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, 2023

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

Commission File Number: 001-31543

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

Nevada	92-3550089
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
2685 S. Melrose Drive, Vista, California	**92081**
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001 per share	FLUX	Nasdaq Capital Market

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

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

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

The number of shares of registrant's common stock outstanding as of February 1, 2024 was 16,532,493.

FLUX POWER HOLDINGS, INC.

FORM 10-Q
For the Quarterly Period Ended December 31, 2023
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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 section captioned "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" in our Annual Report on Form 10-K for the fiscal year ended June 30, 2023 filed with the SEC on September 21, 2023. 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. You should read these factors and the other cautionary statements made in this report and in the documents we incorporate by reference into this report as being applicable to all related forward-looking statements wherever they appear in this report or the documents we incorporate by reference into this report. If one or more of these factors materialize, or if any underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from any future results, performance or achievements expressed or implied by these forward-looking statements.

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 to support our current and proposed operations;
- our ability to manage our working capital requirements efficiently;
- our ability to comply with the financial covenants under the terms of our existing credit facility with Gibraltar Business Capital, LLC to obtain the necessary funds to meet our operating cash requirements;
- our ability to remediate our material weakness and maintain effective internal control over financial reporting, disclosures and procedures;
- our ability to obtain raw materials and other supplies for our products at existing or competitive prices and on a timely basis;
- our ability to devise and implement selling strategies to maintain our projected sales in light of recent deferral of customer orders;
- 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 grow our revenue, increase our gross profit margin and become a profitable business;
- our ability to fulfill our backlog of open sales orders while experiencing delays in the receipt of key component parts and other potential manufacturing disruptions;

- 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 compete with larger companies with far greater resources than us;
- our ability to shift to new suppliers and incorporate new component parts into our products in a manner that is not disruptive to our business;
- our ability to obtain and maintain UL Listings and OEM approvals for our energy storage solutions;
- our ability to diversify our product mix and introduce new products while maintaining quality standards and reliable product support;
- our ability to capture new market opportunities;
- our ability to attract and retain skilled labor given the competitive labor market;
- our ability to source our needs for machinery, parts, and raw materials economically;
- our ability to retain key members of our senior management; and
- our dependence on our major customers.

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," "Flux," "we," "us," and "our" refer to the combined business of Flux Power Holdings, Inc., a Nevada corporation and its wholly owned subsidiary, Flux Power, Inc., a California corporation ("Flux Power");
- "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.

PART I - Financial Information

Item 1. Financial Statements

FLUX POWER HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2023 (Unaudited)	June 30, 2023
ASSETS		
Current assets:		
Cash	$ 1,584,000	$ 2,379,000
Accounts receivable	12,579,000	8,649,000
Inventories, net	18,283,000	18,996,000
Other current assets	942,000	918,000
Total current assets	33,388,000	30,942,000
Right of use assets	2,482,000	2,854,000
Property, plant and equipment, net	1,680,000	1,789,000
Other assets	119,000	120,000
Total assets	$ 37,669,000	$ 35,705,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 10,021,000	$ 9,735,000
Accrued expenses	3,290,000	3,181,000
Line of credit	13,575,000	9,912,000
Deferred revenue	310,000	131,000
Customer deposits	232,000	82,000
Finance lease payable, current portion	150,000	143,000
Office lease payable, current portion	689,000	644,000
Accrued interest	130,000	2,000
Total current liabilities	28,397,000	23,830,000
Office lease payable, less current portion	1,698,000	2,055,000
Finance lease payable, less current portion	191,000	273,000
Total liabilities	30,286,000	26,158,000
Stockholders' equity:		
Preferred stock, $0.001 par value; 500,000 shares authorized; none issued and outstanding	-	-
Common stock, $0.001 par value; 30,000,000 shares authorized; 16,532,275 and 16,462,215 shares issued and outstanding at December 31, 2023 and June 30, 2023, respectively	17,000	16,000
Additional paid-in-capital	98,847,000	98,086,000
Accumulated deficit	(91,481,000)	(88,555,000)
Total stockholders' equity	7,383,000	9,547,000
Total liabilities and stockholders' equity	$ 37,669,000	$ 35,705,000

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

FLUX POWER HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	**2022**	**2023**	**2022**
Revenues	$ 18,344,000	$ 17,158,000	$ 33,141,000	$ 34,998,000
Cost of sales	12,676,000	13,050,000	23,162,000	26,942,000
Gross profit	5,668,000	4,108,000	9,979,000	8,056,000
Operating expenses:				
Selling and administrative	4,593,000	4,250,000	9,318,000	8,786,000
Research and development	1,440,000	1,162,000	2,735,000	2,385,000
Total operating expenses	6,033,000	5,412,000	12,053,000	11,171,000
Operating loss	(365,000)	(1,304,000)	(2,074,000)	(3,115,000)
Other income	-	8,000	-	8,000
Interest income (expense), net	(449,000)	(385,000)	(852,000)	(713,000)
Net loss	$ (814,000)	$ (1,681,000)	$ (2,926,000)	$ (3,820,000)
Net loss per share - basic and diluted	$ (0.05)	$ (0.10)	$ (0.18)	$ (0.24)
Weighted average number of common shares outstanding - basic and diluted	16,516,700	16,020,183	16,495,727	16,008,740

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

FLUX POWER HOLDING, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited)

	Common Stock		Additional		
	Shares	Capital Stock Amount	Paid-in Capital	Accumulated Deficit	Total
Balance at June 30, 2023	16,462,215	$ 16,000	$ 98,086,000	$ (88,555,000)	$ 9,547,000
Issuance of common stock – exercised options and warrants	16,022	-	-	-	-
Stock-based compensation	-	-	276,000	-	276,000
Net loss	-	-	-	(2,112,000)	(2,112,000)
Balance at September 30, 2023	16,478,237	16,000	98,362,000	(90,667,000)	7,711,000
Issuance of common stock – exercised options and RSU settlement	54,038	1,000	(1,000)	-	-
Stock-based compensation	-	-	394,000	-	394,000
Fair value of warrants issued	-	-	92,000	-	92,000
Net loss	-	-	-	(814,000)	(814,000)
Balance at December 31, 2023	16,532,275	$ 17,000	$ 98,847,000	$ (91,481,000)	$ 7,383,000

	Common Stock		Additional		
	Shares	Capital Stock Amount	Paid-in Capital	Accumulated Deficit	Total
Balance at June 30, 2022	15,996,658	$ 16,000	$ 95,732,000	$ (81,814,000)	$ 13,934,000
Issuance of common stock – exercised options and RSU settlement	1,678	-	-	-	-
Stock-based compensation	-	-	95,000	-	95,000
Net loss	-	-	-	(2,139,000)	(2,139,000)
Balance at September 30, 2022	15,998,336	16,000	95,827,000	(83,953,000)	11,890,000
Issuance of common stock – exercised options and RSU settlement	31,142	-	-	-	-
Stock-based compensation	-	-	209,000	-	209,000
Net loss	-	-	-	(1,681,000)	(1,681,000)
Balance at December 31, 2022	16,029,478	$ 16,000	$ 96,036,000	$ (85,634,000)	$ 10,418,000

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

FLUX POWER HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended December 31,	
	2023	2022
Cash flows from operating activities:		
Net loss	$ (2,926,000)	$ (3,820,000)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	523,000	371,000
Stock-based compensation	670,000	304,000
Fair value of warrants issued as debt issuance cost	92,000	-
Amortization of debt issuance costs	134,000	368,000
Noncash lease expense	296,000	236,000
Allowance for inventory reserve	(2,000)	135,000
Changes in operating assets and liabilities:		
Accounts receivable	(3,930,000)	(1,858,000)
Inventories	715,000	(3,380,000)
Other assets	(157,000)	(17,000)
Accounts payable	286,000	6,152,000
Accrued expenses	109,000	89,000
Accrued interest	128,000	-
Office lease payable	(312,000)	(244,000)
Deferred revenue	179,000	(82,000)
Customer deposits	150,000	(146,000)
Net cash used in operating activities	(4,045,000)	(1,892,000)
Cash flows from investing activities		
Purchases of equipment	(338,000)	(344,000)
Proceeds from sale of fixed assets	-	8,000
Net cash used in investing activities	(338,000)	(336,000)
Cash flows from financing activities:		
Proceeds from revolving line of credit	35,868,000	30,550,000
Payment of revolving line of credit	(32,205,000)	(28,628,000)
Payment of finance leases	(75,000)	(22,000)
Net cash provided by financing activities	3,588,000	1,900,000
Net change in cash	(795,000)	(328,000)
Cash, beginning of period	2,379,000	485,000
Cash, end of period	$ 1,584,000	$ 157,000
Supplemental Disclosures of Non-Cash Investing and Financing Activities:		
Initial right of use asset recognition	$ -	$ 258,000
Common stock issued for vested RSUs	$ 183,000	$ 114,000
Supplemental cash flow information:		
Interest paid	$ 605,000	$ 288,000

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

NOTE 1 - 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 of companies filing as a smaller reporting company. These financial statements 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, 2023 filed with the SEC on September 21, 2023. 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, 2023 has been derived from the audited balance sheet at June 30, 2023 contained in such Form 10-K.

Nature of Business

Flux Power Holdings, Inc. ("Flux") was incorporated in 2009 in the State of Nevada, and Flux's operations are conducted through its wholly owned subsidiary, Flux Power, Inc. ("Flux Power"), a California corporation (collectively, the "Company").

We design, develop, manufacture, and sell a portfolio of advanced lithium-ion energy storage solutions for electrification of a range of industrial commercial sectors which include material handling, airport ground support equipment ("GSE"), and other commercial and industrial applications. We focus on providing lithium-ion products and service to large fleets of Fortune 500 customers. We believe our mobile and stationary energy storage solutions provide our customers a reliable, high performing, cost effective, and more environmentally friendly alternative as compared to traditional lead acid and propane-based solutions. Our modular and scalable design allows different configurations of lithium-ion battery packs to be paired with our proprietary wireless battery management system to provide the level of energy storage required and "state of the art" real time monitoring of pack performance. We believe that the increasing demand for lithium-ion battery packs and more environmentally friendly energy storage solutions in the material handling sector should continue to drive our revenue growth.

As used herein, the terms "we," "us," "our," "Flux," and "Company" mean Flux Power Holdings, Inc., unless otherwise indicated. All dollar amounts herein are in U.S. dollars unless otherwise stated.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2, "Summary of Significant Accounting Policies," in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2023. There have been no material changes in these policies or their application.

Management has considered all recent accounting pronouncements issued since the last audit of the Company's consolidated financial statements and believes that these recent pronouncements will not have a material effect on the Company's condensed consolidated financial statements.

Net Loss Per Common Share

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

For the three months ended December 31, 2023 and 2022, basic and diluted weighted-average common shares outstanding were 16,516,700 and 16,020,183, respectively. For the six months ended December 31, 2023 and 2022, basic and diluted weighted-average common shares outstanding were 16,495,727 and 16,008,740, respectively. The Company incurred a net loss for the three and six months ended December 31, 2023 and 2022, and therefore, basic and diluted loss per share for the periods were the same because potential common share equivalent would have been anti-dilutive. The total potentially dilutive common shares outstanding at December 31, 2023 and 2022 that were excluded from diluted weighted-average common shares outstanding represent shares underlying outstanding stock options, RSUs, and warrants, and totaled 3,466,276 and 2,691,710, respectively.

At December 31, 2023 and 2022 potentially dilutive common shares outstanding that were excluded from diluted weighted-average common shares outstanding were as follows:

	December 31,	
	2023	**2022**
Stock options	1,914,994	1,019,602
RSUs	138,172	216,989
Warrants	1,413,110	1,455,119
Total	3,466,276	2,691,710

Liquidity Considerations

The accompanying financial statements and notes have been prepared assuming the Company will continue as a going concern. For the six months ended December 31, 2023, the Company generated negative cash flows from operations of $4.0 million and as of December 31, 2023, the Company had an accumulated deficit of $91.5 million. Management has evaluated the Company's expected cash requirements over the next twelve (12) months, including investments in additional sales and marketing and research and development, capital expenditures, and working capital requirements. Management believes the Company's existing cash, expected cash from our future operations, funding available under the Gibraltar Business Capital, LLC, a Delaware limited liability company ("GBC") senior secured revolving credit facility for up to $16.0 million (the "GBC Credit Facility"), and funding available under the subordinated line of credit for $2.0 million with Cleveland Capital, L.P. ("Cleveland") (the "2023 Subordinated LOC") will be sufficient to enable us to fund the planned operations for the next twelve (12) months.

Historically, the Company has not generated sufficient cash to fund its operations. Based on the Company's existing backlog and customer orders, management anticipates increased revenues, together with the improvements in its gross margin will move it closer to profitability. The Company has made reaching profitability a top priority and has focused on improving its gross margins across the product portfolio. Initiatives past and present include improvement to sourcing, design cost reductions and management of profitable product offerings. The Company has received new orders in the twelve-month period ended December 31, 2023 of approximately $64.2 million.

As of January 31, 2024, the Company had a cash balance of $2.7 million, $6.0 million remained available under the GBC Credit Facility and $2.0 million was available for future draws under the 2023 Subordinated LOC. The Company continues to execute on a cost reduction plan, to expand sources of supplies and component parts, and to implement pricing recovery initiatives to increase gross margins and improve cash flow from operations. Unforeseen factors in the general economy beyond management's control could potentially have negative impact on the planned gross margin improvement plan.

NOTE 3 – ACCRUED EXPENSES

Accrued expenses consist of the following:

		December 31, 2023		June 30, 2023
Payroll and bonus accrual	$	849,000	$	1,157,000
PTO accrual		486,000		412,000
Warranty liability		1,953,000		1,600,000
Other		2,000		12,000
Total accrued expenses	$	3,290,000	$	3,181,000

NOTE 4 – NOTES PAYABLE

Revolving Line of Credit

Gibraltar Business Capital Credit Facility

On July 28, 2023, the Company entered into a Loan and Security Agreement (the "Agreement") with GBC. The Agreement provides the Company with a senior secured revolving loan facility for up to $15.0 million (the "Revolving Loan Commitment"). The revolving amount available under the GBC Credit Facility is equal to the lesser of the Revolving Loan Commitment and the borrowing base amount (as defined in the Agreement). The GBC Credit Facility is evidenced by a revolving note, which matures on July 28, 2025 (the "Maturity Date"), unless extended, modified or renewed (the "Revolving Note"). Provided that there is no event of default, the Maturity Date can automatically be extended for one (1) year period upon payment of a renewal fee for each such extension in the amount of three-quarters of one percent (0.75%) of the Revolving Loan Commitment, which fee will be due and payable on or before the applicable Maturity Date.

In addition, subject to conditions and terms set forth in the Agreement, the Company may request an increase in the Revolving Loan Commitment from time to time upon not less than 30 days' notice to GBC which increase may be made at the sole discretion of GBC, as long as: (a) the requested increase is in a minimum amount of $1,000,000, and (b) the total increases do not exceed $5,000,000 and no more thanfive (5) increases are made. Outstanding principal under the GBC Credit Facility accrues interest at Secured Overnight Financing Rate ("SOFR", as defined in the Agreement) plus five and one half of one percent (5.50%) per annum with such interest payment due monthly on the last day of the month. In the event of default, the amounts due under the Agreement bear interest at a rate per annum equal to three percent (3.0%) above the rate that is otherwise applicable to such amounts. The Company paid GBC a non-refundable closing fee for the GBC Credit Facility of $112,500 upon the execution of the Agreement. In addition, the Company is required to pay a monthly unused line fee equal to one-half of one percent (0.50%) per annum on the difference between the Revolving Loan Commitment and the average outstanding principal balance of the revolving loan(s) for such month. The obligations under the GBC Credit Facility may be prepaid in whole or in part at any time upon an exit fee of (a) two percent (2.00%) of the Revolving Loan Commitment if the obligations are paid in full during the first year after the closing date, or (b) one percent (1.00%) of the Revolving Loan Commitment if the obligations are paid in full one year after the closing date, provided, that, the exit fee will be waived if such prepayment occurs in connection with the refinancing of the obligations with Bank of America, N.A., as lender.

On November 2, 2023, the Company entered into the First Amendment to Loan and Security Agreement (the "First Amendment") with Gibraltar Business Capital, LLC ("GBC"), which amended certain definition of the Subordinated Debt referenced in the Loan and Security Agreement dated July 28, 2023 as Subordinated Debt owed by Borrower to Cleveland Capital L.P. pursuant to that certain Subordinated Unsecured Promissory Note, dated as of November 1, 2023, in the aggregate principal amount of $2,000,000.

On January 30, 2024, the Company entered into the Second Amendment to Loan and Security Agreement (the "Second Amendment") with GBC, which amended certain terms of the Loan and Security Agreement dated July 28, 2023, including but not limited to, (i) increasing the commitment amount from $15 million to $16 million, (ii) adding an additional non-refundable closing fee in the amount of $7,500 in cash for the increase in the commitment amount to $16 million, (iii) amending the definition of "Eligible Accounts;" and (iv) amending the EBITDA Minimum financial covenant of the Company. In consideration for the Second Amendment, the Company agreed to pay GBC a non-refundable amendment fee of $10,000 in cash. (See Note 9 – Subsequent Events)

The loans and other obligations of the Company under the GBC Credit Facility are secured by substantially all of the tangible and intangible assets of the Company (including, without limitation, intellectual property) pursuant to the terms of the Agreement and the Intellectual Property Security Agreement entered into by and among the Company and GBC on July 28, 2023. During the six months ended December 31, 2023, the Company had multiple drawdowns under the GBC Credit Facility totaling $34.5 million, inclusive of the full repayment of the SVB Credit Facility, and made multiple payments totaling $20.9 million. As of December 31, 2023, the outstanding balance under the GBC Credit Facility was approximately $13.6 million.

As of January 31, 2024, $6.0 million remained available for future borrowings under the GBC Credit Facility.

Silicon Valley Bank Credit Facility

On November 9, 2020, the Company entered into a Loan and Security Agreement ("Loan and Security Agreement") with Silicon Valley Bank ("SVB").

On October 29, 2021, the Company entered into a First Amendment to Loan and Security Agreement ("First Amendment" and together with the Agreement, the "Loan Agreement") with SVB which amended certain terms of the Agreement including, but not limited to, increasing the amount of the revolving line of credit from $4.0 million to $6.0 million, and extending the maturity date to November 7, 2022. The First Amendment provided the Company with a senior secured credit facility for up to $6.0 million available on a revolving basis ("Revolving LOC"). Outstanding principal under the Revolving LOC accrued interest at a floating rate per annum equal to the greater of (i) Prime Rate plus two and a half percent (2.50%), or (ii) five and three-quarters percent (5.75%). The Company paid a non-refundable commitment fee of $15,000 upon execution of the Agreement and an additional non-refundable commitment fee of $22,500 in connection with the First Amendment.

On June 23, 2022, the Company entered into a Second Amendment to Loan and Security Agreement ("Second Amendment" and together with the Loan Agreement, the "Second Amended Loan Agreement") with SVB, which amended certain terms of the Loan Agreement, including but not limited to, (i) increasing the amount of the revolving line of credit to $8.0 million, (ii) changing the financial covenants of the Company from one based on tangible net worth to another based on adjusted EBITDA (as defined in the Second Amendment) on a trailing six (6) month basis and liquidity ratio certified as of the end of each month pursuant to the calculations set forth therein, and (iii) allowing for the assignment and transfer by SVB of all of its obligations, rights and benefits under the Agreement and Loan Documents (as defined in the Agreement and except for the Warrants).

In addition, under the Second Amendment, the interest rate terms for the outstanding principal under the Revolving LOC were amended to accrue interest at a floating per annum rate equal to the greater of either (A) Prime Rate plus three and one-half of one percent (3.50%) or (B) seven and one-half of one percent (7.50%). Interest payments are due monthly on the last day of the month. In addition, the Company is required to pay a quarterly unused facility fee equal to one-quarter of one percent (0.25%) per annum of the average daily unused portion of the $8.0 million commitment under the SVB Credit Facility, depending upon availability of borrowings under the Revolving LOC. Pursuant to the Second Amendment, the Company paid SVB a non-refundable amendment fee of $5,000 and SVB's legal fees and expenses incurred in connection with the Second Amendment.

In connection with the Second Amendment, the Company issued a twelve-year warrant to SVB and its designee, SVB Financial Group, to purchase up to 40,806 shares of common stock of the Company at an exercise price of $2.23 per share pursuant to the terms set forth therein.

On November 7, 2022, the Company entered into a Third Amendment to Loan and Security Agreement ("Third Amendment") with SVB, which amended certain terms of the Second Amended Loan Agreement (together with the Third Amendment, the "Third Amended Loan Agreement"), including but not limited to, (i) extending the maturity date from November 7, 2022 to May 7, 2023 (the "Extension Period"), (ii) amending the financial covenants of the Company to cover the Extension Period and to include a liquidity ratio financial covenant, and (iii) amending the definition of Permitted Liens (as defined in the Third Amendment). Pursuant to the Third Amendment, the Company paid SVB a non-refundable amendment fee of $12,500 and SVB's legal fees and expenses incurred in connection with the Third Amendment.

On January 10, 2023, the Company entered into a Fourth Amendment to Loan and Security Agreement (the "Fourth Amendment") with SVB, which amended certain terms of the Third Amended Loan Agreement including but not limited to, (i) increasing the amount of the SVB Credit Facility from $8.0 million to $14.0 million, (ii) removing the liquidity ratio financial covenant of the Company under Section 6.9 of the Third Amended Loan Agreement, (iii) amending the definition of Borrowing Base (as defined in the Fourth Amendment), which includes a new defined term for Net Orderly Liquidation Value (as defined in the Fourth Amendment), and (iv) removing certain defined liquidity terms under Section 13.1 of the Third Amended Loan Agreement. Pursuant to the Fourth Amendment, the Company paid SVB a non-refundable amendment fee of $10,000 and SVB's legal fees and expenses incurred in connection with the Fourth Amendment.

On April 27, 2023, the Company entered into a Fifth Amendment to Loan and Security Agreement (the “Fifth Amendment”) with SVB which further amended certain terms of the credit facility (together with the Fifth Amendment, the “Agreement”), including but not limited to, (i) extending the maturity date from May 7, 2023 to December 31, 2023 (the “2023 Extension Period”), (ii) amending the EBITDA financial covenant of the Company to cover the 2023 Extension Period, and (iii) amending the definition of EBITDA (as defined in the Fifth Amendment). Pursuant to the Fifth Amendment, the Company agreed to pay SVB a non-refundable amendment fee of Thirty Thousand Dollars ($30,000) and SVB’s legal fees and expenses incurred in connection with the Fifth Amendment. In addition, SVB also agreed to waive compliance by the Company of the former EBITDA financial covenant as of the month ended March 31, 2023.

During the six months ended December 31, 2023, the Company had multiple Revolving LOC drawdowns totaling $1.4 million and multiple Revolving LOC payments totaling $11.3 million inclusive of the final repayment of the LOC in full.

On July 28, 2023, the Company repaid in full all principal outstanding under the SVB Credit Facility, together with all accrued and unpaid interest and related fees, with a portion of the funds from the GBC Credit Facility and terminated the Loan and Security Agreement with SVB, as amended.

NOTE 5 - RELATED PARTY DEBT AGREEMENTS

As of December 31, 2023 and June 30, 2023, the Company had no related party debt balance outstanding. Below are the activities for the Company’s related party debt agreements that existed during the periods ended December 31, 2023 and 2022.

Subordinated Line of Credit Facilities

Cleveland Capital, L.P. Credit Facility

On November 2, 2023, the Company entered into a Credit Facility Agreement (the “Credit Facility”) with Cleveland Capital, L.P., (the “Lender”). The Credit Facility provides the Company with a line of credit of up to $2,000,000 for working capital purposes (“LOC”). In connection with the LOC, the Company issued a subordinated unsecured promissory note for $2,000,000 (the “Commitment Amount”) in favor of the Lender (the “Note”).

Pursuant to the terms of the Credit Facility, the Lender agreed to make loans (each such loan, an “Advance”) up to such Lender’s Commitment Amount to the Company from time to time, until August 15, 2025 (the “Due Date”). The Note accrues interest at Secured Overnight Financing Rate plus nine percent (9%) per annum on each Advance from and after the date of disbursement of such Advance. All indebtedness, obligations and liabilities of the Company to the Lender are subject to the rights of Gibraltar Business Capital, LLC (together with its successors and assigns, “GBC”), pursuant to a Subordination Agreement dated on or about November 2, 2023, by and between the Lender and GBC (the “Subordination Agreement”). Subject to the Subordination Agreement, the Company may, from time to time, prior to the Due Date, draw down, repay, and re-borrow on the Note, by giving notice to the Lenders of the amount to be requested to be drawn down. Subject to the Subordination Agreement, the Note is payable upon the earlier of (i) the Due Date or (ii) on occurrence of an event of Default (as defined in the Note).

As consideration of the Lender’s commitment to provide the Advances to the Company, the Company issued the Lender warrants to purchase 41,196 shares of common stock (the “Warrants”) which rights are represented by a warrant certificate (“Warrant Certificate”). Subject to certain ownership limitations, the Warrants are exercisable immediately from the date of issuance, expire on the five (5) year anniversary of the date of issuance and have an exercise price of $3.24 per share. The exercise price of the Warrants is subject to certain adjustments, including stock dividends, stock splits, combinations and reclassifications of the common stock. In the event of a Triggering Event (as defined in the Warrant Certificate), the holder of the Warrants will be entitled to exercise the Warrants and receive the same amount and kind of securities, cash or property as such holder would have been entitled to receive upon the occurrence of such Triggering Event if such holder had exercised the rights represented by the Warrant Certificate immediately prior to the Triggering Event. Additionally, upon the holder’s request, the continuing or surviving corporation as a result of such Triggering Event will issue to such 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. (See Note 6 – Stockholders’ Equity, Warrants)

2022 Subordinated LOC

On May 11, 2022, the Company entered into a Credit Facility Agreement (the "2022 Subordinated LOC") with Cleveland, Herndon Plant Oakley, Ltd., ("HPO"), and other lenders (together with Cleveland and HPO, the "Lenders"). The 2022 Subordinated LOC provided the Company with a short-term line of credit not less than $3,000,000 and not more than $5,000,000, to be used by the Company for working capital purposes. In connection with the 2022 Subordinated LOC, the Company issued a separate subordinated unsecured promissory note in favor of each respective Lender (each promissory note, a "Note") for each Lender's commitment amount (each such commitment amount, a "Commitment Amount").

Pursuant to the terms of the 2022 Subordinated LOC, each Lender severally agrees to make loans (each such loan, an "Advance") up to such Lender's Commitment Amount to the Company from time to time, until December 31, 2022 (the "Due Date"). On December 15, 2022, the Board of Directors of the Company elected to extend the Due Date to December 31, 2023. The Company may, from time to time, prior to the Due Date, draw down, repay, and re-borrow on the Note, by giving notice to the Lenders of the amount to be requested to be drawn down.

Each Note bears an interest rate of 15.0% per annum on each Advance from and after the date of disbursement of such Advance and is payable on (i) the Due Date in cash or shares of common stock of the Company (the "Common Stock") at the sole election of the Company, unless such Due Date is extended pursuant to the Note, or (ii) on occurrence of an event of Default (as defined in the Note). The Due Date may be extended (i) at the sole election of the Company for one (1) additional year period from the Due Date upon the payment of a commitment fee equal to two percent (2%) of the Commitment Amount to the Lender within thirty (30) days prior to the original Due Date, or (ii) by the Lender in writing. In addition, each Lender signed a Subordination Agreement by and between the Lenders and SVB dated as of May 11, 2022 (the "Subordination Agreement") for the purposes of subordinating the right to payment under the Note to SVB's indebtedness by the Company now outstanding or hereinafter incurred. On December 15, 2022, the Board of Directors of the Company elected to extend the Due Date to December 31, 2023 and the Company paid the Lenders an extension fee in the aggregate amount of $80,000. On July 28, 2023, in conjunction with the concurrent termination of the SVB Revolving LOC and the entry into a new credit facility with Gibraltar Business Capital ("GBC"), each Lender signed a Subordination Agreement by and between the Lenders and GBC dated as of July 28, 2023 (the "GBC Subordination Agreement") for the purposes of subordinating the right to payment under the Note to GBC's indebtedness by the Company then incurred and outstanding or thereinafter incurred.

The 2022 Subordinated LOC included customary representations, warranties and covenants by the Company and the Lenders. The Company has also agreed to pay the legal fees of Cleveland's counsel in an amount up to $10,000. In addition, each Note also provides that, upon the occurrence of a Default, at the option of the Lender, the entire outstanding principal balance, all accrued but unpaid interest and/or Late Charges (as defined in the Note) at once will become due and payable upon written notice to the Company by the Lender.

In connection with entry into the 2022 Subordinated LOC, the Company paid to each Lender a one-time commitment fee in cash equal to 3.5% of such Lender's Commitment Amount. In addition, in consideration of the Lenders' commitment to provide the Advances to the Company, the Company issued the Lenders five-year warrants to purchase an aggregate of 128,000 shares of common stock at an exercise price of $2.53 per share that are, subject to certain ownership limitations, exercisable immediately (the "Warrants") (the number of warrants issued to each Lender is equal to the product of (i) 160,000 shares of common stock multiplied by (ii) the ratio represented by each Lender's Commitment Amount divided by the $5,000,000).

Pursuant to a selling agreement, dated as of May 11, 2022, the Company retained HPO as its placement agent in connection with the Subordinated LOC. As compensation for services rendered in conjunction with the Subordinated LOC, the Company paid HPO a finder fee equal to 3% of the Commitment Amount from each such Lender placed by HPO in cash.

On November 2, 2023, the 2022 Subordinated LOC was terminated. As of December 31, 2023, the outstanding balance under the 2022 Subordinated LOC was $0.

NOTE 6 - STOCKHOLDERS' EQUITY

At-The-Market ("ATM") Offering

On December 21, 2020 the Company entered into a Sales Agreement (the "Sales Agreement") with H.C. Wainwright & Co., LLC ("HCW") to sell shares of its common stock, par value $0.001 (the "Common Stock") from time to time, through an "at-the-market offering" program (the "ATM Offering").

From December 21, 2020 through October 5, 2023, the Company sold an aggregate of 1,524,873 shares of common stock at an average price of $10.45 per share for gross proceeds of approximately $15.9 million under the ATM Offering. The Company received net proceeds of approximately $15.3 million, net of commissions and other offering related expenses.

On October 5, 2023, the Company terminated the Sales Agreement with HCW pursuant to the terms of the Sales Agreement.

Warrants

In connection with the Company's registered direct offering ("RDO"), in September 2021 the Company issued five-year warrants to the RDO investors to purchase up to 1,071,430 shares of the Company's common stock at an exercise price of $7.00 per share and were estimated to have a fair value of approximately $3,874,000. The warrants were exercisable immediately and are limited to beneficial ownership of 4.99% at any point in time in accordance with the warrant agreement.

In May 2022 and in conjunction with the entry into a credit facility with the Lenders, the Company issued five-year warrants to the Lenders to purchase up to 128,000 shares of the Company's common stock at an exercise price of $2.53 per share and had a fair value of approximately $173,000.

In June 2022 and in conjunction with the entry into the Second Amendment to Loan and Security Agreement with SVB, the Company issued twelve-year warrants to SVB and its designee, SVB Financial Group, to purchase up to 40,806 shares of the Company's common stock at an exercise price of $2.23 per share and had a fair value of approximately $80,000.

In November 2023 and in conjunction with the entry into a credit facility with Cleveland Capital, L.P., the Company issued five-year warrants to Cleveland Capital, L.P. to purchase up to 41,196 shares of the Company's common stock at an exercise price of $3.24 per share and had a fair value of approximately $92,000.

Warrant detail for the six months ended December 31, 2023 is reflected below:

	Number of Warrants	Weighted Average Exercise Price Per Warrant	Weighted Average Remaining Contract Term (# years)
Warrants outstanding and exercisable at June 30, 2023	1,455,119	$ 6.10	
Warrants issued	41,196	3.24	
Warrants exercised	(83,205)	$ 4.00	
Warrants outstanding and exercisable at December 31, 2023	1,413,110	$ 6.14	2.98

Warrant detail for the six months ended December 31, 2022 is reflected below:

	Number of Warrants	Weighted Average Exercise Price Per Warrant	Weighted Average Remaining Contract Term (# years)
Warrants outstanding and exercisable at June 30, 2022	1,455,119	$ 6.10	
Warrants issued	-	$ -	
Warrants exercised	-	-	
Warrants outstanding and exercisable at December 31, 2022	1,455,119	$ 6.10	3.73

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

	Six Months Ended December 31,	
	2023	2022(1)
Expected volatility	83.7%	*
Risk free interest rate	4.65%	*
Dividend yield	0%	0%
Expected term (years)	5.00	*

(1) No warrants were issued during the six months ended December 31, 2022.

Stock Options

In connection with the reverse acquisition of Flux Power, Inc. in 2012, the Company assumed the 2010 Plan. As of December 31, 2023, there was no common stock outstanding under the 2010 Plan. No additional options may be granted under the 2010 Plan.

On February 17, 2015 the Company's stockholders approved the 2014 Equity Incentive Plan (the "2014 Plan"). The 2014 Plan offers certain employees, directors, and consultants the opportunity to acquire the Company's common stock subject to vesting requirements and serves to encourage such persons to remain employed by the Company and to attract new employees. The 2014 Plan allows for the award of the Company's common stock and stock options, up to 1,000,000 shares of the Company's common stock. As of December 31, 2023, no shares of the Company's common stock were available for future grants under the 2014 Plan.

On April 29, 2021, the Company's stockholders approved the 2021 Equity Incentive Plan (the "2021 Plan"). The 2021 Plan authorizes the issuance of awards for up to 2,000,000 shares of common stock in the form of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock units, restricted stock awards and unrestricted stock awards to officers, directors and employees of, and consultants and advisors to, the Company or its affiliates. As of December 31, 2023, 717,055 shares of the Company's common stock were available for future grants under the 2021 Plan.

On October 31, 2022, the Board of Directors authorized a total of 624,441 stock options to be granted under the Company's 2014 Plan and 2021 Plan.

On October 20, 2023, the Board of Directors authorized a total of 985,148 stock options to be granted under the Company's 2014 Plan and 2021 Plan.

Activity in the Company's stock options during the six months ended December 31, 2023 and related balances outstanding as of that date are reflected below:

	Number of Shares		Weighted Average Exercise Price	Weighted Average Remaining Contract Term (# years)
Outstanding at June 30, 2023	969,434	$	6.45	
Granted	979,204	$	3.36	
Exercised	-	$	-	
Forfeited and cancelled	(33,644)	$	7.71	
Outstanding at December 31, 2023	1,914,994	$	4.85	8.45
Exercisable at December 31, 2023	517,493	$	8.82	5.57

Activity in the Company's stock options during the six months ended December 31, 2022 and related balances outstanding as of that date are reflected below:

	Number of Shares		Weighted Average Exercise Price	Weighted Average Remaining Contract Term (# years)
Outstanding at June 30, 2022	503,433	$	11.03	
Granted	624,441	$	3.43	
Exercised	(22,500)	$	4.60	
Forfeited and cancelled	(85,772)	$	13.46	
Outstanding at December 31, 2022	1,019,602	$	6.32	7.98
Exercisable at December 31, 2022	399,922	$	10.79	5.10

Restricted Stock Units

On November 5, 2020, the Company's Board of Directors approved an amendment to the 2014 Plan, to allow for grants of Restricted Stock Units ("RSUs"). Subject to vesting requirements set forth in the RSU Award Agreement, one share of common stock is issuable for one vested RSU. On April 29, 2021, a total of 18,312 time-based RSUs were authorized by the Company's Board of Directors to be granted under the amended 2014 Option Plan. On October 29, 2021, the Board of Directors authorized the following RSUs to be granted under the amended 2014 Option Plan: (i) a total of 97,828 RSUs to certain executive officers of which 48,914 were performance-based RSUs and 48,914 were time-based RSUs, and (ii) a total of 81,786 time-based RSUs to certain other key employees. The RSUs are subject to the terms and conditions provided in (i) the Restricted Stock Unit Award Agreement for time-based awards ("Time-based Award Agreement"), and (ii) the Performance Restricted Stock Unit Award Agreement for performance-based awards ("Performance-based Award Agreement"). On April 20, 2023, a total of 67,532 time-based RSUs were authorized by the Company's Board of Directors to be granted to the Company's four non-executive directors under the amended 2014 Option Plan.

Activity in RSUs during the six months ended December 31, 2023 and related balances outstanding as of that date are reflected below:

	Number of Shares		Weighted Average Grant date Fair Value	Weighted Average Remaining Contract Term (# years)
Outstanding at June 30, 2023	193,749	$	6.09	
Granted	-	$	-	
Vested and settled	(54,038)	$	7.27	
Forfeited and cancelled	(1,539)	$	5.75	
Outstanding at December 31, 2023	138,172	$	5.63	0.55

Activity in RSUs during the six months ended December 31, 2022 and related balances outstanding as of that date are reflected below:

	Number of Shares		Weighted Average Grant date Fair Value	Weighted Average Remaining Contract Term (# years)
Outstanding at June 30, 2022	304,221	$	6.06	
Granted	5,034	$	2.70	
Vested and settled	(32,248)	$	3.49	
Forfeited and cancelled	(60,018)	$	6.51	
Outstanding at December 31, 2022	216,989	$	5.92	1.07

Employee Stock Purchase Plan

On March 6, 2023, the Company's Board of Directors approved the 2023 Employee Stock Purchase Plan (the "2023 ESPP"), and on April 20, 2023, the 2023 ESPP was approved by the Company's stockholders. The 2023 ESPP enables eligible employees of the Company and certain of its subsidiaries (a "Participating Subsidiary") to use payroll deductions to purchase shares of the Company's Common Stock and acquire an ownership interest in the Company. The maximum aggregate number of shares of the Company's Common Stock that have been reserved as authorized for the grant of options under the 2023 ESPP is 350,000 shares, subject to adjustment as provided for in the 2023 ESPP. Participation in the 2023 ESPP is voluntary and is limited to eligible employees (as such term is defined in the 2023 ESPP) of the Company or a Participating Subsidiary who (i) has been employed by the Company or a Participating Subsidiary for at least 90 days and (ii) is customarily employed for at least twenty (20) hours per week and more than five (5) months in any calendar year. Each eligible employee may authorize payroll deductions of 1-15% of the eligible employee's compensation on each pay day to be used to purchase up to 1,500 shares of Common Stock for the employee's account occurring during an offering period. The 2023 ESPP has a term of ten (10) years commencing on April 20, 2023, the date of approval by the Company's stockholders, unless otherwise earlier terminated.

There was no stock purchased under the 2023 ESPP during the six months ended December 31, 2023.

Stock-based Compensation

Stock-based compensation expense for the three and six months ended December 31, 2023 and 2022 represents the estimated fair value of stock options and RSUs at the time of grant amortized under the straight-line method over the expected vesting period and reduced for estimated forfeitures of options and RSUs. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from original estimates. At December 31, 2023, the aggregate intrinsic value of exercisable stock options was approximately $96,000.

The following table summarizes stock-based compensation expense for employee and non-employee stock option and RSU grants:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
Research and development	$ 80,000	$ 43,000	$ 140,000	$ 69,000
Selling and administrative	314,000	166,000	530,000	235,000
Total stock-based compensation expense	$ 394,000	$ 209,000	$ 670,000	$ 304,000

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,	
	2023	2022
Expected volatility	116.41%	90.12%
Risk free interest rate	4.90%	4.21%
Forfeiture rate	20%	20%
Dividend yield	0%	0%
Expected term (years)	6.00	6.25%

At December 31, 2023, the unamortized stock-based compensation expense related to outstanding stock options and RSUs was approximately $3,627,000 and $350,000, respectively, and these amounts are expected to be expensed over the weighted-average remaining recognition period of 1.87 years and 0.67 years, respectively.

NOTE 7 - CONCENTRATIONS

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and unsecured trade accounts receivable. The Company maintains cash balances in non-interest bearing bank deposit accounts at a California commercial bank. The Company's cash balance at this institution is secured by the Federal Deposit Insurance Corporation up to $250,000. As of December 31, 2023 and June 30, 2023, the cash balance was approximately $1,584,000 and $2,379,000, respectively.

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 months ended December 31, 2023, the Company had three (3) major customers that each represented more than 10% of revenues on an individual basis, and together represented approximately $11,234,000 or 61% of total revenues. During the six months ended December 31, 2023, the Company had four (4) major customers that each represented more than 10% of revenues on an individual basis, and together represented approximately $24,068,000 or 73% of total revenues.

During the three months ended December 31, 2022, the Company had three (3) major customers that each represented more than 10% of revenues on an individual basis, and together represented approximately $11,542,000 or 67% of total revenues. During the six months ended December 31, 2022, the Company had three (3) major customers that each represented more than 10% of revenues on an individual basis, and together represented approximately $22,336,000 or 64% of total revenues.

Suppliers/Vendor Concentrations

The Company obtains several components and supplies included in its products from a group of suppliers. During the three months ended December 31, 2023, the Company had one (1) supplier that accounted for more than 10% of total purchases and represented approximately $3,674,000 or 30% of total purchases. During the six months ended December 31, 2023, the Company had one (1) supplier that accounted for more than 10% of total purchases and represented approximately $6,965,000 or 29% of total purchases.

During the three months ended December 31, 2022, the Company had one (1) supplier that accounted for more than 10% of total purchases and represented approximately $4,992,000 or 32% of total purchases. During the six months ended December 31, 2022, the Company had one (1) supplier that accounted for more than 10% of total purchases and represented approximately $9,149,000 or 29% of total purchases.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

From time to time, the Company 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 the Company’s business. The Company is not aware of any material legal proceedings currently pending or expected against the Company.

Operating Leases

On April 25, 2019 the Company signed a Standard Industrial/Commercial Multi-Tenant Lease (“Lease”) with Accutek to rent approximately 45,600 square feet of industrial space at 2685 S. Melrose Drive, Vista, California. The Lease has an initial term of seven years and four months and commenced on or about June 28, 2019. The lease contains an option to extend the term for two periods of 24 months each, and the right of first refusal to lease an additional approximate 15,300 square feet. The monthly rental rate was $42,400 for the first 12 months, escalating at 3% each year.

On February 26, 2020, the Company entered into the First Amendment to Standard Industrial/Commercial Multi-Tenant Lease dated April 25, 2019 (the “Amendment”) with Accutek to rent an additional 16,309 rentable square feet of space plus a residential unit of approximately 1,230 rentable square feet (for a total of approximately 17,539 rentable square feet). The lease for the additional space commenced 30 days following the occupancy date of the additional space and will terminate concurrently with the term of the original lease, which expires on November 20, 2026. The base rent for the additional space is the same rate as the space rented under the terms of the original lease, $0.93 per rentable square (subject to 3% annual increase). In connection with the Amendment, the Company purchased certain existing office furniture for a total purchase price of $8,300.

On December 16, 2022 the Company signed a Lease Agreement with MM Parker Court Associates, LLC to rent approximately 4,892 square feet of office space at Building 1959 Parker Court, Suite E, Atlanta, Georgia. The Lease has an initial term of five years and three months and commenced on or about February 1, 2023. The monthly rental rate was approximately $2,300 for the first 6 months, and $4,700 for months 7 to 12, escalating at 5% each year.

Total rent expense was approximately $235,000 and $216,000 for the three months ended December 31, 2023 and 2022, respectively. Total rent expense was approximately $473,000 and $439,000 for the six months ended December 31, 2023 and 2022, respectively.

Finance Leases

The Company's leased properties as of December 31, 2023 are as follows:

Lease Date	Property Leased	Lease Term (months)	Commencement Date	Monthly Lease Payment(1)
9/2/2022	Vehicle	60	9/10/2022	$ 1,100
10/17/2022	Manufacturing equipment	36	10/17/2022	$ 5,500
1/24/2023	Manufacturing equipment	36	1/24/2023	$ 6,700
3/2/2023	Manufacturing equipment	36	3/2/2023	$ 1,000

(1) Excludes sales tax and other fees.

Lease costs are amortized on a straight-line basis over their respective lease terms. Depreciation expense related to leased assets was approximately $38,000 and $18,000 for the three months ended December 31, 2023 and 2022, respectively. Depreciation expense related to leased assets was approximately $77,000 and $18,000 for the six months ended December 31, 2023 and 2022, respectively. Interest expense on leased liabilities was approximately $8,000 and $5,000 for the three months ended December 31, 2023 and 2022, respectively. Interest expense on leased liabilities was approximately $13,000 and $5,000 for the six months ended December 31, 2023 and 2022, respectively.

The Future Minimum Lease Payments as of December 31, 2023 are as follows:

	Operating Leases	**Finance Leases**
Year Ending June 30,		
2024 (remaining six months)	$ 430,000	$ 86,000
2025	883,000	173,000
2026	910,000	85,000
2027	433,000	15,000
2028	64,000	21,000
Total Future Minimum Lease Payments	2,720,000	380,000
Less: discount	(333,000)	(39,000)
Total lease liability	$ 2,387,000	$ 341,000

NOTE 9 - SUBSEQUENT EVENTS

On January 30, 2024, the Company entered into the Second Amendment with GBC, which amended certain terms of the Loan and Security Agreement dated July 28, 2023, including but not limited to, (i) increasing the commitment amount from $15 million to $16 million, (ii) adding an additional non-refundable closing fee in the amount of $7,500 in cash for the increase in the commitment amount to $16 million, (iii) amending the definition of "Eligible Accounts;" and (iv) amending the EBITDA Minimum financial covenant of the Company. In consideration for the Second Amendment, the Company agreed to pay GBC a non-refundable amendment fee of $10,000 in cash.

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

The following discussion provides information which management believes is relevant to an assessment and understanding of the Company's results of operations and financial condition. The discussion should be read in conjunction with the unaudited interim condensed consolidated 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 fiscal year ended June 30, 2023.

Business Overview

We design, develop, manufacture, and sell a portfolio of advanced lithium-ion energy storage solutions for electrification of a range of industrial commercial sectors which include material handling, airport ground support equipment ("GSE"), and other commercial and industrial applications. We focus on providing lithium-ion products and service to large fleets of Fortune 500 customers. We believe our mobile and stationary energy storage solutions provide our customers a reliable, high performing, cost effective, and more environmentally friendly alternative as compared to traditional lead acid and propane-based solutions. Our modular and scalable design allows different configurations of lithium-ion battery packs to be paired with our proprietary wireless battery management system to provide the level of energy storage required and "state of the art" real time monitoring of pack performance. We believe that the increasing demand for lithium-ion battery packs and more environmentally friendly energy storage solutions in the material handling sector should continue to drive our revenue growth.

Our long-term strategy is to meet the rapidly growing demand for lithium-ion energy solutions and to be the supplier of choice, targeting large companies having energy storage needs. We have established selling relationships with OEMs and customers with large fleets of forklifts and GSEs. We intend to reach this goal by investing in research and development to expand our product mix, by expanding our sales and marketing efforts, by improving our customer support efforts, and by continuing our efforts to improve production capacity and efficiencies. Our research and development efforts will continue to focus on providing adaptable, reliable and cost-effective energy storage solutions for our customers. We have filed three new patents on advanced technology related to lithium-ion battery packs. The technology behind these pending patents is designed to:

- increase battery life by optimizing the charging cycle,
- give users a better understanding of the health of their battery in use, and
- apply artificial intelligence to predictively balance the cells for optimal performance.

Our largest sector of penetration thus far has been the material handling sector which we believe is a multi-billion dollar addressable market. We believe the sector will provide us with an opportunity to grow our business as we enhance our product mix and service levels and grow our sales to large fleets of forklifts and GSEs. Applications of our modular packs for other industrial and commercial uses, such as solar energy storage, are providing additional growth opportunities. We intend to continue to expand our supply chain and customer partnerships and seek further partnerships and/or acquisitions that provide synergy to meeting our growth and "building scale" objectives.

The following table summarizes the new orders, shipments, and backlog activities for the last six (6) fiscal quarters:

Fiscal Quarter Ended	Beginning Backlog	New Orders	Shipments	Ending Backlog
September 30, 2022	$ 35,020,000	$ 9,678,000	$ 17,840,000	$ 26,858,000
December 31, 2022	$ 26,858,000	$ 20,652,000	$ 17,158,000	$ 30,352,000
March 31, 2023	$ 30,352,000	$ 9,751,000	$ 15,087,000	$ 25,016,000
June 30, 2023	$ 25,016,000	$ 19,780,000	$ 16,252,000	$ 28,544,000
September 30, 2023	$ 28,544,000	$ 8,102,000	$ 14,797,000	$ 21,849,000
December 31, 2023	$ 21,849,000	$ 26,552,000	$ 18,344,000	$ 30,057,000

"Backlog" represents the amount of anticipated revenues we may recognize in the future from existing contractual orders with customers that are in progress and have not yet shipped. Backlog values may not be indicative of future operating results as orders may be cancelled, modified or otherwise altered by customers. In addition, our ability to realize revenue from our backlog will be dependent on the delivery of key parts from our suppliers and our ability to manufacture and ship our products to customers in a timely manner. There can be no assurance that outstanding customer orders will be fulfilled as expected and that our backlog will result in future revenues.

As of February 1, 2024, our order backlog was approximately $29.7 million.

Business Updates

We continue to experience some deferrals of new Flux packs due to corresponding deferrals of forklifts of selected large customer fleets. There have been very few cancellations of purchase orders, but some orders have been delayed to the July – December 2024 period. Some customers have continued to provide "indications" of ordering our battery packs into 2025 and 2026, reflecting a lengthening of the OEM planning horizon. Causal rationale for delays are speculative and not definitive, but some feedback reflects concerns over the economy and the uncertainty of interest rates. The impact of deferrals has required additional selling strategies to maintain our sales trajectory.

We have seen modest improvements in our sourcing and purchasing activity, reflecting our efforts to expand and optimize our vendor strategy. Additional improvements include more secondary sources to minimize stock-outs and control delivery times, as evidenced in our maintaining inventory levels despite higher growth.

Recent Corporate Developments

On January 30, 2024, the Company entered into the Second Amendment to Loan and Security Agreement (the "Second Amendment") with Gibraltar Business Capital, LLC ("GBC"), which amended certain terms of the Loan and Security Agreement dated July 28, 2023, including but not limited to, (i) increasing the commitment amount from $15 million to $16 million, (ii) adding an additional non-refundable closing fee in the amount of $7,500 in cash for the increase in the commitment amount to $16 million, (iii) amending the definition of "Eligible Accounts;" and (iv) amending the EBITDA Minimum financial covenant of the Company. In consideration for the Second Amendment, the Company agreed to pay GBC a non-refundable amendment fee of $10,000 in cash. Our credit line with Gibraltar provides for expansion up to $20 million.

Segment and Related Information

We operate as a single reportable segment.

Results of Operations and Financial Condition

The following table represents our unaudited condensed consolidated statement of operations for the three months ended December 31, 2023 and December 31, 2022.

	Three Months Ended December 31,			
	2023		2022	
	$	% of Revenues	$	% of Revenues
Revenues	$ 18,344,000	100%	$ 17,158,000	100%
Cost of sales	12,676,000	69%	13,050,000	76%
Gross profit	5,668,000	31%	4,108,000	24%
Operating expenses:				
Selling and administrative	4,593,000	25%	4,250,000	25%
Research and development	1,440,000	8%	1,162,000	7%
Total operating expenses	6,033,000	33%	5,412,000	32%
Operating loss	(365,000)	-2%	(1,304,000)	-8%
Other income	-	0%	8,000	0%
Interest income (expense), net	(449,000)	-2%	(385,000)	-2%
Net loss	$ (814,000)	-4%	$ (1,681,000)	-10%

Revenues

Revenues for the quarter ended December 31, 2023, increased by $1,186,000 or 7% to $18,344,000, compared to $17,158,000 for the quarter ended December 31, 2022. The increase in revenues was due to higher number of units of energy storage packs sold during the quarter ended December 31, 2023, as well as price increases for certain energy storage units sold.

Cost of Sales

Cost of sales for the quarter ended December 31, 2023, decreased by $374,000, or 3%, to $12,676,000 compared to $13,050,000 for the quarter ended December 31, 2022. The decrease in cost of sales was directly associated with lower average cost of sales per unit achieved during the current quarter as a result of our gross margin improvement initiatives, partially offset by increases in cost of sales proportionately as a result of higher number of units of energy storage packs sold during the current quarter. Cost of sales as a percent of revenues for the quarter ended December 31, 2023 was 69%, an improvement of 7 percentage points compared to 76% for the quarter ended December 31, 2022.

Gross Profit

Gross profit for the quarter ended December 31, 2023 increased by $1,560,000 or 38%, to $5,668,000 compared to $4,108,000 for the quarter ended December 31, 2022. The gross profit margin (gross profit as a percent of revenues) increased to 31% for the quarter ended December 31, 2023 compared to 24% for the quarter ended December 31, 2022. Gross profit margin improved by 700 basis points as a result of lower average cost of sales per unit achieved during the quarter ended December 31, 2023 as a result of our gross margin improvement initiatives and the revenue growth during the quarter.

Selling and Administrative Expenses

Selling and administrative expenses for the quarter ended December 31, 2023 increased by $343,000 or 8%, to $4,593,000 compared to $4,250,000 for the quarter ended December 31, 2022. The increase was primarily attributable to higher staff related expenses and increases in depreciation expense, professional service fees, stock-based compensation, outbound shipping costs, and travel expenses, partially offset by decreases in sales commissions, recruiting costs, training expenses, and consulting fees.

Research and Development Expense

Research and development expenses for the quarter ended December 31, 2023 increased by $278,000 or 24%, to $1,440,000 compared to $1,162,000 for the quarter ended December 31, 2022. Such expenses consisted primarily of materials, supplies, salaries and personnel related expenses, product testing, consulting, and other expenses associated with revisions to existing product designs and new product development. The increase in research and development expenses was primarily due to higher staff related expenses, stock-based compensation, travel expenses, and general research and development costs, partially offset by a decrease in equipment rental fees.

Interest Expense, net

Interest expense for the quarter ended December 31, 2023 increased by $64,000 or 17% to $449,000 compared to $385,000 for the quarter ended December 31, 2022. The increase in interest expense was primarily related to higher balances outstanding under our credit facilities. The interest expense for the quarter ended December 31, 2023 and 2022 included additional interest expense of $54,000 and $197,000, respectively, representing the amortization of debt issuance costs related to our existing credit facilities. In addition, approximately $15,000 of other financing costs were included in interest expense during the quarter ended December 31, 2023.

Net Loss

Net loss for the quarter ended December 31, 2023 improved by $867,000 or 52%, to $814,000 as compared to $1,681,000 for the quarter ended December 31, 2022. The decrease in net loss for the three months ended December 31, 2023 was primarily attributable to increased gross profit, offset by increases in operating expenses and interest expense.

The following table represents our unaudited condensed consolidated statement of operations for the six months ended December 31, 2023 and December 31, 2022.

	Six Months Ended December 31,			
	2023		2022	
	$	% of Revenues	$	% of Revenues
Revenues	$ 33,141,000	100%	$ 34,998,000	100%
Cost of sales	23,162,000	70%	26,942,000	77%
Gross profit	9,979,000	30%	8,056,000	23%
Operating expenses:				
Selling and administrative	9,318,000	28%	8,786,000	25%
Research and development	2,735,000	8%	2,385,000	7%
Total operating expenses	12,053,000	36%	11,171,000	32%
Operating loss	(2,074,000)	-6%	(3,115,000)	-9%
Other income	-	0%	8,000	0%
Interest income (expense), net	(852,000)	-3%	(713,000)	-2%
Net loss	$ (2,926,000)	-9%	$ (3,820,000)	-11%

Revenues

Revenues for the six months ended December 31, 2023, decreased by $1,857,000 or 5% to $33,141,000, compared to $34,998,000 for the six months ended December 31, 2022. The decrease in revenues was due to lower revenue during the first half of the six months ended December 31, 2023 resulted from lower unit sales stemming from delays in the delivery of forklifts earlier this fiscal year and a larger mix of lower capacity models, which was partially offset by stronger revenue achieved during the. second quarter

Cost of Sales

Cost of sales for the six months ended December 31, 2023, decreased by $3,780,000, or 14%, to $23,162,000 compared to $26,942,000 for the six months ended December 31, 2022. The decrease in cost of sales was directly associated with lower average cost of sales per unit achieved during the current period as a result of our gross margin improvement initiatives. Cost of sales as a percent of revenues for the six months ended December 31, 2023 was 70%, an improvement of 7 percentage points compared to 77% for the six months ended December 31, 2022.

Gross Profit

Gross profit for the six months ended December 31, 2023 increased by $1,923,000 or 24%, to $9,979,000 compared to $8,056,000 for the six months ended December 31, 2022. The gross profit margin (gross profit as a percent of revenues) increased to 30% for the six months ended December 31, 2023 compared to 23% for the six months ended December 31, 2022. Gross profit margin improved by 700 basis points as a result of lower average cost of sales per unit achieved during the six months ended December 31, 2023 as a result of our gross margin improvement initiatives, partially offset by slight revenue decrease during the period.

Selling and Administrative Expenses

Selling and administrative expenses for the six months ended December 31, 2023 increased by $532,000 or 6%, to $9,318,000 compared to $8,786,000 for the six months ended December 31, 2022. The increase was primarily attributable to higher staff related expenses and increases in depreciation expense, professional service fees, stock-based compensation, recruiting costs, and travel expenses, partially offset by decreases in sales commissions, training expenses, and consulting fees.

Research and Development Expense

Research and development expenses for the six months ended December 31, 2023 increased by $350,000 or 15%, to $2,735,000 compared to $2,385,000 for the six months ended December 31, 2022. Such expenses consisted primarily of materials, supplies, salaries and personnel related expenses, product testing, consulting, and other expenses associated with revisions to existing product designs and new product development. The increase in research and development expenses was primarily due to higher staff related expenses, stock-based compensation, and travel expenses, partially offset by decreases in equipment rental fees and general research and development costs.

Interest Expense, net

Interest expense, net for the six months ended December 31, 2023 increased by $139,000 or 19% to $852,000 compared to $713,000 for the six months ended December 31, 2022. The increase in interest expense was primarily related to higher balances outstanding under our credit facilities. The interest expense for the six months ended December 31, 2023 and 2022 included additional interest expense of $134,000 and $426,000, respectively, representing the amortization of debt issuance costs related to our existing credit facilities. In addition, approximately $64,000 of other financing costs were included in interest expense during the six months ended December 31, 2023.

Net Loss

Net loss for the six months ended December 31, 2023 improved by $894,000 or 23%, to $2,926,000 as compared to $3,820,000 for the six months ended December 31, 2022. The decrease in net loss for the six months ended December 31, 2023 was primarily attributable to increased gross profit, offset by increases in operating expenses and interest expense.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure. Adjusted EBITDA is calculated by taking net income and adding back the expenses related to interest, income taxes, depreciation, amortization, and stock-based compensation, each of which has been calculated in accordance with GAAP. Adjusted EBITDA was $291,000 for the three months ended December 31, 2023 and improved by $1,179,000 from a loss of $888,000 for the three months ended December 31, 2022. Adjusted EBITDA was a loss of approximately $881,000 for the six months ended December 31, 2023 and improved by $1,551,000 from a loss of $2,432,000 for the six months ended December 31, 2022.

Management believes that Adjusted EBITDA, when viewed with our results under GAAP and the accompanying reconciliations, provides useful information about our period-over-period results. Adjusted EBITDA is presented because management believes it provides additional information with respect to the performance of our fundamental business activities and is also frequently used by securities analysts, investors and other interested parties in the evaluation of comparable companies. We also rely on Adjusted EBITDA as a primary measure to review and assess the operating performance of our company and our management team.

As Adjusted EBITDA is a non-GAAP financial measure, it should not be construed as a substitute for EBITDA and net income (loss) (as determined in accordance with GAAP) for the purpose of analyzing our operating performance or financial position.

A reconciliation of our Adjusted EBITDA to net loss is included in the table below:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	**2022**	**2023**	**2022**
Net loss	$ (814,000)	$ (1,681,000)	$ (2,926,000)	$ (3,820,000)
Add/Subtract:				
Interest, net	449,000	385,000	852,000	713,000
Depreciation and amortization	262,000	199,000	523,000	371,000
EBITDA	(103,000)	(1,097,000)	(1,551,000)	(2,736,000)
Add/Subtract:				
Stock-based compensation	394,000	209,000	670,000	304,000
Adjusted EBITDA	$ 291,000	$ (888,000)	$ (881,000)	$ (2,432,000)

Liquidity and Capital Resources

Overview

For the six months ended December 31, 2023, the Company generated negative cash flows from operations of $4.0 million, and as of December 31, 2023, the Company had an accumulated deficit of $91.5 million. To date our business has not generated sufficient cash to fund our operations. However, given our existing backlog, we anticipate that revenue growth coupled with improvement in our gross margin will move us closer to profitability and improve our cash flow. Our gross margin improvement plan includes, but is not limited to, efforts to drive bill of material costs down while increasing the price of our products for new orders. We have received new orders during the twelve (12) months period ended December 31, 2023, of approximately $64.2 million.

As of January 31, 2024, we believe that our existing cash balance of $2.7 million, the $6.0 million available under our $16.0 million GBC Credit Facility and the $2.0 million available for future draws under our 2023 Subordinated LOC along with the expected cash from our future operations will enable us to fund our planned operations for the next twelve (12) months. See "Future Liquidity Needs" below.

Cash Flows

Cash Flow Summary

	Six Months Ended December 31,	
	2023	**2022**
Net cash used in operating activities	$ (4,045,000)	$ (1,892,000)
Net cash used in investing activities	(338,000)	(336,000)
Net cash provided by financing activities	3,588,000	1,900,000
Net change in cash	$ (795,000)	$ (328,000)

Operating Activities

Net cash used in operating activities was $4,045,000 for the six months ended December 31, 2023, compared to net cash used in operating activities of $1,892,000 for the six months ended December 31, 2022, primarily reflecting increases in working capital requirements. The primary usages of cash for the six months ended December 31, 2023 were the net loss of $2,926,000 and increases in accounts receivable, and other assets and decreases in office lease payable, that were partially offset by non-cash operating costs, and increases in accounts payable, accrued expenses, deferred revenue, customer deposits, and accrued interest and a decrease in inventory. The primary usages of cash for the six months ended December 31, 2022 were the net loss of $3,820,000 and increases in accounts receivable, inventory, and other assets, and decreases in deferred revenue, customer deposits and office lease payable, that were partially offset by non-cash operating costs, and increases in accounts payable and accrued expenses.

Investing Activities

Net cash used in investing activities was $338,000 for the six months ended December 31, 2023 and consisted primarily of the costs of internal software development and other capital equipment.

Net cash used in investing activities was $336,000 for the six months ended December 31, 2022 and consisted primarily of the costs of internal software development and other capital equipment.

Financing Activities

Net cash provided by financing activities was $3,588,000 for the six months ended December 31, 2023, which primarily consisted of $3,663,000 in net borrowing under the GBC Credit Facility and SVB Credit Facility.

Net cash provided by financing activities was $1,900,000 for the six months ended December 31, 2022, mainly representing net borrowings under the SVB Credit Facility during six months ended December 31, 2022.

Future Liquidity Needs

We have evaluated our expected cash requirements over the next twelve (12) months, which include, but are not limited to, investments in additional sales and marketing and research and development, capital expenditures, and working capital requirements. As of January 31, 2024, we believe that our existing cash of approximately $2.7 million, expected cash from our future operations, funding available under our GBC Credit Facility, under which $6.0 million is currently available, and funds available under our 2023 Subordinated LOC of up to $2.0 million will enable us to fund our planned operations for at least the next twelve (12) months. In addition, to support our operations and anticipated growth, we intend to continue to explore alternatives to secure additional capital from a variety of current and new sources including, but not limited to, sales of our equity securities. We also continue to execute our cost reduction, sourcing, pricing recovery initiatives in efforts to increase our gross margins and improve cash flow from operations.

Although management believes that our existing cash, cash from our future operations, together with the additional funding sources currently available to us under the lines of credit will be sufficient to fund planned operations for the next twelve (12) months, this is dependent on our ability to successfully maintain and draw on our credit facilities. Our ability to draw funds from the GBC Credit Facility is subject to certain restrictions and covenants. If we are unable to meet the conditions provided in the loan documents, the funds will not be available to us. In addition, should there be any delays in the receipts of key component parts, due in part to supply change disruptions, our ability to fulfil the backlog of sales orders will be negatively impacted resulting in lower availability of cash resources from operations. In that event, we may be required to raise additional funds by issuing equity or convertible debt securities. If such funds are not available when required, management will be required to curtail investments in additional sales and marketing and product development, which may have a material adverse effect on future cash flows and results of operations. In addition, any unforeseen factors in the general economy beyond management's control could potentially have a negative impact on the planned gross margin improvement plan.

In the event we are required to obtain additional funds, there is no guarantee that additional funds will be available on a timely basis or on acceptable terms. To the extent that we raise additional funds by issuing equity or convertible debt securities, our stockholders may experience additional dilution and such financing may involve restrictive covenants.

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 fiscal year ended June 30, 2023 filed with the SEC on September 21, 2023.

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

Under the supervision of management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and subsequent guidance prepared by the Commission specifically for smaller public companies as of December 31, 2023. Based on that evaluation, our management concluded that our internal control over financial reporting was not effective as of December 31, 2023 due to an identified material weakness as a result of not having sufficient personnel resources with technical accounting expertise related to certain aspects of the financial reporting process. Management intends to implement measures designed to improve our internal control over financial reporting to remediate material weaknesses, including the use of third-party consultants and accounting experts.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's principal executive officer and principal financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurances with respect to financial statement preparation and presentation. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in the Company's 10-K for the fiscal year ended June 30, 2023, management assessed the effectiveness of the Company's internal control over financial reporting and based on such assessment, management concluded that as of June 30, 2023, our internal control over financial reporting was not effective due to an identified material weakness as a result of not having sufficient personnel resources with technical accounting expertise related to certain aspects of the financial reporting process. We plan to continue to assess our internal controls and control procedures and intend to take further action as necessary or appropriate to address any other matters we identify or are brought to our attention.

Changes in Internal Control Over Financial Reporting

Except as discussed above, there have been no changes in the Company's internal controls over financial reporting during the fiscal quarter ended December 31, 2023, 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

An investment in our common stock involves a high degree of risk. You should carefully consider the risks set forth in the section captioned “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended June 30, 2023, filed with the SEC on September 21, 2023, before making an investment decision. If any of the risks actually occur, our business, financial condition or results of operations could suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment. You should read the section captioned “Special Note Regarding Forward Looking Statements” above for a discussion of what types of statements are forward-looking statements, as well as the significance of such statements in the context of this report.

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

Information required by Item 701 of Regulation S-K as to all unregistered equity securities of the registrant sold by the registrant during the period covered by the report have previously been included in a Current Report on Form 8-K filed with the SEC.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 - MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 - OTHER INFORMATION

Insider Trading Arrangements and Policies

On October 30, 2023, Esenjay Investments, LLC, a Delaware limited liability company, of which Michael Johnson is its sole director and beneficial owner and a member of our Board of Directors, terminated a pre-existing “Rule 10b5-1 trading arrangement” (as defined in Item 408 of Regulation S-K) to sell shares of the Company’s common stock (the “Esenjay Plan”). The Esenjay Plan was originally entered into on February 16, 2023 and contemplated the sale of up to 625,384 shares of the Company’s Common Stock between February 24, 2023 to December 31, 2023, subject to any applicable volume limitations and during an authorized sales period. The Esenjay Plan was intended to satisfy the affirmative defense Rule of 10b5-1(c). 166,089 shares were sold under the Plan prior to its termination in accordance with its terms.

Other than disclosed above, no other officer or director adopted, modified or terminated a Rule 10b5-1 trading arrangement or “non-Rule 10b5-1 trading arrangement” (as defined in Item 408 of Regulation S-K) during the three months ended December 31, 2023.

ITEM 6 - EXHIBITS

The following exhibits are filed as part of this Report.

Exhibit No.	Description
4.1	Form of Warrant (Cleveland) (1)
10.1	Credit Facility Agreement (Cleveland) Agreement(1)
10.2	Form of Subordinated Unsecured Promissory Note (Cleveland)(1)
10.3	Amended and Restated Annual Bonus Plan(2)
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	Inline XBRL Instance Document- the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document*
101.SCH	Inline XBRL Taxonomy Extension Schema Document*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document*
104	Cover Page Interactive Data File, formatted in Inline XBRL (included as Exhibit 101)

* Filed herewith

(1) Incorporated by reference to Current Report on Form 8-K filed with the SEC on November 3, 2023.

(2) Incorporated by reference to Current Report on Form 8-K filed with the SEC on October 24, 2023

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 Holdings, Inc.

Date: February 8, 2024

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

By: */s/ Charles A. Scheiwe*
Charles A. Scheiwe
Chief Financial Officer
(*Principal Financial Officer*)

Exhibit 31.1

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 fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; 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 8, 2024

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

Exhibit 31.2

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302

I, Charles A. Scheiwe, 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 fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; 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 8, 2024

By: *_/s/ Charles A. Scheiwe_*
Name: Charles A. Scheiwe
Title: Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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 quarter ended December 31, 2023, 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 8, 2024

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

Exhibit 32.2

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 quarter ended December 31, 2023, 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 8, 2024

By: */s/ Charles A. Scheiwe*
Name: Charles A. Scheiwe
Title: Chief Financial Officer
(Principal Financial Officer)