

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

FORM 10-Q

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

For the quarterly period ended December 31, 2013

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

Commission File Number: 000-25909

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

Nevada

(State or other jurisdiction of  
incorporation or organization)

86-0931332

(I.R.S. Employer  
Identification Number)

985 Poinsettia Avenue, Suite A, Vista, California

(Address of principal executive offices)

92081

(Zip Code)

877-505-3589

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

Indicate number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

| <u>Class</u>                           | <u>Outstanding as of: February 14, 2014</u> |
|--|---|
| <u>Common Stock, \$0.001 par value</u> | <u>61,035,576</u>                           |

**FLUX POWER HOLDINGS, INC.**  
**FORM 10-Q**  
**For the Quarterly Period Ended December 31, 2013**  
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## 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 ability to secure sufficient funding and alternative source of funding to support our current and proposed operations;
- 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,” “we,” “us,” and “our” refer to the combined business of Flux Power Holdings, Inc., a Nevada corporation and its subsidiary, Flux Power, Inc. (“Flux Power”), a California corporation;
  - “Exchange Act” refers to 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.
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**FLUX POWER HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

Item 1. Financial Statements

|   | December 31,<br>2013<br>(Unaudited) | June 30,<br>2013    |
|---|-------------------------------------|---------------------|
| <b>ASSETS</b>   |                                     |                     |
| Current assets:   |                                     |                     |
| Cash  | \$ 4,000                            | \$ 20,000           |
| Accounts receivable, net  | 6,000                               | 13,000              |
| Inventories, net  | 147,000                             | 160,000             |
| Prepaid advisory fees, current portion  | 756,000                             | 1,616,000           |
| Other current assets  | 53,000                              | 35,000              |
| <b>Total current assets</b>   | <b>966,000</b>                      | <b>1,844,000</b>    |
| Property, plant and equipment, net  | 99,000                              | 132,000             |
| <b>Total assets</b>   | <b>\$ 1,065,000</b>                 | <b>\$ 1,976,000</b> |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>  |                                     |                     |
| Current liabilities:  |                                     |                     |
| Accounts payable  | \$ 362,000                          | \$ 370,000          |
| Accrued expenses  | 156,000                             | 211,000             |
| Accrued interest  | 236,000                             | 135,000             |
| Customer deposits   | 22,000                              | 5,000               |
| Customer deposits from related party  | 135,000                             | 138,000             |
| Warrant derivative liability  | 60,000                              | 143,000             |
| Stockholder notes payable and line of credit, current portion   | —                                   | 1,250,000           |
| <b>Total current liabilities</b>  | <b>971,000</b>                      | <b>2,252,000</b>    |
| Long term liabilities:  |                                     |                     |
| Stockholder notes payable and line of credit, net of current portion  | 3,136,000                           | 1,218,000           |
| <b>Total liabilities</b>  | <b>4,107,000</b>                    | <b>3,470,000</b>    |
| Commitments and contingencies (Note 5)  |                                     |                     |
| <b>STOCKHOLDERS' DEFICIT</b>  |                                     |                     |
| Preferred stock, \$0.001 par value: authorized 5,000,000 shares, none issued and outstanding  | —                                   | —                   |
| Common stock, \$0.001 par value: authorized 145,000,000 shares, 48,135,576 and 47,355,576 shares issued and outstanding as of December 31, 2013 and June 30, 2013, respectively | 48,000                              | 47,000              |
| Additional paid-in capital  | 2,549,000                           | 2,436,000           |
| Accumulated deficit   | (5,639,000)                         | (3,977,000)         |
| <b>Total stockholders' deficit</b>  | <b>(3,042,000)</b>                  | <b>(1,494,000)</b>  |
| <b>Total liabilities and stockholders' deficit</b>  | <b>\$ 1,065,000</b>                 | <b>\$ 1,976,000</b> |

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

**FLUX POWER HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Three and Six Month Periods Ended December 31, 2013 and 2012**  
**(Unaudited)**

|  | Three months Ended   |                      | Six months Ended     |                      |
|--|----------------------|----------------------|----------------------|----------------------|
|  | December 31,<br>2013 | December 31,<br>2012 | December 31,<br>2013 | December 31,<br>2012 |
| Net revenue <sup>(1)</sup>                                     | \$ 28,000            | \$ 516,000           | \$ 62,000            | \$ 592,000           |
| Cost of sales  | 19,000               | 458,000              | 40,000               | 503,000              |
| Gross profit   | 9,000                | 58,000               | 22,000               | 89,000               |
| Operating expenses:  |                      |                      |                      |                      |
| Selling and administrative expenses                            | 342,000              | 687,000              | 654,000              | 1,401,000            |
| Amortization of prepaid advisory fees                          | 414,000              | 423,000              | 825,000              | 830,000              |
| Research and development                                       | 123,000              | 236,000              | 230,000              | 526,000              |
| Total operating expenses                                       | 879,000              | 1,346,000            | 1,709,000            | 2,757,000            |
| Operating loss   | (870,000)            | (1,288,000)          | (1,687,000)          | (2,668,000)          |
| Other income (expense):  |                      |                      |                      |                      |
| Change in fair value of derivate liabilities                   | 2,000                | 2,184,000            | 83,000               | 3,572,000            |
| Interest expense, net  | (47,000)             | (20,000)             | (100,000)            | (37,000)             |
| Gain on settlement of accrued liability                        | —                    | —                    | 42,000               | —                    |
| Net (loss) income  | \$ (915,000)         | \$ 876,000           | \$ (1,662,000)       | \$ 867,000           |
| Net income (loss) per share – basic                            | \$ (0.02)            | \$ 0.02              | \$ (0.03)            | \$ 0.02              |
| Net income (loss) per share – diluted                          | \$ (0.02)            | \$ 0.02              | \$ (0.03)            | \$ 0.02              |
| Weighted average number of common shares outstanding – basic   | 47,715,793           | 46,614,250           | 47,604,706           | 46,022,798           |
| Weighted average number of common shares outstanding – diluted | 47,715,793           | 50,878,086           | 47,604,706           | 50,243,557           |

(1) Includes sales to related parties for the three and six months ended December 31, 2012, of approximately \$11,000 and \$31,000, respectively.

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

**FLUX POWER HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Six Months Ended December 31, 2013 and 2012**  
**(Unaudited)**

|  | Six Months Ended     |                      |
|--|----------------------|----------------------|
|  | December 31,<br>2013 | December 31,<br>2012 |
| <b>Cash flows from operating activities:</b>   |                      |                      |
| Net (loss) income  | \$ (1,662,000)       | \$ 867,000           |
| Adjustments to reconcile net (loss) income to net cash used in operating activities: |                      |                      |
| Depreciation   | 33,000               | 21,000               |
| Amortization of prepaid advisory fees  | 825,000              | 830,000              |
| Change in fair value of warrant liability  | (83,000)             | (3,572,000)          |
| Stock-based compensation   | 60,000               | 38,000               |
| Stock issuance for services  | 53,000               | —                    |
| Gain on settlement of accrued liability  | (42,000)             | —                    |
| Changes in operating assets and liabilities:   |                      |                      |
| Accounts receivable  | 7,000                | 40,000               |
| Inventories  | 13,000               | 380,000              |
| Other current assets   | 17,000               | (184,000)            |
| Accounts payable   | (8,000)              | (106,000)            |
| Accrued expenses   | (13,000)             | (22,000)             |
| Accrued interest   | 101,000              | 38,000               |
| Customer deposits  | 17,000               | 12,000               |
| Customer deposits from related party   | (2,000)              | (31,000)             |
| Deferred revenue   | —                    | (480,000)            |
| Net cash used in operating activities  | <u>(684,000)</u>     | <u>(2,169,000)</u>   |
| <b>Cash flows from investing activities:</b>   |                      |                      |
| Purchases of equipment   | —                    | (37,000)             |
| Net cash used in investing activities  | <u>—</u>             | <u>(37,000)</u>      |
| <b>Cash flows from financing activities:</b>   |                      |                      |
| Proceeds from issuance of common shares from the exercise of employee stock options  | —                    | 4,000                |
| Proceeds from the sale of common stock and warrants, net of offering costs paid      | —                    | 981,000              |
| Proceeds from stockholder notes payable and line of credit                           | 668,000              | 450,000              |
| Net cash provided by financing activities  | <u>668,000</u>       | <u>1,435,000</u>     |
| Net decrease in cash   | (16,000)             | (771,000)            |
| Cash, beginning of period  | <u>20,000</u>        | <u>812,000</u>       |
| Cash, end of period  | <u>\$ 4,000</u>      | <u>\$ 41,000</u>     |
| <b>Supplemental disclosures of Non-cash Investing and Financing Activities::</b>     |                      |                      |
| Issuance of warrants classified as derivative liabilities                            | <u>\$ —</u>          | <u>\$ 931,000</u>    |
| <b>Supplemental disclosures of Cash Flow Information :</b>                           |                      |                      |
| <b>Cash paid during the year for:</b>  |                      |                      |
| Income taxes   | <u>\$ —</u>          | <u>\$ 2,000</u>      |

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

**FLUX POWER HOLDINGS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**NOTE 1 – BASIS OF PRESENTATION AND NATURE OF BUSINESS**

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and the rules of the Securities and Exchange Commission (“SEC”) applicable to interim reports and should be read in conjunction with the audited financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2013 filed with the SEC. In the opinion of management, the accompanying condensed consolidated interim financial statements include all adjustments, necessary in order to make the financial statements not misleading. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year or any other future period. Certain notes to the financial statements that would substantially duplicate the disclosures contained in the audited financial statements for the most recent fiscal year as reported in the Company’s Annual Report on Form 10-K have been omitted. The accompanying condensed consolidated balance sheet at June 30, 2013 has been derived from the audited balance sheet at June 30, 2013 contained in such Form 10-K.

The accompanying condensed consolidated financial statements of the Company have been prepared on a going-concern basis. See Note 2 for discussion of liquidity/going concern matters.

**Nature of Business**

Flux Power Holdings, Inc. (“Flux”) conducts operations through its wholly owned subsidiary, Flux Power, Inc. (“Flux Power”), a California corporation.

The Company develops and sells 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 has also developed a suite of complementary technologies and products that accompany their core products. Sales during the three and six months ended December 31, 2013 and 2012 were primarily to customers located throughout the United States.

All dollar amounts herein are in U.S. dollars unless otherwise stated.

## NOTE 2 – LIQUIDITY AND GOING CONCERN

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred an accumulated deficit of \$5,639,000 through December 31, 2013, and had limited cash or other working capital as of December 31, 2013. To date, the Company's revenues and operating cash flows have not been sufficient to sustain its operations. The audit report dated October 15, 2013, from the Company's independent registered public accounting firm indicated that the Company's significant accumulated deficit and its need to raise immediate additional financing among other factors, raised substantial doubt about the Company's ability to continue as a going concern.

On October 16, 2013, the Company amended its debt Stockholder Notes Payable and credit line agreements (see Note 4) with Esenjay Investments, LLC ("Esenjay"). The amendments extended the maturity dates and modified annual interest rates of all debt instruments held by Esenjay to December 31, 2015, increased the Line of Credit to \$ 2,000,000, and provided for the option to convert any or all of the amount outstanding under the debt agreements, as amended, into shares of our common stock.

As part of the Company's financing plan established in 2013, management has engaged financial advisors to assist in securing additional equity capital of up to \$ 5 million. The Company contracted with Security Research Associates in 2013 as its exclusive placement agent.

Although the Company was able to amend its current debt facilities with Esenjay, the Company's ability to continue as a going concern is dependent on obtaining additional financing sufficient to sustain operations until positive cash flow from operations and profitability can be achieved. Management plans to continue to seek additional equity financing to generate the capital required to fund its current operations and future planned growth. In addition, the Company is pursuing other investment structures that management believes may generate the necessary funding for the Company. Although management believes that the additional required funding will be obtained, there is no guarantee the Company will be able to obtain the additional required funds on a timely basis or that funds will be available on terms acceptable to the Company. If such funds are not available when required, management will be required to curtail its investments in additional sales and marketing and product development resources, and capital expenditures, which may have a material adverse effect on the Company's future cash flows and results of operations, and its ability to continue operating as a going concern. The accompanying financial statements do not include any adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to liquidate its assets and discharge its liabilities in other than the normal course of business and at amounts that may differ from those reflected in the accompanying condensed consolidated financial statements.

## NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying condensed consolidated financial statements follows:

### *Principles of Consolidation*

The condensed consolidated financial statements include the Flux Power Holdings, Inc. and its wholly-owned subsidiary Flux Power Inc. after elimination of all intercompany accounts and transactions.

### *Subsequent Events*

Management has evaluated events subsequent to December 31, 2013, through the date of this filing with the Securities and Exchange Commission for transactions and other events that may require adjustment of and/or disclosure in such financial statements.

### *Reclassifications*

Certain prior year amounts have been reclassified to conform to the current year presentation for comparative purposes.

### *Use of Estimates in Financial Statement Preparation*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as certain financial statement disclosures. Significant estimates include valuation allowances relating to accounts receivable, inventory, and deferred tax assets, and valuations of derivative liabilities and equity instruments. While management believes that the estimates and assumptions used in the preparation of the financial statements are appropriate, actual results could differ from these estimates.



### ***Cash and Cash Equivalents***

As of December 31, 2013, cash totaled approximately \$4,000 and consists of funds held in a non-interest bearing bank deposit account. The Company considers all liquid short-term investments with maturities of less than three months when acquired to be cash equivalents. The Company had no other cash equivalents at December 31, 2013 and June 30, 2013.

### ***Fair Values of Financial Instruments***

The carrying amount of our accounts payable and accounts receivable approximates their estimated fair values due to the short-term maturities of those financial instruments. The carrying amount of notes payable and line of credit approximates their fair value as the interest approximates current market interest rates for the similar instruments. Derivative liabilities recorded in connection with warrants are reported at their estimated fair value, with changes in fair value being reported in results of operations (see Note 8). Except for derivative liabilities referenced above, the Company does not have any other assets or liabilities that are measured at fair value on a recurring basis.

### ***Accounts Receivable and Customer Deposits***

Accounts receivable are carried at their estimated collectible amounts. The Company may require advance deposits from its customers prior to shipment of the ordered products. The Company has not experienced collection issues related to its accounts receivable, and has not recorded an allowance for doubtful accounts during the three and six months ended December 31, 2013 and 2012.

### ***Inventories***

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. 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. The Company did not record an adjustment related to obsolete inventory during the three and six months ended December 31, 2013 and 2012.

### ***Property, Plant and Equipment***

Property, plant and equipment are stated at cost, net of accumulated depreciation. Depreciation and amortization are provided using the straight-line method over the estimated useful lives, of the related assets ranging from three to ten years, 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***

Pursuant to the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 718-10, *Stock Compensation*, which establishes accounting for equity instruments exchanged for employee service, we utilize the Black-Scholes option pricing model to estimate the fair value of employee stock option awards at the date of grant. This model, which requires the input of highly subjective assumptions, includes expected volatility and expected life of the options. Changes in these inputs and assumptions can materially affect the measure of estimated fair value of our share-based compensation. These assumptions are subjective and generally require significant analysis and judgment to develop. When estimating fair value, some of the assumptions will be based on, or determined from, external data and other assumptions may be derived from our historical experience with stock-based payment arrangements. The appropriate weight to place on historical experience is a matter of judgment, based on relevant facts and circumstances. In accordance with this guidance, the estimated grant-date fair value of options expected to vest is recognized as compensation expense on a pro-rata basis over the vesting period of the options.

Common stock or equity instruments such as warrants issued for services to non-employees are valued at their estimated fair value at the measurement date (the date when a firm commitment for performance of the services is reached, typically the date of issuance, or when performance is complete).

### ***Revenue Recognition***

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. When a right of return exists, contractually or implied, 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. During the three and six months ended December 31, 2013, and 2012, the Company did not record any deferred revenue.

### ***Product Warranties***

The Company evaluates its exposure to product warranty obligations based on historical experience. Our products are warranted for two years unless modified by a separate agreement. As of December 31, 2013, the Company carries a warranty liability of approximately \$11,000, which is included in accrued expenses on the Company's balance sheets.

### ***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***

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. 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 that no impairment indicators are present.

### ***Research and Development***

The Company is actively engaged in new product development efforts. Research and development cost relating to possible future products are expensed as incurred.

### ***Income Taxes***

The Company follows FASB ASC Topic No. 740, *Income Taxes*. Deferred tax assets or liabilities are recorded to reflect the future tax consequences of temporary differences between the financial reporting basis of assets and liabilities and their tax basis at each year-end. These amounts are adjusted, as appropriate, to reflect enacted changes in tax rates expected to be in effect when the temporary differences reverse.

The Company records deferred tax assets and liabilities based on the differences between the financial statement and tax bases of assets and liabilities and on operating loss carry forwards using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized.

We also follow the provisions of FASB ASC Topic No. 740 relating to uncertain tax provisions and have analyzed filing positions in all of the federal and state jurisdictions where the Company is required to file income tax returns, as well as all open tax years in these jurisdictions. Based on our analysis, no unrecognized tax benefits have been identified as of December 31, 2013, or June 30, 2013, and accordingly, no additional tax liabilities have been recorded.

### ***Net Income (Loss) Per Common Share***

The Company calculates basic income (loss) per common share by dividing net earnings or loss by the weighted average number of common shares outstanding during the periods. Diluted earnings (loss) per common share include the impact from all dilutive potential common shares relating to outstanding convertible securities.

For the three and six months ended December 31, 2013, basic and diluted weighted-average common shares outstanding were 47,715,793 and 47,604,706, respectively. The Company incurred a net loss for the three and six months ended December 31, 2013, and therefore, basic and diluted loss per share for those periods are the same because the inclusion of potential common equivalent shares were excluded from diluted weighted-average common shares outstanding during the period, as the inclusion of such shares would be anti-dilutive. As of December 31, 2013, there were 460,713 potentially dilutive common shares outstanding, which include common shares underlying outstanding stock options that were excluded from diluted weighted-average common shares outstanding.

For the three months ended December 31, 2012, basic and diluted weighted-average common shares outstanding were 46,614,250 and 50,878,086, respectively, and for the six months ended December 31, 2012, basic and diluted weighted-average common shares outstanding were 46,022,798, and 50,243,557, respectively. The potentially dilutive common shares outstanding for the three and six months ended December 31, 2012, which include common shares underlying outstanding stock options and warrants, included in the diluted weighted-average calculation were approximately 4,240,005 and 3,971,824, respectively.

### ***Derivative Financial Instruments***

The Company does not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risk.

We evaluate free-standing derivative instruments (or embedded derivatives) to properly classify such instruments within equity or as liabilities in our financial statements. The classification of a derivative instrument is reassessed at each reporting date. If the classification changes because of events during a reporting period, the instrument is reclassified as of the date of the event that caused the reclassification. There is no limit on the number of times a contract may be reclassified.

Instruments classified as derivative liabilities are recorded initially at their estimated fair value and are re-measured each reporting period (or upon reclassification). The change in fair value is recorded on our condensed consolidated statements of operations in other (income) expense (see Note 7).

### ***New Accounting Standards***

The Company reviews new accounting standards as issued. There have been no recently issued accounting standards, or changes in accounting standards, that have had, or are expected to have, a material impact on our condensed consolidated financial statements.

### **NOTE 4 - STOCKHOLDER NOTES PAYABLE AND LINE OF CREDIT**

In October 2011 we entered into a revolving promissory note agreement ("Revolving Note") for \$1,000,000 with Esenjay Investments, LLC ("Esenjay"), which is one of our major stockholders who beneficially owns approximately 42.6 % of our common stock. Mr. Michael Johnson is a current member of our board of directors and is the director and sole shareholder of Esenjay. The Revolving Note had an interest rate of 8 % per annum, and an original maturity date of September 30, 2013, as amended, and is secured by substantially all of the assets of the Company. As of September 30, 2013, the balance outstanding payable on the note was \$1,000,000. On October 16, 2013, we entered into the Second Amendment to the Secondary Revolving Promissory Note for Operating Capital (the "Amendment") pursuant to which the Revolving Note was amended to: (i) extend the maturity date from September 30, 2013, to December 31, 2015; (ii) change the interest rate on the outstanding principal amount as of October 16, 2013, and forward to 6 % per annum, and (iii) grant the holder of the Revolving Note the option to convert any or all of the amount outstanding under the Revolving Note, as amended, into shares of our common stock at a conversion price of \$ 0.30 per share until December 31, 2015. In January 2014, \$400,000 of the Revolving Note balance was converted to equity (see Note 11).

On March 7, 2012, we entered into an additional note payable agreement with Esenjay for \$50,000 ("Bridge Note"). The Bridge Note had an original maturity date of March 7, 2014, and bore interest at the rate of 8% per annum. As of September 30, 2013, the balance outstanding payable on the Bridge Note was \$250,000 and there were no further funds available under the Bridge Note. On October 16, 2013, we entered into the First Amendment to the Bridge Loan Promissory Note (the "Amendment") pursuant to which the Bridge Note was amended to: (i) extend the maturity date from March 7, 2014, to December 31, 2015; (ii) change the interest rate on the outstanding principal amount as of October 16, 2013, and forward to 6 % per annum; and (iii) grant the holder of the Bridge Note the option to convert any or all of the amount outstanding under the Bridge Note, as amended, into shares of our common stock at a conversion price of \$0.30 per share until December 31, 2015.

On September 24, 2012, we entered into a Line of Credit agreement with Esenjay for \$1,500,000 ("Line of Credit"). Borrowings under the Line of Credit are secured by our assets and bore interest at the rate of 8 % per annum, with all unpaid principal and accrued interest due and payable on September 24, 2014. On October 16, 2013, we entered into the First Amendment to the Line of Credit (the "Amendment") pursuant to which the Line of Credit was amended to: (i) extend the maturity date from September 24, 2014, to December 31, 2015; (ii) change the interest rate on the outstanding principal amount as of October 16, 2013, and forward to 6 % per annum; (iii) increase the line of credit to \$2,000,000; and (iv) grant holder the option to convert up to \$400,000 of the outstanding amount under the Line of Credit into shares of our common stock at a conversion price of \$0.06 per share until December 31, 2013, and the option to convert any or all of the remaining amount outstanding under the Line of Credit into shares of our common stock at a conversion price of \$ 0.30 per share until December 31, 2015. As of December 31, 2013, the balance outstanding under the Line of Credit was \$1,886,000. Subsequent to December 31, 2013, no additional draws have been made.

As of December 31, 2013, a total of \$14,000 was available under credit lines with Esenjay.

### **NOTE 5 – COMMITMENTS AND CONTINGENCIES**

From time to time, we may be involved in litigation relating to claims arising out of our operations. As of December 31, 2013, we are not a party to any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on our business, financial condition or operating results.

## NOTE 6 - STOCKHOLDERS' EQUITY

At December 31, 2013, the Company had 145,000,000 shares of common stock, par value of \$0.001 authorized for issuance, of which 48,135,576 shares were issued and outstanding.

In addition, at December 31, 2013, the Company is authorized to 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.

Holder 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. To date the Board of Directors has neither declared nor paid common stock dividends to shareholders.

### *Common Stock and Warrants*

#### *Private Placements - 2012*

In July, August, and October 2012, the Company issued an aggregated of 2,353,093 shares of common stock and 579,450 five (5) year warrants to purchase shares of our common stock at an exercise price of \$0.41 per share, resulting in aggregate proceeds of approximately \$980,000, pursuant to private placement transactions.

The common stock purchased in the above referenced private placements and the common stock issuable upon exercise of warrants have piggyback registration rights. The securities offered and sold in the private placement have not been registered under the 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.

### *Advisory Agreements*

**Baytree Capital - Related Party.** On June 14, 2012, the Company entered into an Advisory Agreement ("Advisory Agreement") with Baytree Capital, a significant shareholder of the Company, pursuant to which Baytree Capital agreed to provide business and advisory services for 24 months in exchange for 100,000 restricted shares of our newly issued common stock at the commencement of each six (6) month period in return for its services, and a warrant to purchase 1,837,777 restricted shares of our common stock for a period of five (5) years at an exercise price of \$0.41 per share ("Advisory Agreement Warrants"). In connection with this agreement, the estimated fair value of the warrants issued in the approximate amount of \$3,258,000 was recorded as prepaid advisory fees, which is expected to be amortized on a pro-rata basis over the term of the agreement. During each of the six months ended December 31, 2013, and 2012, we recorded expense of approximately \$815,000 as a result of the prepaid advisory fees amortization. As of December 31, 2013, the total remaining balance of the prepaid advisory fees was approximately \$747,000.

In accordance with the Advisory Agreement, on June 14, 2013, which was the beginning of the third six-month period, a liability was recorded based on that day's stock price for the anticipated issuance of 100,000 shares of common stock. These shares were valued at \$0.60 per share, based on the price per share of the Company's common stock on June 14, 2013, for the total of \$60,000 due to Baytree Capital. On July 9, 2013, we issued Baytree Capital 100,000 restricted shares of our newly issued common stock at \$0.12 per share. During the six months ended December 31, 2013, the Company recorded expense of \$6,500 for such advisory fees.

On December 14, 2013, the commencement of the fourth six-month period, the Company accrued for the fourth installment of the shares for services valued at \$0.05 per share, the price per share of the Company's common stock on December 14, 2013, for the total of the \$5,000 due to Baytree Capital. The Company also recorded \$5,000 of prepaid advisory fees to be amortized over six months. The expense recognized during the period ended December 31, 2013, was immaterial.

**Caro Capital, LLC.** On April 4, 2013, the Company entered into an Advisory Agreement ("Agreement") with Caro Capital, LLC ("Caro Capital"), pursuant to which Caro Capital agreed to provide business and advisory services, management consulting, shareholder information, and public relations for six (6) months in exchange for 500,000 restricted shares of our newly issued common stock. Upon execution of the Agreement, Caro Capital was issued 100,000 shares of restricted stock per the contract terms, which were valued at \$44,000 based on the closing price of our common stock on the issuance date. The contract calls for subsequent issuance of 100,000 shares at 30-day increments to the first tranche. Per the terms of the Agreement, Caro Capital is entitled to the second and third tranche issuance of 100,000 shares of restricted stock each.

The second tranche shares were valued at \$0.50 per share, based on the price per share of the Company's common stock on May 4, 2013, when the second tranche shares were due to be issued, for the total of \$50,000. The costs associated with the 100,000 shares to be issued of approximately \$50,000 were recorded as consulting expense during the fourth quarter ended June 30, 2013. On August 13, 2013, the Company issued 100,000 restricted shares of our newly issued common stock at \$0.08 per share. As a result, during the six months ended December 31, 2013, the Company recorded \$42,000 gain on settlement of accrued liability, which resulted from the difference in the per share value on the accrual date and stock issuance date.

The third tranche shares were valued at \$0.32 per share, based on the price per share of the Company's common stock on June 4, 2013, when the third tranche shares were due to be issued, for the total of \$ 32,000. The costs associated with the 100,000 shares to be issued of approximately \$32,000 were recorded as consulting expense during the fourth quarter ended June 30, 2013.

On June 3, 2013, the Company terminated the Agreement with Caro Capital effective July 3, 2013. The liability for the third tranches shares of \$32,000 is included in accrued expenses at December 31, 2013.

**Catalyst Global LLC.** On October 14, 2013, the Company entered into a contract with Catalyst Global LLC ("CGL"), pursuant to which CGL agreed to provide investor relations services for 12 months in exchange for monthly fees of \$2,000 per month and 450,000 shares of restricted common stock issued as follows: 180,000 shares upon signing and the balance vesting pro rata upon each of the three-, six-, and nine-month anniversaries of the contract. The initial tranche was valued at \$0.05 per share at \$9,000 when issued on November 8, 2013.

**Institutional Analyst Holdings, Inc.** On December 18, 2013, the Company entered into a contract with Institutional Analyst Holdings, Inc. ("IA"), pursuant to which IA agreed to provide investor relations and report writing services for six months in exchange for an initial payment of \$2,500 and 400,000 restricted shares of Flux common stock upon execution of the contract. An additional 400,000 restricted shares of Flux common stock would be issued 60 days from the date of the contract. The initial tranche was valued at \$0.06 per share at \$24,000 when issued on December 18, 2013.

#### Warrant Activity

Warrant activity during the six months ended December 31, 2013, and related balances outstanding as of such dates are reflected below:

|  | Number           | Weighted<br>Average<br>Exercise<br>Price Per<br>Share | Remaining<br>Contract<br>Term (#<br>years) |
|--|------------------|---|--|
| Shares purchasable under outstanding warrants at June 30, 2013     | 2,907,347        | \$ 0.41   |  |
| Stock purchase warrants issued                                     | —                | —   |  |
| Stock purchase warrants exercised                                  | —                | —   |  |
| Shares purchasable under outstanding warrants at December 31, 2013 | <u>2,907,347</u> | <u>\$ 0.41</u>  | <u>3.46 - 3.84</u>                         |

Warrant activity during the six months ended December 31, 2012, and related balances outstanding as of such dates are reflected below:

|  | Number           | Weighted<br>Average<br>Exercise<br>Price Per<br>Share | Remaining<br>Contract<br>Term (#<br>years) |
|--|------------------|---|--|
| Shares purchasable under outstanding warrants at June 30, 2012     | 2,400,328        | \$ 0.41   |  |
| Stock purchase warrants issued                                     | 507,019          | —   |  |
| Stock purchase warrants exercised                                  | —                | —   |  |
| Shares purchasable under outstanding warrants at December 31, 2012 | <u>2,907,347</u> | <u>\$ 0.41</u>  | <u>4.49</u>                                |

#### Stock-based Compensation

During the six months ended December 31, 2013, the Company granted 3,010,973 non-qualified stock options of the Company's common stock. The Company has not registered the shares of common stock underlying stock options outstanding as of December 31, 2013.

Activity in stock options during the six months ended December 31, 2013, and related balances outstanding as of that date are reflected below:

|                                  | Number of<br>Shares | Weighted<br>Average<br>Exercise Price<br>per share | Weighted<br>Average<br>Remaining<br>Contract<br>Term (# years) |
|----------------------------------|---------------------|--|--|
| Outstanding at June 30, 2013     | 2,527,389           | \$ 0.15  | 5.85   |
| Granted                          | 3,010,973           | 0.10   |  |
| Exercised                        | —                   | —  |  |
| Forfeited and cancelled          | (460,001)           | 0.04   |  |
| Outstanding at December 31, 2013 | 5,078,361           | \$ 0.14  | 8.69   |
| Exercisable at December 31, 2013 | 3,357,982           | \$ 0.20  | 8.31   |

Activity in stock options during the six months ended December 31, 2012, and related balances outstanding as of that date are reflected below:

|                                  | Number of<br>Shares | Weighted<br>Average<br>Exercise Price<br>per share | Weighted<br>Average<br>Remaining<br>Contract<br>Term (# years) |
|----------------------------------|---------------------|--|--|
| Outstanding at June 30, 2012     | 4,536,949           | \$ 0.17  | 7.61   |
| Granted                          | —                   | —  |  |
| Exercised                        | (100,000)           | 0.04   |  |
| Forfeited and cancelled          | (1,021,896)         | 0.30   |  |
| Outstanding at December 31, 2012 | 3,415,053           | \$ 0.13  | 6.26   |
| Exercisable at December 31, 2012 | 2,333,219           | \$ 0.19  | 5.18   |

Stock-based compensation expense recognized in our condensed consolidated statements of operations for the six months ended December 31, 2013, and 2012, includes compensation expense for stock-based options and awards granted based on the grant date fair value. For options and awards granted, expenses are amortized under the straight-line method over the expected vesting period. Stock-based compensation expense recognized in the condensed consolidated statements of operations has been reduced for estimated forfeitures of options that are subject to vesting. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods based on changes in the estimated forfeiture rate. During the first quarter of fiscal 2014 the Company revised its forfeiture rate based on prior year actual forfeitures. The change in forfeiture rate from 5% to 13% resulted in a reduction of approximately \$21,000 to previously recognized stock based compensation expense.

The closing price of our stock at December 31, 2013, was \$0.05, and as a result the intrinsic value of the exercisable options at December 31, 2013, was \$2,000.

We allocated stock-based compensation expense included in the condensed consolidated statements of operations for employee option grants and non-employee option grants as follows:

|  | For the Three Months Ended |                      | For the Six Months Ended |                      |
|--|----------------------------|----------------------|--------------------------|----------------------|
|  | December 31,<br>2013       | December 31,<br>2012 | December 31,<br>2013     | December 31,<br>2012 |
| Research and development               | \$ 4,000                   | \$ 4,000             | \$ 3,000                 | \$ 8,000             |
| General and administration             | 33,000                     | (10,000)             | 57,000                   | 30,000               |
| Total stock-based compensation expense | \$ 37,000                  | \$ (6,000)           | \$ 60,000                | \$ 38,000            |

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 (annualized percentages) in the table below:

| Six months ended December 31, | 2013         | 2012         |
|-------------------------------|--------------|--------------|
| Expected volatility           | 218%         | 100%         |
| Risk free interest rate       | 1.4% to 1.7% | 0.8% to 3.0% |
| Forfeiture rate               | 13%          | 5%           |
| Dividend yield                | 0%           | 0%           |
| Expected term                 | 3-5 years    | 5-10 years   |

The remaining amount of unrecognized stock-based compensation expense at December 31, 2013, is approximately \$283,000, which is expected to be recognized over the weighted average period of 8.31 years.

#### NOTE 7 – Warrant Derivative Liability

At December 31, 2013, there were 2,907,347 outstanding warrants classified as derivative liabilities due to exercise price re-set provisions included in the underlying warrant agreements.

Warrants classified as derivative liabilities are recorded at their estimated fair values at the issuance date and are revalued at each subsequent reporting date. Warrants were determined to have an estimated fair value per share and aggregate value as of December 31, 2013, and in aggregate value as of June 30, 2013, as follows:

|                             | Issued Warrants  | Estimated Fair Value Per Share \$ as of December 31, 2013 | Estimated Total Fair Value in Aggregate \$ as of December 31, 2013 | Estimated Total Fair Value in Aggregate \$ as of June 30, 2013 |
|-----------------------------|------------------|---|--|--|
| June 2012 Warrants          | 562,551          | \$ 0.02   | \$ 11,000  | \$ 27,000  |
| July 2012 Warrants          | 338,013          | 0.02  | 7,000  | 17,000   |
| August 2012 Warrants        | 120,719          | 0.02  | 3,000  | 6,000  |
| October 2012 Warrants       | 48,287           | 0.02  | 1,000  | 3,000  |
| Advisory Agreement Warrants | 1,837,777        | 0.02  | 38,000   | 90,000   |
| Total                       | <u>2,907,347</u> |   | <u>\$ 60,000</u>   | <u>\$ 143,000</u>  |

#### NOTE 8 – FAIR VALUE MEASUREMENTS

We follow FASB ASC Topic No. 820, *Fair Value Measurements and Disclosures* (“ASC 820”) in connection with financial assets and liabilities measured at fair value on a recurring basis subsequent to initial recognition.

ASC 820 requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following categories:

- Level 1: Quoted market prices in active markets for identical assets and liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

The hierarchy noted above requires us to minimize the use of unobservable inputs and to use observable market data, if available, when determining fair value.

The fair value of our recorded derivative liabilities is determined based on unobservable inputs that are not corroborated by market data, which is a (Level 3) classification. We record derivative liabilities on our balance sheets at fair value with changes in fair value recorded in our condensed consolidated statements of operations.

Following is a summary as of the reporting date of the fair values and applicable level within the fair value hierarchy of assets and liabilities measured at fair value on a recurring basis:

| At December 31, 2013:          | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--------------------------------|--|---|---|
| <b>Description:</b>            |  |   |   |
| Warrant derivative liabilities | \$ -   | \$ -  | \$ 60,000                                 |

| At June 30, 2013:              | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--------------------------------|--|---|---|
| <b>Description:</b>            |  |   |   |
| Warrant derivative liabilities | \$ -   | \$ -  | \$ 143,000                                |

The table below sets forth a summary of changes in the fair value of our (Level 3) financial instruments for the six months ended December 31, 2013:

|                                | Balance at June 30, 2013 | Estimated fair value of new derivative liabilities | Change in estimated fair value recognized in results of operations | Balance at December 31, 2013 |
|--------------------------------|--------------------------|--|--|------------------------------|
| Warrant derivative liabilities | \$ 143,000               | \$ -   | \$ (83,000)  | \$ 60,000                    |

**NOTE 9 – OTHER RELATED PARTY TRANSACTIONS**

***Sublease Agreement***

Effective July 1, 2013, the Company relocated its principal office and manufacturing to Vista, California. The Company entered into a month-to-month sub-lease agreement for shared space with Epic Boats, a related party, with monthly payments of approximately \$4,950. On December 1, 2013, the monthly payment increased to \$7,920 due to Epic Boats transferring operations to Louisiana.

***Epic Boats Inventory Deposit***

As of December 31, 2013, the Company maintains a prepaid deposit from Epic Boats in the amount of \$135,000. The deposit is related to anticipated sales of batteries from the Company to Epic Boats that have yet to be delivered.

**NOTE 10 – CONCENTRATIONS**

***Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments. The Company maintains cash balances at a financial institution in San Diego, California. The Company's cash balance at this institution is secured by the Federal Deposit Insurance Corporation up to \$250,000. As of December 31, 2013, cash totaled approximately \$4,000, which consists of funds held in a non-interest bearing bank deposit account. 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 Concentrations***

During the three and six months ended December 31, 2013, the Company had three customers that represented more than 10% of its revenues on an individual basis and approximately 94% and 73%, respectively, in the aggregate.

During the three and six months ended December 31, 2012, the Company had one major customer that represented more than 10% of its revenues on an individual basis and approximately \$480,000 and 81%, in the aggregate.

### ***Suppliers/Vendor Concentrations***

We obtain components and supplies included in our products from a small group of suppliers. During the three and six months ended December 31, 2013, we had three and four suppliers, respectively, who accounted for more than 10% of our total inventory purchases on an individual basis and approximately 82% and 67%, respectively, in the aggregate.

During the three and six months ended December 31, 2012, we did not have a major supplier that accounted for more than 10% of our total purchases on an individual basis.

In the past, we have sourced Lithium batteries from a number of suppliers. We are realigning our battery sourcing to improve consistency, responsiveness, and quality. As a result, we have signed a non-exclusive supply agreement with Henan Huanyu New Energy Technology Ltd, a Chinese company for a term of five (5) years ending August 30, 2017.

### **NOTE 11 – SUBSEQUENT EVENTS**

On January 13, 2014, Esenjay Investments, LLC, company in which our director, Michael Johnson, is a director and shareholder of, purchased an aggregate 10 Units for a total purchase price of \$600,000 to be paid as follows: \$200,000 in cash and \$400,000 paid in the form of forgiveness of debt of equal amount under the outstanding Revolving Note for \$1,000,000. Each Unit consisting of 1,000,000 shares of common stock and 500,000 five-year warrants to purchase one share of common stock at an exercise price of \$0.20 per share. The securities offered and sold in the private placement have not been registered under the 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.

On February 4, 2014, we accepted Unit Subscription Agreements from five (5) accredited investors to which we sold 2.8 Units for an aggregate purchase price of \$168,000, or \$60,000 per Unit, all of which were paid in cash (“February 2014 Private Placement”). Each Unit consisted of 1,000,000 shares of our common stock and 500,000 warrants. We issued a total of 2,800,000 shares of our common stock and warrants to purchase up to 1,400,000 shares of our common stock, at an exercise price of \$0.20 per share until February 4, 2019. In connection with the February 2014 Private Placement, we paid a placement agent a fee equal to 9% of the gross proceeds raised in the February 2014 Private Placement and warrants at an exercise price of \$0.06 per share. The number shares of our common stock subject to the placement agent warrants will equal 9% of the aggregate gross proceeds from the February 2014 Private Placement divided by \$0.06 and have a term of 5 years. The securities offered and sold to the investors 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.

On February 7, 2014, Flux Power received approval to sell its 24 Volt LiFT Pack lithium battery solution for Class III Toyota and Raymond “walkie” lift trucks (forklifts). Toyota is the world’s number one selling lift truck manufacturer.

Management has evaluated events subsequent to December 31, 2013, through the date of this filing with the Securities and Exchange Commission for transactions and other events that may require adjustment of and/or disclosure in such financial statements.

## ITEM 2 — MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This information should be read in conjunction with the unaudited interim condensed consolidated financial statements and the notes thereto included in this Quarterly Report on Form 10-Q, and the audited financial statements and notes thereto and Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended June 30, 2013.

### Overview

We 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 monitoring each individual cell and making decision on whether the individual cell or 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 15 mega watt-hours of Advanced Energy Storage to clients such as NACCO Materials Handling Group, Inc. (NACCO), GreenTech Automotive, Inc. (GTA), Crown Equipment Corporation, Damascus Corporation, Columbia Parcar Corporation, Wheego Electric Cars Inc., (“Wheego”), Epic Electric Vehicles, and Texas Association of Local Health Officials (TALHO).

We are currently primarily focusing on the lift equipment with dealers/distributors, and secondarily, with the non-OEM micro-grid market. We anticipate that these markets will be the strongest for aggressive revenue growth over the coming year. A Prototype Agreement with NACCO confirmed that our advanced energy storage systems can address a broad range of lift equipment. However, the OEM market proved to be elusive and time consuming. In addition, working exclusively with one manufacturer would significantly limit our market opportunity. As such, we have shifted our focus from an OEM market to a non-OEM markets which pose fewer barriers to entry. Currently, we are working with various lift equipment OEM’s, their dealers and battery distributors to bring our advanced energy storage systems to the lift equipment market which provides a more direct market path without the delays and issues that accompany an OEM’s world-wide deployment of new energy solutions for lift truck equipment.

The micro-grid market includes working with companies to provide mobile and man-portable advanced energy storage to act as gas generator replacements and convenient mobile power for lighting, disaster preparedness, communications and water filtration. We have demonstration units currently being evaluated by the U.S. military providing us with their assessment and feedback. Additionally, we have placed solar, grid-tie energy storage in an office setting facility to evaluate the results of the output to meet operational needs.

The Company believes that it may be able to achieve higher longer-term revenue by focusing on a smaller number of products and selling to customers that do not require extensive and lengthy product development and negotiation periods. As a result, the Company has narrowed its focus to product segments including motive power (includes lift and tow equipment, portable power, and grid energy storage). The Company is positioned to address these markets which include applications such as industrial electric vehicles like electric forklifts, floor scrubbers, back-up power, grid-tie power, solar storage, electric service vehicles, pallet drivers, and mobile cooling units. However, the Company cannot guarantee that it will be successful in transitioning companies in these segments from legacy lead-acid technologies to our advanced energy storage solutions.

The Company's condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred an accumulated deficit of \$5,639,000 through December 31, 2013, and as of December 31, 2013, had limited cash or other working capital. To date, the Company's revenues and operating cash flows have not been sufficient to sustain its operations and it has relied on debt and equity financing to fund its operations. The audit report dated October 15, 2013, from the Company's independent registered public accounting firm indicated that the Company's significant accumulated deficit and its need to raise immediate additional financing among other factors, raised substantial doubt about the Company's ability to continue as a going concern. On October 16, 2013, the Company amended its debt Stockholder Notes Payable (see Note 4) with Esenjay Investments, LLC ("Esenjay") which extended the maturity dates of all notes held to December 31, 2015, increased the Line of Credit to \$2,000,000, and provided for the option to convert any or all of the amount outstanding under the outstanding notes, as amended, into shares of our common stock at conversion prices ranging from \$0.06 per share until December 31, 2013, and \$0.30 per share until December 31, 2015.

#### Recent Developments

In October 2011 we entered into a revolving promissory note agreement ("Revolving Note") for \$1,000,000 with Esenjay Investments, LLC ("Esenjay"), which is one of our major stockholders who beneficially owns approximately 42.6% of our common stock. Mr. Michael Johnson, a current member of our board of directors, is the director and sole shareholder of Esenjay. The Revolving Note had an interest rate of 8% per annum, and an original maturity date of September 30, 2013, as amended, and is secured by substantially all of the assets of the Company. As of September 30, 2013, the balance outstanding payable on the note was \$1,000,000. On October 16, 2013, we entered into the Second Amendment to the Secondary Revolving Promissory Note for Operating Capital (the "Amendment") pursuant to which the Revolving Note was amended to (i) extend the maturity date from September 30, 2013, to December 31, 2015; (ii) change the interest rate on the outstanding principal amount as of October 16, 2013, and forward to 6%, and (iii) grant the holder of the Revolving Note the option to convert any or all of the amount outstanding under the Revolving Note, as amended, into shares of our common stock at a conversion price of \$0.30 per share until December 31, 2015.

On March 7, 2012, we entered into an additional note payable agreement with Esenjay for \$250,000 ("Bridge Note"). The Bridge Note had an original maturity date of March 7, 2014, and an interest rate of 8% per annum. As of September 30, 2013, the balance outstanding payable on the Bridge Note was \$250,000 and there were no further funds available under the Bridge Note. On October 16, 2013, we entered into the First Amendment to the Bridge Loan Promissory Note (the "Amendment") pursuant to which the Bridge Note was amended to: (i) extend the maturity date from March 7, 2014, to December 31, 2015, (ii) change the interest rate on the outstanding principal amount as of October 16, 2013, and forward to 6%, and (iii) grant the holder of the Bridge Note the option to convert any or all of the amount outstanding under the Bridge Note, as amended, into shares of our common stock at a conversion price of \$0.30 per share until December 31, 2015.

On September 24, 2012, we entered into a Line of Credit agreement with Esenjay for \$1,500,000 ("Line of Credit"). Borrowings under the Line of Credit are secured by our assets and are at an interest rate of 8% per annum, with all unpaid principal and accrued interest due and payable on September 24, 2014. On October 16, 2013, we entered into the First Amendment to the Unrestricted and Open Line of Credit (the "Amendment") pursuant to which the Line of Credit was amended to (i) extend the maturity date from September 24, 2014, to December 31, 2015, (ii) change the interest rate on the outstanding principal amount as of October 16, 2013, and forward to 6%, (iii) increase the line of credit to \$2,000,000, and (iv) grant Lender the option to convert up to \$400,000 of the outstanding amount under the Line of Credit into shares of our common stock at a conversion price of \$0.06 per share until December 31, 2013, and the option to convert any or all of the amount outstanding under the Line of Credit into shares of our common stock at a conversion price of \$0.30 per share until December 31, 2015. As of December 31, 2013, the balance outstanding under the Line of Credit was \$1,886,000. Subsequent to December 31, 2013, the company has made no further draws.

In June 2013 we entered into a non-binding letter of intent ("LOI") to acquire KleenSpeed Technologies ("KleenSpeed"). KleenSpeed develops technology for distributed energy markets including grid storage. The LOI proposes that upon the successful closing of the acquisition, KleenSpeed will become a wholly-owned subsidiary of Flux. While the specific terms of the acquisition will be announced upon the execution of a definitive agreement, the acquisition is expected to be completed within the current fiscal year. In addition, the LOI contemplates that the consummation of the acquisition will be conditioned upon other customary closing conditions and the successful completion of a private placement of Flux's common stock (the "Shares") for a minimum of \$800,000 and a maximum of \$2,500,000 with the proceeds to be used primarily as working capital and future product development.

In November 2013 we began working with Wesley International, a domestic manufacturer of tow vehicles, to develop a lithium pack for the electric tow vehicle market. A 36 volt lithium storage pack is in prototype development to support Wesley's Pack Mule line of electric tow vehicles.

In December 2013 we entered into an agreement with Penguin Automated Systems Inc. to deliver a lithium motive power solution for a large unmanned robot that Penguin is developing for underground mining and civil construction activities. We will design and produce a 46-kilowatt, 48-volt lithium iron phosphate battery pack to power Penguin's three-ton robot that will be deployed for subterranean uses including mining and inspecting sewer systems. Development of the robot is scheduled for completion by mid-2014 to be followed by initial testing with mining and civil construction customers based in South America.

In January 2014 we agreed to provide HDT Global, a leading provider of highly-engineered mobile military and emergency response solutions, with portable lithium-ion storage packs for HDT's renewable solar energy solution designed to power military electronics in the field.

On February 7, 2014, Flux Power received approval to sell its lithium battery 24 volt LiFT Pack for Class III Toyota and Raymond lift truck. Toyota is the world's number one selling lift truck manufacturer.

#### **Segment and Related Information**

We operate as a single reportable segment.

#### **Results of Operations and Financial Condition**

##### ***Comparison for the Three Months Ended December 31, 2013 and 2012***

##### ***Net Loss***

Net losses reported were approximately \$915,000 for the three months ended December 31, 2013, as compared to net income of approximately \$876,000 for the three months ended December 31, 2012.

##### ***Revenues***

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

Revenues for the three months ended December 31, 2013, decreased by approximately \$488,000, or 95%, compared to the three months ended December 31, 2012. This decrease in sales was primarily attributable to major customers ultimately not meeting their production expectations.

##### ***Cost of Revenues***

Cost of revenues for the three months ended December 31, 2013, decreased approximately \$439,000, or 96%, compared to the three months ended December 31, 2012. This large decrease in cost of revenues was attributable to decrease in related sales costs as discussed above.

##### ***Gross Profit***

Gross profit for the three months ended December 31, 2013, decreased by approximately \$49,000, or 84%, compared to the three months ended December 31, 2012. Gross profit as a percentage of revenue for the three months ended December 31, 2013, increased to 32% compared to 11% in the three months ended December 31, 2012.

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

Selling, and general and administrative expenses for the three months ended December 31, 2013, and 2012, were approximately \$342,000 and \$687,000, respectively. Such expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, public company costs, consulting costs, professional fees and other expenses. The decrease of approximately \$345,000, or 50%, was primarily due to the reverse merger including legal and accounting fees expenses occurring in 2012 and a reduction in staffing and overhead implemented in May 2013.

##### ***Amortization of Prepaid Advisory Fees***

Amortization of prepaid advisory fees for the three months ended December 31, 2013, and 2012, was approximately \$414,000 and \$423,000, respectively. The prepaid advisory fees are related to the fair value of the warrants issued under an advisory agreement with Baytree Capital dated June 14, 2012, and to value of the shares of the Company's common stock issued pursuant to the same agreement where Baytree Capital agreed to provide business and advisory services to the Company.

##### ***Research and Development Expense***

Research and development expenses for the three months ended December 31, 2013, and 2012, were approximately \$123,000 and \$236,000, respectively. Such expenses consist primarily of materials, supplies, salaries and personnel related expenses, stock-based compensation expense, consulting costs, and other expenses. The decrease of approximately \$113,000, or 48%, was primarily due to a decrease in personnel costs and benefits, and an increase in material and supplies consumption.

### ***Change in Fair Value of Warrant Derivative Liability***

We follow FASB ASC Topic No. 820, *Fair Value Measurements and Disclosures* ("ASC 820") in connection with financial assets and liabilities measured at fair value on a recurring basis subsequent to initial recognition. The change in the fair value for the three months ended December 31, 2013, and 2012, was approximately \$2,000 and \$2,184,000, respectively (see Note 8, to the financial statements) and are recorded as other income in the accompanying condensed consolidated statements of operations.

### ***Comparison for the Six Months Ended December 31, 2013 and 2012***

#### ***Net Loss***

Net losses reported were approximately \$1,662,000 for the six months ended December 31, 2013, as compared to net income of approximately \$867,000 for the six months ended December 31, 2012.

#### ***Revenues***

Revenues for the six months ended December 31, 2013, decreased by approximately \$530,000, or 90%, compared to the six months ended December 31, 2012. This decrease in sales was primarily attributable to major customers ultimately not meeting their production expectations.

#### ***Cost of Revenues***

Cost of revenues for the six months ended December 31, 2013, decreased approximately \$463,000, or 92%, compared to the six months ended December 31, 2012. This large decrease in cost of revenues was attributable to decrease in related sales costs as discussed above.

#### ***Gross Profit***

Gross profit for the six months ended December 31, 2013, decreased by approximately \$67,000, or 75%, compared to the six months ended December 31, 2012. Gross profit as a percentage of revenue for the six months ended December 31, 2013, increased to 35% compared to 15% in the six months ended December 31, 2012.

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

Selling, and general and administrative expenses for the six months ended December 31, 2013, and 2012, were approximately \$654,000 and \$1,401,000, respectively. Such expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, public company costs, consulting costs, professional fees, and other expenses. The decrease of approximately \$747,000, or 53%, was primarily due to the reverse merger including legal and accounting fees expenses occurring in 2012, and a reduction in staffing and overhead implemented in May 2013.

#### ***Amortization of Prepaid Advisory Fees***

Amortization of prepaid advisory fees for the six months ended December 31, 2013, and 2012, was approximately \$825,000 and \$830,000, respectively. The prepaid advisory fees are related to the fair value of the warrants issued under an advisory agreement with Baytree Capital dated June 14, 2012, and to value of the shares of the Company's common stock issued pursuant to the same agreement where Baytree Capital agreed to provide business and advisory services to the Company.

#### ***Research and Development Expense***

Research and development expenses for the six months ended December 31, 2013, and 2012, were approximately \$230,000 and \$526,000, respectively. Such expenses consist primarily of materials, supplies, salaries and personnel related expenses, stock-based compensation expense, consulting costs, and other expenses. The decrease of approximately \$296,000, or 56%, was primarily due to a decrease in personnel costs and benefits, and an increase in material and supplies consumption.

### ***Change in Fair Value of Warrant Derivative Liability***

We follow FASB ASC Topic No. 820, *Fair Value Measurements and Disclosures* ("ASC 820") in connection with financial assets and liabilities measured at fair value on a recurring basis subsequent to initial recognition. The change in the fair value for the six months ended December 31, 2013, and 2012, was approximately \$83,000 and \$3,572,000, respectively (see Note 8, to the financial statements) and is recorded as other income in the accompanying condensed consolidated statements of operations.

## **Liquidity and Capital Resources**

### ***Overview***

As of December 31, 2013, we had a cash balance of approximately \$4,000, negative working capital of approximately \$5,000 (including approximately \$756,000 of prepaid advisory fees), and an accumulated deficit of approximately \$5,639,000. As discussed further below under Future Liquidity needs, we do not currently believe that our existing cash resources are sufficient to meet the Company's anticipated needs during the next twelve months, and that additional financing is required by the 3rd quarter of fiscal 2014 to support current operations.

### ***Cash Flows***

#### **Operating Activities**

Our operating activities resulted in net cash used in operations of approximately \$684,000 for the six months ended December 31, 2013, compared to net cash used in operations of approximately \$2,169,000 for the six months ended December 31, 2012.

Net cash used in operating activities during the six months ended December 31, 2013, reflect the net loss of approximately \$1,662,000 for the period offset by non-cash items including: depreciation of approximately \$33,000, amortization of prepaid advisory fees of approximately \$825,000, stock-based compensation of approximately \$60,000, stock issued for services of \$53,000, offset by changes in the fair value of warrants liability of approximately \$83,000 and gain on settlement of accrued liability of \$42,000. Changes in operating assets and liabilities included a decrease in accounts receivable of approximately \$7,000 and a decrease in accounts payable of approximately \$8,000. Other changes include a decrease in accrued expenses of approximately \$13,000 primarily related to payroll and related costs, an increase in accrued interest of approximately \$101,000, an increase in customer deposits of approximately \$17,000, a decrease in customer deposits from related party of approximately \$2,000, a decrease in inventory of \$13,000, and an increase in other current assets of approximately \$17,000.

#### **Investing Activities**

There were no investing activities for the six months ended December 31, 2013.

#### **Financing Activities**

Net cash provided by financing activities during the six months ended December 31, 2013, and 2012, was approximately \$668,000 and \$1,435,000, respectively. The increase in financing activities is the result of additional draws made under the Line of Credit with Esenjay to satisfy additional requirements for capital.

#### **Future Liquidity Needs**

The Company has evaluated its expected cash requirements over the next twelve months which include, but are not limited to, support of current operations, investments in additional sales and marketing and product development resources, capital expenditures, and working capital requirements, and has determined that our existing cash resources are not sufficient to meet our anticipated needs during this period. On October 16, 2013, we entered into an agreement with Esenjay Investments LLC ("Esenjay"), to amend our current debt, which includes our Revolving Note, Bridge Note and line of credit facility, which provided for an extension on the maturity through December 31, 2015, an adjustment to the interest rates and an increase in the Line of Credit (see Note 4, to the financial statements).

Based on our current and planned levels of expenditure, we estimate that total financing proceeds of approximately \$2.5 million will be required to fund planned operations through December 31, 2014, and that additional financing is required by the 3rd quarter of fiscal 2014 to support current operations. In addition, we anticipate that further additional financing will be required to fund our business plan subsequent to that date, until such time as revenues and related cash flows become sufficient to support our operating costs.

On January 13, 2014, Esenjay Investments, LLC, company in which our director, Michael Johnson, is a director and shareholder of, signed a subscription foran aggregate 10 Units for a total purchase price of \$600,000 to be paid as follows: \$200,000 in cash and \$400,000 paid in the form of forgiveness of debt of equal amount under the outstanding Revolving Note for \$1,000,000. Each Unit consisting of 1,000,000 shares of common stock and 500,000 five-year warrants to purchase one share of common stock at an exercise price of \$0.20 per share. The securities offered and sold in the private placement have not been registered under the 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.

On February 4, 2014, we accepted Unit Subscription Agreements from five (5) accredited investors to which we sold 2.8 Units for an aggregate purchase price of \$168,000, or \$60,000 per Unit, all of which were paid in cash ("February 2014 Private Placement"). Each Unit consisted of 1,000,000 shares of our common stock and 500,000 warrants. We issued a total of 2,800,000 shares of our common stock and warrants to purchase up to 1,400,000 shares of our common stock, at an exercise price of \$0.20 per share until February 4, 2019. In connection with the February 2014 Private Placement, we paid a placement agent a fee equal to 9% of the gross proceeds raised in the February 2014 Private Placement and warrants at an exercise price of \$0.06 per share. The number shares of our common stock subject to the placement agent warrants will equal 9% of the aggregate gross proceeds from the February 2014 Private Placement divided by \$0.06 and have a term of 5 years. The securities offered and sold to the investors 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.

If we are unable to increase sales of our products or obtain additional funding in the near future, our cash resources will rapidly be depleted and we may be required to further materially reduce or suspend operations, which would likely have a material adverse effect on our business, stock price and our relationships with third parties with whom we have business relationships, at least until additional funding is obtained. If we do not have sufficient funds to continue operations, we could be required to liquidate our assets, seek bankruptcy protection or other alternatives that would likely result in our receiving less than the value at which those assets are carried on our financial statements, and it is likely that investors will lose all or some of their investment in us.

Management plans to continue to seek additional equity financing to generate the capital required to fund its current operations and future planned growth. We have engaged financial advisors to assist in securing additional equity capital of up to \$2.5 million. In addition to engagements with financial advisors, the Company is pursuing other investment structures that management believes will generate the necessary funding to the Company. Although management believes that the additional required funding will be obtained, there is no guarantee the Company will be able to obtain the additional required funds 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 a material adverse effect on the Company's future cash flows and results of operations, and its ability to continue operating as a going concern.

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**

None.

#### **Critical Accounting Policies**

The unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the unaudited financial statements and revenues and expenses during the periods reported. Actual results could differ from those estimates. Information with respect to our critical accounting policies which we believe could have the most significant effect on our reported results and require subjective or complex judgments by management is contained in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the year ended June 30, 2013.

#### **Recent Accounting Pronouncements**

For the six months ended December 31, 2013, there were no accounting standards or interpretations that became effective or issued that are expected to have a material impact on our financial position, operations or cash flows.

### ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and is not required to provide the information required under this item.

### ITEM 4 - CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file with the SEC under the Securities Exchange Act of 1934, as amended is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate, to allow for timely decisions regarding required disclosure. As required by SEC Rule 15d-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934, as amended ("Exchange Act") Rule 15d- concluded that our disclosure controls and procedures were effective to ensure the information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed and reported within the time periods specified in the SEC's rules and forms.

#### Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during the most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

## PART II – OTHER INFORMATION

### ITEM 1 — LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties and an adverse result in these or other matters may arise from time to time that may harm our business. To the best knowledge of management, there are no material legal proceedings pending against the Company.

### ITEM 1A — RISK FACTORS

Any investment in our common stock involves a high degree of risk. Investors should carefully consider the risks described in our Annual Report on Form 10-K as filed with the SEC on October 15, 2013, and all of the information contained in our public filings before deciding whether to purchase our common stock. There have been no material revisions to the "Risk Factors" as set forth in our Annual Report on Form 10-K as filed with the SEC on October 15, 2013.

### ITEM 2 — UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On February 4, 2014, we accepted Unit Subscription Agreements from five (5) accredited investors to which we sold 2.8 Units for an aggregate purchase price of \$168,000, or \$60,000 per Unit, all of which were paid in cash ("February 2014 Private Placement"). Each Unit consisted of 1,000,000 shares of our common stock and 500,000 warrants. We issued a total of 2,800,00 shares of our common stock and warrants to purchase up to 1,400,000 shares of our common stock, at an exercise price of \$0.20 per share until February 4, 2019. In connection with the February 2014 Private Placement, we paid a placement agent a fee equal to 9% of the gross proceeds raised in the February 2014 Private Placement and warrants at an exercise price of \$0.06 per share. The number shares of our common stock subject to the placement agent warrants will equal 9% of the aggregate gross proceeds from the February 2014 Private Placement divided by \$0.06 and have a term of 5 years. The net proceeds of the February 2014 Private Placement are expected to be used for general corporate purposes. The securities offered and sold to the investors 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 securities were offered and sold to investors in reliance upon exemptions from registration pursuant to Rule 506 promulgated thereunder.

### ITEM 3 — DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4 — MINE SAFETY DISCLOSURES

Not applicable.



**ITEM 5 — OTHER INFORMATION**

None.

**ITEM 6 — EXHIBITS**

The following exhibits are filed as part of this Report

| Exhibit<br>No. | Description   |
|----------------|---|
| 10.18          | Form of Unit Subscription Agreement*  |
| 31.1           | Certifications of the Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act.* |
| 31.2           | Certifications of the Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act.* |
| 32.1           | Certifications of the Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act.* |
| 32.2           | Certifications of the Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act.* |
| 101.INS        | XBRL Instance Document (1)  |
| 101.SCH        | XBRL Taxonomy Extension Schema (1)  |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase (1)  |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase (1)   |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase (1)  |
| 101.FRE        | XBRL Taxonomy Extension Presentation Linkbase (1)   |

\* Filed herewith.

(1) XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

**SIGNATURES**

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

Flux Power Holding, Inc.

Date: February 14, 2014

By: /s/ Ronald F. Dutt  
Name: Ronald F. Dutt  
Title: Chief Executive Officer  
Principal Executive Officer

**FLUX POWER HOLDINGS, INC.**

**UNIT SUBSCRIPTION AGREEMENT**

THIS UNIT SUBSCRIPTION AGREEMENT (this "*Agreement*") is entered into by and between Flux Power Holdings, Inc., a Nevada corporation (the "*Company*"), and the person or entity executing the Agreement (the "*Investor*"). In this Agreement, the pronoun "it" means "he," "she," or "it," as appropriate.

A. The Company is offering to selected "accredited investors" up to 21 Units for aggregate amount of \$1,260,000, for \$60,000 per Unit, or \$.06 per common share (the "*Offering*"), subject to the terms, conditions, acknowledgements, representations, and warranties stated herein; however, the Company reserves the right to accept subscriptions for lesser amounts as well as the right to reject in whole or in part subscriptions received during the Offering. Each Unit consists of 1,000,000 shares of common stock of the Company ("*Common Shares*") at a price per common share of \$0.06 and 500,000 warrants (the "*Warrants*"), with each warrant entitling the holder to purchase one share of common stock ("*Warrant Share*") at an exercise price of \$0.20 per share ("*Exercise Price*") at any time for a period of up to five (5) years from the issuance date at which time the Warrant will expire. The Units, Common Shares, Warrants and common stock issuable upon the exercise of the Warrants (the "*Warrant Shares*") are herein collectively referred to as the "*Securities*".

B. The Company and the Investor are executing and delivering this Agreement in reliance upon the exemption from registration afforded by Section 4(a)(2) of the Securities Act of 1933, as amended (the "*Securities Act*"), and Rule 506 of Regulation D ("*Regulation D*") as promulgated by the United States Securities and Exchange Commission (the "*SEC*") under the Securities Act.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the Company and the Investor agree as follows:

**ARTICLE I  
DEFINITIONS**

1. Definitions. In addition to the terms defined elsewhere in this Agreement, the following terms have the meanings indicated:

"*Agreement*" has the meaning set forth in the Preamble.

"*Business Day*" means any day other than Saturday, Sunday, any day which shall be a federal legal holiday in the United States or any day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

"*Closing*" means the closing of the purchase and sale of the Securities pursuant to Section 2.3.

"*Company*" has the meaning set forth in the Preamble.

"*Common Shares*" has the meaning set forth in the Recitals.

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“*Common Stock*” means common stock of the Company, par value \$0.001.

“*Disclosure Materials*” means the SEC Documents and this Agreement.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended.

“*Investor*” has the meaning set forth in the Preamble.

“*Investor Suitability Questionnaire*” means the Investor Suitability Questionnaire, in substantially set forth herein as “Exhibit A” as completed and executed by the Investor.

“*Material Adverse Effect*” means (i) a material adverse effect on the results of operations, assets, business, prospects or financial condition of the Company or (ii) material and adverse impairment of the Company’s ability to perform its obligations under any of the Transaction Documents.

“*Regulation D*” has the meaning set forth in the Preamble.

“*Rule 144*,” “*Rule 415*,” and “*Rule 424*” means Rule 144, Rule 415 and Rule 424, respectively, promulgated by the SEC pursuant to the Securities Act, as such Rules may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC having substantially the same effect as such Rule.

“*SEC*” has the meaning set forth in the Recitals.

“*SEC Documents*” has the meanings set forth in Section 3.3.

“*Securities*” has the meaning set forth in the Recitals.

“*Securities Act*” has the meaning set forth in the Recitals.

“*Shares*” means shares of the Company’s Common Stock.

“*Securities*” means the Units, Shares, Warrants and Warrant Shares.

“*Trading Market*” means whichever of the New York Stock Exchange, NYSE Amex, the NASDAQ Global Select Market, the NASDAQ Global Market, the NASDAQ Capital Market, the OTC Bulletin Board, or the Pink Sheets, on which the Common Stock is listed or quoted for trading on the date in question.

“*Transaction Documents*” means this Agreement, the schedules and exhibits attached hereto, including but not limited to the Investor Suitability Questionnaire and the Warrant Certificate.

“*Warrant Certificate*” means the warrant certificate in the form attached hereto as “Exhibit B.”

“*Warrants*” has the meaning set forth in the Recitals.

“*Warrant Shares*” has the meaning set forth in the Recitals.

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**ARTICLE II**  
**PURCHASE AND SALE**

2. Offering and Purchase of the Securities.

2.1 Offering. The Company is offering to sell up to 21 Units for aggregate amount of \$1,260,000 (“*Offering Amount*”), for \$60,000 per Unit, or \$.06 per common share with each Unit consisting of 1,000,000 shares of Common Stock and 500,000 Warrants (the “*Offering*”). The Company has the sole discretion to increase the Offering Amount. The minimum investment amount in the Units per Investor pursuant to the Offering is \$60,000, however, the Company reserves the right to accept subscriptions for lesser amounts as well as the right to reject in whole or in part subscriptions received during the Offering.

2.2 Subscription. The Investor hereby irrevocably subscribes to purchase from the Company, upon the terms and conditions stated in this Agreement, that aggregate number of Units for the purchase price set forth on such Investor’s signature page to this Agreement.

2.3 Investor Deliverables. Promptly upon execution of this Agreement, the Investor agrees to deliver to Company (a) an executed Agreement, (b) a completed Investor Suitability Questionnaire, attached hereto as Exhibit A to the Company (“*Investor Suitability Questionnaire*”), and (c) the Aggregate Purchase Price set forth on such Investor’s signature page to this Agreement in United States dollars and in immediately available funds, by wire transfer to the Company pursuant to the instructions provided by the Company (collectively, referred to as the “*Investor Deliverables*”).

2.4 Acceptance or Rejection of Subscription. The Investor understands and agrees that the Company reserves the right, in its sole discretion, to reject this subscription, in whole or in part if (a) the Investor is not an "accredited investor" or otherwise fails to meet the investor suitability requirements as set forth in the Investor Suitability Questionnaire, (b) fails to deliver payment of the Aggregate Purchase Price, or (c) fails to deliver a completed Investor Deliverables, until there has been notice of acceptance of the Investor’s subscription. In the event of rejection of this subscription, the Subscriber’s funds (without interest) or, in the event of a partial rejection a check in the amount of the rejected portion, will be promptly issued to the Investor. Upon acceptance of the subscription by the Company and the Investor Deliverables (“*Closing*”), the Company will cause the purchase of the Common Shares to be reflected in the books and record of the Company, and will deliver to the Investor:

(a) an "accepted" Subscription Agreement;

(b) a Warrant Certificate in substantially the form attached hereto as Exhibit B, issued in the name of the Investor, pursuant to which the Investor shall have the right to acquire such number of Warrant Shares equal to that number of Warrant Shares included in the Units purchased by the Investor as set forth on such Investor’s signature page to this Agreement; and

(c) the stock certificate representing the number of Common Shares represented by the Units purchased by the Investor, as set forth on the Investor’s signature page to this Agreement.

2.5 No Escrow or Minimum Investment Amount. No escrow or minimum investment amount will be used for the offering.

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**ARTICLE III**  
**REPRESENTATIONS AND WARRANTIES OF COMPANY**

3 . Representations and Warranties of the Company. Except as disclosed in the SEC Documents and as otherwise stated to the contrary herein, the Company hereby represents and warrants to the Investor as of Closing that:

3.1 Authorization. All corporate action on the part of the Company, its officers, directors and shareholders necessary for the authorization, execution and delivery of this Agreement has been taken. The Company has the requisite corporate power to enter into this Agreement and carry out and perform its obligations under the terms of this Agreement. The Company will have the requisite corporate power to issue and sell the Units. This Agreement has been duly executed and delivered by the Company and constitutes the valid and binding obligation of the Company, enforceable against it in accordance with its terms, except (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

3.2 Organization, Good Standing and Qualification. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Nevada and has all requisite corporate power and authority to carry on its business as now conducted. The Company is duly qualified to transact business and is in good standing in each jurisdiction in which the failure so to qualify would have a Material Adverse Effect.

3.2 Conflict of Interest. Timothy Collins is the President, CEO and Founder of KleenSpeed Technologies Inc. ("*KleenSpeed*"). Mr. Collins has invested and advanced more than one million dollars in and to KleenSpeed during the past six years and is the largest of approximately 50 shareholders. Mr. Collins, as CEO of KleenSpeed, negotiated with the Company the non-binding letter of intent (LOI) for the proposed acquisition of KleenSpeed by the Company ("*Acquisition*") as more fully described in the Company Form 8-K filed with the SEC on June 27, 2013. Mr. Collins is also the President and CEO of Security Research Associates Inc. ("*SRA*") the investment banking firm that the Company has engaged as the placement agent to assist with its private placement. Mr. Collins therefore will benefit financially from the compensation derived by SRA from this Offering and other private placements in which SRA assists with, as well as the receipt of shares from the Company if and when the contemplated Acquisition of KleenSpeed is completed and the recovery of advances he has made to KleenSpeed. Mr. Collins has solicited the advice of other partners in SRA as to the structure and terms of the Company's financing. Mr. Collins intends to spend substantial time on the affairs of the Company and KleenSpeed upon consummation of the proposed Acquisition as Executive Chairman of the Company. Mr. Collins has been working closely with the Board of Directors of the Company and its CEO, Ronald Dutt, in helping to prepare the Company for the financing and proposed Acquisition with KleenSpeed.

3 . 3 Delivery of SEC Documents; Business. The Company has made available to the Investor through the SEC's EDGAR system, true and complete copies of the Company's most recent Annual Report on Form 10-K for the fiscal year ended June 30, 2013 and Form 10-Q for the quarter ended September 30, 2013, and all other reports filed by the Company pursuant to the Exchange Act since the filing of the Form 10-Q for the quarter ended September 30, 2013, and prior to the date hereof (collectively, the "*SEC Documents*"). The Company is engaged in all material respects only in the business described in the SEC Documents and the SEC Documents contain a complete and accurate description of the business of the Company in all material respects.

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3.4 No Conflict with Other Instruments. The execution, delivery and performance of this Agreement, the issuance and sale of the Securities to be sold by the Company under this Agreement and the consummation of the actions contemplated by this Agreement will not (a) result in any violation of, be in conflict with, or constitute a material default under, with or without the passage of time or the giving of notice (i) any provision of the Company's Articles of Incorporation, as amended, or Bylaws, as amended (or similar governing documents); (ii) any provision of any judgment, arbitration ruling, decree or order to which the Company is a party or by which the Company is bound; or (iii) any bond, debenture, note or other evidence of indebtedness, or any material lease, contract, mortgage, indenture, deed of trust, loan agreement, joint venture or other agreement, instrument or commitment to which the Company is a party or by which the Company or its properties is bound; or (b) result in the creation or imposition of any lien, encumbrance, claim, security interest or restriction whatsoever upon any of the properties or assets of the Company or any acceleration of indebtedness pursuant to any obligation, agreement or condition contained in any bond, debenture, note or any other evidence of indebtedness or any indenture, mortgage, deed of trust or any other agreement or instrument to which the Company is a party or by which the Company is bound or to which any of the property or assets of the Company is subject.

3.5 Capitalization. As of September 30, 2013, the authorized capital stock of the Company consists of (a) 145,000,000 shares of Common Stock, of which (i) 47,555,576 shares are issued and outstanding, and (b) 8,445,709 shares are reserved for issuance upon the exercise or conversion, as the case may be, of outstanding options, warrants or other convertible securities; and (c) 5,000,000 shares of preferred stock, none of which, are outstanding or reserved for issuance upon the exercise or conversion, as the case may be, of outstanding options, warrants or other convertible securities. Except as disclosed in the Company SEC Documents and set forth in the Company's Articles of Incorporation, as amended and contemplated in the Transaction Documents, there are no anti-dilution or price adjustment provisions, co-sale rights, registration rights, rights of first refusal or other similar rights contained in the terms governing any outstanding security of the Company that will be triggered by the issuance of the Securities.

3.6 Valid Issuance of Securities. The Securities will be duly and validly authorized and, when issued and paid for pursuant to this Agreement, will be validly issued, fully paid and non-assessable, and shall be free and clear of all encumbrances and restrictions (other than those created by the Investor), except for restrictions on transfer set forth in this Agreement or imposed by applicable securities laws. The Company has reserved a sufficient number of shares of Common Stock for issuance upon the exercise of the Warrants, free and clear of all encumbrances and restrictions, except for restrictions on transfer set forth in this Agreement or imposed by applicable securities laws and except for those created by the Investor.

3.7 Litigation. Except as set forth in the Company SEC Documents, there is no action, suit, proceeding nor investigation pending or, to the Company's knowledge, currently threatened against the Company that (a) if adversely determined would reasonably be expected to have a Material Adverse Effect or (b) would be required to be disclosed in the Company's Annual Report on Form 10-K under the requirements of Item 103 of Regulation S-K. The foregoing includes, without limitation, any action, suit, proceeding or investigation, pending or threatened, that questions the validity of this Agreement or the right of the Company to enter into such Agreement and perform its obligations hereunder. The Company is not subject to any injunction, judgment, decree or order of any court, regulatory body, arbitral panel, administrative agency or other government body.

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3.8 Governmental Consents. No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, state, local or provincial governmental authority on the part of the Company is required in connection with the consummation of the transactions contemplated by this Agreement, except for notices required or permitted to be filed with certain state and federal securities commissions, which notices will be filed on a timely basis.

3.9 No Material Changes. Except as disclosed in the Company SEC Documents, and except for the transactions contemplated by this Agreement and the Exchange Agreement, since March 31, 2013, there has not been any material change that has had a Material Adverse Effect.

3.10 Investment Company. The Company is not an “investment company” or an “affiliated person” of, or “promoter” or “principal underwriter” for an investment company, within the meaning of the Investment Company Act of 1940 and will not be deemed an “investment company” as a result of the transactions contemplated by this Agreement.

3.11 No General Solicitation. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has engaged or will engage in any form of general solicitation or general advertising (within the meaning of Regulation D promulgated under the Securities Act) in connection with the offer or sale of the Securities.

3.12 Placement Agent. The Company has retained Security Research Associates Inc. (“SRA”), on a best-efforts basis, as its placement agent. The Company will pay to SRA for services rendered in conjunction with this Offering compensation in the amount of 9% of the gross proceeds raised and a warrant for the purchase of the Common Shares. The number Common Shares subject to the warrant will equal 9% of the aggregate gross proceeds from the Offering received by the Company from all investors placed by SRA divided by \$0.06 per share. The warrant will have a term of 5 years and will include cashless exercise provisions as well as representations and warranties that are customary and standard in warrants issued to placement agents or underwriters. The exercise price will equal \$0.06. The Company also agrees to reimburse SRA periodically, upon request, or upon termination of SRA’s services, for SRA’s expenses incurred in connection with SRA’s financial advisory services, including fees and expenses of legal counsel, travel expenses and printing. All such non-accountable fees and expenses shall not exceed a combined aggregate amount of \$25,000.

3.13 Participating Affiliate. Esenjay Investments LLC (“Esenjay”) is a controlling shareholder of the Company owning approximately 42% of the Company’s issued and outstanding common stock and our primary credit line holder. Michael Johnson, our director, is a director and shareholder of Esenjay. Esenjay has indicated its intent to purchase Units in this Offering. Based on its initial indications of interest, we expect Esenjay to purchase in the aggregate 10 Units for a total purchase price of \$600,000 to be paid as follows: \$200,000 in cash and the \$400,000 to be paid in the form of forgiveness of debt of equal to the amount outstanding loan to Esenjay.

#### **ARTICLE IV REPRESENTATIONS AND WARRANTIES OF INVESTOR**

4. Representations and Warranties of the Investor. The Investor hereby represents and warrants to the Company as follows

4.1 Organization, Authority If the Investor is an entity, such Investor is a corporation, partnership, limited liability company or partnership, association, joint stock company, trust, unincorporated organization or other entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with the requisite corporate, partnership or other power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The purchase by such Investor of the Securities hereunder has been, to the extent such Investor is an entity, duly authorized by all necessary corporate, partnership or other action on the part of such Investor. This Agreement has been duly executed and delivered by such Investor and constitutes the valid and binding obligation of such Investor, enforceable against it in accordance with its terms, except (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors’ rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

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4.2 Investment Representations. In connection with the sale and issuance of the Securities, the Investor, for itself and no other Investor, makes the following representations:

(a) Investment for Own Account. The Investor is acquiring the Securities for its own account, not as nominee or agent, and not with a view to, or for resale in connection with, any distribution or public offering thereof within the meaning of the Securities Act. The Investor has no present intention of selling, granting any participation in, or otherwise distributing the Securities. The Investor does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participation in any of the Securities to such person or to any third person.

(b) SEC Documents: Disclosure Materials. The Investor has received, read and fully understands the SEC Documents and the Disclosure Material. The Investor acknowledges that the Investor is basing its decision to invest in the Securities on the Disclosure Material and the exhibits thereto and has relied only on the information contained in said material and has not relied upon any representations made by any other person. The Investor recognizes that an investment in the Securities involves substantial risks and is fully cognizant of and understands all of the risk factors related to the purchase of the Securities, including but not limited to, those risks set forth in the section of the SEC Documents and Disclosure Materials entitled "RISK FACTORS."

(c) Investor Status. At the time such Investor was offered the Securities, it was, at the date hereof it is, and on the date which it exercises any Warrants it will be an "accredited investor" as defined in Rule 501(a) under the Securities Act or a "qualified institutional buyer" as defined in Rule 144A(a) under the Securities Act. Such Investor is not a registered broker dealer registered under Section 15(a) of the Exchange Act, or a member of the Financial Industry Regulatory Authority, Inc. ("*FINRA*") or an entity engaged in the business of being a broker dealer. Such Investor is not affiliated with any broker dealer registered under Section 15(a) of the Exchange Act, or a member of FINRA or an entity engaged in the business of being a broker dealer.

(d) Representations and Reliance. The Investor understands that the Securities are being offered and sold to it in reliance on specific exemptions from the registration requirements of the United States federal and state securities laws and that the Company is relying upon the truth and accuracy of the representations, warranties, agreements, acknowledgments and understandings of the Investor set forth herein and in the Investor Suitability Questionnaire to determine the applicability of such exemptions and the suitability of the Investor to acquire the Securities. All information which the Investor has provided to the Company, including but not limited to all information given herein and in the Investor Suitability Questionnaire or otherwise, concerning itself, investor status, address, residence, financial position and knowledge and experience of financial and business matters are correct and complete, and that if there should be any material change in such information the Investor will immediately provide the Company with such information. The Investor will promptly notify the Company of any material fact or circumstance that would cause any of the foregoing representations to be untrue, incomplete, or misleading.

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( e ) Restricted Securities. The Investor understands that the Securities the Investor is purchasing are characterized as “restricted securities” under the federal securities laws inasmuch as they are being acquired from the Company in a transaction not involving a public offering and that under such laws and regulations such securities may be resold without registration under the Securities Act only in certain limited circumstances. The Investor is familiar with Rule 144, as presently in effect, and understands the resale limitations imposed thereby and by the Securities Act. The Investor also acknowledges that the Company was a former “shell company” (as defined in Rule 12b-2 under the Exchange Act) and as such the Investor understands Rule 144 is not currently available for the sale of the Securities and may never be so available.

( f ) Transfer Restrictions; Legends. The Investor understands that (i) the Securities have not been registered under the Securities Act; (ii) the Securities are being offered and sold pursuant to an exemption from registration, based in part upon the Company’s reliance upon the statements and representations made by the Investor, and that the Securities must be held by the Investor indefinitely, and that the Investor must, therefore, bear the economic risk of such investment indefinitely, unless a subsequent disposition thereof is registered under the Securities Act or is exempt from such registration; and (iii) each Certificate representing the Securities will be endorsed with a legend substantially in the following form until the earlier of (1) such date as the Securities have been registered for resale by the Investor or (2) the date the Securities are eligible for sale under Rule 144.

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “*SECURITIES ACT*”), OR UNDER THE SECURITIES LAWS OF ANY STATES. THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. UNLESS SOLD PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES

ACT, THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER TO THE EFFECT THAT ANY PROPOSED TRANSFER OR RESALE IS IN COMPLIANCE WITH THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

( g ) No Public Market. The Investor understands and acknowledges that although the Company is currently traded on the OTC, no public market now exists for any of the Securities and that the Company has made no assurances that a public market will ever exist for the Securities.

( h ) No Transfer. The Investor covenants not to dispose of any of the Securities other than in conjunction with an effective registration statement under the Securities Act or in compliance with Rule 144 or pursuant to another exemption from registration or to an entity affiliated with the Investor and other than in compliance with the applicable securities regulations laws of any state.

( i ) Investment Experience. Investor acknowledges that the Investor is able to bear the economic risk of the Investor’s investment, including the complete loss thereof. The Investor has a preexisting personal or business relationship with the Company or one or more of its officers, directors or other persons in control of the Company, and the Investor has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of the investment in the Securities.

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(j) Financial Sophistication: Due Diligence. The Investor has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of the investment in connection with the transactions contemplated in this Agreement. Such Investor has, in connection with its decision to purchase the Securities, relied only upon the representations and warranties contained herein and the information contained in the Company's SEC Documents. Further, the Investor has had such opportunity to obtain additional information and to ask questions of, and receive answers from, the Company, concerning the terms and conditions of the investment and the business and affairs of the Company, as the Investor considers necessary in order to form an investment decision.

(k) General Solicitation. The Investor is not purchasing the Securities as a result of any advertisement, article, notice or other communication regarding the Securities published in any newspaper, magazine or similar media or broadcast over the television or radio or presented at any seminar or any other general solicitation or general advertisement. Prior to the time that the Investor was first contacted by the Company or either of the Agents such Investor had a pre-existing and substantial relationship with the Company or one of the Agents. The Investor will not issue any press release or other public statement with respect to the transactions contemplated by this Agreement without the prior written consent of the Company. Other than to other parties to this Agreement, the Investor has maintained and will continue to maintain the confidentiality of all disclosures made to Investor in connection with this transaction, including the existence and terms of this transaction.

4.3 No Investment, Tax or Legal Advice. The Investor understands that nothing in the Company SEC Documents, this Agreement, or any other materials presented to the Investor in connection with the purchase and sale of the Securities constitutes legal, tax or investment advice. The Investor has consulted such legal, tax and investment advisors as it, in its sole discretion, has deemed necessary or appropriate in connection with its purchase of Securities.

4.4 Disclosure of Information. The Investor understands that no United States federal or state agency or any other government or governmental agency has passed upon or made any recommendation or endorsement of the Securities. The Investor has reviewed the documents publicly filed by the Company with the SEC and has read and understands the risk factors disclosed therein. The Investor has received all the information it considers necessary or appropriate for deciding whether to purchase the Securities. The Investor is solely responsible for conducting its own due diligence investigation of the Company.

4.5 Additional Acknowledgement. The Investor acknowledges that it has independently evaluated the merits of the transactions contemplated by this Agreement, that it has independently determined to enter into the transactions contemplated hereby, that it is not relying on any advice from or evaluation by any other person. The Investor acknowledges that, if it is a client of an investment advisor registered with the SEC, the Investor has relied on such investment advisor in making its decision to purchase Securities pursuant hereto.

4.6 Subscription Rejection Right. The Investor acknowledges that the Company reserves the right to reject any subscription, to accept any subscription in part only, or to prorate subscriptions, to negotiate any checks or other tenders of payment for discrepant amounts and to refund the excess to the Investor if (a) the Investor is not an "accredited investor" or otherwise fails to meet the investor suitability requirements as set forth in the Investor Suitability Questionnaire, (b) fails to deliver payment of the purchase price, or (c) fails to deliver the completed Investor Deliverables substantially in the form as reasonably acceptable to the Company.

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4.7 No Short Position As of the date hereof, and from the date hereof through the date of the Closing, the Investor acknowledges and agrees that it does not and will not (between the date hereof and the date of the Closing) engage in any short sale of the Company's voting stock or any other type of hedging transaction involving the Company's securities (including, without limitation, depositing shares of the Company's securities with a brokerage firm where such securities are made available by the broker to other customers of the firm for purposes of hedging or short selling the Company's securities).

**ARTICLE V**  
**ADDITIONAL COVENANTS**

5. Additional Covenants.

5.1 Confidential Information. The Investor covenants that it will maintain in confidence the receipt and content of any information provided in connection with this Agreement until such information (a) becomes generally publicly available other than through a violation of this provision by the Investor or its agents or (b) is required to be disclosed in legal proceedings (such as by deposition, interrogatory, request for documents, subpoena, civil investigation demand, filing with any governmental authority or similar process); provided, however, that before making any disclosure in reliance on this Section 5.1, the Investor will give the Company at least 15 days prior written notice (or such shorter period as required by law) specifying the circumstances giving rise thereto and the Investor will furnish only that portion of the non-public information which is legally required and will exercise its best efforts to ensure that confidential treatment will be accorded any non-public information so furnished; provided, further, that notwithstanding, the Investor's agreement to keep such information confidential, the Investor makes no such acknowledgement that any such information is material, non-public information.

5.2 Transfer Restrictions. The Investor covenants that the Securities will only be disposed of pursuant to an effective registration statement under, and in compliance with the requirements of, the Securities Act or pursuant to an available exemption from the registration requirements of the Securities Act, and in compliance with any applicable state securities laws. In connection with any transfer of Securities other than pursuant to an effective registration statement or to the Company, or at such time that the Securities may be sold without the requirement to be in compliance with Rule 144(c)(1) and otherwise without restriction or limitation pursuant to Rule 144, the Company may require the transferor to provide to the Company an opinion of counsel selected by the transferor, the form and substance of which opinion shall be reasonably satisfactory to the Company, to the effect that such transfer does not require registration under the Securities Act. The Investor agrees to the imprinting of the restrictive legend in substantially the form set forth in Section 4.2(f).

5.3 KleenSpeed Acquisition. The Company agrees to use its best efforts to negotiate and consummate the proposed Acquisition with KleenSpeed.

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**ARTICLE VI  
MISCELLANEOUS**

6. Miscellaneous.

6 . 1 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Nevada, without regard to the choice of law provisions thereof, and the federal laws of the United States.

6.2 Successors and Assigns. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors, and administrators of the parties hereto.

6 . 3 Entire Agreement. This Agreement and the exhibits hereto, and the other documents delivered pursuant hereto, constitute the full and entire understanding and agreement among the parties with regard to the subjects hereof and no party shall be liable or bound to any other party in any manner by any representations, warranties, covenants, or agreements except as specifically set forth herein or therein. Nothing in this Agreement, express or implied, is intended to confer upon any party, other than the parties hereto and their respective successors and assigns, any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided herein.

6.4 Severability. In the event any provision of this Agreement shall be invalid, illegal, or unenforceable, it shall to the extent practicable, be modified so as to make it valid, legal and enforceable and to retain as nearly as practicable the intent of the parties, and the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

6 . 5 Amendment and Waiver. Except as otherwise provided herein, any term of this Agreement may be amended, modified, supplemented and the observance of any term of this Agreement may be waived (either generally or in a particular instance, either retroactively or prospectively, and either for a specified period of time or indefinitely), with the written consent of the Company and the holders of a majority of the Common Shares sold in this Offering. Any amendment or waiver effected in accordance with this paragraph will be binding upon each holder of any Securities purchased under this Agreement, each future holder of the Securities, and the Company.

6 . 6 Fees and Expenses. Except as otherwise set forth herein, the Company and the Investor shall bear their own expenses and legal fees incurred on their behalf with respect to this Agreement and the transactions contemplated hereby. Each party hereby agrees to indemnify and to hold harmless of and from any liability the other party for any commission or compensation in the nature of a finder's fee to any broker or other person or firm (and the costs and expenses of defending against such liability or asserted liability) for which such indemnifying party or any of its employees or representatives are responsible.

6 . 7 Notices. All notices and other communications given or made pursuant to this Warrant Certificate shall be in writing and shall be deemed effectively given upon the earlier of actual receipt or (i) personal delivery to the party to be notified, (ii) when sent, if sent by electronic mail or facsimile during normal business hours of the recipient, and if not sent during normal business hours, then on the recipient's next Business Day, (iii) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (iv) one (1) Business Day after deposit with a nationally recognized overnight courier, freight prepaid, specifying next Business Day delivery, with written verification of receipt. All communications shall be sent to the respective parties at the address indicated for such party in the Purchase Agreement, or at such other address as such party may designate by 10 days advance written notice to the other party given in the foregoing manner:

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if to the Company, to:

Flux Power Holdings, Inc.  
985 Poinsettia Avenue  
Vista, California 92081  
Fax (760) 741-3535  
Attn: President

if to the Investor, at its address on the signature page to this Agreement.

6.8 Survival of Representations, Warranties and Agreements. Notwithstanding any investigation made by any party to this Agreement or by any of the Agents, all covenants, agreements, representations and warranties made by the Company and the Investor herein shall survive the execution of this Agreement, the delivery to the Investor of the Securities being purchased and the payment therefor, and a party's reliance on such representations and warranties shall not be affected by any investigation made by such party or any information developed thereby.

6.9 Counterparts. This Agreement may be executed by facsimile signature and in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.

[SIGNATURE PAGE FOLLOWS]

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**SUBSCRIPTION AGREEMENT SIGNATURE PAGE**

In addition to the foregoing, Subscriber hereby certifies that it (a) agrees to all the terms and conditions of this Agreement, (b) meets the suitability standards set forth in this Agreement, and (c) is a resident of the state and jurisdiction indicated below.

Name of Investor:  
By: \_\_\_\_\_  
Name  
Title:  
Address: \_\_\_\_\_  
State of Principal Residence: \_\_\_\_\_  
State of Incorporation/Organization: \_\_\_\_\_  
EIN/Social Security Number: \_\_\_\_\_  
Telephone No.: \_\_\_\_\_  
Facsimile No.: \_\_\_\_\_  
Email Address: \_\_\_\_\_  
Number of Units: \_\_\_\_\_  
Aggregate Purchase Price : \_\_\_\_\_

Delivery Instructions (if different than above):

c/o: \_\_\_\_\_  
Address: \_\_\_\_\_  
Telephone No.: \_\_\_\_\_  
Facsimile No. : \_\_\_\_\_  
Other Special Instructions: \_\_\_\_\_

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SUBSCRIPTION ACCEPTED

Date: \_\_\_\_\_

FLUX POWER HOLDINGS, INC.

By: \_\_\_\_\_

Name: Ronald Dutt

Title: Interim Chief Executive Officer and Chief Financial Officer

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**EXHIBIT A**

**Investor Suitability Questionnaire**

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**EXHIBIT B**  
**Form of Warrant Certificate**

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THIS WARRANT CERTIFICATE AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE SECURITIES LAWS AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS REGISTERED UNDER THE SECURITIES ACT AND UNDER APPLICABLE STATE SECURITIES LAWS OR THE ISSUER SHALL HAVE RECEIVED AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE ISSUER THAT REGISTRATION OF SUCH SECURITIES UNDER THE SECURITIES ACT AND UNDER THE PROVISIONS OF APPLICABLE STATE SECURITIES LAWS IS NOT REQUIRED.

FLUX POWER HOLDINGS, INC.

WARRANT CERTIFICATE

No.: W-\_\_\_\_  
Original Date of Issuance: \_\_\_\_\_, 2014

Number of Warrants: \_\_\_\_\_

THIS WARRANT CERTIFICATE certifies that for value received, or its registered assigns is entitled to subscribe for and purchase, during the Term (as hereinafter defined), the number of warrants specified above, each of which entitles the holder thereof to purchase during the term, one fully paid and non-assessable share of common stock, \$.001 par value per share, of Flux Power Holdings, Inc., (the "**Issuer**"), at an exercise price per share equal to \$0.20 (the "Warrant Price"), as may be adjusted, subject, however, to the provisions and upon the terms and conditions hereinafter set forth. Capitalized terms used in this Warrant Certificate (this "**Warrant**" or "**Warrant Certificate**") and not otherwise defined herein shall have the respective meanings specified in Section 6 hereof.

1. Term. The term of this Warrant Certificate shall commence on the Original Issue Date and shall expire at 6:00 p.m., Eastern Time, on the fifth anniversary of the Original Issue Date (such period being the "**Term**").
  2. Method of Exercise; Payment; Issuance of New Warrant Certificate; Transfer and Exchange.
    - (a) Time of Exercise. The purchase rights represented by this Warrant Certificate may be exercised at anytime during the Term.
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(b) Method of Exercise. Each Warrant shall entitle the Holder to purchase one share of common stock of the Issuer at the Warrant Price. The Holder hereof may exercise the Warrants, in whole or in part, by the surrender of the Warrant Certificate (with the exercise form attached hereto duly executed) at the principal office of the Issuer, and by the payment to the Issuer of an amount of consideration therefor equal to the Warrant Price in effect on the date of such exercise multiplied by the number of shares of Warrant Stock with respect to which the Warrant Certificate is then being exercised, payable at such Holder's election (i) by certified or official bank check or by wire transfer to an account designated by the Issuer, (ii) by "cashless exercise" in accordance with the provisions of subsection (c) of this Section 2, or (iii) by a combination of the foregoing methods of payment selected by the Holder of the Warrant Certificate.

(c) Cashless Exercise. In the event that the Holder elects to exercise the Warrants by a cashless exercise, the Holder shall deliver a properly endorsed Notice of Exercise to the principal office of the Issuer and the Issuer shall, upon receipt, issue to the Holder a number of shares of Warrant Stock computed using the following formula:

$$X = Y - \left( \frac{A \times Y}{B} \right)$$

Where X= the number of shares of Warrant Stock to be issued to the Holder.

Y= the number of shares of Warrant Stock purchasable upon exercise of all of the Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being exercised.

A= the Warrant Price.

B= the average of the Closing Prices of Issuer's Common Stock for the five Trading Day immediately preceding the date of such election.

(d) Issuance of Stock Certificates. In the event of any exercise of the Warrants in accordance with and subject to the terms and conditions hereof, certificates for the shares of Warrant Stock so purchased shall be dated the date of such exercise and delivered to the Holder hereof within a reasonable time

(e) Transferability of Warrant. Subject to Section 2(f) hereof, the Warrants may be transferred by a Holder, in whole or in part, without the consent of the Issuer. If transferred pursuant to this paragraph, the Warrants may be transferred on the books of the Issuer by the Holder hereof in person or by duly authorized attorney, upon surrender of this Warrant Certificate at the principal office of the Issuer, properly endorsed (by the Holder executing an assignment in the form attached here to) and upon payment of any necessary transfer tax or other governmental charge imposed upon such transfer. This Warrant Certificate is exchangeable at the principal office of the Issuer for Warrants to purchase the same aggregate number of shares of Warrant Stock, each new Warrant to represent the right to purchase such number of shares of Warrant Stock as the Holder hereof shall designate at the time of such exchange. All Warrants issued on transfers or exchanges shall be dated the Original Issue Date and shall be identical with this Warrant Certificate except as to the number of shares of Warrant Stock issuable pursuant thereto.

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(f) Compliance with Securities Laws.

(i) The Holder of this Warrant Certificate, by acceptance hereof, acknowledges that the Warrants and the shares of Warrant Stock to be issued upon exercise hereof are being acquired solely for the Holder's own account and not as a nominee for any other party, and for investment, and agrees that the Holder will not acquire the Warrant Stock, offer, sell or otherwise dispose of this Warrant or any shares of Warrant Stock to be issued upon exercise hereof except pursuant to an effective registration statement, or an exemption from registration, under the Securities Act and any applicable state securities laws.

(ii) This Warrant Certificate and all certificates representing shares of Warrant Stock issued upon exercise hereof shall be stamped or imprinted with a legend in substantially the following form:

THIS WARRANT CERTIFICATE, THE WARRANTS, AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE SECURITIES LAWS AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS REGISTERED UNDER THE SECURITIES ACT AND UNDER APPLICABLE STATE SECURITIES LAWS OR THE ISSUER SHALL HAVE RECEIVED AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE ISSUER THAT REGISTRATION OF SUCH SECURITIES UNDER THE SECURITIES ACT AND UNDER THE PROVISIONS OF APPLICABLE STATE SECURITIES LAWS IS NOT REQUIRED.

(g) Loss, Theft, Destruction of Warrants. Upon receipt of evidence satisfactory to the Issuer of the ownership of and the loss, theft, destruction or mutilation of any Warrant and, in the case of any such loss, theft or destruction, upon receipt of indemnity or security satisfactory to the Issuer or, in the case of any such mutilation, upon surrender and cancellation of such Warrant, the Issuer will make and deliver, in lieu of such lost, stolen, destroyed or mutilated Warrant, a new Warrant of like tenor and representing the right to purchase the same number of shares of Warrant Stock.

3. Adjustment of Warrant Price and Number of Shares Issuable Upon Exercise. The Warrant Price and the Warrant Share Number shall be subject to adjustment from time to time as set forth in this Section 3. The Issuer shall give the Holder notice of any event described below that requires an adjustment pursuant to this Section 3 in accordance with the notice provisions set forth in Section 4.

(a) Recapitalization, Reorganization, Reclassification, Consolidation, Merger or Sale.

(i) In case the Issuer after the Original Issue Date shall do any of the following (each, a "**Triggering Event**"): (A) consolidate or merge with or into any other Person and the Issuer shall not be the continuing or surviving corporation of such consolidation or merger, or (B) permit any other Person to consolidate with or merge into the Issuer and the Issuer shall be the continuing or surviving Person but, in connection with such consolidation or merger, any Capital Stock of the Issuer shall be changed into or exchanged for Securities of any other Person or cash or any other property, or (C) transfer all or substantially all of its properties or assets to any other Person, or (D) effect a capital reorganization or reclassification of its Capital Stock, then, and in the case of each such Triggering Event, proper provision shall be made to the Warrant Price and the number of shares of Warrant Stock that may be purchased upon exercise of this Warrant Certificate so that, upon the basis and the terms and in the manner provided in this Warrant Certificate the Holder of this Warrant Certificate shall be entitled upon the exercise hereof at any time after the consummation of such Triggering Event, to the extent the Warrants are not exercised prior to such Triggering Event, to receive at the Warrant Price as adjusted to take into account the consummation of such Triggering Event, in lieu of the Warrant Stock issuable upon such exercise of the Warrants prior to such Triggering Event, the Securities, cash and property to which such Holder would have been entitled upon the consummation of such Triggering Event if such Holder had exercised the rights represented by this Warrant Certificate immediately prior thereto subject to adjustments (subsequent to such corporate action) as nearly equivalent as possible to the adjustments provided for elsewhere in this Section 3. Upon the occurrence of a Triggering Event, the Issuer shall notify the Holder in writing of such Triggering Event and provide the calculations in determining the amount of issuable Securities, cash or property issuable upon exercise of the new warrant and the adjusted Warrant Price. Upon the Holder's request, the continuing or surviving corporation as a result of such Triggering Event shall issue to the Holder a new warrant of like tenor evidencing the right to purchase the adjusted amount of Securities, cash or property and the adjusted Warrant Price pursuant to the terms and provisions of this Section 3(a)(i).

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(b) Stock Dividends, Subdivisions and Combinations. If at any time the Issuer shall:

(i) make or issue or set a record date for the holders of the Common Stock for the purpose of entitling them to receive a dividend payable in, or other distribution of, shares of Common Stock,

(ii) subdivide its outstanding shares of Common Stock into a larger number of shares of Common Stock, or

(iii) combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock,

then (A) the number of shares of Warrant Stock for which this Warrant Certificate is exercisable immediately after the occurrence of any such event shall be adjusted to equal the number of shares of Warrant Stock which a record holder of the same number of shares of Warrant Stock for which this Warrant Certificate is exercisable immediately prior to the occurrence of such event would own or be entitled to receive after the happening of such event, and (B) the Warrant Price then in effect shall be adjusted to equal (1) the Warrant Price then in effect multiplied by the number of shares of Warrant Stock for which this Warrant is exercisable immediately prior to the adjustment divided by (2) the number of shares of Warrant Stock for which this Warrant is exercisable immediately after such adjustment.

4. Notice of Adjustments. Whenever the Warrant Price or Warrant Share Number is adjusted pursuant to Section 3 hereof (for purposes of this Section 4, each an "Adjustment"), the Issuer shall cause its Chief Financial Officer to prepare and execute a certificate setting forth, in reasonable detail, the event requiring the Adjustment, the amount of the Adjustment, the method by which such Adjustment was calculated (including a description of the basis on which the Board made any determination hereunder), and the Warrant Price and Warrant Share Number after giving effect to such Adjustment, and shall cause copies of such certificate to be delivered to the Holder of this Warrant Certificate promptly after each Adjustment.

5. Fractional Shares. No fractional shares of Warrant Stock will be issued in connection with any exercise hereof, but in lieu of such fractional shares, the Issuer shall round the number of shares to be issued upon exercise up to the nearest whole number of shares.

6. Definitions. For the purposes of this Warrant Certificate, the following terms have the following meanings:

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“**Board**” shall mean the Board of Directors of the Issuer.

“**Closing Price**” means, for any date, the closing price per share of the Common Stock for such date (or, if not a Trading Day, the nearest preceding date that is a Trading Day) on the primary Trading Market on which the Common Stock is then listed or quoted.

“**Investors**” means the buyers of the Units issued by the Issuer in connection with the Offering pursuant to the their respective purchase agreement.

“**Capital Stock**” means and includes (i) any and all shares, interests, participations or other equivalents of or interests in (however designated) corporate stock, including, without limitation, shares of preferred or preference stock, (ii) all partnership interests (whether general or limited) in any Person which is a partnership, (iii) all membership interests or limited liability company interests in any limited liability company, and (iv) all equity or ownership interests in any Person of any other type.

“**Common Stock**” means the common stock, \$0.001 par value per share, of the Issuer and any other Capital Stock into which such stock may hereafter be changed.

“**Holder**” mean the Persons who shall from time to time own any Warrant. The term “**Holder**” means one of the Holders.

“**Issuer**” means Flux Power Holdings, Inc., a Nevada corporation, and its successors.

“**Original Issue Date**” means date set forth on face of this Warrant Certificate.

“**Offering**” means the Issuer’s offering to sell up to 21 Units for aggregate amount of \$1,260,000 (which amount may be increased at sole discretion of Issuer), for \$60,000 per Unit, or \$.06 per common share with each Unit consisting of 1,000,000 shares of Common Stock and 500,000 Warrants.

“**Person**” means an individual, corporation, limited liability company, partnership, joint stock company, trust, unincorporated organization, joint venture, Governmental Authority or other entity of whatever nature.

“**Purchase Agreement**” means the Unit Subscription Agreement dated as of \_\_\_\_\_, 2014 between the Issuer and the Investor.

“**Securities**” means any debt or equity securities of any Person, whether now or hereafter authorized, any instrument convertible into or exchangeable for Securities or a Security, and any option, warrant or other right to purchase or acquire any Security. “**Security**” means one of the Securities.

“**Securities Act**” means the Securities Act of 1933, as amended, or any similar federal statute then in effect.

“**Term**” has the meaning specified in Section 1 hereof.

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“**Trading Day**” means (a) a day on which the Common Stock is eligible to be traded on a registered national securities exchange, or (b) if the Common Stock is not eligible to be traded on any registered national securities exchange, a day on which the Common Stock is authorized for quotation on the OTC Bulletin Board (or any similar organization or agency succeeding its functions of reporting prices), or (c) if the Common Stock is not eligible to be traded on a registered national stock exchange or authorized for quotation on the OTC Bulletin Board, a day on which the Common Stock is quoted in the over-the-counter market as reported by the OTC Markets Group, Inc. (or any similar organization or agency succeeding its functions of reporting prices); provided, however, that in the event that the Common Stock is not listed or quoted as set forth in (a), (b) or (c) hereof, then Trading Day shall mean any day except Saturday, Sunday and any day which shall be a legal holiday or a day on which banking institutions in the State of New York are authorized or required by law or other government action to close.

“**Trading Market**” means whichever of the New York Stock Exchange, NYSE Amex, the NASDAQ Global Select Market, the NASDAQ Global Market, the NASDAQ Capital Market, the OTC Bulletin Board, or the Pink Sheets, on which the Common Stock is listed or quoted for trading on the date in question.

“**Warrants**” means the Warrants issued and sold pursuant to the Purchase Agreement, including, without limitation, this Warrant Certificate, and any other warrants of like tenor issued in substitution or exchange for any thereof pursuant to the provisions of Section 2 hereof or of any of such other Warrants.

“**Warrant Price**” initially means \$0.20 per share, as such price may be adjusted from time to time as shall result from the adjustments specified in this Warrant Certificate, including Section 3 hereto.

“**Warrant Share Number**” means at any time the aggregate number of shares of Warrant Stock which may at such time be purchased upon exercise of this Warrant Certificate, after giving effect to all prior adjustments and increases to such number made or required to be made under the terms hereof.

“**Warrant Stock**” means Common Stock issued or issuable upon exercise of any Warrant or Warrants or otherwise issuable pursuant to any Warrant or Warrants.

7 . Amendment and Waiver. Any term, covenant, agreement or condition in this Warrant Certificate may be amended or waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Issuer and the Holder.

8. Governing Law. This Warrant Certificate shall be governed by and construed in accordance with the internal laws of the State of Nevada, without giving effect to any of the conflicts of law principles which would result in the application of the substantive law of another jurisdiction. This Warrant Certificate shall not be interpreted or construed with any presumption against the party causing this Warrant Certificate to be drafted.

9 . Notices. All notices and other communications given or made pursuant to this Warrant Certificate shall be in writing and shall be deemed effectively given upon the earlier of actual receipt or: (i) personal delivery to the party to be notified, (ii) when sent, if sent by electronic mail or facsimile during normal business hours of the recipient, and if not sent during normal business hours, then on the recipient’s next business day, (iii) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (iv) one (1) business day after deposit with a nationally recognized overnight courier, freight prepaid, specifying next business day delivery, with written verification of receipt. All communications shall be sent to the respective parties at the address indicated for such party in the Purchase Agreement, or at such other address as such party may designate by 10 days advance written notice to the other party given in the foregoing manner.

10. Successors and Assigns. This Warrant Certificate and the rights evidenced hereby shall inure to the benefit of and be binding upon the successors and assigns of the Issuer, the Holder hereof and (to the extent provided herein) the holders of Warrant Stock issued pursuant hereto, and shall be enforceable by any such Holder or holder of Warrant Stock.

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11. Modification and Severability. If, in any action before any court or agency legally empowered to enforce any provision contained herein, any provision hereof is found to be unenforceable, then such provision shall be deemed modified to the extent necessary to make it enforceable by such court or agency. If any such provision is not enforceable as set forth in the preceding sentence, the unenforceability of such provision shall not affect the other provisions of this Warrant Certificate, but this Warrant Certificate shall be construed as if such unenforceable provision had never been contained herein.

12. Titles and Subtitles. The titles and subtitles used in this Warrant Certificate are used for convenience only and are not to be considered in construing or interpreting this Warrant Certificate.

13. Force Majeure. Neither party shall be liable for any delays or failures in performance resulting from acts beyond its reasonable control including, without limitation, acts of God, terrorist acts, shortage of supply, breakdowns or malfunctions, interruptions or malfunction of computer facilities, or loss of data due to power failures or mechanical difficulties with information storage or retrieval systems, labor difficulties, war, or civil unrest.

IN WITNESS WHEREOF, the Issuer has executed this Warrant Certificate as of the day and year first above written.

FLUX POWER HOLDINGS, INC.

By:

\_\_\_\_\_  
Name: Ronald Dutt

Title: Interim Chief Executive Officer and Chief Financial Officer

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EXERCISE FORM  
WARRANT  
FLUX POWER HOLDINGS, INC.

The undersigned \_\_\_\_\_, pursuant to the provisions of the within Warrant Certificate (the "**Warrant**"), hereby elects to exercise \_\_\_\_\_ warrants to purchase \_\_\_\_\_ shares of Common Stock of Flux Power Holdings, Inc. covered by the Warrant.

Number of shares of Common Stock beneficially owned or deemed beneficially owned by the Holder on the date of Exercise:

Holder represents and warrants that Holder is acquiring the Warrant Stock pursuant to an effective registration statement, or an exemption from registration, under the Securities Act and any applicable state securities laws.

The undersigned intends that payment of the Warrant Price shall be made as (check one):

- Cash Exercise   
Cashless Exercise

If the Holder has elected a Cash Exercise, the Holder shall pay the sum of \$\_\_\_\_\_ by certified or official bank check (or via wire transfer) to the Issuer in accordance with the terms of the Warrant.

If the Holder has elected a Cashless Exercise, a certificate shall be issued to the Holder for the number of shares equal to the whole number portion of the product of the calculation set forth below, which is \_\_\_\_\_. The Issuer shall pay a cash adjustment in respect of the fractional portion of the product of the calculation set forth below in an amount equal to the product of the fractional portion of such product and the average of the Closing Prices of Common Stock for the five Trading Day prior to the date of exercise, which product is \_\_\_\_\_.

$$X = Y - \left( \frac{A \times Y}{B} \right)$$

Where:

The number of shares of Common Stock to be issued to the Holder \_\_\_\_\_ ("**X**").

The number of shares of Common Stock purchasable upon exercise of all of the Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being exercised ("**F**").

The Warrant Price \_\_\_\_\_ ("**A**").

The average of the Closing Prices for the five Trading Day immediately preceding the date of such election ("**B**").

Dated: \_\_\_\_\_

Signature \_\_\_\_\_

Print \_\_\_\_\_

Name \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_

ASSIGNMENT

FOR VALUE RECEIVED, hereby sells, assigns and transfers unto, warrants under Warrant Certificate No. \_\_\_\_ and all rights evidenced thereby and does irrevocably constitute and appoint \_\_\_\_\_, attorney, to transfer the said Warrant on the books of the within named corporation.

Dated: \_\_\_\_\_

Signature \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

FOR USE BY THE ISSUER ONLY:

This Warrant Certificate No. W-\_\_\_\_ cancelled (or transferred or exchanged) this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_ shares of Common Stock issued therefor in the name of \_\_\_\_\_, Warrant No. W-\_\_\_\_\_ issued for \_\_\_\_\_ shares of Common Stock in the name of .

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**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302**

I, Ronald F. Dutt, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Flux Power Holdings, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's first fiscal quarter) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: February 14, 2014

By: /s/ Ronald F. Dutt  
Name: Ronald F. Dutt  
Title: Chief Executive Officer  
(Principal Executive Officer)

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Flux Power Holdings, Inc. (the "Company") on Form 10-Q for the period ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: February 14, 2014

By: /s/ Ronald F. Dutt  
Name: Ronald F. Dutt  
Title: Chief Executive Officer  
(Principal Executive Officer)

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