1 have received significant financial support from private investors, public offerings and Federal, state, and local grants, subsidies, and incentives and have heavily invested in manufacturing capacity for their chosen markets. Our competitors, in general, have more funding and bigger sales, marketing and research efforts than we do.

We believe that we have several technological and business advantages over our competitors, which will lead to our success in the advanced energy storage market. Our concentration on cell and system management tools has allowed us to compete with a much lower capitalization structure. Further, our flexibility in cell sourcing allows us to provide complete storage systems at much lower cost versus our current competition.

Our pricing advantages over industry comparable are illustrated below:

| Manufacturer  | Chemistry    | Current Price   | Target Price                   |
|---|--------------|-----------------|--------------------------------|
| Ener1 ( <a href="#">HEV</a> )   | Li-polymer   | \$660 per kWh   | N/A                            |
| Valence Technologies ( <a href="#">VINC</a> )                               | Li-phosphate | \$1,000 per kWh | \$500 per kWh                  |
| Altair Nanotechnologies ( <a href="#">ALT</a> )                             | Li-titanate  | \$1,000 per kWh | N/A                            |
| A123 Systems ( <a href="#">A123</a> )                                       | Li-phosphate | \$1,228 per kWh | N/A                            |
| <a href="#">2008 DOE SEGIS-ES Estimates</a><br>(PV Solar battery packs)     | Various      | \$1,333 per kWh | \$780 per kWh                  |
| <a href="#">2009 NEDO Survey Results</a><br>(Average of Japanese Producers) | Various      | \$2,018 per kWh | \$1,000 per kWh<br>(next year) |
| Manufacturer  | Chemistry    | Current Price   | Target Price                   |
| Flux Power  | LiPO4        | <\$400 per kWh  | N/A                            |

Source: [www.seekingalfa.com](http://www.seekingalfa.com)

### Growth Strategy

We currently sell into the motive, marine, industrial, and stationary markets, some of which are replacing their lead acid solution with our products and are positioned for aggressive growth and volume. We will seek to soon move into the military and grid management markets segments. We plan to accomplish this through an aggressive sales effort and by seeding products with customers who require our technologies but who are slow to move on integration. Considering the size of the grid management market segment, we believe we can grow considerably over the next two years.

Our marketing and sales strategy is to actively pursue the following market segments:

**Electric Vehicles:** Our products' cost advantage, easy integration, automotive quality design, and Federal Motor Vehicle Safety Standards ("FMVSS") compliance make the Electric Vehicles Segment a desirable target. After small volume manufacturers, we will push into larger manufacturers.

**Military and Municipal:** Our products' longevity, easy integration and telematics make it a fit for energy storage applications for both the military and municipal markets. These markets have longer integration timelines but will become a healthy addition to our revenue mix over the next two years.

**Grid Management Solutions:** Our products' telematics, modularity, longevity and low cost solutions fit with smart grid management solutions, peak shaving devices, bulk storage, back-up power, and frequency modulation devices at every level of grid management. These devices have the longest integration timelines, but have the potential to become our largest revenue component over time.

## Intellectual Property

Our success depends, at least in part, on our ability to protect our core technology and intellectual property. To accomplish this, we rely on a combination of patents pending, patent applications, trade secrets, including know-how, employee and third party nondisclosure agreements, copyright laws, trademarks, intellectual property licenses and other contractual rights to establish and protect our proprietary rights in our technology. As of March 31, 2012, we filed patent applications in the United States, EU & China including:

| <b>Patents</b>  |                        |                    |                                  |                |
|---|------------------------|--------------------|----------------------------------|----------------|
| <u>Title</u>  | <u>Jurisdiction(s)</u> | <u>Filing Date</u> | <u>Patent Application Number</u> | <u>Status</u>  |
| Battery Management Unit   | U.S.                   | 06/28/10           | 29/386,307                       | Patent Pending |
| Power Control Module for Battery Pack Using a Thermistor                                | U.S.                   | 11/08/10           | 13/036,618                       | Patent Pending |
| System and Method for Pulsing the Bleed Off Resistor within a Battery Management System | U.S., China            | 11/28/10           | 12/941,815                       | Patent Pending |
| Battery (Design)  | U.S., China            | 09/06/11           | 29/401,058                       | Patent Pending |
| Power Control Module  | U.S.                   | 11/28/10           | 12/941,780                       | Patent Pending |
| Battery Display   | U.S., China, Europe    | 04/26/11           | 29/390,507                       | Patent Pending |
| Battery Management System   | U.S.                   | 07/11/11           | 29/397,074                       | Patent Pending |

We have developed our intellectual property portfolio through our continued investment in research and development, and through our acquisition of our based technologies from Epic Boat (an entity founded and controlled by Chris Anthony, our chairman and president), Gottlieb Inventions, and Joseph Gottlieb.

On October 21, 2009, Flux Power entered into an agreement with Epic Boats (a related party) where Epic Boats assigned and transferred to Flux Power the entire right, title, and interest into products, technology, intellectual property, inventions and all improvements thereof, as defined in the table below in exchange for \$1.00.

| <u>Product</u>                | <u>Description</u>   |
|-------------------------------|--|
| Battery Box Design            | All hardware, tooling and design reduced to practice otherwise of the battery housings which include the integration of a battery management system. |
| CAN Communication Protocol    | Top communication protocol that communicates through the CAN bus   |
| CAN based Throttle Controller | All hardware, software and tooling reduced to practice or otherwise of the throttle controller   |
| BMS Head End Interfaces       | Interfaces to the motor and generator controller to the diagnostic software  |

On October 22, 2009, Joseph S. Gottlieb and Gottlieb Inventions transferred all intellectual property relating to the battery management system including any diagnostic programs software, board layout, firmware, innovation, schematics, products and related technology to Flux Power. As part of the transfer, we granted Mr. Gottlieb options to purchase 265,000 shares of common stock at an exercise price of \$0.13 per share (prior to adjustment based on the Share Exchange Ratio).

In connection with our Battery Management System, we are actively perfecting patent applications relating to determining battery life and remaining battery life cycles. Patent applications relating to these inventions will soon be filed with the U.S. Patent & Trademark Office. For certain applications represented above, foreign filings are in process in key markets like the European Union and China. In addition, we have a number of trademark applications and registrations protecting the Flux Power name and logo. These include Flux, Flux Power, and the Flux Power logo.

In addition, we intend to continue to file additional patent applications with respect to our technology and to seek protection of our intellectual property internationally in a broad range of areas. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims. Even if granted, there can be no assurance that these pending patent applications will provide us with protection.

### **Competitive Strengths**

We believe that we have advantages over our competitors as follows:

- **Field Tested, Consumer Validated Technology**. We have delivered over 14MWh of product to customers since the fourth quarter of 2010. FMVSS certified in a production vehicle. Automotive and Industrial quality products.
- **Experienced team**. 80 years of high tech and transportation industry experience.
- **Strong growth potential**. Market size significantly increasing over next 4 years.
- **Comprehensive IP Portfolio**. Protecting key aspects of system and components.
- **More Capital Efficient Revenue Model**. Focused on advanced cell management to improve overall economics rather than cell chemistry.

### **Government Regulations**

**Product Safety Regulations**. Our products are subject to product safety regulations by Federal, state, and local organizations. Accordingly, we may be required, or may voluntarily determine to obtain approval of our products from one or more of the organizations engaged in regulating product safety. These approvals could require significant time and resources from our technical staff and, if redesign were necessary, could result in a delay in the introduction of our products in various markets and applications.

**Department of Transportation, National Highway Traffic Safety Administration (NHTSA)**. The NHTSA is charged with writing and enforcing safety, theft-resistance, and fuel economy standards for motor vehicles through their Federal Motor Vehicle Safety Standards. These Standards require manufacturers to design their electrically powered vehicles so that, in the event of a crash, the electrical energy storage, conversion, and traction systems are either electrically isolated from the vehicle's chassis or their voltage is below specified levels considered safe from electric shock hazards.

Vehicle designers and manufacturers are governed by the Federal Motor Vehicle Safety Standards program. We are not governed by this regulation, but the vehicle manufacturers do need to comply with the standards.

**Environmental Regulations.** Federal, state, and local regulations impose significant environmental requirements on the manufacture, storage, transportation, and disposal of various components of advanced energy storage systems. Although we believe that our operations are in material compliance with current applicable environmental regulations, there can be no assurance that changes in such laws and regulations will not impose costly compliance requirements on us or otherwise subject us to future liabilities. Moreover, Federal, state, and local governments may enact additional regulations relating to the manufacture, storage, transportation, and disposal of components of advanced energy storage systems. Compliance with such additional regulations could require us to devote significant time and resources and could adversely affect demand for our products. There can be no assurance that additional or modified regulations relating to the manufacture, storage, transportation, and disposal of components of advanced energy systems will not be imposed.

**Occupational Safety and Health Regulations** The California Division of Occupational Safety and Health (“Cal/OSHA”) and other regulatory agencies have jurisdiction over the operations of our Escondido, California facility. Because of the risks generally associated with the assembly of advanced energy storage systems we expect rigorous enforcement of applicable health and safety regulations. Frequent audits by or changes, in the regulations issued by Cal/OSHA, or other regulatory agencies with jurisdiction over our operations, may cause unforeseen delays and require significant time and resources from our technical staff.

#### **Employees**

As of March 31, 2012, we employed 15 employees. None of our employees are currently represented by a trade union. We consider our relations with our employees to be good.

#### **Property**

Our headquarters are located in 15,400 square feet of leased office, engineering, and development space in Escondido, California. This lease commenced on June 16, 2010 and expires on June 30, 2012. The annual base rent under the lease, payable on a monthly basis, is approximately \$12,950. The lease also provides for an option to renew for a term of one year.

#### **Legal Proceedings**

We are not currently involved in any legal proceedings.

### **RISK FACTORS**

*An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this report, before making an investment decision. If any of the following risks actually occur, our business, financial condition or results of operations could suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment. You should read the section entitled “Special Note Regarding Forward Looking Statements” above for a discussion of what types of statements are forward-looking statements, as well as the significance of such statements in the context of this report.*

#### **Risk Factors Relating to Our Business**

##### ***Flux Power has incurred Net Losses since our inception.***

Flux Power has incurred net losses since our inception. For the nine month period ended March 31, 2012, year ended June 30, 2011 and eight months ended June 30, 2010, Flux Power has incurred net losses of approximately (\$1,139,000), (\$1,313,000), and (\$630,000), respectively. No assurance can be given that we will achieve profitability in the future.

***Flux Power had negative working capital.***

As of March 31, 2012, and June 30, 2011, Flux Power had a negative working capital of approximately \$278,000 and \$1,140,000, meaning Flux Power's current liabilities exceeds its current assets. This negative working capital may limit our growth since the majority of our net income, if any, will be used to pay accounts payable and existing debts. No assurance can be given that we will be able to pay our liabilities when they become due.

***Our ability to obtain additional financing may be limited, which could delay or prevent the completion of one or more of our strategies.***

Flux Power has, to date, financed its working capital and capital expenditure needs primarily from investments and credit lines. Flux Power expects its working capital needs and its capital expenditure needs to increase in the future as it continues to expand and enhance its production facilities, increase its design, research and development capabilities and as Flux Power continue to implement its other strategies. Our ability to raise additional capital will depend on the financial success of Flux Power's current business and the successful implementation of Flux Power's key strategic initiatives, as well as financial, economic and market conditions and other factors, some of which are beyond our control. We may not be successful in raising any required capital on reasonable terms and at required times, or at all. Further, equity financings may have a further dilutive effect on our stockholders. If we require additional debt financing, the lenders may require us to agree on restrictive covenants that could limit our flexibility in conducting future business activities, and the debt service payments may be a significant drain on our free capital allocated for research and other activities. If we are unsuccessful in raising additional capital or if new capital funding costs are higher than our prior capital funding costs, our business operations and our development programs may be materially and adversely impacted, with similar effects on our results of operations and financial condition.

***Flux Power's limited operating history makes evaluating its business and future prospects difficult and may increase the risk of your investment.***

Flux Power was formed during the 2010 fiscal year. You must consider the risks and difficulties Flux Power faces as an early stage company with limited operating history. If Flux Power does not successfully address these risks, its business, prospects, operating results and financial condition will be materially and adversely harmed. Flux Power began delivering its first battery product and battery management system (BMS) in the second quarter of 2010, and as of December 2011, Flux Power has have 46 customers, almost all of which are in the Electric Vehicle, Emergency Back-Up Power Supply, or Solar Storage market segments. Flux Power's revenues for the nine month periods ended March 31, 2012 and 2011 were \$3,008,000 and \$583,000, respectively. Flux Power's revenues for the year ended June 30, 2011, and for the eight month period ended June 30, 2010, were approximately \$984,000 and \$207,000, respectively. Flux Power has a very limited operating history on which investors can base an evaluation of its business, operating results and prospects.

For the nine months ended March 31, 2012, 84% of Flux Power's revenues were derived from sales of its battery products and 15% from BMS. We have not derived material revenues from our handheld or charger. We have not sold our products for use in applications other than electric vehicles. However, Flux Power intends to extend the application of its battery products and BMS for industrial energy storage, government applications, and hobby and specialty applications. Flux Power is currently testing its battery products and BMS for other applications but Flux Power has not yet sold any of its products for use in other than electric vehicles. There are no assurances that Flux Power will be able to successfully extend the application of our battery products and BMS outside of the electrical vehicle industry and into other targeted end markets.



*Our business depends in large part on the growth in demand for electric vehicles.*

Many of our battery products and BMS are used to power electric vehicles in the commercial and industrial spaces. Therefore, the demand for our rechargeable batteries and systems is substantially tied to the market demand for electric vehicles. A growth in the demand for electric vehicles will be essential to the expansion of our business. Our results of operations may be adversely affected by decreases in the general level of economic activity. Decreases in consumer spending that may result from the current global economic downturn may weaken demand for items that use our battery products and BMS. A decrease in the demand for electric vehicles would likely have a material adverse effect on our results of operations. We are unable to predict the duration and severity of the current disruption in financial markets and the global adverse economic conditions and the effect such events might have on our business.

*Our success depends on the success of manufacturers of the end applications that use our battery products and BMS.*

Because our products are designed to be used in other products such as electric vehicles, our success depends on whether end application manufacturers will incorporate our battery products and BMS in their products. Although we strive to produce high quality battery products and BMS, there is no guarantee that end application manufacturers will accept our products. Our failure to gain acceptance of our products from these manufacturers could result in a material adverse effect on our results of operations.

Additionally, even if a manufacturer decides to use our batteries, the manufacturer may not be able to market and sell its products successfully. The manufacturer's inability to market and sell its products successfully could materially and adversely affect our business and prospects because this manufacturer may not order new products from us. Therefore, our business, financial condition, results of operations and future success would be materially and adversely affected.

**Lithium-ion battery modules have been observed to catch fire or vent smoke and flame, and such events have raised concerns over the use of high-power batteries in electric vehicles.**

We sell and supply high-power lithium based battery modules for the electrical vehicles and we intend to supply these lithium modules for industrial, governmental and grid storage applications. Historically, lithium-ion batteries in laptops and cellphones have been reported to catch fire or vent smoke and flames, and more recently, news have been reported that several electric vehicles that use high-power lithium-ion batteries have caught fire which trigger investigation as to the cause of the fires. As such, any adverse publicity and issues as to the use of high-power batteries in automotive applications will affect our business and prospects since we sell and supply high-power lithium based battery modules for electric vehicle application. In addition, any failure of our battery modules may cause damage to the vehicle or lead to personal injury or death and may subject us to lawsuits. We may have to recall our battery modules, which would be time consuming and expensive.

***Current economic conditions may adversely affect consumer spending and the overall general health of our retail customers, which, in turn, may adversely affect our financial condition, results of operations and cash resources.***

Uncertainty about the current and future global economic conditions may cause our customers to defer purchases or cancel purchase orders for our products in response to tighter credit, decreased cash availability and weakened consumer confidence. Our financial success is sensitive to changes in general economic conditions, both globally and nationally. Recessionary economic cycles, higher interest borrowing rates, higher fuel and other energy costs, inflation, increases in commodity prices, higher levels of unemployment, higher consumer debt levels, higher tax rates and other changes in tax laws or other economic factors that may affect consumer spending or buying habits could continue to adversely affect the demand for our products. In addition, a number of our customers may be impacted by the significant decrease in available credit that has resulted from the current financial crisis. If credit pressures or other financial difficulties result in insolvency for our customers it could adversely impact our financial results. There can be no assurances that government and consumer responses to the disruptions in the financial markets will restore consumer confidence.

***We are dependent on a limited number of suppliers for our battery cells, and the inability of these suppliers to continue to deliver, or their refusal to deliver, our battery cells at prices and volumes acceptable to us would have a material adverse effect on our business, prospects and operating results.***

Our battery cells, which are an integral part of our battery products and systems, are currently sourced from three manufacturers, two located in China and one located in the United States. While we obtain components for our products and systems from multiple sources whenever possible, we have spent a great deal of time in developing and testing our battery cells that we receive from these three manufacturers. We refer to these battery cell suppliers as our limited source suppliers. To date we have no qualified alternative sources for our battery cells and we generally do not maintain long-term agreements with our limited source suppliers. While we believe that we will be able to establish alternate supply relationships for our battery cells, we may be unable to do so in the short term or at all at prices, quality or costs that are favorable to us.

Changes in business conditions, wars, governmental changes and other factors beyond our control or which we do not presently anticipate, could also affect our suppliers' ability to deliver components to us on a timely basis. Furthermore, if we experience significant increased demand, or need to replace our existing suppliers, there can be no assurance that additional supplies of component parts will be available when required on terms that are favorable to us, at all, or that any supplier would allocate sufficient supplies to us in order to meet our requirements or fill our orders in a timely manner. In the past, we have replaced certain suppliers because of their failure to provide components that met our quality control standards. The loss of any limited source supplier or the disruption in the supply of components from these suppliers could lead to delays in the deliveries of our battery products and systems to our customers, which could hurt our relationships with our customers and also materially adversely affect our business, prospects and operating results.

***Increases in costs, disruption of supply or shortage of raw materials, in particular lithium-iron phosphate cells, could harm our business.***

We may experience increases in the costs or a sustained interruption in the supply or shortage of raw materials. Any such an increase or supply interruption could materially negatively impact our business, prospects, financial condition and operating results. For instance, we are exposed to multiple risks relating to price fluctuations for lithium-iron phosphate cells. These risks include:

- the inability or unwillingness of current battery manufacturers to supply the number of lithium-iron phosphate cells required to support our sales as demand for such rechargeable battery cells increases;
- disruption in the supply of cells due to quality issues or recalls by the battery cell manufacturers; and
- an increase in the cost of raw materials, such as iron and phosphate, used in lithium-iron phosphate cells.

***We may be unable to successfully execute our long-term growth strategy or maintain our current revenue levels.***

Although we exhibited significant growth from our inception to the present day, we can provide no assurance that our revenues will continue to grow. Our ability to maintain our revenue levels or to grow in the future depends upon, among other things, the continued success of our efforts to maintain our brand image and bring new products to market and our ability to expand within our current distribution channels.

***Our success is highly dependent on continually developing new and advanced products, technologies, and processes and failure to do so may cause us to lose our competitiveness in the battery industry and may cause our profits to decline.***

To remain competitive in the battery industry, it is important to continually develop new and advanced products, technologies, and processes. There is no assurance that competitors' new products, technologies, and processes will not render our existing products obsolete or non-competitive. Alternately, changes in legislative, regulatory or industry requirements or in competitive technologies may render certain of our products obsolete or less attractive. Our competitiveness in the renewable battery market therefore relies upon our ability to enhance our current products, introduce new products, and develop and implement new technologies and processes. Our battery system predominately uses lithium-iron phosphate cells. If our competitors develop alternative products with more enhanced features than our battery system, our financial condition and results of operations would be materially and adversely affected.

The research and development of new products and technologies is costly and time consuming, and there are no assurances that our research and development of new products will be either successful or completed within anticipated timeframes, if at all. Our failure to technologically evolve and/or develop new or enhanced products may cause us to lose competitiveness in the battery market. In addition, in order to compete effectively in the renewable battery industry, we must be able to launch new products to meet our customers' demands in a timely manner. However, we cannot provide assurance that we will be able to install and certify any equipment needed to produce new products in a timely manner, or that the transitioning of our manufacturing facility and resources to full production under any new product programs will not impact production rates or other operational efficiency measures at our manufacturing facility. In addition, new product introductions and applications are risky, and may suffer from a lack of market acceptance, delays in related product development and failure of new products to operate properly. Any failure by us to successfully launch new products, or a failure by our customers to accept such products, could adversely affect our results.

***Flux Power has historically depended on a limited number of customers for a significant portion of its revenues and this dependence is likely to continue.***

Flux Power has historically depended on a limited number of customers for a significant portion of its revenues. During the nine month period ended March 31, 2012, Flux Power had four major customers that combined represented 87% or \$2,616,000 of its total revenues. During the nine month period ended March 31, 2011 Flux Power had two major customers that accounted for 37% or \$216,000 of its total revenues. For the year ended June 30, 2011, one customer accounted for 19% of total revenues, or \$187,000. For the eight month period ended June 30, 2010, Flux Power had four customers that combined accounted for 79% of total revenues, or \$164,000.

We anticipate that a limited number of customers will continue to contribute to a significant portion of our revenues in the future. Maintaining the relationships with these significant customers is vital to the expansion and success of our business as the loss of a major customer could expose us to risk of substantial losses. Our revenues could decline and our results of operations could be materially adversely affected if one or more of these significant customers stops or reduces its purchasing of our products, or if we fail to expand our customer base for our products.

***The market for our products and services is very competitive and, if we cannot effectively compete, our business will be harmed.***

The market for our products and services is very competitive and subject to rapid technological change. Many of our competitors are larger and have significantly greater assets, name recognition and financial, personnel and other resources than we have. As a result, our competitors may be in a stronger position to respond quickly to potential acquisitions and other market opportunities, new or emerging technologies and changes in customer requirements. We cannot assure you that we will be able to maintain or increase our market share against the emergence of these or other sources of competition. Failure to maintain and enhance our competitive position could materially adversely affect our business and prospects.

***Our business may be adversely affected by the global economic downturn, in addition to the continuing uncertainties in the financial markets.***

The global economy is currently in a pronounced economic downturn. Global financial markets are continuing to experience disruptions, including severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates, and uncertainty about economic stability. Given these uncertainties, there is no assurance that there will not be further deterioration in the global economy, the global financial markets and consumer confidence. If economic conditions deteriorate further, our business and results of operations could be materially and adversely affected.

Additionally, the automobile industry in particular was severely impacted by the poor economic conditions and several vehicle manufacturing companies, including General Motors and Chrysler, were forced to file for bankruptcy. Sales of new automobiles generally have dropped during this global economic downturn. Sales of consumer products such as electric vehicles have slowed along with this downturn. Our future results of operations may experience substantial fluctuations from period to period as a consequence of these factors, and such conditions and other factors affecting consumer spending may affect the timing of orders. Thus, any economic downturns generally would have a material adverse effect on our business, cash flows, financial condition and results of operations.

***Warranty claims, product liability claims and product recalls could harm our business, results of operations and financial condition.***

Our business inherently exposes us to potential warranty and product liability claims, in the event that our products fail to perform as expected or such failure of our products results, or is alleged to result, in bodily injury or property damage (or both). Such claims may arise despite our quality controls, proper testing and instruction for use of our products, either due to a defect during manufacturing or due to the individual's improper use of the product. In addition, if any of our designed products are, or are alleged, to be defective, then we may be required to participate in a recall of them.

Although we have product liability insurance for our products, this may be inadequate to cover all potential product liability claims. In addition, while we often seek to limit our product liability in our contracts, such limits may not be enforceable or may be subject to exceptions. Any product recall or lawsuit seeking significant monetary damages either in excess of our coverage, or outside of our coverage, may have a material adverse effect on our business and financial condition. We may not be able to secure additional product liability insurance coverage on acceptable terms or at reasonable costs when needed. If we were to experience a large insured loss, it might exceed our coverage limits, or our insurance carriers could decline to further cover us or raise our insurance rates to unacceptable levels, any of which could impair our financial position and results of operations. A successful product liability claim against us could require us to pay a substantial monetary award. We cannot be assured that such claims will not be made in the future.

***We may need to defend ourselves against patent or trademark infringement claims, which may be time-consuming and would cause us to incur substantial costs.***

Companies, organizations or individuals, including our competitors, may hold or obtain patents, trademarks or other proprietary rights that would prevent, limit or interfere with our ability to make, use, develop or sell our battery products and BMS, which could make it more difficult for us to operate our business. Companies holding patents or other intellectual property rights relating to battery packs or electronic power management systems may bring suits alleging infringement of such rights or otherwise asserting their rights and seeking licenses. In addition, if we are determined to have infringed upon a third party's intellectual property rights, we may be required to do one or more of the following:

- cease selling, incorporating or using products that incorporate the challenged intellectual property;
- pay substantial damages;
- obtain a license from the holder of the infringed intellectual property right, which license may not be available on reasonable terms or at all; or
- redesign our battery management systems.

In the event of a successful claim of infringement against us and our failure or inability to obtain a license to the infringed technology, our business, prospects, operating results and financial condition could be materially adversely affected. In addition, any litigation or claims, whether or not valid, could result in substantial costs and diversion of resources and management attention.

We may license patents and other intellectual property from third parties, and we may face claims that our use of this in-licensed technology infringes the rights of others. In that case, we may seek indemnification from our licensors under our license contracts with them. However, our rights to indemnification may be unavailable or insufficient to cover our costs and losses, depending on our use of the technology, whether we choose to retain control over conduct of the litigation, and other factors.

***Our business will be adversely affected if we are unable to protect our intellectual property rights from unauthorized use or infringement by third parties.***

Any failure to protect our proprietary rights adequately could result in our competitors offering similar products, potentially resulting in the loss of some of our competitive advantage and a decrease in our revenue, which would adversely affect our business, prospects, financial condition and operating results. Our success depends, at least in part, on our ability to protect our core technology and intellectual property. To accomplish this, we rely on a combination of patents, patent applications, trade secrets, including know-how, employee and third party nondisclosure agreements, copyright laws, trademarks, intellectual property licenses and other contractual rights to establish and protect our proprietary rights in our technology.

The protection provided by the patent laws is and will be important to our future opportunities. However, such patents and agreements and various other measures we take to protect our intellectual property from use by others may not be effective for various reasons, including the following:

- our pending patent applications may not result in the issuance of patents;
- our patents, if issued, may not be broad enough to protect our proprietary rights;
- the patents we have been granted may be challenged, invalidated or circumvented because of the pre-existence of similar patented or unpatented intellectual property rights or for other reasons;
- the costs associated with enforcing patents, confidentiality and invention agreements or other intellectual property rights may make aggressive enforcement impracticable; and
- current and future competitors may independently develop similar technology and/or duplicate our systems in a way that circumvents our patents.

***Our patent applications may not result in issued patents, which may have a material adverse effect on our ability to prevent others from commercially exploiting products similar to ours.***

Our patent applications may not result in issued patents, which may have a material adverse effect on our ability to prevent others from commercially exploiting products similar to ours.

We cannot be certain that we are the first creator of inventions covered by pending patent applications or the first to file patent applications on these inventions, nor can we be certain that our pending patent applications will result in issued patents or that any of our issued patents will afford protection against a competitor. In addition, patent applications that we intend to file in foreign countries are subject to laws, rules and procedures that differ from those of the United States, and thus we cannot be certain that foreign patent applications related to issued United States patents will be issued. Furthermore, if these patent applications issue, some foreign countries provide significantly less effective patent enforcement than in the United States.

The status of patents involves complex legal and factual questions and the breadth of claims allowed is uncertain. As a result, we cannot be certain that the patent applications that we file will result in patents being issued, or that our patents and any patents that may be issued to us in the near future will afford protection against competitors with similar technology. In addition, patents issued to us may be infringed upon or designed around by others and others may obtain patents that we need to license or design around, either of which would increase costs and may adversely affect our business, prospects, financial condition and operating results.

***We rely on trade secret protections through confidentiality agreements with our employees, customers and other parties; the breach of such agreements could adversely affect our business and results of operations.***

We rely on trade secrets, which we seek to protect, in part, through confidentiality and non-disclosure agreements with our employees, customers and other parties. There can be no assurance that these agreements will not be breached, that we would have adequate remedies for any such breach or that our trade secrets will not otherwise become known to or independently developed by competitors. To the extent that consultants, key employees or other third parties apply technological information independently developed by them or by others to our proposed projects, disputes may arise as to the proprietary rights to such information that may not be resolved in our favor. We may be involved from time to time in litigation to determine the enforceability, scope and validity of our proprietary rights. Any such litigation could result in substantial cost and diversion of effort by our management and technical personnel.

***Our production capacity might not be able to meet with growing market demand or changing market conditions.***

We cannot give assurance that our production capacity will be able to meet our obligations and the growing market demand for our products in the future. Furthermore, we may not be able to expand our production capacity in response to the changing market conditions. If we fail to meet demand from our customers, we may lose our market share.

***Our business depends substantially on the continuing efforts of our executive officers, and our business may be severely disrupted if we lose their services.***

We believe that our success is largely dependent up on the continued service of the members of our management team, who are critical to establishing our corporate strategies and focus, and ensuring our continued growth. In particular, our Chairman and Chief Executive Officer, Chris Anthony, is crucial to our success. Our continued success will depend on our ability to attract and retain a qualified and competent management team in order to manage our existing operations and support our expansion plans. Although we are not aware of any change, if any of our executive officers are unable or unwilling to continue in their present positions, we may not be able to replace them readily, if at all. Therefore, our business may be severely disrupted, and we may incur additional expenses to recruit and retain new officers. In addition, if any of our executives joins a competitor or forms a competing company, we may lose some of our customers.

***Our management team has limited experience in public company matters, which could impair our ability to comply with legal and regulatory requirements.***

Our management team has only limited public company management experience or responsibilities, which could impair our ability to comply with legal and regulatory requirements such as the Sarbanes-Oxley Act of 2002 and applicable federal securities laws including filing required reports and other information required on a timely basis. There can be no assurance that our management team will be able to implement and affect programs and policies in an effective and timely manner that adequately respond to increased legal, regulatory compliance and reporting requirements imposed by such laws and regulations. Our failure to comply with such laws and regulations could lead to the imposition of fines and penalties and further result in the deterioration of our business.

***Compliance with changing regulations concerning corporate governance and public disclosure may result in additional expenses.***

There have been changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”), new regulations promulgated by the SEC and rules promulgated by the national securities exchanges. These new or changed laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. As a result, our efforts to comply with evolving laws, regulations and standards are likely to continue to result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. Members of our Board of Directors and our Chief Executive Officer and Chief Financial Officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified directors and executive officers, which could harm our business. If the actions we take in our efforts to comply with new or changed laws, regulations and standards differ from the actions intended by regulatory or governing bodies, we could be subject to liability under applicable laws or our reputation may be harmed.

In addition, Sarbanes-Oxley specifically requires, among other things, that we maintain effective internal controls for financial reporting and disclosure of controls and procedures. In particular, we must perform system and process evaluation and testing of our internal controls over financial reporting to allow management to report on the effectiveness of our internal controls over financial reporting, as required by Section 404 of Sarbanes-Oxley. Our testing, or the subsequent testing by our independent registered public accounting firm, when required, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. We currently do not have an internal audit group, and we will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

***We may be required to obtain the approval of various government agencies to market our products.***

Our products are subject to product safety regulations by Federal, state, and local organizations. Accordingly, we may be required, or may voluntarily determine to, obtain approval of our products from one or more of the organizations engaged in regulating product safety. These approvals could require significant time and resources from our technical staff, and, if redesign were necessary, could result in a delay in the introduction of our products in various markets and applications. There can be no assurance that we will obtain any or all of the approvals that may be required to market our products.



***We may face significant costs relating to environmental regulations.***

Federal, state, and local regulations impose significant environmental requirements on the manufacture, storage, transportation, and disposal of various components of advanced energy storage systems. Although we believe that our operations are in material compliance with current applicable environmental regulations, there can be no assurance that changes in such laws and regulations will not impose costly compliance requirements on us or otherwise subject us to future liabilities. Moreover, Federal, state, and local governments may enact additional regulations relating to the manufacture, storage, transportation, and disposal of components of advanced energy storage systems. Compliance with such additional regulations could require us to devote significant time and resources and could adversely affect demand for our products. There can be no assurance that additional or modified regulations relating to the manufacture, storage, transportation, and disposal of components of advanced energy systems will not be imposed.

***We may face significant costs relating to Occupational Safety and Health Regulations***

The California Division of Occupational Safety and Health (“Cal/OSHA”) and other regulatory agencies have jurisdiction over the operations of our Escondido, California facility. Because of the risks generally associated with the assembly of advanced energy storage systems, we expect rigorous enforcement of applicable health and safety regulations. Frequent audits by or changes in the regulations issued by Cal/OSHA, or other regulatory agencies with jurisdiction over our operations, may cause unforeseen delays and require significant time and resources from our technical staff.

**Risks Related to Our Common Stock and Market**

***The market price of our common stock can become volatile, leading to the possibility of its value being depressed at a time when you may want to sell your holdings.***

The market price of our common stock can become volatile. Numerous factors, many of which are beyond our control, may cause the market price of our common stock to fluctuate significantly. These factors include:

- our earnings releases, actual or anticipated changes in our earnings, fluctuations in our operating results or our failure to meet the expectations of financial market analysts and investors;
- changes in financial estimates by us or by any securities analysts who might cover our stock;
- speculation about our business in the press or the investment community;
- significant developments relating to our relationships with our customers or suppliers;
- stock market price and volume fluctuations of other publicly traded companies and, in particular, those that are in our industry;
- limited “public float” in the hands of a small number of persons whose sales or lack of sales could result in positive or negative pricing pressure on the market price for our common stock;
- customer demand for our products;
- investor perceptions of our industry in general and our Company in particular;
- the operating and stock performance of comparable companies;
- general economic conditions and trends;

- announcements by us or our competitors of new products, significant acquisitions, strategic partnerships or divestitures;
- changes in accounting standards, policies, guidance, interpretation or principles;
- loss of external funding sources;
- sales of our common stock, including sales by our directors, officers or significant stockholders; and
- additions or departures of key personnel.

***The ownership of our stock is highly concentrated in our management.***

As of June 14, 2012, our present directors and executive officers, and their respective affiliates beneficially owned approximately 92% of our outstanding common stock, including underlying options that were exercisable or which would become exercisable within 60 days. As a result of their ownership, our directors and executive officers and their respective affiliates collectively are able to significantly influence all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may also have the effect of delaying or preventing a change in control.

***We do not intend to pay dividends on shares of our common stock for the foreseeable future.***

We have never declared or paid any cash dividends on shares of our common stock. We intend to retain any future earnings to fund the operation and expansion of our business and, therefore, we do not anticipate paying cash dividends on shares of our common stock in the foreseeable future.

***Our common stock is illiquid and this low trading volume may adversely affect the price of our common stock.***

Our common stock currently is quoted on the OTCQB under the symbol "FLUX." However, with very little trading history, a trading market that does not represent an "established trading market," a limited current public float, volatility in the bid and asked prices and the fact that our common stock is very thinly traded, you could lose all or a substantial portion of your funds if you make an investment in us. In addition, potential dilutive effects of future sales of shares of common stock by us and our shareholders, and subsequent sale of common stock by the holders of warrants and options, could have an adverse effect on the price of our securities, which could hinder our ability to raise additional capital to fully implement our business, operating and development plans.

***Penny stock regulations affect our stock price, which may make it more difficult for investors to sell their stock.***

Broker-dealer practices in connection with transactions in "penny stocks" are regulated by certain penny stock rules adopted by the SEC. Penny stocks generally are equity securities with a price per share of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ Stock Market, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer must also provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules generally require that prior to a transaction in a penny stock the broker-dealer make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to the penny stock rules. Our securities are subject to the penny stock rules, and investors may find it more difficult to sell their securities.

***Preferred Stock may be issued under our Articles of Incorporation.***

Our Articles of Incorporation authorize the issuance of up to 5,000,000 shares of preferred stock. The preferred stock may be issued in one or more series, the terms of which may be determined at the time of issuance. These terms may include voting rights including the right to vote as a series on particular matters, preferences as to dividends and liquidation, conversion rights, redemption rights and sinking fund provisions. The issuance of any preferred stock could diminish the rights of holders of our common stock, and therefore could reduce the value of such common stock.

***We were a “shell company” and are subject to additional restrictions under Rule 144 on resales of our Restricted Securities.***

The following is a quotation from subparagraph (i)(B)(2) of Rule 144: “Notwithstanding paragraph (i)(1), if the issuer of the securities previously had been an issuer described in paragraph (i)(1)(i) but has ceased to be an issuer described in paragraph (i)(1)(i); is subject to the reporting requirements of section 13 or 15(d) of the Exchange Act; has filed all reports and other materials required to be filed by section 13 or 15(d) of the Exchange Act, as applicable, during the preceding 12 months (or for such shorter period that the issue was required to file such reports and materials), other than Form 8-K reports (§249.308 of this chapter); and has filed current “Form 10 information” with the Commission reflecting its status as an entity that is no longer an issuer described in paragraph (i)(1)(i), then those securities may be sold subject to the requirements of this section after one year has elapsed from the date that the issuer filed “Form 10 information” with the Commission.” As a “shell company” immediately prior to the Reverse Acquisition, we will be subject to additional restrictions under Rule 144 which provides that no sales of our restricted securities could be sold until we have complied with subparagraph (i)(B)(2) of Rule 144.

**MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes and other financial information appearing elsewhere in this report. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Readers are also urged to carefully review and consider the various disclosures made by us which attempt to advise interested parties of the factors which affect our business, including without limitation, the disclosures made under “Risk Factors.”*

The following discussion and analysis relates to the results of Flux Power, our wholly-owned subsidiary, only and should be read in conjunction with the financial statements and the related notes thereto and other financial information contained elsewhere in this Form 8-K. Please see our unaudited pro forma combined financial information of FPH and its subsidiaries filed as Exhibit 99.1. For a discussion and analysis related to the results of FPH, please see our Form 10-K for the fiscal year ended December 31, 2011 filed with the SEC on March 23, 2012, and Form 10-Q for the quarter ended March 31, 2012 filed with the SEC on May 11, 2012.

## Overview

Flux Power was founded in 2009 to design, develop and sell rechargeable advanced energy storage systems. We have developed an innovative high power battery cell management system (“BMS”) and have structured our business around this core technology. Our proprietary BMS provides three critical functions to our battery systems:

- *Cell Balancing:* This is performed by continuously adjusting the capacity of each cell in a storage system according to temperature, voltage, and internal impedance metrics. This management assures longevity of the overall system.
- *Monitoring:* This is performed through temperature probes, a physical connection to individual cells for voltage and calculations from basic metrics to determine remaining capacity and internal impedance. This monitoring assures accurate measurements to best manage the system and assure longevity.
- *Error reporting:* This is performed by analyzing data from system monitoring and making decision on whether the system is operating out of normal specifications. This error reporting is crucial to system management as it ensures ancillary devices are not damaging your storage system and will give the operator an opportunity to take corrective action to maintain long overall system life.

Using our proprietary battery management technology, we are able to offer completely integrated energy storage solutions or custom modular standalone systems to our clients. In addition, we have also developed a suite of complementary technologies and products that accompany and enhance the abilities of our BMS to meet the needs of the growing advanced energy storage market.

We sold our first validated product in the second quarter of 2010 and have since delivered over 14 mega watt-hours of Advanced Energy Storage to clients such as Crown Equipment Corp., Damascus Corp., Columbia Parcar Corp., Wheego Electric Cars Inc., Epic Electric Vehicles, and TALHO. This places us amongst the top tier of Advanced Energy Storage providers in North America. We also sell our Advanced Energy Storage products through distributors such as Dukes Garage, Small Car Performance, Electric Motor Sports, MCElectric, Jungle Motors and EV America.

## Recent Developments and Events

### New Agreements

**NACCO Prototype Agreement.** On February 6, 2012, Flux entered into a Prototype Agreement (the “Prototype Agreement”) with NACCO Materials Handling Group, Inc. (“NACCO”) to develop and provide three (3) prototype battery packs for NACCO’s lift trucks. Pursuant to the Prototype Agreement, we agreed to develop and provide three prototype battery packs for use in NACCO’s lift trucks. Our fees under the Prototype Agreement are based on hourly rates of our project managers and engineers and the material costs related to the project. We will retain ownership of all intellectual property developed under the Prototype Agreement, but we have granted NACCO a fully-paid, worldwide, non-exclusive, license to use, sell, and reproduce the prototype battery packs. The term of the Prototype Agreement is indefinite but it may be terminated upon 60 days written notice of either party.

***GTA Terms & Conditions***. On September 21, 2011, Flux and GreenTech Automotive, Inc. (GTA) entered into terms and conditions for future purchase orders. All sales from Flux to GTA that include Flux's product for production of GTA's electronic vehicle shall be governed under this agreement. This agreement does not obligate GTA to make any purchases of our products.

#### *Notes Payable*

In October 2011, the Company entered into a new revolving promissory note agreement (Secondary Operating Capital) with a stockholder for \$1,000,000. The revolving promissory note bears interest at 8%, is due September 30, 2013, as amended, and is secured by substantially all of the assets of the Company. As of March 31, 2012 the balance outstanding was \$500,000.

In March 2012, the Company entered into an additional note payable agreement with the same stockholder for \$250,000. The note matures in March 2014 and bears interest at 8% per annum.

#### **Critical Accounting Policies and Estimates**

Our financial statements are prepared in accordance with generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. The Company has used significant estimates in its determination of the reserve for inventory, sales returns, and warranty claims. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

We believe the following accounting policies and estimates are most critical to aid in understanding and evaluating our reported financial results.

#### *Inventories and prepaid inventory*

Inventories consist primarily of battery management systems and the related subcomponents, and are stated at the lower of cost (first-in, first-out) or market. Prepaid inventory represents deposits made by us for inventory purchases. We evaluate inventories to determine if write-downs are necessary due to obsolescence or if the inventory levels are in excess of anticipated demand at market value based on consideration of historical sales and product development plans.

#### *Revenue recognition*

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, price is fixed or determinable and collectability of the selling price is reasonably assured. Delivery occurs when risk of loss is passed to the customer, as specified by the terms of the applicable customer agreements. Generally, this occurs when the product is delivered to the customer.

When an implied right of return exists, we recognize revenue on the sell through-method. Under this method, revenue is not recognized upon delivery of the inventory components. Instead, we record deferred revenue upon delivery and recognize revenue when the inventory components are sold through to the end user.

We evaluate our exposure to sales returns and warranty issues based on historical information.

## Results of Operations

*Nine Month Period Ended March 31, 2012 compared to the Nine Month Period Ended March 31, 2011*

|   | For the nine month periods ended |                   |
|---|----------------------------------|-------------------|
|   | 31-Mar-12                        | 31-Mar-11         |
|   | <i>in thousands</i>              |                   |
| <b>Revenues</b>                             | \$ 3,008                         | \$ 583            |
| <b>Cost of sales</b>                        | <u>2,431</u>                     | <u>473</u>        |
| <b>Gross Profit</b>                         | 577                              | 110               |
| <b>Selling, general, and administrative</b> | 1,271                            | 774               |
| <b>Research and development</b>             | <u>400</u>                       | <u>316</u>        |
| <b>Total Operating Expenses</b>             | 1,671                            | 1,090             |
| <b>Interest expense</b>                     | <u>45</u>                        | <u>25</u>         |
| <b>Net Loss</b>                             | <u>\$ (1,139)</u>                | <u>\$ (1,005)</u> |

### *Revenues*

Revenues for the nine months ended March 31, 2012, increased approximately \$2,425,000, or 416%, compared to the nine months ended March 31, 2011. This increase is the result of an increase in new customers and volume increases on existing customer orders.

### *Cost of Revenues*

Cost of revenues for the nine months ended March 31, 2012, increased approximately \$1,958,000, or 414%, compared to the nine months ended March 31, 2011. This increase is the result of an increase in sales volume for new customers and sales volume increases on existing customer orders.

### *Gross Profit*

Gross profit for the nine months ended March 31, 2012, increased by approximately \$467,000, or 425%, compared to the nine months ended March 31, 2011. Gross profit as a percentage of revenue for the nine months ended March 31, 2012, increased slightly by 0.3% compared to the nine months ended March 31, 2011.

### *Selling, and General and Administrative Expenses*

Sales and general and administrative expenses for the nine months ended March 31, 2012 and 2011 were approximately \$1,271,000 and \$774,000, respectively. Such expenses consist primarily of salaries and personnel related expenses, occupancy expenses, sales travel, consulting costs and other expenses. The increase of approximately \$497,000 was due to an increase in salaries related to increase in employee headcount and for other professional fees, some of which were incurred for reverse merger preparation.

### *Research and Development Expense*

Research and development expenses for the nine months ended March 31, 2012 and 2011 were approximately \$400,000 and \$316,000, respectively. Such expenses consist primarily of materials, supplies, salaries and personnel related expenses, consulting costs and other expenses. The increase of approximately \$84,000 was due to an increase in personnel costs and benefits, and an increase in material and supplies consumption related to new and ongoing research programs.

### *Interest Expense*

Interest expense for the nine months ended March 31, 2012 and 2011 was approximately \$45,000 and \$25,000, respectively. The interest expense relates to our outstanding notes payable to one of our major shareholders, of which balances increased throughout 2012. Certain of the notes were converted into shares of our common stock during December 2011.

### *For the year ended June 30, 2011 and the eight month period ended June 30, 2010*

|   | <b>For the year<br/>ended June<br/>30, 2011</b> | <b>For the eight<br/>months ended<br/>June 30, 2010</b> |
|---|---|---|
| <b>Revenues</b>                             | \$ 984,000                                      | \$ 207,000  |
| <b>Cost of sales</b>                        | 846,000   | 228,000   |
| <b>Gross Profit</b>                         | 138,000   | (21,000)  |
| <b>Selling, general, and administrative</b> | 1,027,000                                       | 412,000   |
| <b>Research and development</b>             | <u>382,000</u>                                  | <u>197,000</u>  |
| <b>Total Operating Expenses</b>             | <u>1,409,000</u>                                | <u>609,000</u>  |
| <b>Interest expense</b>                     | 42,000  | -   |
| <b>Net Loss</b>                             | <u>\$ (1,313,000)</u>                           | <u>\$ (630,000)</u>                                     |

We began our operations in October of 2009. Accordingly, our first period of operations is for only eight months and may not be an appropriate comparative value had we been in operations for an entire year.

### *Revenues*

Revenues for the year ended June 30, 2011, increased approximately \$777,000, or 375%, compared to the eight month period ended June 30, 2010. This large increase in sales was attributable to the increase in customers and the full operating period in fiscal year 2011.

### *Cost of Revenues*

Cost of revenues for the year ended June 30, 2011, increased approximately \$618,000 or 271% compared to the eight month period ended June 30, 2010. This large increase in cost of revenues was attributable to the increase in customers and the full operating period in fiscal year 2011.

### *Gross Profit*

Gross profit for the year ended June 30, 2011, increased by approximately \$159,000 or 757%, compared to the eight month period ended June 30, 2010. Gross profit as a percentage of revenue for the year ended June 30, 2011, increased to 14% compared to (10%) in the eight month period ended June 30, 2010. Sales traction during the year ended June 30, 2011 allowed us to perform more efficiently on managing product cost and we were able to negotiate customer agreements at normalized margins.

### *Selling, and General and Administrative Expenses*

Sales and general and administrative expenses for the year ended June 30, 2011 and the eight month period ended June 30, 2010 were approximately \$1,027,000 and approximately \$412,000, respectively. Such expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, sales travel, consulting costs and other expenses. The increase of approximately \$615,000 was due to an increase in personnel and consulting costs that were required to manage our business as it grew.

### *Research and Development Expense*

Research and development expenses for the year ended June 30, 2011 and the eight month period ended June 30, 2010 were approximately \$382,000 and approximately \$197,000, respectively. Such expenses consist primarily of materials, supplies, salaries and personnel related expenses, stock-based compensation expense, consulting costs and other expenses. The increase of approximately \$185,000 was due to an increase in personnel costs and benefits, and an increase in material and supplies consumption.

### *Interest Expense*

Interest expense for the year ended June 30, 2011 and eight month period ended June 30, 2010 was approximately \$42,000 and \$0, respectively. The interest expense relates to our outstanding notes payable to one of our major shareholders. As discussed above, certain of the notes payable were converted into shares of our common stock during December 2011.

## **Liquidity and Capital Resources**

### ***For the nine month periods ended March 31, 2012 and 2011***

As of March 31, 2012, we had a cash balance of approximately \$141,000, negative working capital of approximately \$278,000, and an accumulated deficit of approximately \$3,082,000.

### *Cash Flows from Operating Activities*

Our operating activities resulted in net cash used in operations of approximately \$941,000 for the nine months ended March 31, 2012, compared to net cash used in operations of approximately \$458,000 for the nine months ended March 31, 2011.



The net cash used in operating activities for the nine month period ended March 31, 2012 reflects a net loss of approximately \$1,139,000 offset by depreciation and amortization of approximately \$23,000 and stock-based compensation of approximately \$22,000. Changes in operating assets and liabilities included a decrease in accounts receivable of approximately \$2,000, a decrease in inventories of approximately \$313,000, an increase in prepaid inventory of approximately \$932,000, an increase in accrued expenses of approximately \$165,000, an increase in customer deposits of approximately \$841,000, an increase in customer deposits from related party of approximately \$629,000, a decrease in deferred revenue of approximately \$1,173,000, an increase in accounts payable of approximately \$293,000 and other minor factors.

The net cash used in operating activities for the nine month period ended March 31, 2011 reflects a net loss of approximately \$1,005,000 offset by depreciation and amortization of approximately \$16,000 and stock-based compensation of approximately \$58,000. Changes in operating assets and liabilities included an increase in inventories of approximately \$1,703,000, a decrease in prepaid inventory of approximately \$482,000, an increase in accounts payable of approximately \$41,000, a decrease in customer deposits of approximately \$508,000, an increase in customer deposits from related party of approximately \$58,000, an increase in deferred revenue of approximately \$2,098,000, and other minor factors.

#### *Cash Flows from Investing Activities*

The net cash used in investing activities for the nine month periods ended March 31, 2012 and 2011 consist primarily of purchases of equipment.

#### *Cash Flows from Financing Activities*

Net cash provided by financing activities for the nine months ended March 31, 2012 and the nine months ended March 31, 2011 was \$900,000 and \$680,000, respectively.

During nine months ended March 31, 2012, we received \$900,000 from the issuance of notes payable to a shareholder. During the nine months ended March 31, 2011, we received \$680,000 from the issuance of notes payable to a shareholder.

#### ***For the year ended June 30, 2011 and the eight month period ended June 30, 2010***

As of June 30, 2011, we had a cash balance of approximately \$240,000, negative working capital of approximately \$1,140,000 and an accumulated deficit of approximately \$1,943,000.

#### *Cash Flows from Operating Activities*

Our operating activities resulted in net cash used in operations of approximately \$743,000 for the year ended June 30, 2011 compared to net cash used in operations of approximately \$433,000 for the eight months ended June 30, 2010.

The net cash used in operating activities for the year ended June 30, 2011 reflects a net loss of approximately \$1,313,000 offset by depreciation and amortization of approximately \$23,000 and stock-based compensation of approximately \$58,000. Changes in operating assets and liabilities included an increase in accounts receivable of approximately \$41,000, an increase in inventories of approximately \$1,697,000, a decrease in prepaid inventory of approximately \$550,000, an increase in accrued expenses of approximately \$30,000, a decrease in customer deposits of approximately \$347,000, an increase in customer deposits from related party of approximately \$208,000, an increase in deferred revenue of approximately \$1,802,000, and other minor factors.

The net cash used in operating activities for the eight months ended June 30, 2010 reflects a net loss of approximately \$630,000 offset by loss on disposal of leasehold improvements of approximately \$20,000, depreciation and amortization of approximately \$14,000, and stock-based compensation of approximately \$68,000. Changes in operating assets and liabilities included an increase in inventories of approximately \$117,000, an increase in prepaid inventory of approximately \$484,000, an increase in other current assets of approximately \$39,000, an increase in customer deposits of approximately \$556,000, an increase in customer deposits from related party of approximately \$159,000 and other minor factors.

#### *Cash Flows from Investing Activities*

The net cash used in investing activities for the year ended June 30, 2011 and the eight months ended June 30, 2010 consist primarily of purchases of equipment.

#### *Cash Flows from Financing Activities*

Net cash provided by financing activities for the year ended June 30, 2011 and the eight months ended June 30, 2011 was approximately \$930,000 and \$560,000, respectively.

During the year ended June 30, 2011, we received \$930,000 from the issuance of notes payable to a shareholder, and we received \$400 from the collection of a note receivable from a shareholder. During the eight month period ended June 30, 2010, we received \$460,000 from the issuance of 4,000,000 shares of our common stock, and we received \$100,000 from the issuance of a note payable to a shareholder.

#### *Future Liquidity Needs*

We have evaluated our expected cash requirements over the next twelve months, which includes, but is not limited to, investments in additional sales and marketing and product development resources, capital expenditures, and working capital requirements.

We expect to require additional financing in the future. The timing of our need for additional capital will depend in part on our future operating performance in terms of revenue growth and the level of operating expenses maintained.

One of our shareholders has agreed to support our capital requirements through loan agreements. In October 2011, we entered into a revolving promissory note agreement with this shareholder for \$1,000,000. The revolving promissory note bears interest at 8%, is due September 30, 2013, as amended, and is secured by substantially all of our assets. As of June 14, 2012, \$400,000 is available under this revolving promissory note. We believe our cash, accounts receivables, and the \$1,000,000 commitment from Baytree Capital, its designees or assignees, and our revolving promissory note are adequate to satisfy our working capital needs and sustain our ongoing operations for at least the next twelve months.

However, there is no guarantee we will be able to obtain additional funds in the future or that funds will be available on terms acceptable to us. If such funds are not available, management will be required to curtail its investments in additional sales and marketing and product development resources, and capital expenditures, which may have an adverse effect on our future cash flows and results of operations, and our ability to fund operations.

To the extent that we raise additional funds by issuing equity or debt securities, our shareholders may experience additional significant dilution and such financing may involve restrictive covenants. To the extent that we raise additional funds through collaboration and licensing arrangements, it may be necessary to relinquish some rights to our technologies or our product candidates, or grant licenses on terms that may not be favorable to us. Such actions may have a material adverse effect on our business.

Additionally, recent global market and economic conditions have been unprecedented and challenging with tighter credit conditions and recession in most major economies. As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide credit to businesses and consumers. These factors have led to a decrease in spending by businesses and consumers alike, and a corresponding decrease in global infrastructure spending. Continued turbulence in the U.S. and international markets and economies and prolonged declines in business and consumer spending may adversely affect our liquidity and financial condition, including our ability to access the capital markets to meet liquidity needs.

#### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

#### **Recent Accounting Pronouncements**

Refer to Note 3, "Summary of Significant Accounting Policies," in the accompanying notes to the financial statements for a discussion of recent accounting pronouncements.

### **DIRECTORS AND EXECUTIVE OFFICERS**

#### ***Identification of Directors, Executive Officers and Significant Employees***

The following table and text set forth the names and ages of Flux Power's directors, executive officers and significant employees as of the date of this report. Flux Power's Board of Directors is comprised of only one class. All of the directors will serve until the next annual meeting of stockholders and until their successors are elected and qualified, or until their earlier death, retirement, resignation or removal. There are no family relationships among any of the directors and executive officers.

| <b>Name</b>                | <b>Age</b> | <b>Position</b>                                     |
|----------------------------|------------|---|
| Chris Anthony              | 35         | Chairman and Chief Executive Officer                |
| Steve Jackson <sup>1</sup> | 48         | Chief Financial Officer and Chief Operating Officer |
| Michael Johnson            | 60         | Director  |
| James Gevargis             | 46         | Director  |

<sup>1</sup>Steve Jackson has signed an employee agreement to be the Chief Financial Officer and the Chief Operating Officer as of January 2, 2012. In connection with Mr. Jackson's services to our Company, on January 25, 2012, Mr. Jackson was granted options to purchase 300,000 shares of common stock, none of which are vested.

There are no arrangements or understandings between our directors and executive officers and any other person pursuant to which any director or officer was or is to be selected as a director or officer.

### ***Business Experience***

**Chris Anthony, Chief Executive Officer, and Director.** Mr. Anthony has been Chairman and Chief Executive Officer of Flux Power since it was incorporated. Since November 2010, Mr. Anthony has also served as an R&D Advisor to Epic Boats, LLC, a Delaware company, which he founded in 2002 (“Epic Boats”) and where he served as Chief Executive Officer until October 2010. Mr. Anthony is a majority owner of Epic Boats. At Epic Boats, Mr. Anthony’s primary responsibilities included managing the day to day operations of the Company in his capacity as Chief Executive Officer and Founder. From 2005 to 2009 Mr. Anthony served as the Chief Operating Officer of Aptera Motors, Inc. (“Aptera Motors”), a Delaware company and was a Director of that company from 2005 to 2010. Aptera Motors and Epic Boats are not affiliates of the Company. Mr. Anthony is an expert in energy storage, electric propulsion systems, and advanced composite manufacturing processes. He has significant experience building advanced products in the marine and commuter vehicle industries. Mr. Anthony has a Bachelor’s of Science degree in finance from the Cameron School of Business.

**Steve Jackson, Chief Financial Officer and Chief Operating Officer.** Mr. Jackson has been providing services to Flux Power since November 2011 and joined the Company as a full time employee in January 2012. Prior to joining Flux Power, Mr. Jackson served as the Chief Financial Officer and Chief Operating Officer for Verdezyne Inc, an alternative energy bio-fuel company from 2008 to 2011. Mr. Jackson is a Certified Public Accountant and has more than 20 years finance and operations experience, including 7 years at SAIC, a FORTUNE 500® scientific, engineering, and technology applications company, where he held several significant financial management positions, and 3 years at PriceWaterhouse LLP (“PW”). Verdezyne, Inc. , SAIC, and PW are not affiliates of the Company. He received his Bachelor of Business Administration degree in Accounting from the University of Texas at Austin and a Master of Science degree in Accountancy from San Diego State University.

**Michael Johnson, Director.** Mr. Johnson has been a director of Flux Power since it was incorporated. Since 2002, Mr. Johnson has been a director and the Chief Executive Officer of Esenjay Petroleum Corporation (“Esenjay Petroleum”), a Delaware company located in Corpus Christi, Texas. Mr. Johnson’s primary responsibility at Esenjay Petroleum was to manage the business and company as Chief Executive Officer. Mr. Johnson is director and shareholder of Esenjay Investments LLC, a Delaware company and an affiliate of the Company owning approximately 49% of the issued and outstanding shares of the Company. As a result of Mr. Johnson’s leadership and business experience he is an industry expert in the natural gas exploration industry and brings a wealth of management and successful company building experience to the board. Mr. Johnson currently serves on the Board of Directors at Aptera Motors, which is not an affiliate of the Company. Mr. Johnson received a BS degree in mechanical engineering from the University of Southwestern Louisiana in 1971.

**James Gevarges, Director.** Mr. Gevarges has been a director of Flux Power since it was incorporated. Mr. Gevarges is the President, Chief Executive Officer, and a majority owner of Current Ways, Inc., a California company he founded in 2010. Current Ways, Inc. is not an affiliate of the Company. Since 1991 Mr. Gevarges has also been a Director and the Chief Executive Officer of LHV Power Corporation (formerly known as HiTek Power, Corp) (“LHV Power”) , a California company located in Santee, California. Mr. Gevarges is the sole owner of LHV Power. LHV Power is not an affiliate of the Company. Mr. Gevarges’ primary responsibilities at LHV Power is to manage the company and business as Chief Executive Officer and President. As a result of Mr. Gevarges’s management and industry experience he is a power supply industry expert and brings an enormous amount of manufacturing and successful company management experience to the Company. Mr. Gevarges has a Bachelor’s of Science degree in electrical engineering from Louisiana State University.

### ***Involvement in Certain Legal Proceedings***

To the best of our knowledge, during the past ten years, none of our directors or executive officers were involved in any of the following: (1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; and (4) being found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.

### ***Audit Committee***

We have not adopted an audit committee charter. Our Board of Directors will serve the function of the audit committee. The Board of Directors intends to establish an audit committee in the future.

### ***Compensation Committee and Governance and Nomination Committee***

We have not adopted a compensation committee and governance committee charters. The Board of Directors currently serves these functions. The Board of Directors will consider establishing a compensation committee and governance committee in the future.

### ***Code of Conduct and Ethics***

We have not adopted a Code of Conduct for our CEO and Senior Executive Officers.

### ***Indemnification Agreements***

On June 14, 2012, in connection with the appointment of Mr. Chris Anthony as a director, Chief Executive Officer and President, and Mr. Steve Jackson as our Chief Financial Officer, and Mr. Craig Miller as our Secretary, we executed a standard form of indemnification agreement (“Indemnification Agreement”) with each of them (each, an “Indemnitee”).

Pursuant to and subject to the terms, conditions and limitations set forth in the Indemnification Agreement, we agreed to indemnify each Indemnitee, against any and all expenses incurred in connection with the Indemnitee’s service as our officer, director and or agent, or is or was serving at our request as a director, officer, employee, agent or advisor of another corporation, partnership, joint venture, trust, limited liability company, or other entity or enterprise but only if the Indemnitee acted in good faith and in a manner he reasonably believed to be in or not opposed to our best interest, and in the case of a criminal proceeding, had no reasonable cause to believe that his conduct was unlawful. In addition, the indemnification provided in the indemnification agreement is applicable whether or not negligence or gross negligence of the Indemnitee is alleged or proven. Additionally, the Indemnification Agreement establishes processes and procedures for indemnification claims, advancement of expenses and costs and contribution obligations.

We intend to enter into such Indemnification Agreements with Messrs. Johnson and Mr. Gevargues upon the effectiveness of their respective appointment as our directors.

## EXECUTIVE COMPENSATION

### *Summary Compensation Table*

The following table sets forth the information, on an accrual basis, with respect to the compensation of Flux Power's principal executive officers for the fiscal year ended June 30, 2011 and for the eight months ended June 30, 2010. No other employee made over \$100,000 for the year ended June 30, 2011.

| Name and Principal Position                     | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$)(1) | Non-Equity Incentive Plan Compensation (\$) | Non-Qualified Deferred Compensation Earnings | All Other Compensation (\$) | Total (\$) |
|---|------|-------------|------------|-------------------|-----------------------|---|--|-----------------------------|------------|
| Chris Anthony<br>Chairman and CEO               | 2011 | \$ 60,000   | -          | -                 | -                     | -   | -  | -                           | \$ 60,000  |
|   | 2010 | \$ 60,000   | -          | -                 | -                     | -   | -  | -                           | \$ 60,000  |
| Joseph Gottlieb (2)<br>Chief Technology Officer | 2011 | \$ 172,918  | -          | -                 | 26,500(2)             | -   | -  | 75,000(2)                   | \$ 274,418 |
|   | 2010 | \$ 150,000  | -          | -                 | -                     | -   | -  | -                           | \$ 150,000 |
| Jason Touhy(3)<br>Chief Operations Officer      | 2011 | \$ 0        | -          | -                 | 10,000(3)             | -   | -  | 69,000(3)                   | \$ 79,000  |
|   | 2010 | \$ 97,500   | -          | -                 | -                     | -   | -  | -                           | \$ 97,500  |

(1) Reflects the grant date fair value of the awards calculated in accordance with FASB ASC Topic 718 – Stock Compensation.

(2) Mr. Gottlieb resigned as Chief Technology Officer on July 31, 2011 and was paid a severance of \$75,000. On December 3, 2010 Mr. Gottlieb was granted fully vested options to purchase 265,000 shares of our common stock at \$0.13 per share. The options expire on January 27, 2013. The fair value of the option award is \$26,500.

(3) Mr. Touhy resigned as Chief Operations Officer on December 31, 2010 and was paid a severance of \$69,000. On December 2, 2010, Mr. Touhy was granted options to purchase 100,000 shares of our common stock at \$0.13 per share. All of the options became exercisable on December 3, 2010. The options expired on February 29, 2012. The fair value of the option award is \$10,000.

### *Benefit Plans*

Flux Power does not have any profit sharing plan or similar plans for the benefit of our officers, directors or employees. However, we may establish such plan in the future.

### Stock Option Plan

Flux Power has adopted a 2010 Stock Option Plan (“Option Plan”) that reserves 2,000,000 shares of our common stock for issuance upon exercise of options. As of June 30, 2011, the number of shares of common stock outstanding under the Option Plan was 710,000 and as of the Effective Date of the Reverse Acquisition, the number of shares of common stock outstanding under the Option Plan was 1,535,500. As part of the Reverse Acquisition, we adopted the Option Plan and all 1,535,500 stock options of Flux Power outstanding as of the Effective Date, whether or not exercised and whether or not vested, will be substituted by us with 4,536,948 new options based on a ratio of 2.9547039 (“Share Exchange Ratio”) in a manner that complies with Sections 424(a) and 409A of the Internal Revenue Code. The new options substituted by us shall continue to have, and be subject to, the substantially the same terms and conditions as before, but will be convertible into shares of our common stock, as adjusted given effect to the Share Exchange Ratio.

### Outstanding Equity Awards

The following table sets forth certain information concerning Flux Power’s unexercised options, stock that has not vested, and equity incentive plan awards outstanding as of June 30, 2011 for the named executive officers below:

| Name               | Option Awards(1)  |   |   |                            |                        | Stock Awards  |  |   |  | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) |
|--------------------|---|---|---|----------------------------|------------------------|---|--|---|--|--|
|                    | Number of Securities Underlying Unexercised Options Exercisable | Number of Securities Underlying Unexercised Options | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested | Market Value of Shares or Units of Stock That Have Not Vested (\$) | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) |  |
| Joseph Gottlieb(2) | 265,000   | 0   | 0   | \$ 0.13                    | 1/27/2013              | -   | -  | -   | -  |  |
| Jason Touhy(3)     | 100,000(5)  | 0   | 0   | \$ 0.13                    | 2/29/2012              | -   | -  | -   | -  |  |

(1) The options have not been adjusted based on the Share Exchange Ratio.

(2) Mr. Gottlieb resigned on July 31, 2011.

(3) Mr. Touhy resigned on December 31, 2010 and his options were forfeited on February 29, 2012.

### Compensation of Non-Executive Directors

As of June 30, 2011, no equity awards were issued to any non-executive directors by Flux Power.

### Aggregated Option/SAR exercised and Fiscal year-end Option/SAR value table

Neither the executive officers of Flux Power nor the other individuals listed in the tables above, exercised options or SARs during the last fiscal year.

### Long-term incentive plans

No Long Term Incentive awards were granted by Flux Power in the last fiscal year.

***Employment contracts and termination of employment and change-in-control arrangements***

Flux Power has entered into an employment agreement, as amended, with its Chief Executive Officer, Chris Anthony. Pursuant to the terms of his employment agreement, Mr. Anthony is an “at-will” employee. Mr. Anthony is paid an annual salary of \$168,000. Further, Mr. Anthony is entitled to a \$10,000 end of fiscal year bonus for every \$10,000,000 in sales with at least a 10% gross margin and a 20% salary bonus for every \$20,000,000 in sales with at least a 10% gross margin.

Flux Power has entered into an employment agreement with our Chief Financial Officer and Chief Operating Officer Steve Jackson. Pursuant to the terms of his employment agreement, Mr. Jackson is an “at-will” employee. Mr. Jackson is currently paid an annual salary of \$142,000. Moreover, after reaching the booking/sales milestones listed below, Mr. Jackson will be entitled to quarterly compensation adjustments, both up and down, based on the previous quarter’s sales as follows:

| Quarterly Sales Milestones |            | Annualized Compensation |         |
|----------------------------|------------|-------------------------|---------|
| \$                         | 3,000,000  | \$                      | 164,500 |
| \$                         | 5,000,000  | \$                      | 188,000 |
| \$                         | 10,000,000 | \$                      | 211,500 |
| \$                         | 15,000,000 | \$                      | 235,000 |

***Employment contracts and termination of employment and change-in-control arrangements***

Flux Power has entered into an employment agreement with Chris Anthony that states that in the event Mr. Anthony is terminated for any reason other than criminal activity, Flux Power agrees to provide Mr. Anthony with a severance payout equal to six (6) months of employment.

Flux Power has entered into an employment agreement with Steve Jackson that states that in the event Mr. Jackson is terminated after the Probation Period for any reason other than for cause, Flux Power agrees to provide Mr. Jackson with a severance payout equal to six (6) months of employment.

The only officer or employee who has contractual rights triggered by a change in control of the company is Mr. Jackson. Mr. Jackson’s stock option agreement states that in the event of a change in control, after the effective date of the agreement, any and all unvested stock options held by Mr. Jackson shall become 100% vested and exercisable.

***Compensation Committee Interlocks and Insider Participation***

We have not established a Compensation Committee and our Board of Directors will serve this function.

***Director Independence***

We currently do not have any independent directors as the term “independent” is defined by the rules of the Nasdaq Stock Market.



## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As used in this section, the term beneficial ownership with respect to a security is defined by Rule 13d-3 under the Securities Exchange Act of 1934, as amended, as consisting of sole or shared voting power (including the power to vote or direct the vote) and/or sole or shared investment power (including the power to dispose of or direct the disposition of) with respect to the security through any contract, arrangement, understanding, relationship or otherwise, subject to community property laws where applicable. As of June 14, 2012 (post Reverse Acquisition), we had a total of 41,258,185 shares of common stock outstanding.

The following table sets forth, as of June 14, 2012 (post Reverse Acquisition): (a) the names and addresses of each beneficial owner of more than five percent of our common stock known to us, the number of shares of common stock beneficially owned by each such person, and the percent of our common stock so owned; and (b) the names and addresses of each director and executive officer, the number of shares our common stock beneficially owned, and the percentage of our common stock so owned, by each such person, and by all of our directors and executive officers as a group. Unless otherwise indicated, the business address of each of our directors and executive officers is c/o Flux Power, Inc., 2240 Auto Park Way, Escondido, California 92029. Each person has sole voting and investment power with respect to the shares of our common stock, except as otherwise indicated. Beneficial ownership consists of a direct interest in the shares of common stock, except as otherwise indicated.

| <u>Name and Address of Beneficial Owner</u>   | <u>Amount and Nature of Beneficial Ownership</u> <sup>(1)</sup> | <u>Percentage of Ownership</u> |
|---|---|--------------------------------|
| <b>Directors and Named Executive Officers</b>   |   |                                |
| Chris Anthony, Director and Executive Officer   | 11,929,697 <sup>(2)</sup>                                       | 28.8%                          |
| Steve Jackson, Chief Financial Officer  | -   | -                              |
| Gianluca Cicogna Mozzoni, Director <sup>(5)</sup>   | -   | -                              |
| Michael Johnson <sup>(5)</sup>  | 20,097,171 <sup>(3)</sup>                                       | 48.6%                          |
| James Gevargis <sup>(5)</sup>   | 6,204,878 <sup>(4)</sup>  | 15.0%                          |
| All Officers & Directors as a Group (4 people)  | 38,231,746  | 92.4%                          |
| <b>5% Beneficial Owners</b>   |   |                                |
| Baytree Capital Associates, LLC <sup>(6)</sup><br>40 Wall Street, 58th Floor<br>New York, New York 1000 | 4,122,777 <sup>(5)</sup>  | 9.5%                           |

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(1) As used in this section, the term beneficial ownership with respect to a security is defined by Rule 13d-3 under the Securities Exchange Act of 1934, as amended, as consisting of sole or shared voting power (including the power to vote or direct the vote) and/or sole or shared investment power (including the power to dispose of or direct the disposition of) with respect to the security through any contract, arrangement, understanding, relationship or otherwise, subject to community property laws where applicable. Accordingly, shares of common stock which an individual or group has a right to acquire within 60 days pursuant to the exercise of options or warrants are deemed to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be beneficially owned and outstanding for the purpose of computing the percentage ownership of any other person shown in the table.

(2) Includes 110,881 stock options, all of which are vested. The options have been adjusted given effect to the Share Exchange Ratio.

(3) Includes shares held by Esenjay Investments, LLC, a Texas limited liability company of which Mr. Johnson is the sole director and beneficial owner. Includes 110,881 stock options, all of which are vested. The options have been adjusted given effect to the Share Exchange Ratio.

(4) Includes 110,881 stock options, all of which are vested. The options have been adjusted given effect to the Share Exchange Ratio.

(5) Upon the closing of the Reverse Acquisition, Mr. Gianluca Cicogna Mozzoni submitted a resignation letter pursuant to which he resigned from all offices that he held effective immediately; and from his position as our director that will become effective on the tenth day following the mailing by us of an information statement to our stockholders that complies with the requirements of Section 14(f) of the Exchange Act. In addition, Messrs. Michael Johnson and James Gevarges were appointed to our Board, effective upon compliance with Section 14(f) of the Exchange Act.

(6) Includes 1,837,777 shares of common stock underlying warrants for a term of 5 years and at an exercise price of \$0.41 per share of common stock for financial advisory services.

## **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

### ***Transactions with Related Persons***

In connection with the Reverse Acquisition, Mr. Anthony, our President, Chief Executive Officer, and director, Mr. Gevarges, our director, and Esenjay Investments, LLC, an entity which our director, Michael Johnson, is a director, severally agreed not to offer, sell, assign, transfer, pledge, contract to sell, or otherwise dispose of any shares of our common stock or securities convertible into or exercisable or exchangeable into our common stock beneficially owned by such shareholder, for a period of eighteen (18) months from the closing date of the Reverse Acquisition, except during the period after the first anniversary of the closing date and a period of six (6) months thereafter, in such an amount which constitutes less than three percent (3%) in the aggregate of such shareholder's beneficial ownership of our common stock per month.

On June 14, 2012, we entered into an Advisory Agreement with Baytree Capital Associates, LLP, our affiliate which owns 2,285,000 shares of our common stock ("Baytree Capital") pursuant to which Baytree Capital will provide us with business and consulting services for 24 months in exchange for 100,000 restricted shares of our newly issued common stock at the commencement of each six month period in return for its services, which shares will have piggy-back registration rights, and a warrant to purchase 1,837,777 restricted shares of our common stock for a period of 5 years at an exercise price of \$.41 per share.

On May 25, 2010, Flux Power entered into a \$400,000 Revolving Promissory Note for Inventory Funding (the "Inventory Funding Note") with our shareholder Esenjay Investments, LLC ("Esenjay"), which matured in May 2012. Esenjay is owned by Mr. Michael Johnson who sits on Flux Power's Board of Directors. The Inventory Funding Note bore interest 8% per annum and provides for advances to be used for inventory purchases. In August 2011, Flux Power amended the Inventory Funding Note so that it may be converted into Flux Power's shares of common stock at a conversion price to be determined at our next round of financing. The Inventory Funding Note is secured by Flux Power's general assets.

On May 25, 2010, Flux Power entered into a \$1,000,000 Revolving Promissory Note for Operating Capital (the "Operating Capital Note") with Esenjay. The Operating Capital Note matures as of the closing of our next round of financing but no later than May 30, 2012. The Operating Capital Note bore interest at 8% and provides for advances for operating expenses. In August 2011, Flux Power amended the Operating Capital Note so that it may be converted into Flux Power's shares of common stock at a conversion price to be determined at its next round of financing. The Operating Capital Note is secured by Flux Power's general assets.

On September 27, 2011, Flux Power entered into a \$150,000 Bridge Loan Promissory Note (the "Bridge Note") with Esenjay. The Bridge Note matured on May 30, 2012. The Bridge Note does not bear interest and provides that the principal amount may be converted into Flux Power's shares of common stock at a conversion price to be determined at its next round of financing. On November 15, 2011, Flux Power amended the Bridge Note to include a stated annual interest rate of 8%.

On December 15, 2011, Esenjay agreed to convert the Inventory Funding Note, Operating Capital Note and the Bridge Note and the accrued interest in the aggregate amount of \$1,264,228 for 1,264,228 shares of Flux Power's common stock. Accordingly, the Inventory Funding Note, Operating Capital Note and the Bridge Note are no longer outstanding.

On October 1, 2011, Flux Power entered into a \$1,000,000 Secondary Revolving Promissory Note for Operating Capital (the "Secondary Operating Capital Note") with Esenjay. The Secondary Operating Capital Note matures on September 30, 2013. The Secondary Operating Capital Note bears interest at 8% and provides for advances for operating expenses. As of March 31, 2012, Flux Power has drawn down \$500,000 on the Secondary Revolving Promissory Note and \$500,000 is available. As of June 14, 2012, Flux Power has drawn down \$600,000 on the Secondary Revolving Promissory Note and \$400,000 is available.

On March 7, 2012, Flux Power entered into a \$250,000 Bridge Loan ("Secondary Bridge Note") with Esenjay. The Secondary Bridge Note matures on March 7, 2014. The Secondary Bridge Note bears interest at 8%.

During 2009, the Flux Power entered into a cancelable Term Sheet agreement (the "Term Sheet Agreement") with a LHV Power an entity owned by James Gevargis, one of our major shareholders. Mr. Gevargis is also the Chief Executive Officer and President of LHV Power. Pursuant to the Term Sheet Agreement, Flux Power was appointed as a distributor of LHV Power battery charging products allowing Flux Power to sell the products either separately or as part of an energy storage solution. Additionally, Flux Power was required to develop a microprocessor control board, and the associated software software to enable communication between the parties' respective products ("MCB") which entitles Flux Power to royalties for any such units sold by the related entity. Pursuant to the Term Sheet Agreement Flux Power may purchase the products at the then current price list for distributors. Further, under the Term Sheet Agreement, if LHV Power sells its products to a different distributor Flux Power is entitled to a distribution fee equal to 20% of the gross profits on such sale. This distribution fee and royalties are capped at a total of \$200,000. The products defined in the Term Sheet were assigned to Current Ways, Inc., a different company that is owned by Mr. Gevargis. Mr. Gevargis is also the Chief Executive Officer and President of Current Ways, Inc., Under the Term Sheet Agreement, it was agreed that upon completion of the MCB, and LHV Power's sale of the MCB as part of its product offerings, LHV Power will pay Flux Power a royalty fee of \$20 per MCB sold, with such royalty fees capped at \$200,000. Under the Term Sheet Agreement, LHV Power has ownership of all intellectual property concerning the software developed under the Term Sheet Agreement. The Term Sheet Agreement provides for automatic one-year renewals and remains in effect.

On August 1, 2009, Flux Power entered into a Manufacturing Implementation Agreement (the “Manufacturing Agreement”) with LHV Power. Pursuant to the Manufacturing Agreement Flux Power granted LHV Power a right of first refusal to manufacture our battery management systems. Further, under the Manufacturing Agreement, Flux Power agreed to pay for any specialized tooling LHV Power may require to manufacture Flux Power’s battery management systems. Under the Manufacturing Agreement, Flux Power will retain ownership of all intellectual property developed under the Manufacturing Agreement. The Manufacturing Agreement expires on August 1, 2014. During the nine month periods ended March 31, 2012 and 2011, Flux Power paid approximately \$258,000 and \$130,000, respectively, to LHV Power pursuant to the Manufacturing Agreement.

On July 1, 2011, Flux Power entered into a Sublease Agreement with Epic Boats, LLC (“Epic Boats”). Chris Anthony, our Chief Executive Officer is also an R&D advisor to, and 35% owner of, Epic Boats. Pursuant to the Terms of the Sublease Agreement, Epic Boats has subleased approximately 7,200 square feet of Flux Power’s office space for a monthly payment of \$6,640. The Sublease Agreement was terminated January 1, 2012. During the nine month periods ended March 31, 2012 and 2011, Epic Boats reimbursed \$53,000 and \$7,000, respectively, to Flux Power under this Sublease Agreement.

On October 21, 2009, Flux Power entered into an agreement with Epic Boats, LLC where Epic Boats assigned and transferred to Flux Power the entire right, title, and interest into products, technology, intellectual property, inventions and all improvements thereof, as defined in the table below.

| <b>Product</b>                | <b>Description</b>   |
|-------------------------------|--|
| Battery Box Design            | All hardware, tooling and design reduced to practice otherwise of the battery housings which include the integration of a battery management system. |
| CAN Communication Protocol    | Top communication protocol that communicates through the CAN bus   |
| CAN based Throttle Controller | All hardware, software and tooling reduced to practice or otherwise of the throttle controller   |
| BMS Head End Interfaces       | Interfaces to the motor and generator controller to the diagnostic software  |

As of this date, Flux Power began selling products to Epic Boats under Flux Power’s standard terms and conditions and has continued to sell products to Epic Boats as a customer. During the nine month periods ended March 31, 2012 and 2011, Flux Power sold approximately \$335,000 and \$149,000, respectively, of product to Epic Boats. The customer deposits balance received from Epic Boats at March 31, 2012 and June 30, 2011, is approximately \$996,000 and \$367,000, respectively. There were no receivables outstanding from Epic Boats as of March 31, 2012. As of June 30, 2011, receivables of \$29,000 were outstanding from Epic Boats.

During the nine month periods ended March 31, 2012 and 2011, the Company sold approximately \$1,000 and \$29,000, respectively, of product to a company owned by another one of the Company’s major shareholders who is the Company’s former Chief Technology Officer. There were no receivables outstanding from this customer as of March 31, 2012 and June 30, 2011. As of March 31, 2012 this shareholder sold his shares and was no longer a shareholder of the Company.

### ***Promoters and Certain Control Persons***

The Reverse Acquisition resulted in a change of control by issuance of our securities to the following entities and individuals:

- ***Chris Anthony.*** Mr. Anthony, our Chairman, Chief Executive Officer, and President, is one of our major shareholders which beneficially owns approximately 29% of our common stock on the completion of the share exchange.
- ***Esenjay Investments, LLC.*** Esenjay Investment, LLC is one of our major shareholders which beneficially owns approximately 49% of our common stock on the completion of the share exchange. Mr. Michael Johnson, our director, is the director and shareholder of this entity.
- ***James Gevarges.*** Mr. Gevarges, our director, is one of our major shareholders who beneficially owns approximately 15% of our common stock on the completion of the share exchange.

In connection with the Reverse Acquisition, Messrs. Anthony and Gevarges and Esenjay Investments LLC each agreed not to offer, sell, assign, transfer, pledge, contract to sell, or otherwise dispose of any shares of our common stock or securities convertible into or exercisable or exchangeable into our common stock beneficially owned by such shareholder, for a period of eighteen (18) months from the closing date of the Reverse Acquisition, except during the period after the first anniversary of the closing date and a period of six (6) months thereafter, in such an amount which constitutes less than three percent (3%) in the aggregate of such shareholder's beneficial ownership of our common stock per month.

### ***Director Independence***

We currently do not have any independent directors as the term "independent" is defined by the rules of the Nasdaq Stock Market.

**MARKET PRICE OF AND DIVIDENDS ON THE  
REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

**Market Information**

Our common stock started quotation on the OTCQB under the stock symbol "LNPI." On June 11, 2012, our symbol was changed to "FLUX." The following table sets forth the range of the closing bid prices for our common stock for the period January 1, 2010 through March 31, 2012, for each of the quarters ended on the date set forth below. Such prices represent inter-dealer quotations, do not represent actual transactions, and do not include retail mark-ups, mark-downs or commissions. Such prices were determined from information provided by a majority of the market makers for our common stock.

|                                  | <u>High Close</u> | <u>Low Close</u> |
|----------------------------------|-------------------|------------------|
| <u>2012</u>                      |                   |                  |
| Quarter ended March 31, 2012     | \$ 0.29           | \$ 0.29          |
| <u>2011</u>                      |                   |                  |
| Quarter ended December 31, 2011  | \$ 0.29           | \$ 0.29          |
| Quarter ended September 30, 2011 | \$ 0.29           | \$ 0.29          |
| Quarter ended June 30, 2011      | \$ 0.29           | \$ 0.29          |
| Quarter ended March 31, 2011     | \$ 0.29           | \$ 0.29          |
| <u>2010</u>                      |                   |                  |
| Quarter ended December 31, 2010  | \$ 0.25           | \$ 0.25          |
| Quarter ended September 30, 2010 | \$ 0.25           | \$ 0.25          |
| Quarter ended June 30, 2010      | \$ 0.25           | \$ 0.25          |
| Quarter ended March 31, 2010     | \$ 0.25           | \$ 0.25          |

**Shareholders**

The approximate number of record holders of our common stock as of May 29, 2012 was 1,314.

**Dividend Policy**

We presently do not expect to declare or pay such dividends in the foreseeable future and expect to reinvest all undistributed earnings to expand our operations, which the management believes would be of the most benefit to our shareholders. The declaration of dividends, if any, will be subject to the discretion of our Board of Directors, which may consider such factors as our results of operations, financial condition, capital needs and acquisition strategy, among others.

## Securities Authorized for Issuance under Equity Compensation Plans

The following table provides aggregate information as of June 30, 2011 with respect to all compensation plans (including individual compensation arrangements) under which equity securities are authorized for issuance.

| Plan Category  | A<br>Number of securities to be issued upon exercise of outstanding options, and warrants | B<br>Weighted-average exercise price of outstanding options, and warrants | C<br>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A) |
|--|---|---|--|
| Equity compensation plans approved by security holders(1)  | 710,000   | \$ 0.13   | 0  |
| Equity compensation plans not approved by security holders | 0   | \$ 0  | 0  |
| <b>Total</b>   | <b>710,000</b>  | <b>\$ 0.13</b>  | <b>0</b>   |

(1) The options have not been adjusted based on the Share Exchange Ratio. In addition, as part of the Reverse Acquisition, we have adopted a Stock Option Plan ("Option Plan") in accordance with Sections 424(a) and 409A of the Internal Revenue Code. However, we will not be able to grant additional options under the Option Plan.

## DESCRIPTION OF SECURITIES

### *Common Stock*

We are authorized to issue up to 145,000,000 shares of common stock, par value \$0.001 per share. Each outstanding share of common stock entitles the holder thereof to one vote per share on all matters. Our bylaws provide that any vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the Board of Directors.

The holders of shares of our common stock are entitled to dividends out of funds legally available when and as declared by our Board of Directors. Our Board of Directors has never declared a dividend and does not anticipate declaring a dividend in the foreseeable future. Should we decide in the future to pay dividends, as a holding company, our ability to do so and meet other obligations depends upon the receipt of dividends or other payments from our operating subsidiary and other holdings and investments. In the event of our liquidation, dissolution or winding up, holders of our common stock are entitled to receive, ratably, the net assets available to stockholders after payment of all creditors.

All of the issued and outstanding shares of our common stock are duly authorized, validly issued, fully paid and non-assessable. To the extent that additional shares of our common stock are issued, the relative interests of existing stockholders will be diluted.

### ***Preferred Stock***

We may issue up to 5,000,000 shares of preferred stock, par value of \$0.001 in one or more classes or series within a class pursuant to our Articles of Incorporation. There are currently no shares of preferred stock issued and outstanding.

### ***Anti-takeover Effects of Our Articles of Incorporation and By-laws***

Our Articles of Incorporation and bylaws contain certain provisions that may have anti-takeover effects, making it more difficult for or preventing a third party from acquiring control of the Company or changing its Board of Directors and management. According to our bylaws and Articles of Incorporation, neither the holders of the Company's common stock nor the holders of the Company's preferred stock have cumulative voting rights in the election of our directors. The combination of the present ownership by a few stockholders of a significant portion of the Company's issued and outstanding common stock and lack of cumulative voting makes it more difficult for other stockholders to replace the Company's Board of Directors or for a third party to obtain control of the Company by replacing its Board of Directors.

### ***Anti-takeover Effects of Nevada Law***

#### ***Business Combinations***

The "business combination" provisions of Sections 78.411 to 78.444, inclusive, of the Nevada Revised Statutes, or NRS, prohibit a Nevada corporation with at least 200 stockholders from engaging in various "combination" transactions with any interested stockholder: for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the transaction is approved by the Board of Directors prior to the date the interested stockholder obtained such status; or after the expiration of the three-year period, unless:

- the transaction is approved by the Board of Directors or a majority of the voting power held by disinterested stockholders, or
- if the consideration to be paid by the interested stockholder is at least equal to the highest of: (a) the highest price per share paid by the interested stockholder within the three years immediately preceding the date of the announcement of the combination or in the transaction in which it became an interested stockholder, whichever is higher, (b) the market value per share of common stock on the date of announcement of the combination and the date the interested stockholder acquired the shares, whichever is higher, or (c) for holders of preferred stock, the highest liquidation value of the preferred stock, if it is higher.

A "combination" is defined to include mergers or consolidations or any sale, lease exchange, mortgage, pledge, transfer or other disposition, in one transaction or a series of transactions, with an "interested stockholder" having: (a) an aggregate market value equal to 5% or more of the aggregate market value of the assets of the corporation, (b) an aggregate market value equal to 5% or more of the aggregate market value of all outstanding shares of the corporation, or (c) 10% or more of the earning power or net income of the corporation.



In general, an “interested stockholder” is a person who, together with affiliates and associates, owns (or within three years, did own) 10% or more of a corporation’s voting stock. The statute could prohibit or delay mergers or other takeover or change in control attempts and, accordingly, may discourage attempts to acquire our company even though such a transaction may offer our stockholders the opportunity to sell their stock at a price above the prevailing market price.

Our Articles of Incorporation state that we have elected not to be governed by the “business combination” provisions, therefore such provisions currently do not apply to us.

#### *Control Share Acquisitions*

The “control share” provisions of Sections 78.378 to 78.3793, inclusive, of the NRS, which apply only to Nevada corporations with at least 200 stockholders, including at least 100 stockholders of record who are Nevada residents, and which conduct business directly or indirectly in Nevada, prohibit an acquirer, under certain circumstances, from voting its shares of a target corporation’s stock after crossing certain ownership threshold percentages, unless the acquirer obtains approval of the target corporation’s disinterested stockholders. The statute specifies three thresholds: one-fifth or more but less than one-third, one-third but less than a majority, and a majority or more, of the outstanding voting power. Once an acquirer crosses one of the above thresholds, those shares in an offer or acquisition and acquired within 90 days thereof become “control shares” and such control shares are deprived of the right to vote until disinterested stockholders restore the right. These provisions also provide that if control shares are accorded full voting rights and the acquiring person has acquired a majority or more of all voting power, all other stockholders who do not vote in favor of authorizing voting rights to the control shares are entitled to demand payment for the fair value of their shares in accordance with statutory procedures established for dissenters’ rights.

Our Articles of Incorporation state that we have elected not to be governed by the “control share” provisions, therefore, they currently do not apply to us.

#### *Transfer Agent and Registrar*

Our independent stock transfer agent is Interwest Transfer Company, Inc. located at 1981 Murray Holladay Road, Suite 100 and telephone number (801) 272-9294.

### **INDEMNIFICATION OF DIRECTORS AND OFFICERS**

#### *Nevada Law*

Section 78.138 of the NRS provides that a director or officer will not be individually liable unless it is proven that (i) the director’s or officer’s acts or omissions constituted a breach of his or her fiduciary duties, and (ii) such breach involved intentional misconduct, fraud or a knowing violation of the law.

Section 78.7502 of NRS permits a company to indemnify its directors and officers against expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with a threatened, pending or completed action, suit or proceeding if the officer or director (i) is not liable pursuant to NRS 78.138 or (ii) acted in good faith and in a manner the officer or director reasonably believed to be in or not opposed to the best interests of the corporation and, if a criminal action or proceeding, had no reasonable cause to believe the conduct of the officer or director was unlawful.

Section 78.751 of NRS permits a Nevada company to indemnify its officers and directors against expenses incurred by them in defending a civil or criminal action, suit or proceeding as they are incurred and in advance of final disposition thereof, upon receipt of an undertaking by or on behalf of the officer or director to repay the amount if it is ultimately determined by a court of competent jurisdiction that such officer or director is not entitled to be indemnified by the company. Section 78.751 of NRS further permits the company to grant its directors and officers additional rights of indemnification under its Articles of Incorporation or bylaws or otherwise.

Section 78.752 of NRS provides that a Nevada company may purchase and maintain insurance or make other financial arrangements on behalf of any person who is or was a director, officer, employee or agent of the company, or is or was serving at the request of the company as a director, officer, employee or agent of another company, partnership, joint venture, trust or other enterprise, for any liability asserted against him and liability and expenses incurred by him in his capacity as a director, officer, employee or agent, or arising out of his status as such, whether or not the company has the authority to indemnify him against such liability and expenses.

***Charter Provisions and Other Arrangements of the Registrant***

Our Articles of Incorporation provide that no director or officer of the Company will be personally liable to the Company or any of its stockholders for damages for breach of fiduciary duty as a director or officer; provided, however, that the foregoing provision shall not eliminate or limit the liability of a director or officer (i) for acts or omissions which involve intentional misconduct, fraud or knowing violation of law, or (ii) the payment of dividends in violation of Section 78.300 of NRS. In addition, our bylaws implement the indemnification and insurance provisions permitted by Chapter 78 of the NRS by providing that:

The Company shall indemnify its directors to the fullest extent permitted by the NRS and may, if and to the extent authorized by the Board of Directors, so indemnify its officers and any other person whom it has the power to indemnify against liability, reasonable expense or other matter whatsoever. The Company may at the discretion of the Board of Directors purchase and maintain insurance on behalf of any person who holds or who has held any position identified in the paragraph above against any and all liability incurred by such person in any such position or arising out of his status as such.

Insofar as indemnification by us for liabilities arising under the Securities Act of 1933 may be permitted to our directors, officers or persons controlling the company pursuant to provisions of our Articles of Incorporation and bylaws, or otherwise, we have been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. In the event that a claim for indemnification by such director, officer or controlling person of us in the successful defense of any action, suit or proceeding is asserted by such director, officer or controlling person in connection with the securities being offered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

At the present time, there is no pending litigation or proceeding involving a director, officer, employee or other agent of ours in which indemnification would be required or permitted. We are not aware of any threatened litigation or proceeding, which may result in a claim for such indemnification.

### ***Indemnification Agreements***

On June 14, 2012, in connection with the appointment of Mr. Chris Anthony as our director, Chief Executive Officer and President, and Mr. Steve Jackson as our Chief Financial Officer, and Mr. Craig Miller as our Secretary, we executed a standard form of indemnification agreement (“Indemnification Agreement”) with each of them (the “Indemnitee”).

Pursuant to and subject to the terms, conditions and limitations set forth in the Indemnification Agreement, we agreed to indemnify each Indemnitee, against any and all expenses incurred in connection with the Indemnitee’s service as our officer, director and or agent, or is or was serving at our request as a director, officer, employee, agent or advisor of another corporation, partnership, joint venture, trust, limited liability company, or other entity or enterprise but only if the Indemnitee acted in good faith and in a manner he reasonably believed to be in or not opposed to our best interest, and in the case of a criminal proceeding, had no reasonable cause to believe that his conduct was unlawful. In addition, the indemnification provided in the indemnification agreement is applicable whether or not negligence or gross negligence of the Indemnitee is alleged or proven. Additionally, the Indemnification Agreement establishes processes and procedures for indemnification claims, advancement of expenses and costs and contribution obligations.

We intend to enter into such Indemnification Agreements with Messrs. Johnson and Mr. Gevarges upon the effectiveness of their respective appointment as our directors.

### **Item 4.01 Change in Registrant’s Certifying Accountant**

#### **(a) *Previous Independent Registered Public Accounting Firm***

On June 14, 2012, we dismissed Friedman LLP (“Friedman”) as our independent registered public accounting firm.

Friedman’s report on our consolidated balance sheets as of December 31, 2011 and 2010, and the related consolidated statements of operations and comprehensive income, stockholders’ equity (deficit) and cash flows for the years then ended, did not contain an adverse opinion, or disclaimer of opinion, nor were they qualified or modified as to any uncertainty, audit scope or accounting principles, other than as to the substantial doubt of the Company’s ability to continue as a going concern.

The decision to change our independent registered public accounting firm was made and approved by our Board of Directors on June 14, 2012. We do not have a separate audit committee.

During our most recent fiscal years ended December 31, 2011 and 2010, there have been no disagreements with Friedman on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement, if not resolved to the satisfaction of Friedman would have caused it to make reference to the subject matter of the disagreement(s) in connection with its report.

During our most recent fiscal years ended December 31, 2011 and 2010, Friedman did not advise us on any matter set forth in Item 304(a)(1)(v)(A) through (D) of Regulation S-K.

We have provided our former independent accountant, Friedman with a copy of the disclosures expressed herein and we have requested that Friedman furnish us with a letter addressed to the Securities and Exchange Commission stating whether or not it agrees with such statements. Friedman's response is attached as Exhibit 16.1.

(b) ***New Independent Registered Public Accounting Firm.***

On June 14, 2012, we engaged Mayer Hoffman McCann P.C. (“MHM”) to serve as our independent registered public accounting firm. During our two most recent fiscal years ended June 30, 2011, and through its appointment on June 14, 2012, we did not consult with MHM regarding (i) the application of accounting principles to a specific transaction, either completed or contemplated, or the type of audit opinion that might be rendered on our financial statements, and no written report or oral advice was provided to us that was an important factor to be considered by us in reaching a decision as to an accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K) or a reportable event (as that term is defined in Item 304(a)(1)(v) of Regulation S-K).

**Item 5.01 Changes in Control of Registrant**

Reference is made to the disclosure set forth under Item 2.01 of this report, which disclosure is incorporated herein by reference.

Pursuant to the Exchange Agreement, as amended, we acquired 100% of the issued and outstanding capital stock of Flux Power in exchange for 37,714,514 shares of our common stock, which constitutes approximately 91% of our issued and outstanding common stock after the consummation of the Reverse Acquisition. As a result of the Reverse Acquisition, we have assumed the business and operations of Flux Power.

**Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers**

Upon the closing of the reverse acquisition, Mr. Gianluca Cicogna Mozzoni, our Chief Executive Officer, President, Chief Financial Officer, Treasurer, Secretary and a director, submitted a resignation letter pursuant to which he resigned from all offices that he held effective immediately; and from his position as our director that will become effective on the tenth day following the mailing by us of an information statement to our stockholders that complies with the requirements of Section 14(f) of the Exchange Act. In addition, our Board of Directors on June 14, 2012, increased the size of our Board of Directors to three directors and appointed Mr. Chris Anthony (Chairman) to fill the vacancy created by the increase in board size, effective as of the date of the Closing of the reverse acquisition. In addition, Messrs. Michael Johnson and James Gevargues were appointed to fill the vacancies created upon the effective resignation of Mr. Mozzoni and the increase in the size of the board, with such appointments and resignation to be effective in compliance with Section 14(f) of the Exchange Act.

In addition, our Board of Directors appointed Mr. Anthony to serve as our chairman, Chief Executive Officer and President, and Steve Jackson as our Chief Financial Officer and Chief Operating Officer, effective immediately at the close of the Reverse Acquisition.

For certain biographical and other information regarding the newly appointed officers and directors, see the disclosure under Item 2.01 of this report, which disclosure is incorporated herein by reference.

### **Item 5.03 Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year**

#### **Change in Fiscal Year**

In connection with the Share Exchange with Flux Power, our Board of Directors, on June 14, 2012, approved a change of our fiscal year end to June 30, the fiscal year end of our operating company Flux Power. Starting with the periodic report for the quarter in which the Reverse Acquisition was completed, we will file annual and quarterly reports based on a June 30 fiscal year. Such financial statements will depict the operating results of the Company and the acquisition of Flux Power. In reliance on Section III F of the SEC's Division of Corporate Finance: Frequently Requested Accounting and Financial Reporting Interpretations and Guidance dated March 31, 2001, we do not intend to file a transition report but include in this Form 8-K audited financial statements of Flux Power for the year ended June 30, 2011.

#### **Item 5.06 Change in Shell Company Status**

Prior to the closing of the reverse acquisition, FPH, formerly Lone Pine, was a "shell company" as defined in Rule 12b-2 of the Exchange Act. As described in Item 2.01 above, which is incorporated by reference into this Item 5.06, FPH ceased being a shell company upon completion of the Reverse Acquisition on June 14, 2012.

#### **Item 8.01 Other Events.**

The information relating to the Private Placement under Item 2.01 is being provided pursuant to Rule 135c under the Securities Act.

#### **Item 9.01 Financial Statements and Exhibits**

- (a) Financial Statements of Business  
Acquired

Filed herewith are:

- Audited financial statements of Flux Power, Inc. as of and for the fiscal years ended June 30, 2011 and 2010 (the 2010 fiscal year covered a period of eight months).
- Unaudited condensed financial statements of Flux Power, Inc. as of March 31, 2012 and for the nine months ended March 31, 2012 and 2011.

- (b) Pro Forma Financial  
Information

Filed herewith is unaudited pro forma combined financial information of FPH and its subsidiaries.

(d) Exhibits

| Exhibit No. | Description  |
|-------------|--|
| 2.1         | Securities Exchange Agreement dated May 18, 2012 <sup>(1)</sup>  |
| 2.2         | Amendment No. 1 to the Securities Exchange Agreement dated June 13, 2012 <sup>(2)</sup>  |
| 3.1         | Restated Articles of Incorporation*  |
| 3.2         | Amended and Restated Bylaws of Flux Power Holdings, Inc. <sup>(3)</sup>  |
| 10.1        | Esenjay Secondary Revolving Promissory Note for Operating Capital dated October 1, 2011 <sup>(2)</sup>   |
| 10.2        | Esenjay Bridge Loan Promissory Note dated March 7, 2012 <sup>(2)</sup>   |
| 10.3        | Amended and Restated Terms of Employment with Chris Anthony with an effective date of January 1, 2010 <sup>(2)</sup>   |
| 10.4        | Terms of Employment with Steve Jackson dated January 12, 2012 <sup>(2)</sup>   |
| 10.5        | Flux Power, Inc. 2010 Stock Plan <sup>(2)</sup>  |
| 10.6        | Flux Power, Inc. 2010 Stock Plan: Form of Stock Option Agreement <sup>(2)</sup>  |
| 10.7        | LHV Power Corporation Term Sheet dated June 19, 2009 <sup>(2)</sup>  |
| 10.8        | LHV Manufacturing Implementation Agreement dated August 1, 2009 <sup>(2)</sup>   |
| 10.9        | GreenTech Automotive, Inc. Purchase Order Terms and Conditions*  |
| 10.10       | NACCO Materials Handling Group, Inc. Prototype Agreement dated February 6, 2012*   |
| 10.11       | Baytree Capital Advisory Agreement dated June 14, 2012 <sup>(2)</sup>  |
| 10.12       | Form of Indemnification Agreement <sup>(2)</sup>   |
| 16.1        | Letter from Friedman LLP re: change in certifying accountant dated June 18, 2012 <sup>(2)</sup>  |
| 21.1        | Subsidiaries <sup>(2)</sup>  |
| 99.1        | Audited financial statement of Flux Power, Inc. as of and for the fiscal years ended June 30, 2011 and 2010 (the 2010 fiscal year covered a period of eight months)* |
| 99.2        | Unaudited condensed financial statements of Flux Power, Inc. as of March 31, 2012 and for the nine months ended March 31, 2012 and 2011*                             |
| 99.3        | Unaudited Pro Forma Combined Financial Information of Flux Power Holdings, Inc. and its subsidiaries*  |

\* Filed herewith.

(1) Incorporated by reference to Form 8-K filed with the SEC on May 24, 2012

(2) Incorporated by reference to Form 8-K filed with the SEC on June 18, 2012

(3) Incorporated by reference to Form 8-K filed with the SEC on May 31, 2012

**SIGNATURE**

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

Flux Power Holdings, Inc.,  
A Nevada Corporation

Dated: August 6, 2012

/s/ Chris Anthony  
Chris Anthony, President

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STATE OF NEVADA

ROSS MILLER  
Secretary of State



SCOTT W. ANDERSON  
Deputy Secretary  
for Commercial Recordings

OFFICE OF THE  
SECRETARY OF STATE

Certified Copy

July 19, 2012

**Job Number:** C20120720-0128  
**Reference Number:**  
**Expedite:**  
**Through Date:**

The undersigned filing officer hereby certifies that the attached copies are true and exact copies of all requested statements and related subsequent documentation filed with the Secretary of State's Office, Commercial Recordings Division listed on the attached report.

| Document Number(s) | Description                        | Number of Pages  |
|--------------------|------------------------------------|------------------|
| 20120500285-05     | Restated Articles of Incorporation | 3 Pages/1 Copies |



Respectfully,

A handwritten signature in black ink, appearing to read "Ross Miller".

ROSS MILLER  
Secretary of State

Certified By: Nita Hibshman  
Certificate Number: C20120720-0128  
You may verify this certificate  
online at <http://www.nvsos.gov/>

Commercial Recording Division  
202 N. Carson Street  
Carson City, Nevada 89701-4069  
Telephone (775) 684-5708  
Fax (775) 684-7138

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ROSS MILLER  
 Secretary of State  
 204 North Carson Street, Suite 1  
 Carson City, Nevada 89701-4520  
 (775) 684-5708  
 Website: www.nvsos.gov



\*090501\*

**Certificate to Accompany  
 Restated Articles or  
 Amended and Restated Articles**  
 (PURSUANT TO NRS)

|  |   |
|--|---|
| Filed in the office of<br><br><i>[Signature]</i><br>Ross Miller<br>Secretary of State<br>State of Nevada | Document Number<br><b>20120500285-05</b>          |
|  | Filing Date and Time<br><b>07/19/2012 2:45 PM</b> |
|  | Entity Number<br><b>C22155-1998</b>               |
|  |   |

USE BLACK INK ONLY - DO NOT HIGHLIGHT

ABOVE SPACE IS FOR OFFICE USE ONLY

**This Form is to Accompany Restated Articles or Amended and Restated Articles of Incorporation**  
 (Pursuant to NRS 78.403, 82.371, 86.221, 87A, 88.355 or 88A.250)

(This form is also to be used to accompany Restated Articles or Amended and Restated Articles for Limited-Liability Companies, Certificates of Limited Partnership, Limited-Liability Limited Partnerships and Business Trusts)

1. Name of Nevada entity as last recorded in this office:

Flux Power Holdings, Inc.

2. The articles are: (mark only one box)  Restated  Amended and Restated

Please entitle your attached articles "Restated" or "Amended and Restated," accordingly.

3. Indicate what changes have been made by checking the appropriate box:\*

No amendments; articles are restated only and are signed by an officer of the corporation who has been authorized to execute the certificate by resolution of the board of directors adopted on: 7/17/12

The certificate correctly sets forth the text of the articles or certificate as amended to the date of the certificate.

The entity name has been amended.

The registered agent has been changed. (attach Certificate of Acceptance from new registered agent)

The purpose of the entity has been amended.

The authorized shares have been amended.

The directors, managers or general partners have been amended.

IRS tax language has been added.

Articles have been added.

Articles have been deleted.

Other. The articles or certificate have been amended as follows: (provide article numbers, if available)

[Empty box for other amendments]

4. Effective date and time of filing: (optional)

Date:

[Empty date box]

Time:

[Empty time box]

(must not be later than 90 days after the certificate is filed)

\* This form is to accompany Restated Articles or Amended and Restated Articles which contain newly altered or amended articles. The Restated Articles must contain all of the requirements as set forth in the statutes for amending or altering the articles for certificates.

**IMPORTANT:** Failure to include any of the above information and submit with the proper fees may cause this filing to be rejected.

This form must be accompanied by appropriate fees.

Nevada Secretary of State Restated Articles  
 Revised: 6-31-11

**RESTATED  
ARTICLES OF INCORPORATION  
OF  
FLUX POWER HOLDINGS, INC.**

The undersigned hereby certifies:

1. That pursuant to Section 78.403 of the Nevada Revised Statutes this Restated Articles of Incorporation of Flux Power Holdings, Inc. correctly sets forth and consolidates the entire text of the Articles of Incorporation of Flux Power Holdings, Inc., as amended to date.

2. The Articles of Incorporation of Flux Power Holdings, Inc. are hereby restated to read as follows:

**Article I**

The name of the corporation is Flux Power Holdings, Inc.

**Article II**

The principal place of business of the corporation shall be in the County of Clark and in the State of Nevada, but the Board of Directors shall designate other places, either within or without the State of Nevada, where other offices may be established and maintained and where corporate business may be transacted.

**Article III**

Omitted

**Article IV**

The purpose for which this corporation is organized is the transaction of any and all lawful business for which corporation may be incorporated under the laws of the State of Nevada, as they may be amended from time to time, and specifically, but not in limitation thereof for the purpose of developing genetically engineered agricultural and cloning a variety of nursery crops.

**Article V**

There are no limitations of the powers of the corporation.

**Article VI**

The corporation shall have authority to issue one hundred and forty five million shares of Common Stock at par value of \$0.001 per share; and five million shares of Preferred Stock at a par value of \$0.001.

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**Article VII**

The holders of the Common Stock shall not have preemptive rights as to the stock then and thereafter authorized to be issued, including Treasury Stock.

**Article VIII**

The corporation shall be managed by a Board of Directors whose duties and responsibilities are set forth in By-Laws to be adopted by the corporation. The corporation shall have not less than one, nor more than seven Directors.

[Remainder Omitted]

**Article IX**

Omitted

**Articles X**

The Board of Directors of the corporation may from time to time distribute on a pro-rata basis to its shareholders out of the capital surplus of the corporation, a portion of its assets, in cash or property.

**Article XI**

The corporation shall indemnify any person who incurs expenses by reason of the fact that he or she is or was an officer, director, employee or agent of the corporation. This indemnification shall be mandatory on all circumstances in which indemnification is permitted by law.

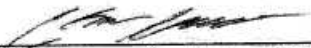
**Article XII**

The corporation shall indemnify its directors and officers of the corporation from personal liability for lawful acts of the corporation as permitted by law.

3. By resolution of the corporation's Board of Directors, the foregoing Restated Articles of Incorporation has been approved and the undersigned has been duly authorized to execute the same, effective as of July 17, 2012.

IN WITNESS WHEREOF, the undersigned has executed this Restated Articles of Incorporation as of July 18, 2012.

FLUX POWER HOLDINGS, INC.

  
Chris Anthony, President and Chief Executive Officer

## PURCHASE ORDER - TERMS AND CONDITIONS

### 1. CONTRACT.

(a) Each purchase order and purchase order revision (the "Order") issued by GreenTech Automotive, Inc. ("Buyer") is an offer to the Vendor named on the previous page ("Vendor" and together the "Parties") for the purchase of goods and/or services offered by Vendor, and includes and is governed by the express terms contained on the face of this Order, these Purchase Order - Terms and Conditions, the terms contained in any addendum or supplement to this Order issued by Buyer and accepted by Vendor and any Release provided pursuant to Section 1(b) below (collectively, the "Terms"). Written acceptance of this Order by Vendor solely constitutes an acceptance by Buyer for the goods and products offered by Vendor subject to this Order (the "Goods") or of the services offered by Vendor subject to Vendor's quote and this Order (the "Services"). Any acceptance of this Order is limited to and conditional upon Vendor's acceptance of the Terms. Any proposal for additional or different terms or any attempt by Vendor or Buyer to vary any of the Terms, whether in Vendor's or Buyer's quotation form, acknowledgement form, invoice, correspondence or otherwise, shall be deemed material and is hereby objected to and rejected, but any such proposal or attempted variance shall not operate as a rejection of this Order if Vendor accepts Buyer's offer by commencement of work, shipment of the Goods or performance of the Services, or by other means acceptable to Buyer, in which case this Order shall be deemed accepted by Vendor without any additional or different terms or variations whatsoever. This Order does constitute an acceptance of any prior offer or proposal by Vendor, and any reference in this Order to any such prior offer or proposal (including any quotation issued by Vendor whether or not such quotation purports to contain Vendor's terms of sale, if any) is solely to incorporate the description or specifications of the Goods and/or Services contained in such offer or proposal, but only to the extent that such description or specifications are not directly in conflict with the description and specifications contained in this Order. If this Order is found to be an acceptance of any prior offer or proposal by Vendor, such acceptance shall be limited to the Terms. Any additional or different terms in such prior offer or proposal shall be deemed material and are hereby objected to and rejected by Buyer. Buyer may cancel all or any part of this Order at any time prior to acceptance by Vendor.

(b) If an Order is placed by blanket purchase order, such blanket purchase order (a "Blanket Purchaser Order") shall: (i) state on its face that it is a Blanket Purchase Order, (ii) identify an amount of time for fulfillment of the Blanket Purchase Order (the "Timeframe"), (iii) identify the quantity or quantities of Goods or Services that Buyer may purchase during such Timeframe (the "Blanket Quantity"), and (iv) identify the price(s) for such Blanket Quantity. Such Blanket Purchase Order may also give a specific delivery date for all or a portion of the Blanket Quantity. From time to time, the Buyer shall provide the Vendor a written notice (each, a "Release") stating, (i) an amount of the Blanket Quantity to be delivered to Buyer, and (ii) the delivery location of such portion of the Blanket Quantity. In addition to the other termination rights afforded the Buyer under this Purchase Order - Terms and Conditions, Buyer shall have the right to terminate all or a portion of the Blanket Purchase Order pursuant to Section 16(a) and shall only be liable for the amounts set forth in Section 16(d).

[\*\*\*] Represents information which has been redacted and filed separately with the Commission pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

(c) This Order contains the entire agreement between Buyer and Vendor and, except as otherwise expressly stated in this Order, supersedes all prior agreements, orders, quotations, proposals and other communications relating to the subject matter hereof, and there are no other understandings or agreements, verbal or otherwise, in relation hereto that exist between Buyer and Vendor. Notwithstanding the foregoing, any non-disclosure, noncompetition, non-solicitation or other similar restrictions in any prior agreements shall not be affected by the Terms or this Order.

(d) In the event of any conflict or inconsistency between the express terms contained on the face of this Order and these Purchase Order - Terms and Conditions, the express terms on the face of this Order shall govern.

2. **QUALITY ASSURANCE.** At the time of delivery, all articles, materials and work furnished, as applicable, shall be of good quality and free from any defects, and shall at all times be subject to inspection by Buyer and any applicable governmental authority or regulatory body (collectively, "Regulator"); but neither Buyer's nor Regulator's inspection, nor failure to inspect, shall relieve Vendor of any obligation hereunder. If in Buyer's or Regulator's opinion, any article, material or work fails to conform to specifications or is otherwise defective, Buyer's sole recourse shall be through Vendor's Warranty. No acceptance or payment by Buyer shall constitute a waiver of the foregoing; and nothing herein shall exclude or limit any warranties provided by law.

### 3. CUSTOMER REQUIREMENTS.

(a) Vendor acknowledges that the Goods and/or Services under this Order may be sold, or incorporated into products or services that may be sold or leased, by Buyer as or to an original equipment manufacturer of motor vehicles, whether directly or indirectly, to an upper tier supplier or any other third party customer (collectively, the "Customer"). Vendor is not responsible for such changed warranty to the Customer unless such is explicit in the Order and Buyer provides copy of specific terms or obligations. Vendor shall take reasonable steps to comply with such requirements and do all other things as Buyer deems necessary or desirable and within Vendor's control without additional expense to Vendor, to enable Buyer to meet Buyer's obligations under the terms and conditions of the Customer Warranty and any contract, purchase order or other document related thereto (the "Customer Terms"), including: delivery, packaging and labeling requirements; warranties and warranty periods; intellectual property rights and indemnification; confidentiality; access to facilities and records; ensuring the Goods when sold to the Customer comply with any specification set forth; and replacement and service parts; provided however that Vendor acknowledges that the Goods shall be sold or leased by the Buyer to customers in the European Union so shall comply with any legal requirements relating thereto.

[\*\*\*] Represents information which has been redacted and filed separately with the Commission pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

(b) Subject to Buyer's and Vendor's acceptance of Customer Terms as set forth in Section 3(a), if there is any conflict or inconsistency between the provisions of the Customer Terms and any provision of this Order, Buyer shall have the right to have the provisions of the Customer Terms prevail to the extent necessary or desirable to resolve such conflict or inconsistency as long as Vendor has agreed and at Buyer's expense.

(c) If the Customer directed, recommended or requested that Vendor be the source from whom Buyer is to obtain the Goods and/or Services and Customer and Vendor have a formal agreement relating to the Order: (i) Buyer reserves the absolute right to pay Vendor for the Goods and/or Services[\*\*\*]; (ii) any lengthening of the Customer's payment terms to Buyer for those products or services into which the Goods and/or Services are incorporated shall, be mutually agreed upon by the Parties.

4. TAXES. Unless otherwise provided herein or by law, Vendor shall pay all sales, use, excise, port fees and other taxes, charges, and contributions now or hereafter imposed on, or with respect to, or measured by the articles, materials or work furnished or the compensation paid to, persons employed in connection with performance hereunder; and Vendor shall release, indemnify, defend and hold Buyer harmless against any liability and expense by reason of Vendor's failure to pay same.

5. DELIVERY DELAYS, SHIPPING AND DUTIES/TAXES.

(a) Other than by reason of an excusable delay (as defined in Section 5(b)), if after accepting this Order pursuant to Section 1 Vendor fails or refuses to proceed with this Order or fails to deliver the Goods and/or perform the Services within the delivery date(s) and time(s) specified in this Order or any applicable Release (in any such case, a "delay"), Buyer may, without liability to Vendor and without limiting or affecting Buyer's other rights or remedies available hereunder or at law: (i) cancel the then remaining balance of this Order; or (ii) direct expedited shipment and/or incur premium freight or special transportation costs, and Vendor shall pay, upon demand, all excess costs incurred thereby, including additional handling charges and other expenses (whether related or not) resulting therefrom; provided that if such costs exceed 30% of the Order (the "Threshold Costs"), Vendor shall only be liable for the Threshold Costs and the reasonable expenses that exceed 30%. Vendor shall not be responsible for any other direct, consequential and incidental damages incurred by Buyer as a result of a delay, other than by reason of an excusable delay, including the cost of any line shutdown(s) and the cost of obtaining the Goods and/or Services from alternate sources. Buyer's actions in obtaining substitute or replacement Goods and/or Services shall not limit Buyer's rights and remedies available hereunder or at law.

[\*\*\*] Represents information which has been redacted and filed separately with the Commission pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

(b) As used in this Order, the term “excusable delay” means at any time Buyer requests to shorten a delivery date quoted by Vendor and any delay in making or accepting deliveries or performance which results without fault or negligence on the part of the party involved and which is due to causes or events beyond its reasonable control, such as acts of God, or of a public enemy that causes materials or component supply delays, any preference, , priority or allocation order issued by government or any other acts of government, fires, floods, epidemics, quarantine restrictions, freight embargoes, unusually severe weather, explosions, riots, war (whether declared or not), terrorism, acts of the other party and delays of a subcontractor or supplier due to such causes. As used in this Order, the term “excusable delay” shall not, however, mean or include any delay arising from or as a result of: (i) Vendor’s financial difficulties; (ii) a change in cost or availability of materials or components based on market conditions or supplier actions affecting Vendor or any of its subcontractors or suppliers.

(c) An excusable delay shall not constitute a default hereunder, provided that if Buyer or Vendor is subject to one or more excusable delays that persist for more than thirty (30) days in the aggregate, Buyer or Vendor may cancel the then remaining balance of this Order, without liability to Vendor and without limiting or affecting Buyer’s other rights or remedies available hereunder or at law.

(d) Vendor, shall use reasonable efforts to mitigate any adverse effects or costs to Buyer due to any actual or potential delay, including: (i) the implementation of a production and/or performance contingency plan; and (ii) upon Buyer’s express written authorization and Order that has been accepted by Vendor, increasing Vendor’s inventory of finished Goods to a level sufficient to sustain deliveries during such delay.

(e) Whenever any actual or reasonably certain or significant potential delay threatens to delay deliveries or Vendor’s performance under this Order, Vendor shall immediately give written notice thereof to Buyer. Such notice shall include all relevant information with respect to such delay, including the anticipated duration and impact of such delay if known.

(f) Buyer may delay acceptance of delivery of the Goods and/or performance of the Services and such delay does not affect or delay payment, by reason of an excusable delay, in which case Vendor shall hold the Goods and/or delay performance of the Services, at Buyer’s direction, until the cause of the excusable delay has been removed.

(g) If, under the express terms of this Order, Buyer grants Vendor exclusive or “single source” rights to supply the Goods and/or Services to Buyer, such rights shall not restrict Buyer’s right to procure substitute or replacement Goods and/or Services for the duration of any delay (whether or not by reason of an excusable delay) and for a reasonable period thereafter, without liability to Vendor.

(h) Unless otherwise expressly stated in this Order, Vendor shall not charge Buyer for shipment preparation, labeling, packing, boxing, crating or shipping. Vendor shall promptly notify Buyer in writing if Vendor is unable to deliver and/or perform in the quantities and on the delivery dates and times agreed upon by Vendor and Buyer. Goods delivered in excess of the quantities or in advance of delivery dates or times so specified shall be at Vendor’s risk and may be returned to Vendor by Buyer, and all transportation charges both to and from the original destination shall be paid by Vendor. Unless otherwise expressly stated in this Order, prices include customs duties and expenses, tariffs and all federal, provincial, state and local taxes (including all export taxes, import taxes, excise taxes, sales taxes and value added or similar “turnover” taxes) applicable to the manufacture, sale or provision of the Goods and/or Services as they are delivered to Buyer.

[\*\*\*] Represents information which has been redacted and filed separately with the Commission pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

#### 6. PAYMENT.

(a) Except as otherwise expressly stated in this Order which shall match the Vendor's quote, and subject to Section 3(c) and Section 7, Buyer shall pay net invoices (subject to applicable withholding taxes, if any) by the later of: (i) [\*\*\*] days after the end of the month during which the Goods were delivered and/or Services performed, as the case may be; or (ii) [\*\*\*] days after the invoice date. In the event of late payment by Buyer, Vendor shall be entitled to any lien or retention of title against the Goods and/or Services or to claim any set-off against amounts due or which may become due to Vendor from Buyer or its subsidiaries or affiliates. In order to be payable, invoices must be correct and complete, with appropriate supporting documentation and other information reasonably required by Buyer.

(b) Notwithstanding the foregoing and except as otherwise expressly stated in this Order which shall match the Vendor's quote, where Buyer is entitled to receive payment or reimbursement from the Customer for the Goods and/or Services to be provided by Vendor to Buyer under this Order that constitute Tooling (as such term is defined in Section 11(b)), Vendor shall be entitled to receive payment under this Order for such Tooling[\*\*\*].

#### 7. DEDUCTION, SET-OFF, RECOUPMENT.

(a) In addition to any right of deduction, set-off or recoupment provided by law, all amounts due or to become due to Vendor from Buyer (including any applicable value added or similar "turnover" tax payable, if any) shall be considered net of indebtedness or obligations of Vendor to Buyer, and upon agreement by Vendor, Buyer may deduct, set-off or recoup any such indebtedness or obligations from and against any amounts due or to become due to Vendor from Buyer (including any applicable value added or similar turnover taxes payable, if any) and however and whenever arising. Buyer may do so without notice to Vendor.

(b) In the event of any insolvency or financial distress of Vendor or for any other reason(s) giving rise to Vendor's inability (or, in Buyer's opinion, potential inability) to perform its obligations under this Order, if Buyer retains legal counsel, accountants or other third party advisors to provide services related to Buyer's business relationship with Vendor, Buyer shall have the right to fully recover its out of pocket fees and costs related to such legal, accounting or other third party services, and to specifically deduct, set-off or recoup such fees and costs from amounts due or to become due to Vendor from Buyer.



[\*\*\*] Represents information which has been redacted and filed separately with the Commission pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

(c) In the event of any insolvency or financial distress of Buyer or for any other reason(s) giving rise to Buyer's inability (or, in Vendor's opinion, potential inability) to perform its obligations under this Order, if Buyer retains legal counsel, accountants or other third party advisors to provide services related to Vendor's business relationship with Buyer, Vendor shall have the right to fully recover its out of pocket fees and costs related to such legal, accounting or other third party services, and to specifically deduct, set-off or recoup such fees and costs from amounts due or to become due to Buyer from Vendor.

(d) For purposes of this Agreement, the terms "Buyer" and "Vendor" shall mean and include each of Buyer and Vendor, respectively, and its subsidiaries and affiliates.

#### 8. CHANGES.

(a) Buyer reserves the right upon Vendor's pre-approval to make changes, or to require Vendor to make changes, to the drawings, specifications and other provisions of this Order, as well as any subcontractors or suppliers used or intended to be used by Vendor. If any such change results in an increase or a decrease in the cost of, or the time required for, manufacturing or delivering the Goods and/or performing the Services, an equitable adjustment may be made in the price or delivery schedule, or both, and this Order shall, subject to the agreement of Buyer and Vendor, be modified in writing accordingly. No claim under this Section 8 shall be asserted by Vendor after ninety (90) days following the notification of the change by Buyer.

(b) Vendor shall not, without Buyer's prior written authorization, make any changes to specifications, designs, drawings, materials, part numbers (or other types of identification), processes, procedures or the location of the facilities used by Vendor for the performance of its obligations under this Order.

#### 9. PRICE WARRANTIES AND COMPETITIVENESS.

(a) Vendor represents and warrants that the prices for the Goods and/or Services are, and shall remain, [\*\*\*]. If Vendor [\*\*\*] of such same or substantially similar goods or services and quantities and delivery requirements during the term of this Order, Vendor shall [\*\*\*] of the Goods and/or Services correspondingly.

(b) Except as otherwise expressly stated in this Order, Vendor represents and warrants that the prices for the Goods and/or Services are complete, and that no surcharges, premiums or other additional charges of any type shall be added, without Buyer's prior written consent. Vendor expressly assumes the risk, but if such event results in an additional cost to Vendor [\*\*\*] of an Order may terminate the Order, in any event or cause (whether or not foreseen) affecting such prices, including any foreign exchange rate changes, increases in raw materials costs, inflation, increases in labor, MRO (maintenance, repair and operations), utilities and other manufacturing costs, etc.

(c) Vendor shall ensure that the Goods and/or Services remain competitive, in terms of price, quality, delivery, performance and service, with substantially similar goods, volumes and services provided by Vendor to 3<sup>rd</sup> parties.

(d) For a period of [\*\*\*] after each Order, Buyer shall provide Vendor with the right to first quote any potential Orders that relate to the goods and services provided by Vendor. Such right shall extend for a period [\*\*\*] from the date Vendor receives request to quote from Buyer.

[\*\*\*] Represents information which has been redacted and filed separately with the Commission pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

#### 10. WARRANTIES REGARDING GOODS AND SERVICES.

(a) Vendor's sole Warranty ("Warranty") is outlined in Exhibit A.

(b) The Vendor's Warranty and Warranty period are available to, and for the benefit of, Buyer, its subsidiaries and affiliates, their respective successors and assigns, the Customer and users of the Goods and/or Services but only Buyer may submit a claim under such Warranty.

#### 11. MATERIALS, EQUIPMENT, TOOLS AND FACILITIES.

(a) Unless otherwise expressly stated in this Order, Vendor shall, at its own expense, supply and, as applicable, maintain in good condition and repair and replace when necessary or reasonably required, all materials, equipment, tools, jigs, dies, gauges, fixtures, moulds, patterns, drawings, specifications, samples, supplies and facilities that are under control of or are owned by Vendor and that are required to perform this Order.

(b) Notwithstanding any other provision in this Order, Parties expressly acknowledges and agrees that: all materials, parts, components, assemblies, equipment, tools, jigs, dies, gauges, fixtures, moulds, patterns, drawings, specifications, samples, supplies and facilities, including any replacements thereof, any materials affixed or attached thereto and any special tooling manufactured, produced or provided by Vendor for the performance of its obligations under this Order are and shall remain the property of Vendor (collectively, "Tooling"). Parties further agree: (i) all materials, parts, components, assemblies, equipment, tools, jigs, dies, gauges, fixtures, moulds, patterns, drawings, specifications, samples, supplies and facilities, including any replacements thereof, any materials affixed or attached thereto and any special tooling manufactured, paid for (excluding any Tooling the cost of which is fully or substantially amortized in the price of the Goods and/or Services), produced or provided and paid for by Buyer for the performance of its obligations under this Order are and shall remain the property of Buyer (collectively, "Specialized Tooling") or collectively, the ("Buyer's Property"), shall be held by Vendor on a bailment basis and remain the property of, with both title and the right of possession in, Buyer and without limiting or affecting any other rights or remedies available hereunder. Vendor shall assign to Buyer all contract rights or claims in which Vendor has an interest with respect to the Buyer's Property and, upon request by Buyer and in the event no payment is due and payable by Buyer beyond any applicable grace period, shall execute bills of sale, financing statements or other documents reasonably requested by Buyer to evidence Buyer's ownership of the Buyer's Property. In addition to any other right or remedy with respect to the Buyer's Property given to Buyer by statute or rule of law, Vendor acknowledges that this Order only to the extent the Order contains Specialized Tolling paid for by Buyer creates or provides for a "security interest" and/or a "purchase-money security interest" (within the meaning of applicable personal property security legislation) in favor of Buyer in the Buyer's Property which may be registered or otherwise protected by Buyer at any time in Buyer's sole discretion. The Buyer's Property, while in the custody or control of Vendor or its subcontractors, suppliers or agents, shall be held at Vendor's risk, shall be kept insured by Vendor, at Vendor's expense, against loss or damage in an amount equal to the replacement cost thereof, and shall be subject to removal on Buyer's written request. Vendor shall promptly notify Buyer of the location of the Buyer's Property, if any is located at any place other than Vendor's cell supplier of or Vendor's premises. Unless otherwise expressly stated in this Order, Vendor shall maintain accounting and property control records for the Buyer's Property in accordance with sound industrial practices. Vendor shall, at Vendor's expense, maintain the Buyer's Property in good condition and repair throughout the useful life thereof (as determined by Buyer in accordance with sound industrial practices), and shall replace any of the Buyer's Property if, as and when necessary or reasonably required. Buyer does not provide any warranties with respect to the Buyer's Property. Upon completion or termination of this Order, Vendor shall retain on a bailment basis for Buyer, as aforesaid, all Buyer's Property in the custody or control of Vendor, at Vendor's expense, until disposition directions are received from Buyer. Upon receipt of Buyer's demand or disposition directions, Vendor shall, at Vendor's expense, properly prepare the Buyer's Property for shipment and shall deliver it to such location(s) as may be specified by Buyer. The Buyer's Property shall be in no less than the same condition as originally received by Vendor, normal use and reasonable wear and tear excepted. If Buyer or Vendor defaults under this Order, Vendor shall, upon Buyer's demand, immediately deliver the Buyer's Property to Buyer and, if Buyer so requests, grant Buyer reasonable access to Vendor's premises (including, as applicable, the premises of Vendor's subcontractors, suppliers and agents) for the purpose of removing the Buyer's Property. To the extent not prohibited by law, as long as Buyer does not owe any payables to Vendor that are past the any applicable grace period, Vendor waives any lien or similar right which Vendor may have with respect to the Buyer's Property. Buyer shall be responsible for personal property taxes, if any, assessed against the Buyer's Property while in the custody or control of Vendor or its subcontractors, suppliers or agents.

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(c) All Buyer's Property referenced in Section 11(b)(i) to be manufactured, produced or provided by Vendor in conjunction with this Order must be in strict accordance with the specifications set forth in this Order or as otherwise specified by Buyer to Vendor.

(d) Vendor shall use the Buyer's Property referenced in Section 11(b)(i) solely for the purpose of performing its obligations under this Order unless Buyer gives its written consent to use Buyer's Property for another purpose.

(e) All Buyer's Property shall be tagged, marked or otherwise clearly identified by Vendor as the property of Buyer (or as Buyer may otherwise direct).

(f) This Section 11 shall not apply to any Tooling purchased under a purchase order unless such purchase order specifically states that it is governed by these terms and conditions.

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## 12. INTELLECTUAL PROPERTY.

(a) Vendor shall indemnify and hold Buyer, its subsidiaries and affiliates, their respective successors, assigns, representatives, employees and agents, the Customer and users of products or services incorporating the Goods and/or Services, harmless from and against all liabilities, demands, claims, losses, costs, damages and expenses of any nature or kind (including court costs, legal and other professional fees, and other costs associated with any indemnified party's administrative time, labor and materials) arising from or relating to the infringement or alleged infringement of any patent, trademark, service mark, copyright, industrial design, mask work, trade secret or other intellectual property right for or on account of the manufacture, sale or use of the Goods and/or Services, or of the products or services incorporating the Goods and/or Services. Buyer shall indemnify and hold Vendor, its subsidiaries and affiliates, their respective successors, assigns, representatives, employees and agents, the Customer and users of products or services harmless from and against all liabilities, demands, claims, losses, costs, damages and expenses of any nature or kind (including court costs, legal and other professional fees, and other costs associated with any indemnified party's administrative time, labor and materials) arising from or relating to the infringement or alleged infringement of any patent, trademark, service mark, copyright, industrial design, mask work, trade secret or other intellectual property right for or on account of the manufacture, sale or use is based on a claim that Buyer's combination of the Goods and/or Services with other goods, services (including without limitation Buyer's products). Buyer shall notify Vendor of any suit filed against Buyer or other indemnified parties herein, on account of any such infringement or alleged infringement as stated above and in the event infringement is solely relating to the Goods' and/or Services alone, shall give Vendor control of the defense of such suit, insofar as Buyer has the authority to do so, and reasonable information and assistance in connection therewith, all at Vendor's expense. Buyer and other indemnified parties herein shall have the right to be represented by their own legal counsel and actively participate in any such suit, and the reasonable costs of such representation shall be paid by Vendor on demand. If a claim of infringement or alleged infringement based solely on the Goods and/or Services results or is reasonably anticipated to result in an injunction or other legal order preventing Vendor from supplying or Buyer from using the Goods and/or Services for their intended purpose, Vendor shall, at its expense, (i) secure a valid license or other applicable rights to permit such continued supply or use, (ii) modify (with the prior approval of Buyer and, if applicable the Customer) the Goods and/or Services so that they become non-infringing, so long as the modifications do not significantly alter or affect the form, fit, function, operation or performance of the Goods and/or Services, or (iii) replace (with the prior consent of Buyer and, if applicable, the Customer) the Goods and/or Services with non-infringing, but substantially equivalent goods and/or services.

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(b) Solely with respect to the use, installation, sale, lease or servicing of the Goods that have been paid in accordance with an Order by Buyer, Vendor hereby grants to Buyer, its subsidiaries and affiliates, and their respective successors and assigns (including any of their authorized distributors or dealers), and Buyer hereby accepts, a non-exclusive, irrevocable, royalty-free (such royalty deemed included in the price of the Goods and Services), worldwide license, including the right to sublicense to others in connection with providing the Goods and/or Services to Buyer or the Customer, under: (i) patents, industrial designs, technical information, know how, processes of manufacture, trade secrets and other intellectual property, owned or controlled by Vendor or its subsidiaries and affiliates, and relating to the Goods and/or Services under this Order or their installing, servicing, use, sell, lease and import the Goods and/or Services under this Order, and (ii) any works of authorship fixed in any tangible medium of expression (including drawings, prints, manuals and specifications) furnished by Vendor in the course of Vendor's activities under this Order, (all items in clauses (i) and (ii) above, collectively, "Vendor's Intellectual Property", and such license in respect thereof, the "License"). In the event Buyer wishes to obtain the supply of the Goods and/or Services from a third party Buyer may request and upon written agreement by Vendor, Buyer may obtain a royalty bearing License. Nothing herein shall grant Buyer or subsequent assigns the license or right to create derivative works.

(c) To the extent that Vendor creates or develops any inventions, discoveries or improvements in the performance of Vendor's obligations under this Order which are paid for by Buyer and specified as development work in an Order, Vendor shall: (i) assign to Buyer each such invention, discovery or improvement (whether or not patentable) that is conceived or first reduced to practice by Vendor, or by any person employed by or working under the direction of Vendor, in the performance of Vendor's obligations under this Order; and (ii) promptly disclose in an acceptable form to Buyer all such inventions, discoveries or improvements and cause Vendor's employees to sign any papers necessary to enable Buyer to obtain title to and to file applications for patents throughout the world. To the extent that any works of authorship (including, without limitation, software and computer programs) are created or developed in the performance of Vendor's obligations under this Order which are paid for by Buyer and specified as development work in an Order, such works shall be considered "works made for hire", and to the extent that such works do not qualify as "works made for hire", Vendor hereby assigns to Buyer all right, title, and interest in all copyrights and moral rights therein.

(d) Vendor shall not manufacture or provide, or offer to manufacture or provide, any goods or services that are significantly based upon Buyer's intellectual property and/or the drawings or specifications in respect of the Buyer's goods and services, or any derivatives thereof, whether for its own purposes (other than to satisfy its obligations under this Order), for the Customer or any other third parties, without Buyer's prior written consent. The foregoing restriction shall not apply in respect of "standard", "off-the-shelf" or "catalogue" goods or services that have been routinely manufactured or provided by Vendor and developed by Vendor, in each case, prior to this Order and independently of Vendor's relationship with Buyer.

(e) Buyer shall not manufacture or provide, or offer to manufacture or provide, any goods or services that are based solely upon Vendor's intellectual property and/or the drawings or specifications in respect of the Goods and/or Services, or any derivatives thereof, whether for its own purposes (other than to satisfy its obligations) for the Customer or any other third parties, without Vendor's prior written consent.

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### 13. CONFIDENTIALITY AND NON-DISCLOSURE.

(a) Parties shall, and shall cause each subcontractor to, consider and treat all Information (as defined in Section 13(b)) as confidential, shall safeguard such Information in an appropriate and reasonable manner (but being at least the same as that used by either party alone to protect its own information of the same or a similar nature and relative importance), and shall not disclose any Information to any other person (including a competitor of Parties or a person, who with knowledge of the Information, could damage either Parties; competitive position), or use any Information against the interests of the Parties or for any purpose except as required by this Order, without the other party's prior written consent; provided however that Buyer may disclose Vendor's confidential information to a lender or third party that is contemplated financing, making a loan, making an equity investment or entering into a joint venture or other arrangement for the purchase or sale of the Goods or Buyer's products provided such party enters into a confidentiality agreement prior to such disclosure. Each party retains all rights with respect to their Information, and neither Party shall acquire, nor attempt to obtain (whether by filing applications, asserting claims, disputing the other party's rights or otherwise) any patent, trademark, copyright, license or other rights in respect of the other Party's Information. Neither Party shall allow any Information to be reproduced, communicated or in any way used, in whole or in part, in connection with services or goods furnished to others, without the other Party's prior written consent.

(b) For the purposes of this Order, "Information" means (i) all prints, designs, drawings, layouts, specifications, instructions, developments, technical data, test data, computations, analyses, models, samples, prototypes, materials, products, parts lists, costs and pricing, methods, processes, systems, plans, forecasts, reports, working papers and other information (whether or not commercial, financial, business or technical in nature) furnished by or on behalf of either Party and/or, if applicable, the Customer and/or Sub-Contractors, (ii) all notes, analyses, compilations, studies, interpretations or other documents, whether in hard copy or electronic form, prepared by the respective Party or its subcontractor, which contain, reflect or are based upon, in whole or in part, the Information set forth in (i) above, and (iii) all terms and conditions and any other information relating to this Order.

(c) Vendor shall not advertise or otherwise publicly disclose the fact that Buyer has contracted to purchase the Goods and/or Services from Vendor, without Buyer's prior written consent or unless required to do so by operation of law or regulation.

(d) The Parties agrees, and agrees to cause any subcontractor, to promptly return or destroy the Information upon the either Party's request. The Parties will promptly inform each other if it becomes aware of any misappropriation, misuse or improper disclosure of any Information. In the event the Vendor uses any subcontractor to provide goods or services in connection with this Order, the Vendor agrees to cause such subcontractor to be bound provisions substantially similar to this section. Nothing in this Section 13 shall restrict either Party's disclosure of information to the extent required by law.

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#### 14. COMPLIANCE WITH LAWS.

(a) Vendor's performance of its obligations under this Order shall be in compliance with all applicable laws, including foreign, federal, provincial, state and local laws, ordinances, rules, codes, standards and regulations, as promulgated, enacted and amended from time to time, that are applicable to this Order or the use of the Goods to the Customer, including any specifications for the Goods set forth in any law applicable to the sale of the Goods to the Customer, (collectively, "Laws"). Vendor shall furnish Buyer with certificates of compliance, where required under such applicable Laws or when requested by Buyer. Each invoice rendered to Buyer under this Order shall constitute written assurance by Vendor that Vendor has fully complied with all applicable Laws.

(b) Vendor shall package, label and transport the Goods and their containers, in particular those which constitute a safety, health, poison, fire, explosion, environmental, transportation or other hazard, in compliance with all applicable Laws in effect in the place to which the Goods are shipped or as otherwise specified by Buyer. Upon request, Vendor shall furnish Buyer with information regarding the ingredients of the Goods.

(c) Vendor represents and warrants that neither it nor any of its subcontractors or suppliers utilize or will utilize any form of forced or involuntary labor in the United States relating to the supply of the Goods and/or Services under this Order. Within the framework of its commercial dealings with Buyer, Vendor shall not engage in any actions or practices which may lead to criminal or civil liability due to fraud, bribery, embezzlement, unfair competition or other forms of corruption on the part of persons employed by Vendor or third parties for the benefit of Vendor.

(d) Parties represents and warrants that neither it, its subcontractors, nor any of their officers, directors, employees, agents or other representatives has or will perform any act that violates the Foreign Corrupt Practices Act of 1977, as amended by the International Anti-bribery and Fair Competition Act of 1998, including pay, offer or promise to pay or give any money, gift, service or anything else of value, either directly or through a third party, to any (A) official or employee of any government authority or instrumentality, public international organization, or of any agency or subdivision thereof, or (B) political party, official thereof or to any candidate for political office; in each case for the purpose of (i) influencing any act or decision of that person in his official capacity, including a decision to fail to perform his or her official function, (ii) inducing such person to use his or her influence with such organization to affect or influence any act or decision thereof or (iii) securing any improper advantage. In the event either Party uses any subcontractor to provide goods or services in connection with this Order, they agree to cause such subcontractor to be bound by provisions substantially similar to this Section 14.

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(e) Parties shall indemnify and hold the other party, its subsidiaries and affiliates, their respective successors, assigns, representatives, employees and agents and the Customer, harmless from and against all liabilities, demands, claims, losses, costs, damages and expenses of any kind and nature (including personal injury, property damage, consequential and special damages, court costs, legal and other professional fees, and other costs associated with any indemnified party's administrative time, labor and materials) arising from or relating to the other Party's or any subcontractor's failure to comply with this Section 14.

#### 15. INSURANCE.

(a) Vendor shall maintain and carry: (i) property and general liability insurance, including public liability, property damage liability, product liability and contractual liability coverage; and (ii) workers' compensation and employers' liability insurance covering all employees engaged in the performance of this Order; in each case, in such amounts and with such limits (subject to Section 15(b)) and with such insurers that are acceptable to Buyer, acting reasonably.

(b) Unless otherwise expressly stated in this Order, Vendor's liability insurance policies shall have combined single limits of no less than five million U.S. dollars (U.S. \$5,000,000) per occurrence and in the aggregate; provided that such limits shall not limit Vendor's liability under this Order. Vendor's property insurance policies shall be written on a "replacement cost" basis, and Vendor's workers' compensation policies shall be in compliance with applicable statutory requirements and limits.

(c) Vendor shall furnish Buyer with certificates or other satisfactory proof of insurance confirming the foregoing insurance coverage within ten (10) days of Buyer's request. Any such certificate shall provide for terms and conditions satisfactory to Buyer whereby, among other things: (i) the interest of Buyer in such insurance coverage has been recognized, whether by way of designating Buyer as loss payee or otherwise as may be requested by Buyer from time to time; and (ii) Buyer shall receive not less than thirty (30) days prior written notice from the insurer before any termination or reduction in the amount or scope of coverage can occur, with Buyer having the right (at Vendor's expense), but not the obligation, to maintain such insurance coverage prior to the expiration of such notice. The receipt or review of such certificates or other proof of insurance coverage at any time by Buyer shall not relieve Vendor from its insurance obligations hereunder or reduce or modify such insurance obligations.

#### 16. TERMINATION UPON NOTICE.

(a) In addition to any other rights of Buyer to terminate this Order, Buyer may, in its sole discretion for any or no reason, upon thirty (30) days prior written notice to Vendor or, if applicable, such shorter period as may be required by the Customer, terminate this Order, in whole or in part at any time, and notwithstanding the existence of any excusable delay or other events or circumstances affecting Vendor. Buyer's notice to Vendor may be given by facsimile, e-mail or other form of electronic transmission, and shall state the extent and effective date of termination. Vendor may not terminate this Order for any reason, except as otherwise expressly provided in this Order.



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(b) Upon receipt of notice of termination from Buyer under Section 16(a), Vendor shall, as of the effective date of termination and to the extent directed by Buyer: (i) stop work under this Order and any other orders related to work terminated by such notice; (ii) protect all property in Vendor's possession or control in which Buyer has or may acquire an interest, including the Buyer's Property; and (iii) if this Order is terminated in full, cease to be bound to deliver and/or perform, and Buyer shall cease to be bound to receive delivery and/or performance of, any further Goods and/or Services (other than the minimum quantities specified in this Order, if any). Vendor shall promptly submit to Buyer any claims relating to such termination, and in any event within thirty (30) days (unless Buyer agrees otherwise) from the effective date of such termination. Vendor hereby grants Buyer the right to audit and inspect its books, records and other documents relating to any termination claims or any other claim under this Order.

(c) Subject to Section 16(d), if Buyer and Vendor cannot agree within a reasonable time upon the amount of fair compensation for Buyer's termination of this Order, Buyer shall, in addition to making payment of the price specified in this Order for the Goods and/or Services delivered or performed and accepted by Buyer prior to the effective date of termination, pay to Vendor the following amounts, without duplication: (i) the price specified in this Order for the Goods and/or Services manufactured or provided in accordance with the terms of this Order but not previously paid for; (ii) the actual costs of work-in-process and parts and raw materials inventory incurred by Vendor in performing its obligations under this Order, to the extent such costs are reasonable in amount and are properly allocated or apportioned under generally accepted accounting principles to the terminated portion of this Order; and (iii) any other costs or allowances that Buyer, in its sole discretion, may elect to recognize and pay. Buyer shall not be obligated to make any payment for: (x) the Goods and/or Services or work-in-process or parts or raw materials inventory that are manufactured, provided or procured by Vendor in amounts in excess of those authorized in any Order, that are damaged or destroyed or that are not merchantable or useable; (y) work-in-process or parts or raw materials inventory that can be returned to Vendor's suppliers or subcontractors for credit. Payments made in connection with a termination of this Order under Section 16(a) shall not exceed the aggregate price for the Goods and/or Services that would have been manufactured or provided by Vendor in the absence of termination. Except as provided in this Section 16(c), Buyer shall not be liable for and shall not be required to make payments to Vendor, directly or indirectly (whether on account of claims by Vendor's subcontractors or otherwise), for any losses arising from or attributable to failure to realize anticipated revenues, savings or profits, unabsorbed overheads, interest on claims, product development and engineering costs, capital costs, facilities and equipment rearrangement costs or rentals, unamortized depreciation costs or general and administrative burden charges, unless (and only to the extent that) any of the foregoing are otherwise expressly stated in this Order. Notwithstanding anything herein, nothing shall limit Vendor's remedy under law.

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(d) If a Blanket Purchase Order is terminated, in whole or in part, as set forth in Section 16(a), the liability of the Buyer to Vendor under Section 16 shall be limited solely to the difference between (i) the aggregate price that would have been paid by the Buyer for the Goods and Services actually delivered to Buyer under the Blanket Purchase Order if such reduced quantity had been known to Vendor at the time it accepted the Blanket Purchase Order, and (ii) the aggregate invoice price for Goods and Services actually delivered to the Buyer under the Blanket Purchase Order. Any pricing proposal delivered to the Buyer by Vendor prior to delivery of a Blanket Purchase Order shall be used to calculate the amount owed by Buyer to Vendor pursuant to this Section 16(d). To the extent any Release has been issued by Buyer to Vendor and such Goods or Services set forth in the Release have not been delivered to Buyer on or prior to termination in accordance with Section 16(a), any liability relating to such Release shall be determined as set forth in Section 16(c). For purposes of this Section 16(d), "actually delivered" shall mean any Goods or Services accepted by the Buyer as conforming Goods or Services pursuant to a Blanket Purchase Order or related Release on or prior to the date this Order is terminated, in whole or in part, pursuant to Section 16(a).

(e) Vendor may, with Buyer's prior written consent, retain or sell at an agreed price any of the Goods and/or Services or work in process, parts or raw materials inventory, the cost of which is allocated or apportioned to this Order under Section 16(c)(ii), and shall credit or pay the amounts so agreed or delivery of any Goods, work in process, parts or raw materials inventory not so retained or sold.

(f) Any termination under this Section 18 shall not affect the entitlement of Buyer with respect to the Buyer's Property, including pursuant to Section 11(b).

#### 17. TERMINATION UPON INSOLVENCY, BANKRUPTCY, ETC.

Either party may terminate this Order, without liability to the other party: (i) in the event of the insolvency, bankruptcy, reorganization, arrangement, receivership or liquidation by or against the other party; (ii) in the event that the other party makes an assignment for the benefit of its creditors, seeks protection from its creditors under applicable laws or ceases to carry on business in the ordinary course; or (iii) if a receiver is appointed in respect of the other party or all or part of its property (collectively, an "Insolvency Event"). In the event of such termination, the other party shall be liable for all costs, damages and expenses suffered by the party that terminates this Order. Any such termination shall not affect the entitlement of Buyer with respect to the Buyer's Property, including pursuant to Section 11(b).

#### 18. SERVICE AND REPLACEMENT PARTS.

(a) Lifetime Buy Rights. Vendor acknowledges its obligation to manufacture, supply and support the Goods and Services. If, however, Vendor seeks to discontinue the supply or support of any Goods and Services (a "Discontinued Product"), Vendor will give notice to Buyer no less than twelve (12) months in advance of the last date the Discontinued Product can be ordered. After receipt of notice of Discontinued Product, Buyer may, at its option: (i) place a one-time order, such order shall not be a blanket order, from Vendor such quantity of the Discontinued Product as Buyer deems necessary at a price no higher than the last price paid by Buyer to Vendor for the Goods; and (ii) manufacture the Discontinued Product under a royalty agreement with Vendor.

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(b) At Buyer's request and expense, Vendor shall make service literature and other materials available to support Buyer's service part or replacement part sales activities.

19. BUYER'S WEBSITE.

Unless otherwise provided herein, this Agreement may not be modified unless in writing and signed by an authorized representative of each party. Any express waiver or failure to exercise promptly any right under this Agreement will not create a continuing waiver or any expectation of non-enforcement.

20. SUBCONTRACTS. Vendor shall ensure that the terms of its contracts with its and subcontractors and suppliers provide Buyer and the Customer with all of the rights specified in this Order, including but not limited to those set forth in Section 3(a).

21. ASSIGNMENT.

Vendor shall not assign this Order hereunder or any interest herein, except that Vendor may, with Buyer's prior written consent, make an assignment of monies due or which may become due hereunder to a bank or other financing institution; provided that any such assignment by Vendor shall be subject to deduction, set-off, recoupment or any other lawful means of enforcing any present or future claims that Buyer may have against Vendor, and provided further that any such assignment shall not be made to more than a single assignee. Buyer shall have the right to assign this Order or its interest herein, without Vendor's consent, to any of its subsidiaries or affiliates or to any purchaser or successor to Buyer's business.

22. REMEDIES.

The remedies reserved in this Order shall be cumulative and not alternative, and may be exercised separately or together, in any order or combination, and are in addition to any other remedies provided for or allowed by law, at equity or otherwise.

23. WAIVER. Either party's failure to insist on the performance by the other party of any Term or failure to exercise any right or remedy reserved in this Order, or either party's waiver of any breach or default hereunder by the other party shall not, thereafter, waive any other terms, conditions, rights, remedies, breaches or defaults, whether of the same or a similar type or not.

24. MODIFICATIONS. No modification of this Order, including any waiver of or addition to any of the Terms, shall be binding upon either Party, unless made in writing and signed by the Parties' authorized representative(s).

25. SEVERABILITY. If any provision of this Order is invalid or unenforceable under any statute, regulation, ordinance, executive order or other rule of law, such provision shall be deemed reformed or deleted, as the case may be, but only to the extent necessary to comply with such statute, regulation, ordinance, order or rule, and the remaining provisions of this Order shall remain in full force and effect.

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26. NOTICES. Except as otherwise expressly stated in this Order, any notice given or other communication sent under this Order shall be in writing and shall be properly delivered to its addressee by hand, prepaid courier, registered or certified mail, e-mail or other form of electronic transmission (receipt confirmed) or facsimile (receipt confirmed) at the applicable address or facsimile number noted on the face of this Order. Any notice or communication given as provided herein shall be deemed to have been received at the time of its delivery if delivered by hand, on the business day following its dispatch if transmitted by courier, e-mail, other electronic transmission or facsimile, or on the third business day following its mailing if sent by registered or certified mail. Either party may notify the other party, in the manner provided for herein, of any change of applicable address or facsimile number for the purpose of giving notices or sending communications under this Order.

27. SURVIVAL. The obligations of Vendor to Buyer that are intended to survive termination of the Order shall survive any termination of this Order, including the obligations set forth in Section 18(a).

28. DEFAULT.

(a) If Vendor shall (i) materially breach any provision hereof, and such breach shall not be corrected within five (5) days after written notice from Buyer to Vendor (or, if such breach is not correctable within five (5) days, then immediately upon receipt of such notice in accordance with Section 26), (ii) become insolvent, enters voluntary or involuntary bankruptcy or receivership or in the event of default, sequestration or seizure of Vendor's operations under a mortgage, lien or privilege, then Buyer will have the right (without prejudice to any other rights or remedies it may have hereunder or by operation of law) to terminate all or a portion of the Order without any further liability to Vendor. A waiver of any one default hereunder shall not be considered a waiver to any subsequent default. Time is of the essence hereof, and Buyer's right to require strict performance by Vendor shall not be affected by any waiver, forbearance or course of dealing.

(b) If Buyer shall (i) fail to pay amounts due and owing under this Order following any applicable grace period, and such breach shall not be corrected within five (5) days after written notice from Vendor to Buyer, or (ii) become insolvent, enters voluntary or involuntary bankruptcy or receivership or in the event of default, sequestration or seizure of Buyer's operations under a mortgage, lien or privilege, then Vendor will have the right (without prejudice to any other rights or remedies it may have hereunder or by operation of law) to terminate all or a portion of the Order without any further liability to Buyer.

[\*\*\*] Represents information which has been redacted and filed separately with the Commission pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

29. INDEPENDENT CONTRACTOR. Vendor is an independent contractor with respect to performance of all work, materials and articles provided hereunder and neither Vendor nor anyone employed by Vendor shall be deemed for any purpose to be the employee, agent, servant or representative of Buyer for performance of any work or service hereunder. Buyer shall have no direction or control of Vendor or its employees, agents or subcontractors and reserves no right to direct or control Vendor, its employees, agents or subcontractors, Buyer being interested only in the results to be obtained. The articles, materials and work furnished, as applicable, hereunder shall meet the approval of Buyer and be subject to the general right of inspection provided herein for Buyer to secure the satisfactory completion thereof for such sole remedy shall be the Vendor's Warranty or other remedies provided herein.

30. APPLICABLE LAW AND VENUE. This Order shall be construed and enforced in accordance with and governed by the laws of the State of Mississippi (excluding conflicts of law rules) and the federal laws of the United States, as applicable. For greater certainty, the United Nations Convention on Contracts for the International Sale of Goods shall not apply to this Order.

31. DISPUTE RESOLUTION. In the event of a dispute under this Order, both Parties agree to negotiate in good faith for a period of thirty (30) days following delivery of a notice of dispute by one party to the other party. If the parties fail to reach an agreement within such thirty (30) day period of time, then either party may submit such dispute to binding arbitration to be governed by the Commercial Arbitration guidelines of the American Arbitration Association with all such arbitrations to take place in Tunica, Mississippi.

Flux Power, Inc.

GreenTech Automotive, Inc.

Signature: /s/ Chris Anthony

Signature: /s/ Illegible

Title: Chief Executive Officer

Title: EVP Finance

Date: 4/27/12

Date: 4/27/12

[\*\*\*] Represents information which has been redacted and filed separately with the Commission pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

## **EXHIBIT A**

### **Flux Power, Inc. Limited Warranty**

#### **Flux Power, Inc. Battery and Battery Management Systems Limited Parts and Labor Goods Warranty for GreenTech Automotive as referenced in the Agreement.**

##### **General Warranty**

Vendor provides to Buyer this limited warranty of the Battery Management System, related hardware and any portion of the battery excluding battery cells (“BMS”) for a period of [\*\*\*] years or [\*\*\*] miles, whichever comes first. The Vendor warrants that the BMS shall (i) conform to all drawings and specifications furnished by Vendor; (ii) comply with all applicable United States and European Union laws, regulations, rules, codes and standards, and use reasonable efforts within the next year to comply with Denmark laws, regulations, rules, codes and standards of the BMS; (iii) be free from any defects in design; (iv) be free from any defects in materials, service and workmanship; (v) be fit, sufficient and suitable for the particular purpose for which Vendor has designed; and (vi) be free of all liens, claims, charges and encumbrances whatsoever.

##### **Battery Cell Warranty**

Vendor provides to Buyer this limited, amortized over the life of the cell, warranty of Vendor’s battery cell (“Cell”) for a period of [\*\*\*] years or [\*\*\*] miles whichever comes first for [\*\*\*] of the price paid or replacement thereof for a Failed Cell (as defined below) if the failure occurs in the [\*\*\*]; [\*\*\*] of the price paid or replacement thereof for a Failed Cell if the failure occurs in the [\*\*\*] year; and [\*\*\*] of the price paid or replacement thereof for a Failed Cell if the failure occurs in the [\*\*\*] year. The decision whether a Failed Cell will result in a full (or partial) refund or a replacement shall be at the discretion of the Buyer where Vendor has the ability to over a replaceable Cell in like condition within a year of the Failed Cell. A “Failed Cell” shall mean at any time the Cell’s capacity, taken as a whole, is below [\*\*\*] percent of the stated capacity as specified in the cell specifications provided by the Vendor and is within the parameters covered under the Battery Cell Warranty and all limitations defined herein (the “Capacity”). The Vendor warrants that each Cell shall comply with all applicable United States and European Union laws, regulations, rules, codes and standards, and use reasonable efforts within the next year to comply with Denmark laws, regulations, rules, codes and standards of the Cell and its contents.

##### **Goods Warranty**

The BMS, Cell and all other portions of the battery herein after (“Goods”) and the General Warranty and the Cell Warranty (herein after “Goods Warranty”) period shall commence on the earlier of (i) the date the Goods were delivered by the Buyer to the end-user of the battery, or (ii) six months from Buyer’s receipt of the Goods.

[\*\*\*] Represents information which has been redacted and filed separately with the Commission pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

#### Goods Remedy

The Buyer, by itself or through a distributor, shall make an initial determination of whether a Good violates this warranty by using reasonably appropriate testing of the Goods. If a claim is received by Vendor that any of the Goods fail to meet the Good's Warranty, Vendor shall, upon notice thereof from Buyer, promptly review and respond to claim. If Vendor needs to perform additional analysis regarding the claim and needs the Goods to perform such analysis Vendor shall issue a return merchandise authorization ("RMA") number such that the Goods can be shipped back to Vendor, at Buyer's costs. Upon completing an analysis, which shall not exceed 30 thirty days, on the Goods relating to the claim Vendor shall issue an RMA analysis report which shall provide details regarding the results of the analysis and if the Goods are warrantied per the Goods Warranty. In the event Vendor agrees that the Goods are under warranty the RMA analysis report shall also identify the reimbursement method for the failed good selected by Buyer where Vendor has the ability to over a replaceable Cell in like condition within a year of the Failed Cell("Failed Good") which may include providing replacement Goods in the same or better condition as it relates to the life of a Good. Any payment and shipping costs or other reasonable and related costs, upon pre-approval by Vendor, made by Buyer for Failed Good shall be refunded by Vendor, except to the extent that Vendor promptly replaces or corrects the same at Vendor's expense. In the event Vendor fails to either replace or refund the amount paid in accordance with the Goods Warranty or respond to a claim within (30) thirty days from receipt of the Goods under an RMA, Vendor is deemed to agree to the Goods are covered by the Goods Warranty and Buyer may take a credit for such claim. If Vendor disputes a claim made by Buyer than such dispute shall be discussed between Vendor and Buyer and if unresolved shall than be raised to respective executive managements within each party for a discussion prior to taking further action.

Additionally, Vendor shall indemnify and hold Buyer, its subsidiaries and affiliates, their respective successors, assigns, representatives, employees and agents, the Customer and users of the Goods, harmless from and against all liabilities, demands, claims, losses, costs, damages and expenses of any nature or kind (including consequential and special damages, death, personal injury, property damage, lost profits and other economic losses, recall or other Customer field service action costs at rates mutually agreed upon in schedule, production interruption costs, inspection, handling and reworking charges, court costs, legal and other professional fees, and other costs associated with any indemnified party's administrative time, labor and materials) only as it relates to a Failed Good, court costs, legal and other professional fees, labor and materials arising from or relating to: (i) any breach of the Vendor's Warranties; (ii) any other acts, omissions or negligence of Vendor or of any of its subcontractors or suppliers in connection with Vendor's performance of its obligations under this Order.

Buyer shall indemnify and hold Vendor, its subsidiaries and affiliates, their respective successors, assigns, representatives, employees and agents, harmless from and against all liabilities, demands, claims, losses, costs, damages and expenses of any nature or kind (including consequential and special damages, death, personal injury, property damage, lost profits and other economic losses, recall or other Customer field service action costs, production interruption costs, inspection, handling and reworking charges, court costs, legal and other professional fees, and other costs associated with any indemnified party's administrative time, labor and materials) that are related to the failure of components of the Buyer's vehicles that are not the Goods.

[\*\*\*] Represents information which has been redacted and filed separately with the Commission pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

#### Conditions, Limitation and Exclusions

Buyer must use reasonable efforts to notify Vendor when made aware of a possible claim. Only Buyer and its authorized distributors may make a warranty claim on behalf of their Customers, channel partners and users of the Goods.

#### Warranty Limitations

This warranty is void if (i) the Goods' date code or serial number is intentionally defaced, missing or altered and there is no other means of determining ownership of the Goods; (ii) the Goods have been damaged by improper installation, loose connections, failure of another part in the vehicle system or the claim results from accident, misuse, improper charging, neglect, or improper service; (iii) the Goods have been tampered with, modified or used in a manner contrary to its intended purpose which significantly affects the Goods ability to perform in accordance with their stated purpose; and (iv) the Goods have been damaged as a result from abuse, accidents, fire (if such fire is not caused by the battery, BMS or Cells), flood, or other acts of God; and (v) except in the event of normal maintenance (including root cause analysis), a cell cannot be associated and identified with a specific BMS upon assembly with a BMS at the Buyer's facility and during the remainder of the cell life and such identification is at no fault of the BMS.

This Warranty does not cover damages that result from abuse, accidents, or fire, flood or other acts of God unless such accident or fire resulted from the battery, the BMS or a Cell. Removal, installation transportation, labor, damage to other components, personal damage or injury and/or any injury or liability to other persons or property are specifically included from this limited warranty.

Additional warranty limitations are product and use specific and will be further defined in the attachments hereto which may be updated and added to upon mutually agreement by the parties.

#### General Provisions

The Goods may be modified or improved over time in subsequent versions of the Goods. Vendor reserves the right to make changes to future versions of the Goods without assuming any obligation to make such changes on your Goods unless such change is a result of a series of product liability claims whether or not claims result in a product recall. Your Goods have been engineered and tested by Vendor. However, as Vendor gains additional field experience with the Goods, if Vendor determines that there is a systematic defect in the Goods, Vendor may initiate a voluntary Goods recall at Vendor's cost. Any replacement Good shall have a warranty period equal to the warranty period that would have been applicable to the original Good if it was not replaced. The remedies set forth in this paragraph are your sole and exclusive remedy in the event of a voluntary recall unless a warranty claim is made prior to delivery of the Goods pursuant to the voluntary recall. In the event you choose not to participate in a voluntary recall after three (3) months after delivery of such voluntary recall notice, to the extent permitted by law, the express warranties set forth herein shall be void.



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**THE DURATION OF ANY IMPLIED WARRANTY INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE SHALL BE LIMITED TO THE DURATION OF THE APPLICABLE EXPRESS WARRANTY SET FORTH ABOVE.**

[\*\*\*] Represents information which has been redacted and filed separately with the Commission pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

#### ATTACHEMENT A

Flux's Acceptable Limitations:

Warranty Limitations for the Buyer's Product (MyCar Model Number \_\_\_\_)

For a [\*\*\*]yr [\*\*\*]mile on Buyer's [\*\*\*] systems using Buyer's current [\*\*\*] drive system: The Cell Warranty is void if at no cause by the BMS: (a) any individual cell within a battery pack extends outside the voltage range of [\*\*\*] volts to [\*\*\*] volts, (f) the amount of discharge current exceeds [\*\*\*] amp peak for longer than [\*\*\*] seconds at any one time, (g) the maximum constant charge current exceeds [\*\*\*] amps at any one time and the maximum peak charge current exceeds [\*\*\*] amps at any one time, (h) the battery has exceeded the temperature range of a negative [\*\*\*] degrees Celsius to a positive [\*\*\*] degrees Celsius while in operation.

## Prototype Agreement

This prototype agreement and related Schedules (the "Agreement") is entered into effective as of February 6, 2012 ("Effective Date") by and between Flux Power, Inc. ("Flux"), with a principal place of business located at 2240 Auto Park Way Escondido, CA 92029, and NACCO Materials Handling Group, Inc. ("NMHG"), with a principal place of business located at 4000 N.E. Blue Lake Road Fairview OR 97024, hereinafter referred together as ("Parties").

### RECITALS

WHEREAS, Flux develops and supplies energy storage systems and products to the market;

WHEREAS, NMHG develops and supplies electric forklift trucks and similar applications to the marketplace;

WHEREAS, NMHG wishes to engage Flux to develop \*\*\* Flux's energy storage system that can \*\*\* to NMHG's electric forklift trucks;

WHEREAS, NMHG wishes to engage Flux to develop \*\*\* between NMHG's \*\*\*; and

WHEREAS, NMHG and Flux wish to memorialize a framework for the deliverables to be provided and negotiate an agreement to govern distinct components of their overall relationship.

NOW THEREFORE, for good and valuable consideration the sufficiency of which is hereby acknowledged, the parties agree to the following:

### ARTICLE 1.0 DEFINITIONS

- 1.1 "Background Technology" of a Party means all Intellectual Property that (a) is (i) owned or licensed by such Party and (ii) is in existence in electronic or written form on or prior to the effective date or (b) is developed, acquired, or licensed by such Party after the effective date and relates to the Business of NMHG or Flux ESS respectively.
- 1.2 The "Business of NMHG" shall mean the business of designing, engineering, manufacturing and selling materials handling equipment and components thereof, including but not limited to lift trucks, warehouse lift trucks, counterbalanced lift trucks and large capacity cargo and container handling lift trucks.
- 1.3 "NMHG Products" means the materials handling equipment and components thereof (including a battery charger, \*\*\* and not including Flux ESS or Flux's Background Technology), and further including but not limited to lift trucks, warehouse lift trucks, counterbalanced lift trucks and large capacity cargo and container handling lift trucks.

[\*\*\*] Represents information which has been redacted and filed separately with the Commission pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

- 1.4 “Battery Pack Design” means the specific external package design specified in the Deliverables for the use in NMHG Products or [\*\*\*] to the extent they are developed under this Agreement but does not include the Intellectual Property, technology or design of Flux’s ESS or Flux’s Background Technology.
- 1.5 “Deliverables” means any physical deliverables specifically purchased by NMHG in an applicable Schedule, Battery Pack Design and [\*\*\*] that Flux will deliver to NMHG during or at the completion of the performance of each Schedule. Deliverables shall be provided to NMHG in accordance with each Schedule and shall conform to the specifications set forth therein;
- 1.6 “Flux ESS” means Flux’s energy storage systems, technology, know-how and related Intellectual Property and solutions to power vehicles, prototypes, products and solutions including but not limited to lithium-ion battery cells, battery balancing boards, battery control module, battery interconnects, power distribution unit, DC/DC converter, software, firmware, enclosures and any additional products directly related to Flux’s Background Technology and specifically does not include NMHG’s Background Technology;
- 1.7 “Intellectual Property” means all algorithms, apparatus, circuit designs and assemblies, databases and data collections, designs, diagrams, documentation, drawings, flow charts, formulae, ideas and inventions (whether or not patentable or reduced to practice), know-how, materials, marketing and development plans, marks (including brand names, product names, logos, and slogans), methods, models, network configurations and architectures, procedures, processes, protocols, schematics, software code (in any form including source code and executable or object code), specifications, subroutines, techniques, tools, uniform resource identifiers, user interfaces, web sites, works of authorship, and other forms of technology and intellectual property.
- 1.8 “Intellectual Property Rights” means worldwide common law and statutory rights associated with (i) patents and patent applications; (ii) works of authorship, including mask work rights, copyrights, copyright applications, copyright registrations and "moral" rights; (iii) the protection of trade and industrial secrets and confidential information; (iv) other proprietary rights relating to intangible intellectual property (specifically including trademarks, trade names and service marks); (v) analogous rights to those set forth above; and (vi) divisions, continuations, renewals, reissues and extensions of the foregoing (as applicable) now existing or hereafter filed, issued or acquired.
- 1.9 “PCR” means a mutual written agreement by Parties’ management of a change of Deliverables using Flux’s project change request form.
- 1.10 “NMHG’s Control Unit” means any software, firmware or hardware that controls the operation of NMHG’s Products.
- 1.11 “Schedule” means the exhibits to this agreement that further define the Deliverables;
- 1.12 “[\*\*\*]” means the [\*\*\*] that specifically developed under this Agreement that provides a [\*\*\*].

[\*\*\*] Represents information which has been redacted and filed separately with the Commission pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

#### **ARTICLE 2.0 PERFORMANCE OF SERVICES**

- 2.1 Flux agrees to provide Deliverables for NMHG pursuant to the terms and conditions set forth in this Agreement and each fully executed Schedule that references this Agreement. At a minimum, Schedules shall include details of the Deliverables, estimated dates the Deliverables should be made available and estimated costs to NMHG of providing such Deliverables.
- 2.2 Flux agrees to use best efforts to provide the Deliverables associated in each Schedule. Unless agreed upon in a Schedule Flux shall not be penalized for late Deliverables. In the event Deliverables are not met or in the event Deliverables are late the Parties agree to negotiate a cure period in good faith.
- 2.3 When applicable NMHG shall use best efforts to assist Flux in providing Deliverables, which may include but is not limited to access to NMHG's facilities, personnel, and NMHG Products.
- 2.4 Parties agree that due to various reasons and often outside of the control of Parties the scope, types and schedule of the Deliverables may change. Changes requested by NMHG shall be made using PCR and are subject to additional fees and costs.

#### **ARTICLE 3.0 COSTS, INVOICING AND PAYMENTS**

- 3.1 Upon pre-approval, which shall not be unreasonably denied, NMHG agrees to reimburse Flux for any out-of-pocket expenses incurred in the event travel is required.
- 3.2 NMHG shall pay Flux the fees set forth in an applicable Schedule in accordance with the Schedule's payment terms therein. In the case of fees due not specifically identified in an applicable Schedule (i.e. travel expenses) Flux shall provide a true and correct invoice to NMHG and NMHG agrees that all fees shall be paid within thirty (30) days from the date of such invoice.

#### **ARTICLE 4.0 CONFIDENTIALITY & INTELLECTUAL PROPERTY**

- 4.1 Each Party shall have and retain exclusive ownership of its Background Technology, including any Intellectual Property Rights therein. All Intellectual Property discovered, created or developed under, or in connection with, this Agreement that directly relates to Flux's ESS and Flux's Background Technology shall be and remain the sole property of Flux and its assigns. All Intellectual Property discovered, created or developed under, or in connection with, this Agreement that directly relates to NMHG Background Technology or the NMHG Products shall be and remain the sole property of NMHG and its assigns. To the extent that the Deliverables include a [\*\*\*] and a Battery Pack Design, Flux hereby grants to NMHG the irrevocable, perpetual, fully paid, non-exclusive, worldwide, right and license to use, execute, sell, reproduce, display, perform, distribute copies of, and prepare derivative works of the [\*\*\*] and Battery Pack Design.

This Agreement shall in no way limit Flux's right to market, sell and obtain Intellectual Property protection for Flux's ESS or the Flux Background Technology and Flux reserves the right to assert any claims based upon any resulting legal protection of such Intellectual Property Rights. Nothing in this Agreement or any Schedule shall be deemed to be a transfer or license by NMHG to Flux of any NMHG Background Technology.

[\*\*\*] Represents information which has been redacted and filed separately with the Commission pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

- 4.2 Except as provided in this Agreement, neither party may use, reproduce, distribute or disclose Confidential Information it receives from the other party under this Agreement, without the prior written authorization of the disclosing party. Each party must hold in confidence Confidential Information received from the other party and must protect the confidentiality thereof with the same degree of care that it exercises with respect to its own information of like importance, but in no event less than reasonable care, for a period of (2) years from the date of receipt of the Confidential Information). "Confidential Information" shall mean information which if disclosed (i) in tangible form, is clearly marked as "confidential" or "proprietary" at the time of disclosure, or (ii) in intangible form (such as orally or visually), the disclosing party identifies as "confidential" or "proprietary" at the time of disclosure to the receiving party within thirty (30) days of disclosure. Notwithstanding the foregoing marking requirements, the parties agree that technical information regarding prototypes, Flux's ESS and either party's Background Technology shall always be deemed and considered Confidential Information.
- 4.3 During the term of this Agreement and for a period of two (2) years thereafter, neither party shall without the prior written consent of the other party, directly solicit any of the other party's employees for employment; provided, however, that the foregoing restriction shall not apply to a general solicitation for application for employment made through advertising, web sites or other mediums not involving the direct targeted solicitation of a specific person.

#### **ARTICLE 5.0 General**

- 5.1 Either party may terminate this Agreement and/or related Schedule for convenience with a sixty (60) day written notice. In the event of termination Flux shall use reasonable efforts to scale down any work on this Agreement or related Schedule and provide an itemized invoice of all work performed and expenses incurred up to the date of termination and NMHG agrees to pay said invoice within thirty (30) days.
- 5.2 With respect to disputes, the parties agree that in the event of any dispute or difference arising out of or relating to this Agreement, except for breach in NMHG's lack of payment, the parties hereto shall use their best endeavors to settle such disputes or differences. To this effect, they shall consult and negotiate with each other, in good faith and understanding of their mutual interest, to reach a just and equitable solution within a period of thirty (30) days, and then the disputes or differences shall be finally settled by arbitration administered by the American Arbitration Association. This Agreement and all matters arising thereunder shall be governed by the laws of the state of California applicable therein without giving effect to the rules respecting conflict of law.
- 5.3 A party is not liable under this Agreement for non-performance caused by events or conditions beyond that party's control, if the party makes reasonable efforts to perform.
- 5.4 **LIMITATION OF LIABILITY**

**EXCEPT AS EXPRESSLY SET FORTH ABOVE, NO OTHER WARRANTIES ARE EXPRESSED OR IMPLIED, INCLUDING BUT NOT LIMITED TO, ANY IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, AND FLUX EXPRESSLY DISCLAIMS ALL WARRANTIES NOT EXPRESSLY STATED HEREIN. THE WORK PERFORMED UNDER THIS AGREEMENT IS FOR THE PRODUCTION OF PROTOTYPE UNITS**

[\*\*\*] Represents information which has been redacted and filed separately with the Commission pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

**IN NO EVENT SHALL FLUX BE LIABLE FOR ANY SPECIAL, INCIDENTAL, INDIRECT OR CONSEQUENTIAL DAMAGES (INCLUDING, WITHOUT LIMITATION, LOSS OF BUSINESS, REVENUE, PROFITS, GOODWILL, USE, DATA OR OTHER ECONOMIC ADVANTAGE) ARISING OUT OF OR RELATED TO THIS AGREEMENT, WHETHER IN BREACH OF CONTRACT, BREACH OF WARRANTY OR IN TORT, INCLUDING NEGLIGENCE, AND EVEN IF THAT PARTY HAS BEEN ADVISED IN ADVANCE OF THE POSSIBILITY OF SUCH DAMAGES.**

- 5.5 Flux may assign or delegate portions or the entirety of the Deliverables to 3<sup>d</sup> parties, subcontractors, contract manufacturers and consultants.
- 5.6 Except for agreements relating to confidentiality, this Agreement constitutes the entire agreement between NMGH and Flux with respect to the subject matter hereof and shall bind Parties and their perspective parents, subsidiaries and affiliates. Furthermore this Agreement supersedes all prior agreements, understandings and proposals, whether written or oral. This Agreement may not be amended or modified except by a writing signed by both parties. No oral statement of any person will, in any manner or degree, modify or otherwise effect the terms and provisions of this Agreement. Except for terms relating to Intellectual Property Rights, the terms and conditions of a related Schedule shall control if and when there is a conflict with any of the terms or conditions of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed by their duly authorized representatives and have made effective as of the Effective Date.

**Flux Power, Inc.**

By: /s/ Craig Miller  
Name: Craig Miller  
Title: VP, Director of Legal Affairs  
Date: 2-20-12

**NACCO Materials Handling Group, Inc.**

By: /s/ Rajiv K. Prasad  
Name: Rajiv K. Prasad  
Title: VP Global Product Dev.  
Date: April 30, 2012

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\*\*\*] Represents information which has been redacted and filed separately with the Commission pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

*Exhibit A*

**Schedule No. 1  
To  
Prototype Agreement**

This Schedule No. 1 ("Schedule") to the Prototype Agreement (the "Agreement") entered into effective as of February 6, 2012 by and between Flux Power, Inc. ("Flux"), and NACCO Materials Handling Group, Inc. is entered into and effective by the parties hereto as of \_\_\_\_\_ ("Schedule 1 Effective Date"). This Schedule is subject to the terms and conditions of the Agreement.

*(Remainder of page intentionally left blank)*



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## *LiFePO4 Energy Storage System*

Prepared For NACCO Materials Handling Group

**CONFIDENTIAL**

|              |           |
|--------------|-----------|
| Version      | 1.00      |
| Version Date | 7/24/2012 |

\*\*\* Represents information which has been redacted and filed separately with the Commission pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

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**Flux Power, Inc.**

Financial Statements

For the year ended June 30, 2011 and the eight  
month period ended June 30, 2010

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|--|----------|
| <b>Report of Independent Registered Public Accounting Firm</b> | <b>3</b> |
| <b>Financial Statements</b>                                    |          |
| Balance Sheets   | 4        |
| Statements of Operations                                       | 5        |
| Statements of Stockholders' (Deficit) Equity                   | 6        |
| Statements of Cash Flows                                       | 7        |
| Notes to Financial Statements                                  | 8-21     |

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of  
**Flux Power, Inc.**  
San Diego, California

We have audited the accompanying balance sheets of **Flux Power, Inc.** (the "Company") as of June 30, 2011 and 2010, and the related statements of operations, stockholders' deficit, and cash flows for the year ended June 30, 2011, and for the eight month period ended June 30, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Flux Power, Inc.** as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the year ended June 30, 2011, and for the eight month period ended June 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

/s/ **Mayer Hoffman McCann P.C.**  
San Diego, CA  
April 23, 2012

## Balance Sheet

| <i>As of June 30,</i>   | <u>2011</u>         | <u>2010</u>         |
|---|---------------------|---------------------|
| <b>Assets</b>   |                     |                     |
| <b>Current Assets</b>   |                     |                     |
| Cash  | \$ 239,579          | \$ 67,096           |
| Accounts receivable   | 40,863              | -                   |
| Stockholder note receivable   | -                   | 400                 |
| Inventories   | 1,973,575           | 276,315             |
| Prepaid inventory   | 56,620              | 606,625             |
| Other current assets  | 53,576              | 42,880              |
| <b>Total current assets</b>   | <b>2,364,213</b>    | <b>993,316</b>      |
| Fixed assets - net  | 104,958             | 112,818             |
| <b>Total Assets</b>   | <b>\$ 2,469,171</b> | <b>\$ 1,106,134</b> |
| <b>Liabilities and Stockholders' (Deficit) Equity</b>   |                     |                     |
| <b>Current Liabilities</b>  |                     |                     |
| Accounts payable  | \$ 8,744            | \$ 14,540           |
| Accrued expenses  | 86,847              | 56,359              |
| Customer deposits   | 209,368             | 556,416             |
| Customer deposits from related party  | 367,071             | 158,755             |
| Deferred revenue  | 1,801,800           | -                   |
| Stockholder notes payable   | 1,030,000           | -                   |
| <b>Total current liabilities</b>  | <b>3,503,830</b>    | <b>786,070</b>      |
| Stockholder notes payable   | -                   | 100,000             |
| <b>Total Liabilities</b>  | <b>3,503,830</b>    | <b>886,070</b>      |
| <b>Stockholders' (Deficit) Equity</b>   |                     |                     |
| Common stock; no par value; 100,000,000 shares authorized; 11,500,000 shares issued and outstanding | 850,400             | 850,400             |
| Additional paid-in capital  | 58,156              | -                   |
| Accumulated deficit   | (1,943,215)         | (630,336)           |
| <b>Total Stockholders' (Deficit) Equity</b>   | <b>(1,034,659)</b>  | <b>220,064</b>      |
| <b>Total Liabilities &amp; Stockholders' (Deficit) Equity</b>                                       | <b>\$ 2,469,171</b> | <b>\$ 1,106,134</b> |

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

## Statement of Operations

|                                      | For the year<br>ended June<br>30, 2011 | For the eight<br>months ended<br>June 30, 2010 |
|--------------------------------------|--|--|
| <b>Revenues</b>                      | <b>\$ 984,266</b>                      | <b>\$ 207,162</b>                              |
| Cost of sales                        | <u>845,514</u>                         | <u>228,183</u>                                 |
| <b>Gross Profit</b>                  | <b>138,752</b>                         | <b>(21,021)</b>                                |
| Selling, general, and administrative | <b>1,027,272</b>                       | <b>411,837</b>                                 |
| Research and development             | <u>382,064</u>                         | <u>197,478</u>                                 |
| <b>Total Operating Expenses</b>      | <b>1,409,336</b>                       | <b>609,315</b>                                 |
| Interest expense                     | <u>42,295</u>                          | <u>-</u>                                       |
| <b>Net Loss</b>                      | <b>\$ (1,312,879)</b>                  | <b>\$ (630,336)</b>                            |

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

## Statements of Stockholders' (Deficit) Equity

|  | Common Stock |            | Additional         | Accumulated    | Total          |
|--|--------------|------------|--------------------|----------------|----------------|
|  | Shares       | Amount     | Paid-in<br>Capital | Deficit        |                |
| <b>Balance at inception</b>                              | -            | \$ -       | \$ -               | \$ -           | \$ -           |
| Issuance of common stock for cash                        | 3,999,998    | 460,000    | -                  | -              | 460,000        |
| Issuance of common stock for stockholder note receivable | 4,000,000    | 400        | -                  | -              | 400            |
| Issuance of common stock for services                    | 658,329      | 67,788     | -                  | -              | 67,788         |
| Issuance of common stock for net assets                  | 2,841,673    | 322,212    | -                  | -              | 322,212        |
| Net loss   | -            | -          | -                  | (630,336)      | (630,336)      |
| <b>Balance at June 30, 2010</b>                          | 11,500,000   | 850,400    | -                  | (630,336)      | 220,064        |
| Stock-based compensation                                 | -            | -          | 58,156             | -              | 58,156         |
| Net loss   | -            | -          | -                  | (1,312,879)    | (1,312,879)    |
| <b>Balance at June 30, 2011</b>                          | 11,500,000   | \$ 850,400 | \$ 58,156          | \$ (1,943,215) | \$ (1,034,659) |

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



## Statements of Cash Flows

|   | For the year ended<br>June 30, 2011 | For the eight months<br>ended June 30, 2010 |
|---|-------------------------------------|---|
| <b>Cash Flows From Operating Activities:</b>                                  |                                     |   |
| Net loss  | \$ (1,312,879)                      | \$ (630,336)                                |
| Adjustments to reconcile net loss to net cash used in operating activities:   |                                     |   |
| Loss on disposal of leasehold improvements                                    | -                                   | 19,468                                      |
| Depreciation and amortization   | 22,771                              | 13,715                                      |
| Stock-based compensation  | 58,156                              | 67,788                                      |
| Increase (decrease) in cash resulting from changes in:                        |                                     |   |
| Accounts receivable   | (40,863)                            | -   |
| Inventories   | (1,697,260)                         | (116,828)                                   |
| Prepaid inventory   | 550,005                             | (484,012)                                   |
| Other current assets  | (10,696)                            | (38,867)                                    |
| Accounts payable  | (5,796)                             | 14,540                                      |
| Accrued expenses  | 30,488                              | 6,359                                       |
| Deferred revenue  | 1,801,800                           | -   |
| Customer deposits   | (347,048)                           | 556,416                                     |
| Customer deposits from related party  | 208,316                             | 158,755                                     |
| Net cash used in operating activities   | (743,006)                           | (433,002)                                   |
| <b>Cash Flows From Investing Activities:</b>                                  |                                     |   |
| Purchases of equipment  | (17,186)                            | (59,902)                                    |
| Proceeds from sale of equipment   | 2,275                               | -   |
| Net cash used in investing activities   | (14,911)                            | (59,902)                                    |
| <b>Cash Flows From Financing Activities:</b>                                  |                                     |   |
| Stockholder note receivable   | 400                                 | -   |
| Proceeds from issuance of common stock  | -                                   | 460,000                                     |
| Proceeds from issuance of stockholder notes payable                           | 930,000                             | 100,000                                     |
| Net cash provided by financing activities                                     | 930,400                             | 560,000                                     |
| Net increase in cash  | 172,483                             | 67,096                                      |
| Cash — Beginning of year  | 67,096                              | -   |
| Cash — End of year  | \$ 239,579                          | \$ 67,096                                   |
| <b>Supplemental Disclosures of Cash Flow Information:</b>                     |                                     |   |
| Cash paid during the year for:  |                                     |   |
| Interest  | \$ -                                | \$ -  |
| Income taxes  | \$ -                                | \$ -  |
| <b>Supplemental Disclosure of Noncash Investing and Financing Activities:</b> |                                     |   |
| Issuance of common stock for stockholder note receivable                      | \$ -                                | \$ 400                                      |
| Issuance of common stock for net assets                                       | \$ -                                | \$ 322,212                                  |

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

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- 1. Nature of Operations**
- Flux Power, Inc. (“the Company” or “Flux”) was founded in 2009 in the State of California to design, develop and sell rechargeable advanced energy storage systems. The Company has structured its business around its core technology, “The Battery Management System” (“BMS”). The Company’s BMS provides three critical functions to their battery systems: cell balancing, monitoring and error reporting. Using its proprietary management technology, the Company is able to offer complete integrated energy storage solutions or custom modular standalone systems to their clients. The Company also developed a suite of complementary technologies and products that accompany their core products. The Company began operations in November 2009, therefore fiscal year ended June 30, 2010 represents an eight month period. Sales during 2011 and 2010, were primarily to customers located throughout the United States.
- 2. Liquidity**
- As of June 30, 2011, the Company had an accumulated deficit of approximately \$1,943,000. The Company also had negative cash flows from operations of approximately \$743,000 for the year ended June 30, 2011. The Company has evaluated the expected cash requirements over the next twelve months, which includes, but is not limited to, investments in additional sales and marketing and product development resources, capital expenditures, and working capital requirements. The Company believes it has sufficient funds for the next twelve months from the balance sheet date, as it expects to cover its anticipated operating expenses through cash on hand, additional customer billings, and borrowings under its stockholder notes payable.
- The Company expects to require additional financing in the future. The timing of the Company’s need for additional capital will depend in part on its future operating performance in terms of revenue growth and the level of operating expenses maintained.
- A majority shareholder has agreed to support the Company through loan agreements. During October 2011, the Company entered into a new note payable with this majority shareholder for up to \$1,000,000, maturing in September 2013. In addition, the Company’s existing debt balances were converted to equity during December 2011. See Note 10. However, there is no guarantee the Company will be able to obtain additional funds in the future or that funds will be available on terms acceptable to the Company. If such funds are not available, management will be required to curtail its investments in additional sales and marketing and product development resources, and capital expenditures, which may have an adverse effect on the Company’s future cash flows and results of operations, and its ability to fund operations.
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| <b>3. Summary of Significant Accounting Policies</b> | A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.   |
| <i>Fair value of financial instruments</i>           | The carrying values of accounts receivable, accounts payable, notes payable and accrued liabilities approximate fair value due to the short maturity of these instruments.   |
| <i>Use of estimates</i>                              | The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. The Company has used significant estimates in its determination of the reserve for inventory, sales returns, and warranty claims. Accordingly, actual results could differ from those estimates.  |
| <i>Accounts receivable and customer deposits</i>     | Accounts receivable are carried at their estimated collectible amounts. The Company generally requires advance deposits from its customers prior to shipment of the ordered products.<br><br>The Company has not experienced collection issues related to its accounts receivable, and has not recorded an allowance for doubtful accounts at June 30, 2011 and 2010.  |
| <i>Inventories and prepaid inventory</i>             | Inventories consist primarily of battery management systems and the related subcomponents, and are stated at the lower of cost (first-in, first-out) or market. Prepaid inventory represents deposits made by the Company for inventory purchases. The Company evaluates inventories to determine if write-downs are necessary due to obsolescence or if the inventory levels are in excess of anticipated demand at market value based on consideration of historical sales and product development plans. There were no write-downs of inventory determined necessary during the periods ended June 30, 2011 and 2010. |
| <i>Fixed assets</i>                                  | Fixed assets are stated at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives, ranging from three to ten years, of the related assets or, in the case of leasehold improvements, over the lesser of the useful life of the related asset or the lease term.   |

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|                             |   |
|-----------------------------|---|
| Stock-based compensation    | The Company accounts for stock-based compensation in accordance with the authoritative guidance for share-based payments and for equity instruments issued to employees and non-employees, as applicable. The fair market value of stock options is estimated using the Black-Scholes option pricing model. The fair value of the stock options granted is recognized as expense over the requisite service period, using the straight-line method.   |
| <i>Income taxes</i>         | Deferred income taxes are recognized for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the combination of the tax payable for the year and the change during the year in deferred tax assets and liabilities. The Company adopted the guidance related to uncertain tax positions during the period ended June 30, 2010. The adoption of this guidance did not result in an adjustment to the financial statements.   |
| Revenue recognition         | <p>The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, price is fixed or determinable and collectability of the selling price is reasonably assured. Delivery occurs when risk of loss is passed to the customer, as specified by the terms of the applicable customer agreements. Generally, this occurs when the product is delivered to the customer.</p> <p>The Company's standard business practice regarding sales returns as reflected in its standard terms and conditions are that all sales are final and the Company does not accept any returns except for warranty claims. The Company presently does not have any agreements with any customer that allows for returns under any other circumstances. However, during the period the Company repurchased on several occasions product from one customer in order to fulfill sales to a second customer. While the Company has no obligation or plans to do so in the future, the Company concluded that these repurchases constitute an implied right of return with this customer. When an implied right of return exists, the Company recognizes revenue on the sell through-method. Under this method, revenue is not recognized upon delivery of the inventory components. Instead, the Company records deferred revenue upon delivery and recognizes revenue when the inventory components are sold through to the end user.</p> <p>Deferred revenue at June 30, 2011 and 2010, were \$1,802,000 and \$0, respectively and represents amounts not yet sold through by our customer. The related product cost of \$1,672,000 and \$0 at June 30, 2011 and 2010, respectively, is included in inventory.</p> <p>The Company evaluates its exposure to sales returns and warranty issues based on historical information. The Company did not record an allowance for sales returns or warranty issues during 2011 and 2010.</p> |
| Shipping and handling costs | The Company records shipping and handling costs charged to customers as revenue and shipping and handling costs to cost of sales as incurred.   |

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|                                 |  |
|---------------------------------|--|
| Impairment of long-lived assets | <p>In accordance with authoritative guidance for the impairment or disposal of long-lived assets, if indicators of impairment exist, the Company assesses the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through the undiscounted future operating cash flows.</p> <p>If impairment is indicated, the Company measures the amount of such impairment by comparing the carrying value of the asset to the present value of the expected future cash flows associated with the use of the asset. The Company believes the future cash flows to be received from the long-lived assets in use will exceed the assets' carrying value, and accordingly the Company has not recognized any impairment losses during the periods ended June 30, 2011 and 2010.</p> |
| <i>Research and development</i> | <p>The Company is actively engaged in new product development efforts. Research and development costs relating to possible future products are expensed as incurred.</p>   |
| Reclassifications               | <p>Certain previously reported amounts have been reclassified to conform to the current year's presentation. The reclassifications had no effect on previously reported net losses.</p>  |
| New accounting standards        | <p>In May 2011, the FASB amended its authoritative guidance related to fair value measurements to provide a consistent definition and measurement of fair value, as well as similar disclosure requirements between accounting principles generally accepted in the United States of America and International Financial Reporting Standards. This guidance clarifies the application of existing fair value measurement and expands the existing disclosure requirements. This guidance becomes effective for annual periods beginning after December 15, 2011. This guidance is not expected to have a material impact on the Company's results of operations, financial position or cash flows.</p>   |

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*New accounting standards,  
cont'd*

In April 2010, the FASB issued an accounting standards update to ASC Topic No. 718, *Compensation – Stock Compensation*. ASC No. 718 stipulates that a share-based payment award that contains a condition that is not a market, performance, or a service condition is required to be classified as a liability. This update clarifies that when an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's securities trades differs from the functional currency of the employer entity or payroll currency of the employee, such award should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this update will be effective for fiscal years beginning on or after December 15, 2010, which will be the Company's 2012 fiscal year. The amendments in this update should be applied by recording a cumulative-effect adjustment to the opening balance of retained earnings. The cumulative-effect adjustment should be calculated for all awards outstanding as of the beginning of the fiscal year in which the amendments are initially applied and should be presented separately. Early adoption is permitted; however, the Company did not adopt the amendments early. The Company does not anticipate that the adoption of this amendment will have a material impact on its financial statements.

In January 2010, the FASB issued Accounting Standards Update 2010-06, Fair Value Measurements and Disclosures (Topic 820), or ASU 2010-06, which provides amendments to Subtopic 820-10 that require new disclosures and that clarify existing disclosures in order to increase transparency in financial reporting with regard to recurring and nonrecurring fair value measurements. ASU 2010-06 requires new disclosures with respect to the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and the reasons for those transfers, as well as separate presentation about purchases, sales, issuances, and settlements in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). In addition, ASU 2010-06 provides amendments that clarify existing disclosures, requiring a reporting entity to provide fair value measurement disclosures for each class of assets and liabilities as well as disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. Finally, ASU 2010-06 amends guidance on employers' disclosures about postretirement benefit plan assets under ASC 715 to require that disclosures be provided by classes of assets instead of by major categories of assets. ASU 2010-06 is effective for the interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010. Accordingly, ASU 2010-06 became effective for the Company on January 3, 2010 (except for the Level 3 activity disclosures, which became effective for the Company on January 2, 2011). The adoption of ASU 2010-06 did not have a material impact on the Company's financial statements.

4. **Fixed Assets** Fixed assets consisted of the following at June 30, 2011 and 2010:

|  | <u>2011</u>       | <u>2010</u>       |
|--|-------------------|-------------------|
| Equipment                                      | \$ 56,547         | \$ 45,526         |
| Vehicles                                       | 46,516            | 46,516            |
| Molds  | 14,999            | 14,999            |
| Furniture and fixtures                         | 17,663            | 15,598            |
| Leasehold improvements                         | <u>1,184</u>      | <u>-</u>          |
|  | 136,909           | 122,639           |
| Less accumulated depreciation and amortization | <u>(31,951)</u>   | <u>(9,821)</u>    |
| Total fixed assets - net                       | <u>\$ 104,958</u> | <u>\$ 112,818</u> |

Depreciation and amortization expense was approximately \$23,000 and \$14,000 during the periods ended June 30, 2011 and 2010, respectively.

5. **Commitments and Contingencies**

On July 1, 2010, the Company entered into a cancelable lease for its office space. The lease provides for monthly payments of approximately \$13,000, expires on June 30, 2011, and contains a one-year renewal option, which the Company exercised as of July 1, 2011. In July of 2010 the Company entered into a sublease with a related party for approximately \$6,600 per month for a portion of this space. The sublease was terminated on January 1, 2012. The Company recorded rent expense, net of sublease income, of approximately \$133,000 and \$15,000 during the periods ended June 30, 2011 and 2010, respectively.

In March 2011, the Company entered into a brokerage agreement with a management consulting firm to provide investors to the Company. The term of the agreement is for a period of one year. The compensation to the consulting firm includes a monthly fee with additional compensation based on a percentage of the amount raised, and includes an equity component in the form of warrant coverage. The Company recorded expense of approximately \$16,000 related to the brokerage agreement during the year ended June 30, 2011.

6. **Stockholders' Equity**

At June 30, 2011, the Company had 100,000,000 shares of common stock authorized for issuance.

6. **Stockholders' Equity,**  
Cont'd

Holders of common stock are entitled to receive dividends, when, as, and if declared by the Board of Directors, out of any assets legally available to the Company. Dividends are declared and paid in an equal per-share amount on the outstanding shares of each series of common stock. During the periods ended June 30, 2011 and 2010, the Board of Directors neither declared nor paid common stock dividends to shareholders.

During the period ended June 30, 2010, the Company issued 11,500,000 shares of common stock in exchange for approximately \$460,000 in cash, \$322,000 in net assets (approximately \$236,000 of inventory and prepaid inventory, and approximately \$86,000 of fixed assets), \$68,000 in services, and \$400 in a note receivable. The note was subsequently collected in 2011.

*Stock-based compensation*

The Company is authorized to issue 2,000,000 shares of Common Stock under the Company's 2010 Stock Option Plan (the "Plan"). The Plan authorizes the granting of stock options to employees, directors and consultants at exercise prices determined by the Board of Directors.

The Company uses the Black-Scholes valuation model to calculate the fair value of stock options. The fair value of stock options was measured at the grant date using the assumptions in the table below:

|                         | <u>Employee</u> | <u>Non-Employee</u> |
|-------------------------|-----------------|---------------------|
| Expected volatility     | 100%            | 100%                |
| Risk-free interest rate | 1.40% to 2.14%  | 3.03%               |
| Forfeiture rate         | 5%              | 5%                  |
| Dividend yield          | 0%              | 0%                  |
| Expected term (yrs)     | 5               | 10                  |



Stock-based compensation,  
cont'd

*Expected Volatility* – The result obtained by the expected volatility used is not expected to be materially different than what would be obtained if it were based on a peer group in the industry in which the Company does business.

*Risk-free Interest Rate* – The Company applies the risk-free interest rate based on the U.S. Treasury yield in effect at the time of the grant.

*Forfeitures* – Stock-based compensation expense recognized in the statement of operations is based on awards ultimately expected to vest, reduced for estimated forfeitures. The authoritative guidance related to the accounting for stock options requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on Management's expectation of projected forfeitures.

*Dividend Yield* – The Company has not, and does not, intend to pay dividends.

*Expected Term in Years* – The expected term is based upon the Company's consideration of the historical life of options, the vesting period of the option granted and the contractual period of the option granted. The Company calculated the expected term for employee options as the average of the contractual term of the option and the vesting period, consistent with the authoritative guidance. The Company calculated the expected term for non-employee options as the contractual term of the option.

*Weighted Average Fair Value of Options Granted* – Using the weighted average assumptions described above, the weighted average fair value of options granted to employees and non-employees during 2011 was \$0.10 and \$0.12, respectively.

Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the Company under the authoritative guidance.

A summary of the Company's stock option activity is as follows:

|                                      | Number of shares | Weighted average exercise price |
|--------------------------------------|------------------|---------------------------------|
| Options outstanding at June 30, 2010 | -                | \$ -                            |
| Granted                              | 710,000          | 0.13                            |
| Exercised                            | -                | -                               |
| Forfeited                            | -                | -                               |
| Options outstanding at June 30, 2011 | 710,000          | \$ 0.13                         |

Additional information regarding options outstanding as of June 30, 2011 is as follows:

|    | Exercise Price | Number Outstanding | Weighted Average |                  | Number Exercisable | Weighted Average |                  |
|----|----------------|--------------------|------------------|------------------|--------------------|------------------|------------------|
|    |                |                    | Remaining        | Contractual Life |                    | Remaining        | Contractual Life |
|    |                |                    | in Years         | in Years         |                    | in Years         | in Years         |
| \$ | 0.13           | 710,000            | 4.99             | 4.99             | 633,698            | 4.40             | 4.40             |

*Stock-based compensation,  
cont'd*

The aggregate intrinsic value of options outstanding and exercisable at June 30, 2011 was \$0, based on the difference between the exercise price and the value of the Company's common stock of \$0.13 at June 30, 2011.

During 2011 total stock-based compensation expense included in the statement of operations for employee option grants and non-employee option grants was approximately \$47,000 and \$11,000, respectively, charged as follows:

|   |                  |
|---|------------------|
| Selling, general and administrative           | \$ 22,000        |
| Research and development                      | 36,000           |
| <b>Total stock-based compensation expense</b> | <b>\$ 58,000</b> |

The Company has a 100% valuation allowance recorded against its deferred tax assets; therefore, the stock-based compensation has no tax effect on the statement of operations.

As of June 30, 2011, there was \$9,000 of total unrecognized compensation expense related to unvested share-based compensation arrangements granted under the Plan to employees. The cost is expected to be recognized over a weighted-average period of 2.92 years.

During the period ended June 30, 2010, the Company issued 658,329 shares of common stock in exchange for services and recorded approximately \$68,000 in related expense.

**7. Income Taxes**

As of June 30, 2011 and 2010, a non-current deferred tax asset of approximately \$774,000 and \$250,000, respectively, had been recognized primarily for the temporary differences related to federal and state net operating loss carry forwards.

There was a fully offsetting valuation allowance against the deferred tax assets recorded as of June 30, 2011 and 2010. The valuation allowance may be reduced at such time as management is able to determine that it is more likely than not that this deferred tax asset will be utilized. The valuation allowance was approximately \$774,000 and \$250,000 at June 30, 2011 and 2010, respectively.

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7. **Income Taxes,**  
Cont'd

At June 30, 2011, the Company had federal net operating loss carryforwards of approximately \$1,645,000 and state tax net operating loss carryforwards of approximately \$1,608,000. The federal and state tax loss carryforwards will begin to expire in 2029.

Utilization of the net operating loss ("NOL") carryforwards may be subject to a substantial annual limitation due to ownership change limitations that may have occurred or that could occur in the future, as required by Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). These ownership changes may limit the amount of NOL carryforwards that can be utilized annually to offset future taxable income. In general, an ownership change as defined by Section 382 of the Code results from a transaction or series of transactions over a three-year period resulting in an ownership change of more than 50 percentage points of the outstanding stock of a company by certain stockholders.

The Company has not completed a study to assess whether an ownership change has occurred or whether there have been multiple ownership changes since the Company's formation due to the complexity and cost associated with such a study, and the fact that there may be additional such ownership changes in the future. If the Company has experienced an ownership change at any time since its formation, utilization of the NOL carryforwards would be subject to an annual limitation. Any limitation may result in expiration of a portion of the NOL carryforwards before utilization. Further, until a study is completed and any limitation known, no amounts are being considered as an uncertain tax position or disclosed as an unrecognized tax benefit. Due to the existence of the valuation allowance, future changes in the Company's unrecognized tax benefits will not impact its effective tax rate. Any carryforwards that will expire prior to utilization as a result of such limitations will be removed from deferred tax assets with a corresponding reduction of the valuation allowance.

During the period ended June 30, 2010, the Company adopted the authoritative guidance for uncertainties in income taxes. As of June 30, 2011, the Company's tax years from inception are subject to examination by the tax authorities. The Company is not currently under examination by U.S. federal or state jurisdictions. The Company does not have any unrecognized tax benefits at June 30, 2011. The Company's policy is to recognize interest and penalties that would be assessed in relation to the settlement value of unrecognized tax benefits as a component of income tax expense.

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**8. Related Party Transactions***Revolving notes payable - stockholder*

The Company had a \$400,000 (Inventory Funding Loan) revolving note payable with a stockholder that was converted to common stock on December 16, 2011. The note bears interest at 8% per annum and provides for advances to be used for inventory purchases. Interest is payable upon maturity. Advances on the note are collateralized by substantially all assets of the Company. At June 30, 2011 and 2010, the outstanding balance on the note was \$200,000 and \$100,000, respectively.

The Company has executed another revolving note payable (Operating Capital Loan) in the amount of \$1,000,000, due to the same stockholder. The note matures in May 2012 and bears interest at 8% per annum. The purpose of this note is to be used as bridge capital for operating expenses until the next round of financing. Advances on the note are collateralized by substantially all of the assets of the Company. As of June 30, 2011 and 2010, the balance outstanding was \$830,000 and \$0, respectively.

The outstanding balances were converted to equity during December 2011, and the note payable agreements were terminated. See Note 10.

The Company recorded interest expense of approximately \$42,000 related to these loans during the year ended June 30, 2011.

*Service agreement*

During 2010 the Company entered into an agreement with a stockholder for services related to its battery products. The related party is to provide a component and consulting services to the Company. During the period ended June 30, 2010, the Company issued approximately 580,000 shares of common stock to this stockholder, in exchange for consulting services in the amount of approximately \$58,000.

*Company owned by officer*

Flux had various transactions in 2011 and 2010 with a company owned by its Chief Executive Officer and one of the Company's majority shareholders.

During 2011 and 2010, Flux sold approximately \$149,000 and \$39,000, respectively, of product to this company. The customer deposits balance received from this company at June 30, 2011 and 2010, is approximately \$367,000 and \$159,000, respectively. Receivables outstanding from this company as of June 30, 2011 and 2010 were \$29,000 and \$0, respectively. This receivable was subsequently collected in 2012.

*Company owned by officer,  
cont'd*

In July of 2010 the Company entered into a sublease with this company for approximately \$6,600 per month for a portion of this space. The sublease was terminated on January 1, 2012. During 2011 this company reimbursed \$31,000 to Flux for its portion of shared expenses.

During 2010 Flux leased office space from this company and paid approximately \$21,000 related to this lease. The lease ended on June 30, 2010 and was not renewed.

*Customer*

During 2011 and 2010 the Company sold approximately \$39,000 and \$7,000, respectively, of product to a company owned by another one of the Company's major shareholders who is the Company's former Chief Technology Officer. There were no receivables outstanding from this customer as of June 30, 2011 and 2010.

*Vendor*

During 2009, the Company entered into a cancelable Term Sheet agreement (the "Term Sheet Agreement") with a company owned by another one of the Company's major shareholders. Pursuant to the Term Sheet Agreement, the Company was appointed as a distributor of this company's battery charging products allowing the Company to sell the products either separately or as part of an energy storage solution. Additionally, the Company was required to develop software to enable communication between the parties' respective products which entitles the Company to royalties for any such units sold by the related entity. During the term of the Term Sheet Agreement the Company may purchase the products at the then current price list for distributors. Further, under the terms of the Term Sheet Agreement, if the company sells its products to a different distributor Flux Power Inc. is entitled to a distribution fee equal to 20% of the company's gross profits on such sale. This distribution fee and royalties are capped at a total of \$200,000. The Term Sheet Agreement expired pursuant to its terms on April 1, 2011 and the products defined in the term sheet were assigned to a different company that is owned by the same major shareholder, on September 1, 2010. During 2011 and 2010, the Company purchased approximately \$33,000 and \$26,000 of prototype products that are not subject to the distribution fee or royalties pursuant to the Term Sheet Agreement.

During 2010 the Company entered into a cancelable Manufacturing Implementation Agreement (the "Manufacturing Agreement") with the same company. Pursuant to the terms of the Manufacturing Agreement, this company has been granted a right of first refusal to manufacture our battery management system. The Manufacturing Agreement expires on August 1, 2014. During 2011 and 2010, the Company paid approximately \$131,000 and \$1,000, respectively, to this company pursuant to the Manufacturing Agreement.

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**9. Concentrations**

|                                |  |
|--------------------------------|--|
| <i>Credit risk</i>             | Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and unsecured trade accounts receivable. The Company maintains cash balances at a financial institution in San Diego, California. Accounts at this institution are secured by the Federal Deposit Insurance Corporation. At times, balances may exceed federally insured limits. The Company has not experienced any losses in such accounts. Management believes that the Company is not exposed to any significant credit risk with respect to its cash. |
| <i>Customer- related party</i> | During 2010 the Company had one related party major customer that accounted for 19% of the Company's total sales. No receivables were outstanding from this customer as of June 30, 2010.  |
| <i>Customer</i>                | <p>During 2011 the Company had one major customer that accounted for 31% of the Company's total sales. During 2010 the Company had four other major customers that combined accounted for 79% of the Company's total sales. No receivables were outstanding from the major customers as of June 30, 2011 and 2010.</p> <p>Based on the current financial condition of the Company's major customer, Management believes the revenues earned during 2011 and 2010 are likely to be non-recurring in future years.</p>   |
| <i>Vendor</i>                  | During 2011 and 2010 the Company had one major vendor that accounted for 67% and 70%, respectively, of the Company's total purchases. No payables were owed to the major vendor as of June 30, 2011 and 2010. Although there are a limited number of manufacturers which could produce the battery management systems, management believes other manufacturers could produce the products on comparable terms. A change in manufacturer, however, could cause a delay in manufacturing and adversely affect results.   |

**10. Subsequent Events**

In August 2011, the Company entered into an agreement and term sheet with an entity that provides for the entity to assist the Company in its merger efforts with a public company. The agreement and term sheet expired during February 2012, and it obligated the Company to pay legal expenses of the investors not to exceed \$25,000 and due diligence expenses of the entity of \$15,000.

In August 2011, the Company amended the terms of its stockholder notes payable to provide for conversion of the notes payable into shares of the Company's common stock based on the Company's next open round of financing.

In September 2011, the Company entered into an additional note payable (Short-Term Loan) agreement with the same stockholder for \$150,000. The note payable bears interest at 8% as amended, is due May 30, 2012, and is convertible into the Company's equity securities upon completion of the Company's next round of financing.

In October 2011, the Company entered into a revolving promissory note (Secondary Operating Capital) agreement with the same stockholder for \$1,000,000. The revolving promissory note bears interest at 8%, is due September 30, 2013, as amended, and is secured by substantially all of the assets of the Company.

In December 2011, the full outstanding balance of \$1,180,000 of principal on the Inventory Funding, Operating Capital and Short-Term notes payable and \$84,228 of accrued interest on these notes were converted into 1,264,228 shares of common stock at a conversion price of \$1.00 per share.

In March 2012, the Company entered into an additional note payable (Bridge Loan) agreement, with the same stockholder for \$250,000. The note payable bears interest at 8% and is due March 7, 2014.

The Company has evaluated subsequent events through April 23, 2012, the date when the financial statements were available to be issued.

**Financial Statements**

For the nine month periods ended March 31, 2012 and 2011



### Financial Statements

|   |      |
|---|------|
| Balance Sheets as of March 31, 2012 (Unaudited) and June 30, 2011 (Audited) | 3    |
| Statements of Operations (Unaudited)  | 4    |
| Statements of Cash Flows (Unaudited)  | 5    |
| Notes to Financial Statements   | 6-17 |

**Balance Sheets**  
in thousands, except share amounts

|  | March 31,<br>2012<br>(Unaudited) | June 30,<br>2011<br>(Audited) |
|--|----------------------------------|-------------------------------|
| <b>Assets</b>  |                                  |                               |
| <b>Current Assets</b>  |                                  |                               |
| Cash   | \$ 141                           | \$ 240                        |
| Accounts receivable  | 39                               | 41                            |
| Inventories  | 1,661                            | 1,974                         |
| Prepaid inventory  | 987                              | 55                            |
| Other current assets   | 39                               | 54                            |
| <b>Total current assets</b>  | <b>2,867</b>                     | <b>2,364</b>                  |
| Fixed assets - net   | 141                              | 105                           |
| <b>Total Assets</b>  | <b>\$ 3,008</b>                  | <b>\$ 2,469</b>               |
| <b>Liabilities and Stockholders' Deficit</b>   |                                  |                               |
| <b>Current Liabilities</b>   |                                  |                               |
| Accounts payable   | \$ 302                           | \$ 9                          |
| Accrued expenses   | 168                              | 87                            |
| Customer deposits  | 1,050                            | 209                           |
| Customer deposits from related party   | 996                              | 367                           |
| Deferred revenue   | 629                              | 1,802                         |
| Stockholder notes payable  | -                                | 1,030                         |
| <b>Total current liabilities</b>   | <b>3,145</b>                     | <b>3,504</b>                  |
| <b>Long Term Liabilities</b>   |                                  |                               |
| Stockholder notes payable  | 750                              | -                             |
| <b>Total long term liabilities</b>   | <b>750</b>                       | <b>-</b>                      |
| <b>Stockholders' Deficit</b>   |                                  |                               |
| Common stock; no par value; 100,000,000 shares authorized; 12,764,228 shares issued and outstanding at March 31, 2012 and 11,500,000 issued and outstanding at June 30, 2011 | 2,115                            | 850                           |
| Additional paid-in capital   | 80                               | 58                            |
| Accumulated deficit  | (3,082)                          | (1,943)                       |
| <b>Total Stockholders' Deficit</b>   | <b>(887)</b>                     | <b>(1,035)</b>                |
| <b>Total Liabilities &amp; Stockholders' Deficit</b>   | <b>\$ 3,008</b>                  | <b>\$ 2,469</b>               |

*See accompanying notes to unaudited financial statements*

**Statements of Operations (Unaudited)**  
*in thousands*

|   | <b>For the nine months ended</b> |                       |
|---|----------------------------------|-----------------------|
|   | <b>March 31, 2012</b>            | <b>March 31, 2011</b> |
| <b>Revenues</b> (of which \$335 and \$149, respectively, is from a related party) | \$ 3,008                         | \$ 583                |
| Cost of sales   | 2,431                            | 473                   |
| <b>Gross Profit</b>   | 577                              | 110                   |
| Selling, general, and administrative  | 1,271                            | 774                   |
| Research and development  | 400                              | 316                   |
| <b>Total Operating Expenses</b>   | 1,671                            | 1,090                 |
| Interest expense  | 45                               | 25                    |
| <b>Net Loss</b>   | \$ (1,139)                       | \$ (1,005)            |

*See accompanying notes to unaudited financial statements*

## Statements of Cash Flows (Unaudited)

*in thousands**For the nine months ended March 31,*

|  | 2012       | 2011       |
|--|------------|------------|
| <b>Cash Flows From Operating Activities:</b>                                   |            |            |
| Net loss   | \$ (1,139) | \$ (1,005) |
| Adjustments to reconcile net loss to net cash used in operating activities:    |            |            |
| Depreciation and amortization  | 23         | 16         |
| Stock-based compensation   | 22         | 58         |
| Increase (decrease) in cash resulting from changes in:                         |            |            |
| Accounts receivable  | 2          | -          |
| Inventories  | 313        | (1,703)    |
| Prepaid inventory  | (932)      | 482        |
| Other current assets   | 15         | (3)        |
| Accounts payable   | 293        | 41         |
| Accrued expenses   | 165        | 8          |
| Customer deposits  | 841        | (508)      |
| Customer deposits from related party   | 629        | 58         |
| Deferred revenue   | (1,173)    | 2,098      |
| Net cash used in operating activities  | (941)      | (458)      |
| <b>Cash Flows From Investing Activities:</b>                                   |            |            |
| Purchases of equipment   | (58)       | (14)       |
| Net cash used in investing activities  | (58)       | (14)       |
| <b>Cash Flows From Financing Activities:</b>                                   |            |            |
| Proceeds from issuance of stockholder notes payable                            | 900        | 680        |
| Net cash provided by financing activities                                      | 900        | 680        |
| Net (decrease) increase in cash  | (99)       | 208        |
| Cash — Beginning of period   | 240        | 67         |
| Cash — End of period   | \$ 141     | \$ 275     |
| <b>Supplemental Disclosures of Cash Flow Information:</b>                      |            |            |
| <b>Cash paid during the period for:</b>  |            |            |
| Interest   | \$ -       | \$ -       |
| Income taxes   | \$ -       | \$ -       |
| <b>Supplemental Disclosures of Noncash Investing and Financing Activities:</b> |            |            |
| Issuance of common stock for stockholder notes payable and accrued interest    | \$ 1,264   | \$ -       |

*See accompanying notes to unaudited financial statements*

- 1. Nature of Operations** Flux Power, Inc. (“the Company” or “Flux”) was founded in 2009 in the state of California to design, develop and sell rechargeable advanced energy storage systems. The Company has structured its business around its core technology, “The Battery Management System” (“BMS”). The Company’s BMS provides three critical functions to their battery systems: cell balancing, monitoring and error reporting. Using its proprietary management technology, the Company is able to offer complete integrated energy storage solutions or custom modular standalone systems to their clients. The Company also developed a suite of complementary technologies and products that accompany their core products. Sales during the nine month periods ended March 31, 2012 and 2011, were primarily to customers located throughout the United States.
- 2. Liquidity** As of March 31, 2012 the Company had an accumulated deficit of approximately \$3,082,000 and working capital deficit of approximately \$278,000. The Company has evaluated the expected cash requirements over the next twelve months, which includes, but is not limited to, investments in additional sales and marketing and product development resources, capital expenditures, and working capital requirements. The Company believes it has sufficient funds for the next twelve months from the balance sheet date, as it expects to cover its anticipated operating expenses through cash on hand, additional customer billings, a minimum \$1,000,000 commitment from Baytree Capital (See Note 9), and borrowings under its stockholder note payable.
- The Company expects to require additional financing in the future. The timing of the Company’s need for additional capital will depend in part on its future operating performance in terms of revenue growth and the level of operating expenses maintained.
- A majority shareholder has historically agreed to support the Company through loan agreements. During October 2011, the Company entered into a new note payable with this shareholder for up to \$1,000,000, maturing in September 2013. See Note 7. In addition, the Company expects to complete a private placement in June 2012, \$1,000,000 of which has been committed in conjunction with the closing of the reverse merger. See Note 9. However, there is no guarantee the Company will be able to obtain additional funds in the future or that funds will be available on terms acceptable to the Company. If such funds are not available, management will be required to curtail its investments in additional sales and marketing and product development resources, and capital expenditures, which may have an adverse effect on the Company’s future cash flows and results of operations, and its ability to fund operations.

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| 3. <b>Summary of Significant Accounting Policies</b> | A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.  |
| <i>Fair value of financial instruments</i>           | The carrying values of accounts receivable, accounts payable, notes payable and accrued liabilities approximate fair value due to the short maturity of these instruments.  |
| <i>Use of Estimates</i>                              | The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. The Company has used significant estimates in its determination of the reserve for inventory, sales returns, and warranty claims. Accordingly, actual results could differ from those estimates.   |
| <i>Accounts receivable and customer deposits</i>     | Accounts receivable are carried at their estimated collectible amounts. The Company generally requires advance deposits from its customers prior to shipment of the ordered products.<br><br>The Company has not experienced collection issues related to its accounts receivable, and has not recorded an allowance for doubtful accounts at March 31, 2012 or June 30, 2011.  |
| <i>Inventories and prepaid inventory</i>             | Inventories consist primarily of battery management systems and the related subcomponents, and are stated at the lower of cost (first-in, first-out) or market. Prepaid inventory represents deposits made by the Company for inventory purchases. The Company evaluates inventories to determine if write-downs are necessary due to obsolescence or if the inventory levels are in excess of anticipated demand at market value based on consideration of historical sales and product development plans. There were no write-downs of inventory determined necessary during the nine months ended March 31, 2012 and 2011. |
| <i>Fixed assets</i>                                  | Fixed assets are stated at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives, ranging from three to ten years, of the related assets or, in the case of leasehold improvements, over the lesser of the useful life of the related asset or the lease term.  |
| Stock-based compensation                             | The Company accounts for stock-based compensation in accordance with the authoritative guidance for share-based payments and for equity instruments issued to employees and non-employees, as applicable. The fair market value of stock options is estimated using the Black-Scholes option pricing model.   |

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|---|---|
| <i>Stock-based compensation, cont'd</i> | The fair value of the stock options granted is recognized as expense over the requisite service period, using the straight-line method.   |
| Revenue recognition                     | <p>The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, price is fixed or determinable and collectability of the selling price is reasonably assured. Delivery occurs when risk of loss is passed to the customer, as specified by the terms of the applicable customer agreements. Generally, this occurs when the product is delivered to the customer.</p> <p>The Company's standard business practice regarding sales returns as reflected in its standard terms and conditions are that all sales are final and the Company does not accept any returns except for warranty claims. The Company presently does not have any agreements with any customer that allows for returns under any other circumstances. However, during the period the Company repurchased on several occasions product from one customer in order to fulfill sales to a second customer. While the Company has no obligation or plans to do so in the future, the Company concluded that these repurchases constitute an implied right of return with this customer. When an implied right of return exists, the Company recognizes revenue on the sell through-method. Under this method, revenue is not recognized upon delivery of the inventory components. Instead, the Company records deferred revenue upon delivery and recognizes revenue when the inventory components are sold through to the end user.</p> <p>Deferred revenue at March 31, 2012 related to this customer was \$554,000 and represents amounts not yet sold through by our customer. The related product cost of \$497,000 at March 31, 2012, is included in inventory. In addition, \$75,000 received from a different customer in the quarter ended March 31, 2012 for a small non recurring engineering project is included in deferred revenue at March 31, 2012, pending completion of the project.</p> <p>The Company evaluates its exposure to sales returns and warranty issues based on historical information. The Company did not record an allowance for sales returns or warranty issues during 2011 and 2010.</p> |
| Shipping and handling costs             | The Company records shipping and handling costs charged to customers as revenue and shipping and handling costs to cost of sales as incurred.   |
| Impairment of long-lived assets         | <p>In accordance with authoritative guidance for the impairment or disposal of long-lived assets, if indicators of impairment exist, the Company assesses the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through the undiscounted future operating cash flows.</p> <p>If impairment is indicated, the Company measures the amount of such impairment by comparing the carrying value of the asset to the present value of the expected future cash flows associated with the use of the asset. The Company believes the future cash flows to be received from the long-lived assets in use will exceed the assets carrying values, and accordingly the Company has not recognized any impairment losses during the nine month periods ended March 31, 2012 and 2011.</p>  |
| <i>Research and development</i>         | The Company is actively engaged in new product development efforts. Research and development cost relating to possible future products are expensed as incurred.  |

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*New accounting standards*

The FASB has issued ASU 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities". The amendments in this ASU require 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. Coinciding with the release of ASU No. 2011-11, the International Accounting Standards Board (IASB) has issued Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to International Financial Reporting Standards 7). This amendment requires disclosures about the offsetting of financial assets and financial liabilities common to those in ASU 2011-11. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Company does not expect the adoption of this pronouncement to have a material impact on its consolidated financial statements.

In May 2011, the FASB amended its authoritative guidance related to fair value measurements to provide a consistent definition and measurement of fair value, as well as similar disclosure requirements between accounting principles generally accepted in the United States of America and International Financial Reporting Standards. This guidance clarifies the application of existing fair value measurement and expands the existing disclosure requirements. This guidance becomes effective for annual periods beginning after December 15, 2011. This guidance is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

**4. Commitments and Contingencies**

On July 1, 2010, the Company entered into a cancelable lease for its office space. The lease provided for monthly payments of approximately \$13,000, expired on June 30, 2011, and was renewed for one year on July 1, 2011. In July of 2011 the Company entered into a sublease with a related party for approximately \$6,600 per month for a portion of this space. The sublease was terminated on January 1, 2012. The Company recorded rent expense during the nine months ended March 31, 2012 and 2011, of approximately \$66,000 and \$106,000, respectively.

In March 2011, the Company entered into a brokerage agreement with a management consulting firm to provide investors to the Company. The term of the agreement was for a period of one year. The compensation to the consulting firm includes a monthly fee with additional compensation based on a percentage of the amount raised, and includes an equity component in the form of warrant coverage. The Company recorded expense of \$13,000 and \$4,000 related to the brokerage agreement during the nine month periods ended March 31, 2012 and 2011, respectively.



In August 2011, the Company entered into an agreement and term sheet with an entity that provides for the entity to assist the Company in its merger efforts with a public company. The agreement and term sheet expired during February 2012 and it obligated the Company to pay legal expenses of the investors not to exceed \$25,000 and due diligence expenses of the entity of \$15,000.

**5. Stockholders' Equity**

At March 31, 2012 the Company had 100,000,000 shares of common stock authorized for issuance.

In December 2011, the outstanding notes payable were converted into 1,264,228 shares of common stock at a conversion price of \$1.00 per share. See Note 7.

Holders of common stock are entitled to receive dividends, when, as, and if declared by the Board of Directors, out of any assets legally available to the Company. Dividends are declared and paid in an equal per-share amount on the outstanding shares of each series of common stock. During the nine month periods ended March 31, 2012 and 2011, the Board of Directors neither declared nor paid common stock dividends to shareholders.

*Stock-based compensation*

The Company is authorized to issue 2,000,000 shares of Common Stock under the Company's 2011 Stock Option Plan (the "Plan").

The Plan authorizes the granting of stock options to employees, directors and consultants at exercise prices determined by the Board of Directors.

The Company uses the Black-Scholes valuation model to calculate the fair value of stock options. The fair value of stock options was measured at the grant date using the assumptions in the table below:

|                         | <u>Employee</u> | <u>Non-Employee</u> |
|-------------------------|-----------------|---------------------|
| Expected volatility     | 100%            | 100%                |
| Risk-free interest rate | 0.81% to 2.14%  | 0.96% to 3.03%      |
| Forfeiture rate         | 5%              | 5%                  |
| Dividend yield          | 0%              | 0%                  |
| Expected term (yrs)     | 5               | 10                  |

*Stock-based compensation,  
cont'd*

Using the weighted average assumptions described above, the weighted average fair value of options granted to employees and non-employees during the nine months ended March 31, 2012 and 2011 was \$0.45 and \$0.09, respectively.

During the nine month period ended March 31, 2012, total stock-based compensation expense included in the statement of operations was approximately \$22,000. Approximately \$18,000 of this expense was recorded to selling, general and administrative expense and approximately \$4,000 was recorded to research and development expense.

During the nine month period ended March 31, 2011, total stock-based compensation expense included in the statement of operations was approximately \$58,000. \$22,000 of this expense was recorded to general and administrative expense and approximately \$36,000 was recorded to research and development expense.

The Company has a 100% valuation allowance recorded against its deferred tax assets; therefore, the stock-based compensation has no tax effect on the statements of operations.

**6. Income Taxes**

The Company maintains deferred tax assets that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. These deferred tax assets include net operating loss carryforwards, deferred revenue and stock-based compensation. In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. The Company considers projected future taxable income and planning strategies in making this assessment. Based on the level of historical operating results and projections for the taxable income for the future, the Company has determined that it is more likely than not that the deferred tax assets will not be realized. Accordingly, the Company has recorded a valuation allowance to reduce deferred tax assets to zero. There can be no assurance that the Company will ever be able to realize the benefit of some or all of the federal and state loss carryforwards, either due to ongoing operating losses or due to ownership changes, which limit the usefulness of the loss carryforwards.

**7. Related Party Transactions***Revolving notes payable – stockholder*

The Company had a \$400,000 (Inventory Funding Loan) revolving note payable with a stockholder. The note had a stated interest rate of 8% per annum and was for inventory purchases. Interest accrued daily and was payable upon maturity or conversion as amended. Advances on the note were collateralized by substantially all assets of the Company. At March 31, 2012 and June 30, 2011, the outstanding balance on the note was \$0 and \$200,000, respectively.

The Company has executed another revolving note payable (Operating Capital Loan) in the amount of \$1,000,000, due to the same stockholder. The note matured in May 2012 and bore interest at 8% per annum. The purpose of this note was to provide bridge capital for operating expenses until the next round of financing. Advances on the note are collateralized by substantially all of the assets of the Company. As of March 31, 2012 and June 30, 2011, the balance outstanding was \$0 and \$830,000, respectively.

In August 2011, the Company amended the terms of both the Inventory Funding and Operating Capital notes payable to provide for conversion of the notes payable into shares of the Company's common stock based on the Company's next open round of financing.

In September 2011, the Company entered into an additional note payable (Short-Term Loan) agreement with the same stockholder for \$150,000. The note matured in May 2012 and bore interest at 8% per annum as amended, and is convertible into the Company's equity securities upon completion of the Company's next round of financing.

In December 2011, the full outstanding balance of \$1,180,000 of principal on the Inventory Funding Loan, Operating Capital Loan and Short-Term notes payable and \$84,228 of accrued interest on these notes were converted into 1,264,228 shares common stock at a conversion price of \$1.00 per share.

In October 2011, the Company entered into a new revolving promissory note agreement (Secondary Operating Capital) with the same stockholder for \$1,000,000. The revolving promissory note bears interest at 8%, is due September 30, 2013, as amended, and is secured by substantially all of the assets of the Company. As of March 31, 2012 the balance outstanding was \$500,000.

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|  |  |
|--|--|
| <i>Revolving notes payable – stockholder, cont'd</i> | In March 2012 the Company entered into a note payable (Short-Term Loan) agreement with the same stockholder for \$250,000. The note matures in March 2014 and bears interest at 8% per annum.  |
| <i>Company owned by officer</i>                      | <p>Flux had various transactions during the nine month periods ended March 31, 2012 and 2011, with a company founded and 35% owned by Flux's Chief Executive Officer who is also one of Flux's majority shareholders.</p> <p>During the nine month periods ended March 31, 2012 and 2011, Flux sold approximately \$335,000 and \$149,000, respectively, of product to this company. The customer deposits balance received from this company at March 31, 2012 and June 30, 2011, is approximately \$996,000 and \$367,000, respectively. There were no receivables outstanding from this company as of March 31, 2012. As of June 30, 2011, receivables of \$29,000 were outstanding from this company.</p> <p>In July of 2011 the Company entered into a sublease with this company for approximately \$6,600 per month for a portion of this space. The sublease was terminated on January 1, 2012.</p> <p>During the nine month periods ended March 31, 2012 and 2011, this company reimbursed \$53,000 and \$7,000, respectively, to Flux under this sublease agreement.</p>   |
| <i>Customer</i>                                      | During the nine month periods ended March 31, 2012 and 2011, the Company sold approximately \$1,000 and \$29,000, respectively, of product to a company owned by another one of the Company's major shareholders who is the Company's former Chief Technology Officer. There were no receivables outstanding from this customer as of March 31, 2012 and June 30, 2011.  |
| <i>Vendor</i>  | During 2009, the Company entered into a cancelable Term Sheet agreement (the "Term Sheet Agreement") with a company owned by another one of the Company's major shareholders. Pursuant to the Term Sheet Agreement, the Company was appointed as a distributor of this company's battery charging products allowing the Company to sell the products either separately or as part of an energy storage solution. Additionally, the Company was required to develop software to enable communication between the parties' respective products which entitles the Company to royalties for any such units sold by the related entity. During the term of the Term Sheet Agreement the Company may purchase the products at the then current price list for distributors. Further, under the terms of the Term Sheet Agreement, if the company sells its products to a different distributor Flux Power Inc. is entitled to a distribution fee equal to 20% of the company's gross profits on such sale. This distribution fee and royalties are capped at a total of \$200,000. The products defined in the term sheet were assigned to a different company that is owned by the same major shareholder, on September 1, 2010. The Term Sheet Agreement expired pursuant to its terms on April 1, 2011. During the nine month periods ended March 31, 2012 and 2011, the Company purchased approximately \$52,000 and \$35,000 of prototype products that are not subject to the distribution fee or royalties pursuant to the Term Sheet Agreement. |

During 2010 the Company entered into a cancelable Manufacturing Implementation Agreement (the "Manufacturing Agreement") with the same company. Pursuant to the terms of the Manufacturing Agreement, this company has been granted a right of first refusal to manufacture our battery management system. The Manufacturing Agreement expires on August 1, 2014. During the nine month periods ended March 31, 2012 and 2011, the Company paid approximately \$258,000 and \$130,000, respectively, to this company pursuant to the Manufacturing Agreement.

**8. Concentrations***Credit risk*

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and unsecured trade accounts receivable. The Company maintains cash balances at a financial institution in San Diego, California. Accounts at this institution are secured by the Federal Deposit Insurance Corporation. At times, balances may exceed federally insured limits. The Company has not experienced any losses in such accounts. Management believes that the Company is not exposed to any significant credit risk with respect to its cash.

*Customer-related party*

During the nine month periods ended March 31, 2012 and 2011, the Company had one related party major customer that accounted for 11% and 26%, respectively, of the Company's total sales.

*Customer*

During the nine month period ended March 31, 2012 the Company had three major customers that combined represented 76% of the Company's total sales. During the nine month period ended March 31, 2011, the Company had one major customer that accounted for 11% of the Company's total sales. There were no receivables outstanding from these major customers as of March 31, 2012 and June 30, 2011, respectively.

*Vendor*

During the nine month periods ended March 31, 2012 and 2011, the Company had one major vendor that represented 53% and 79%, respectively, of the Company's total purchases. There were no payables that were owed to this vendor as of March 31, 2012 and June 30, 2011, respectively. Although there are a limited number of manufacturers which could produce the battery management systems, management believes other manufacturers could produce the products on comparable terms. A change in manufacturer, however, could cause a delay in manufacturing and adversely affect results.

**9. Subsequent Events**

On May 18, 2012, Lone Pine Holdings Inc.(LPHI) entered into a certain Securities Exchange Agreement ("Exchange Agreement") with Flux Power, Inc., a California corporation (the "Flux Power") and its shareholders, Mr. Christopher Anthony, Esenjay Investments LLC, and Mr. James Gevarges (collectively the "Flux Shareholders"), pursuant to this agreement LPHI agreed to purchase 100% of the issued and outstanding shares of common stock of Flux Power from the Flux Shareholders in exchange for 37,714,514 newly issued shares LPHI common stock ("Exchange Shares") based on an exchange ratio of 2.9547039 ("Share Exchange Ratio"), subject to the satisfaction of closing conditions set forth in the Exchange Agreement (the "Closing").

In addition to the satisfaction of certain customary closing conditions set forth in the Exchange Agreement, the Closing is subject to additional conditions, which includes among other things, (a) a certificate executed by LPHI's President confirming that the amount of LPHI's outstanding liabilities do not exceed \$1,000, (b) the resignation of Mr. Gianluca Cicogna Mozzoni as LPHI's sole officer and sole director, effective on the tenth day following the mailing of an information statement by LPHI, to LPHI shareholders that complies with the requirements of Section 14(f) of the Securities Exchange Act of 1934, (c) the appointment of Messrs. Chris Anthony, James Gevarges and Michael Johnson as LPHI's directors to fill vacancies on our board of directors, (d) the appointment of Mr. Anthony as LPHI's Chairman, Chief Executive Officer and President, Mr. Jackson as LPHI's Chief Financial Officer, and Mr. Miller as LPHI's Secretary, (e) the adoption and approval of an amended and restated bylaws in the form substantially approved by Flux Power, (f) LPHI's name change to Flux Power Holdings, Inc., (g) the execution of an Advisory Agreement with Baytree Capital Associates, LLP, LPHI's affiliate which owns 2,285,000 shares of LPHI common stock ("Baytree Capital") pursuant to which Baytree Capital will provide LPHI with business and consulting services for 24 months in exchange for 100,000 restricted shares of our newly issued common stock at the commencement of each six month period in return for its services, which shares will have piggy-back registration rights, and a warrant to purchase 1,837,777 restricted shares of our common stock for a period of 5 years at an exercise price of \$.41 per share, and (h) confirmation that LPHI is prepared to file a Form 8-K within the time allotted by Form 8-K and that the draft of the Form 8-K complies as to form with the requirements of Form 8-K. In addition, as part of the Exchange Agreement, each of the Flux Shareholders will agree not to offer, sell, assign, transfer, pledge, contract to sell, or otherwise dispose of any shares of Exchange Shares or securities convertible into or exercisable or exchangeable into our common stock for a period of 18 months from the Closing, except during the period after the first anniversary of the Closing and a period of 6 months thereafter, in such an amount which constitutes less than 3% in the aggregate of such Flux Shareholder's beneficial ownership of our common stock per month.

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9. **Subsequent Events, Cont'd**
- The Exchange Agreement contemplates, among other things, that after the Closing (1) Flux Shareholders will collectively own approximately 91% of the issued and outstanding shares of LPHI's common stock immediately after the Closing, (2) Flux Power will become our wholly-owned operating subsidiary, (3) we will assume the Flux Power 2010 Option Plan ("Plan") and all of the stock options of Flux Power outstanding as of the Closing, whether or not exercised and whether or not vested, in a manner that complies with Sections 424(a) and 409A of the Internal Revenue Code, and such assumed options will continue to have, and be subject to, substantially the same terms and conditions as set forth in the Plan and the stock option agreement pursuant to which they were originally granted, with the exception that shares issuable upon exercise of the assumed options shall be shares of our common stock, and the exercise price and number of shares subject to the assumed options shall be adjusted pursuant to the Share Exchange Ratio, (4) Baytree Capital will use their best efforts to conduct a private placement of LPHI's securities in an unregistered offering to accredited investors to purchase up to 8 Units, at a price of \$500,000 per Unit, with each Unit consisting of 1,207,185 shares of LPHI's common stock and 241,437 5 year warrants to purchase one share of LPHI's common stock at an exercise price of \$0.41 per share (the "Private Placement"), of which Baytree Capital, its designees or assigns, has committed to investing at least \$1,000,000 in the Private Placement, and with the anticipation that the closing of the Private Placement will occur in the amount of at least \$3,000,000 on or before June 15, 2012, with any remaining unsold portions of the Private Placement to close on or before June 30, 2012. The securities offered and sold in the Private Placement will not be or have not been registered under the Securities Act of 1933, as amended ("Securities Act"), and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act.

9. **Subsequent Events, Cont'd**      The Company has evaluated subsequent events through May 29, 2012, the date when the financial statements were available to be issued.



## Introduction to Unaudited Pro Forma Combined Financial Information

Flux Power Holdings, Inc., formerly Lone Pine Holdings, Inc. ("FPH"), through its former wholly owned subsidiary Integrated Forest Products Pty Ltd ("Integrated"), previously operated a saw mill in Australia which cut pine timber into building products to supply the commercial and residential industry along the eastern coast of Australia. In July 2007, Integrated's wholly owned subsidiary in Australia was put into receivership and has formally discontinued its operations. In connection with the receivership, the receiver formed a new Australian wholly owned subsidiary, Australian Forest Industries, Ltd., and exchanged all of the shares of Integrated for Australian Forest Industries, Ltd. shares. On October 15, 2008, our Board of Directors approved the transfer of all the outstanding shares of Australian Forest Industries, Ltd., its operating subsidiary that had been placed in receivership, to the principal shareholders and directors, personally. Subsequent to the spin out, we became a non-operating shell company engaged in the business of seeking a suitable candidate for acquisition or merger.

In connection with the Reverse Acquisition, on May 23, 2012, we completed the name change from "Lone Pine Holdings, Inc." to "Flux Power Holdings, Inc." The name change was effective under Nevada corporate law on May 23, 2012 pursuant to the Articles of Merger that were filed with the Nevada Secretary of State. Pursuant to such Articles of Merger, we merged with our wholly-owned subsidiary, Flux Power Holdings, Inc. In accordance with Section 92A.180 of the Nevada Revised Statutes, shareholder approval of the merger/name change was not required. The Articles of Merger provided that, upon the effective date of the merger effective, our Articles of Incorporation would be amended as of such date to change our name to "Flux Power Holdings, Inc."

On June 14, 2012, we completed the acquisition of Flux Power, Inc., a California corporation (the "Reverse Acquisition") pursuant to that certain Securities Exchange Agreement dated May 18, 2012 ("Exchange Agreement") by and among Flux Power, Inc., a California corporation (the "Flux Power") and its shareholders, Mr. Christopher Anthony, Esenjay Investments, LLC, and Mr. James Gevarges (collectively the "Flux Shareholders"). In connection with the Reverse Acquisition, we purchased 100% of the issued and outstanding shares of common stock of Flux Power from the Flux Shareholders in exchange for 37,714,514 newly issued shares of our common stock ("Exchange Shares") based on an exchange ratio of 2.9547039 ("Share Exchange Ratio"). As a result of the Reverse Acquisition, the Flux Shareholders collectively own approximately 91% of the issued and outstanding shares of our common stock, and Flux Power is our wholly-owned operating subsidiary.

The following unaudited pro forma condensed combined balance sheet combines the consolidated historical balance sheet of Flux Power Holdings, Inc., formerly Lone Pine Holdings, Inc. and the historical balance sheet of Flux Power, Inc. as of March 31, 2012 giving effect to the merger of Flux Power Holdings, Inc. and Flux Power, Inc. pursuant to the merger agreement, as if the merger had been consummated on March 31, 2012. The following unaudited pro forma condensed combined statements of operations combine the historical statements of operations of Flux Power Holdings, Inc. and Flux Power, Inc. for the nine month period ended March 31, 2012 and the year ended June 30, 2011, giving effect to the merger, as if it had occurred on July 1, 2010.

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We are providing the following information to aid you in your analysis of the financial aspects of the merger.

We derived the information for the nine month period ended March 31, 2012 from the unaudited quarterly reports of Flux Power, Inc, and the audited annual report filed on Form 10-K and the unaudited quarterly reports filed on Form 10-Q for Flux Power Holdings, Inc.

We derived the information for the year ended June 30, 2011 from the audited financial statements of Flux Power, Inc. and the audited annual report filed on Form 10-K, unaudited quarterly reports for the three months ended March 31, 2012, and the six months ended June 30, 2011 filed on Forms 10-Q for Flux Power Holdings, Inc.

This information should be read together with the Flux Power Holdings, Inc. audited and unaudited financial statements and related notes as filed in annual and quarterly reports with the Securities and Exchange Commission, and the Flux Power, Inc. audited and unaudited financial statements included in this document under Flux Power, Inc. The historical financial information has been adjusted to give effect to pro forma events that are directly attributable to the merger, factually supportable, and expected to have a continuing impact on the combined results. The unaudited pro forma combined information is for illustrative purposes only. The financial results may have been different had the companies always been combined. Because the plans for these activities have not been finalized, we are not able to reasonably quantify the cost of such activities. You should not rely on the pro forma combined financial information as being indicative of the historical results that would have been achieved had the companies always been combined or the future results that the combined company will experience.

The following information should be read in conjunction with the pro forma condensed combined financial statements:

- Accompanying notes to the unaudited pro forma combined condensed financial statements
  - Separate historical financial statements of Flux Power Holdings, Inc. for the year ended December 31, 2011 as filed with the SEC in their Form 10-K, and separate financial statements for the three months ended March 31, 2012, and for the six months ended June 30, 2011, as filed with the SEC in their Quarterly Reports.
  - Separate historical financial statements of Flux Power, Inc. for the nine month period ended March 31, 2012 and the year ended June 30, 2011 included elsewhere in this document.
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The unaudited pro forma condensed combined financial statements are presented for informational purposes only. The pro forma information is not necessarily indicative of what the financial position or results of operations actually would have been had the merger been completed at the dates indicated. In addition, the unaudited pro forma condensed combined financial statements do not purport to project the future financial position or operating results of the combined company.

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Unaudited Pro Forma Condensed  
Combined Balance Sheet of  
Flux Power Inc. and Flux Power Holdings, Inc.  
March 31, 2012

|  | Historical          |                                |              | Combined<br>Pro Forma |
|--|---------------------|--------------------------------|--------------|-----------------------|
|  | Flux Power,<br>Inc  | Flux Power<br>Holdings,<br>Inc |              |                       |
| <b>Assets</b>  |                     |                                |              |                       |
| <b>Current Assets</b>                                |                     |                                |              |                       |
| Cash   | \$ 141,210          | \$ 4,569                       |              | \$ 145,779            |
| Accounts receivable                                  | 38,435              | -                              |              | 38,435                |
| Inventories  | 1,661,254           | -                              |              | 1,661,254             |
| Prepaid inventory                                    | 987,116             | -                              |              | 987,116               |
| Other current assets                                 | 38,315              | -                              |              | 38,315                |
| <b>Total current assets</b>                          | <b>2,866,330</b>    | <b>4,569</b>                   |              | <b>2,870,899</b>      |
| Fixed assets - net                                   | 141,222             | -                              |              | 141,222               |
| <b>Total Assets</b>                                  | <b>\$ 3,007,552</b> | <b>\$ 4,569</b>                |              | <b>\$ 3,012,121</b>   |
| <b>Liabilities and Stockholders' Deficit</b>         |                     |                                |              |                       |
| <b>Current Liabilities</b>                           |                     |                                |              |                       |
| Accounts payable                                     | \$ 301,587          | \$ -                           |              | \$ 301,587            |
| Accrued expenses                                     | 168,140             | 20,456                         | (20,456)c    | 168,140               |
| Loan payable-related party                           |                     | 40,475                         | (40,475)c    | -                     |
| Customer deposits                                    | 1,049,628           | -                              |              | 1,049,628             |
| Customer deposits from related party                 | 996,202             | -                              |              | 996,202               |
| Deferred revenue                                     | 629,168             | -                              |              | 629,168               |
| <b>Total current liabilities</b>                     | <b>3,144,725</b>    | <b>60,931</b>                  |              | <b>3,144,725</b>      |
| <b>Long Term Liabilities</b>                         |                     |                                |              |                       |
| Stockholder notes payable                            | 750,000             | -                              |              | 750,000               |
| <b>Total long term liabilities</b>                   | <b>750,000</b>      | <b>-</b>                       |              | <b>750,000</b>        |
| <b>Stockholders' Deficit</b>                         |                     |                                |              |                       |
| Common stock   | 2,114,628           | 3,543                          |              | 41,258                |
|  |                     |                                | (2,114,628)a |                       |
|  |                     |                                | 37,715a      |                       |
| Additional paid-in capital                           | 80,000              | 5,011,438                      |              | 2,157,939             |
|  |                     |                                | 2,114,628a   |                       |
|  |                     |                                | (37,715)a    |                       |
|  |                     |                                | (5,071,343)b |                       |
|  |                     |                                | 20,456c      |                       |
|  |                     |                                | 40,475c      |                       |
| Accumulated deficit                                  | (3,081,801)         | (5,071,343)                    | 5,071,343b   | (3,081,801)           |
| <b>Total</b>   | <b>(887,173)</b>    | <b>(56,362)</b>                |              | <b>(882,604)</b>      |
| <b>Total Liabilities &amp; Stockholders' Deficit</b> | <b>\$ 3,007,552</b> | <b>\$ 4,569</b>                |              | <b>\$ 3,012,121</b>   |

Unaudited Pro Forma Condensed  
 Combined Statement of Operations of  
 Flux Power Inc. and Flux Power Holdings, Inc.  
 For the 9 Months Ended March 31, 2012

|   | <u>Historical</u>          |  |   | <u>Pro Forma<br/>Adjustments</u> | <u>Combined<br/>Pro Forma</u> |
|---|----------------------------|--|---|----------------------------------|-------------------------------|
|   | <u>Flux Power,<br/>Inc</u> | <u>Flux Power<br/>Holdings,<br/>Inc.</u> |   |                                  |                               |
| <b>Revenues</b>   | \$ 3,008,159               | \$ -                                     | - | -                                | \$ 3,008,159                  |
| Cost of revenues  | 2,431,263                  | -  | - | -                                | 2,431,263                     |
| <b>Gross Profit</b>   | 576,896                    | -  | - | -                                | 576,896                       |
| Selling, general, and administrative                                  | 1,270,746                  | 31,114                                   | - | -                                | 1,301,860                     |
| Research and development  | 400,256                    | -  | - | -                                | 400,256                       |
| <b>Total Operating Expenses</b>                                       | 1,671,002                  | 31,114                                   | - | -                                | 1,702,116                     |
| Interest expense  | 45,769                     | 6,680                                    | - | -                                | 52,449                        |
| <b>Net Loss</b>   | \$ (1,139,875)             | \$ (37,794)                              | - | -                                | \$ (1,177,669)                |
| Pro forma net loss per share basic and diluted                        |                            |  |   |                                  | \$ (0.03)                     |
| Pro forma shares used to compute net loss per share basic and diluted |                            |  |   |                                  | 38,040,822                    |

Unaudited Pro Forma Condensed  
 Combined Statement of Operations of  
 Flux Power Inc. and Flux Power Holdings, Inc.  
 For the Fiscal Year Ended June 30, 2011

|   | <u>Historical</u>          |  | <u>Pro Forma<br/>Adjustments</u> | <u>Combined<br/>Pro Forma</u> |
|---|----------------------------|--|----------------------------------|-------------------------------|
|   | <u>Flux Power,<br/>Inc</u> | <u>Flux Power<br/>Holdings,<br/>Inc.</u> |                                  |                               |
| <b>Revenues</b>   | \$ 984,266                 | \$ -                                     | -                                | \$ 984,266                    |
| Cost of revenues  | 845,514                    | -  | -                                | 845,514                       |
| <b>Gross Profit</b>   | 138,752                    | -  | -                                | 138,752                       |
| Selling, general, and administrative                                  | 1,027,272                  | 55,273                                   | -                                | 1,082,545                     |
| Research and development  | 382,064                    | -  | -                                | 382,064                       |
| <b>Total Operating Expenses</b>                                       | 1,409,336                  | 55,273                                   | -                                | 1,464,609                     |
| Interest expense  | 42,295                     | -  | -                                | 42,295                        |
| <b>Net Loss</b>   | \$ (1,312,879)             | \$ (55,273)                              | -                                | \$ (1,368,152)                |
| Pro forma net loss per share basic and diluted                        |                            |  |                                  | \$ (0.04)                     |
| Pro forma shares used to compute net loss per share basic and diluted |                            |  |                                  | 36,556,466                    |

## NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

### 1. Basis of Presentation

On June 14, 2012, Flux Power Holdings, Inc. and Flux Power, Inc. entered into a definitive agreement under which Flux Power Holdings, Inc. will be merged into Flux Power, Inc. in a transaction to be accounted for as a reverse acquisition of Flux Power Holdings, Inc. As a result, the historical financial statements of Flux Power, Inc. constitute the historical financial statements of the merged companies. The transaction is considered to be a capital transaction and as such is the equivalent to the issuance of common stock by Flux Power, Inc. for the net monetary assets of Flux Power Holdings, Inc., accompanied by a re-capitalization. For accounting purposes, Flux Power, Inc. is treated as the continuing reporting entity. The costs of the transaction incurred by Flux Power, Inc. will be charged directly to equity, to the extent of the cash received in the transaction, those incurred by Flux Power Holdings, Inc. will be expensed.

### 2. Pro Forma Adjustments

There were no inter-company balances and transactions between Flux Power Holdings, Inc. and Flux Power, Inc. as of the dates and for the periods of these pro forma condensed combined financial statements. The pro forma adjustments included in the unaudited pro forma condensed combined financial statements are as follows:

- a) Common stock adjustment to reflect the change in par value from no par value to \$0.001 for the Flux Power shares outstanding.
- b) The elimination of the Flux Power Holdings, Inc. accumulated deficit.
- c) The accrued expenses were paid off by additional cash loaned to the company by the related party. This new loan along with the existing loan was forgiven resulting in the conversion of the liabilities to equity.

### 3. Pro Forma Net Loss Per Share

The pro forma basic and diluted net loss per share is based on the weighted average number of Flux Power Holdings, Inc. common stock shares outstanding during each period presented, plus the weighted average number of common stock shares issued to Flux Power, Inc. based on the conversion ratio in the merger agreement.

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